QUARTERLY REPORT FOR Q3 2019

PKP CARGO GROUP'S
consolidated quarterly
report for Q3 2019

PKPCARGO

Quarterly condensed consolidated financial statements of the **PKP CARGO** Group for the period of 9 months ended 30 september 2019

Prepared in accordance with IFRS
as endorsed by the European Union

Table of contents

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

QUARTERLY CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	9 months ended 30/09/2019	3 months ended 30/09/2019	9 months ended 30/09/2018	3 months ended 30/09/2018	
Revenues from contracts with customers	3,616.6	1,191.3	3,805.2	1,318.5	*Note 2.1*
Consumption of traction electricity and traction fuel	(430.2)	(150.3)	(448.9)	(159.9)	*Note 2.2*
Services of access to infrastructure	(431.6)	(142.1)	(543.2)	(188.3)	
Transport services	(287.2)	(83.7)	(341.6)	(107.9)	
Other services	(284.5)	(103.5)	(363.2)	(132.2)	*Note 2.2*
Employee benefits	(1,284.9)	(403.5)	(1,200.3)	(385.1)	*Note 2.2*
Other expenses	(210.2)	(68.9)	(214.6)	(67.8)	*Note 2.2*
Other operating revenue and (expenses)	25.1	23.7	7.2	1.5	*Note 2.3*
Operating profit without depreciation (EBITDA)	**713.1**	**263.0**	**700.6**	**278.8**	
Depreciation, amortization and impairment losses	(530.3)	(182.1)	(425.9)	(137.3)	*Note 2.2*
Profit on operating activities (EBIT)	**182.8**	**80.9**	**274.7**	**141.5**	
Financial revenue and (expenses)	(55.2)	(20.6)	(28.4)	(10.1)	*Note 2.4*
Share in the profit / (loss) of entities accounted for under the equity method	1.4	0.7	(1.1)	1.0	*Note 5.3*
Profit before tax	**129.0**	**61.0**	**245.2**	**132.4**	
Income tax	(30.3)	(10.2)	(50.9)	(27.7)	*Note 3.1*
NET PROFIT	**98.7**	**50.8**	**194.3**	**104.7**	
OTHER COMPREHENSIVE INCOME					
Measurement of hedging instruments	(11.7)	(20.8)	(18.5)	16.5	*Note 6.1*
Income tax	2.2	3.9	3.5	(3.2)	*Note 3.1*
Fx differences resulting from translation of financial statements	7.4	7.1	12.9	(7.1)	
Total other comprehensive income subject to reclassification in the financial result	**(2.1)**	**(9.8)**	**(2.1)**	**6.2**	
Actuarial profits / (losses) on post-employment benefits	(14.3)	(0.3)	(4.0)	-	
Income tax	2.7	-	0.8	-	*Note 3.1*
Measurement of equity instruments at fair value	0.7	-	-	-	
Total other comprehensive income not subject to reclassification in the financial result	**(10.9)**	**(0.3)**	**(3.2)**	**-**	
Total other comprehensive income	**(13.0)**	**(10.1)**	**(5.3)**	**6.2**	
TOTAL COMPREHENSIVE INCOME	**85.7**	**40.7**	**189.0**	**110.9**	
Net profit attributable to the shareholders of the Parent Company	98.7	50.8	194.3	104.7	
Total other comprehensive income attributable to shareholders of the Parent Company	85.7	40.7	189.0	110.9	
Earnings per share (PLN per share)					
Weighted average number of ordinary shares	44,786,917	44,786,917	44,786,917	44,786,917	
Basic and diluted earnings per share	**2.20**	**1.13**	**4.34**	**2.34**	

The data for the period of 9 months ended 30 September 2018 have been restated as described in **Note 1.4** to these Quarterly Condensed Consolidated Financial Statements.

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

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

QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30/09/2019	31/12/2018	30/09/2018	
ASSETS				
Rolling stock	4,201.2	3,997.0	3,812.1	*Note 5.1*
Other property, plant and equipment	862.9	949.9	921.6	*Note 5.1*
Right-of-use assets	965.7	-	-	*Note 5.2*
Investments in entities accounted for under the equity method	37.9	47.3	51.4	*Note 5.3*
Trade receivables	1.8	0.7	1.4	*Note 5.5*
Lease receivables	11.2	-	-	
Other assets	49.1	56.7	53.9	*Note 5.6*
Deferred tax assets	116.5	135.6	140.9	*Note 3.1*
Total non-current assets	**6,246.3**	**5,187.2**	**4,981.3**	
Inventories	167.6	161.7	155.7	*Note 5.4*
Trade receivables	663.1	684.6	739.7	*Note 5.5*
Lease receivables	0.7	-	-	
Bank deposits over 3 months	-	201.1	403.3	
Other assets	148.2	124.4	106.5	*Note 5.6*
Cash and cash equivalents	187.1	447.3	262.6	*Note 4.3*
Total current assets	**1,166.7**	**1,619.1**	**1,667.8**	
Non-current assets classified as held for sale	1.7	-	1.5	
TOTAL ASSETS	**7,414.7**	**6,806.3**	**6,650.6**	
EQUITY AND LIABILITIES				
Share capital	2,239.3	2,239.3	2,239.3	*Note 4.2*
Supplementary capital	781.4	628.2	628.2	
Other items of equity	(64.6)	(44.2)	(32.7)	
Fx differences resulting from translation of financial statements	83.2	75.8	72.8	
Retained earnings	465.5	584.4	594.8	
Total equity	**3,504.8**	**3,483.5**	**3,502.4**	
Debt liabilities	1,757.3	1,156.5	1,223.1	*Note 4.1*
Trade liabilities	1.1	0.5	0.6	
Investment liabilities	168.7	109.8	4.1	*Note 5.7*
Provisions for employee benefits	608.1	591.5	574.5	*Note 5.8*
Other provisions	4.5	20.5	22.2	*Note 5.9*
Deferred tax liability	89.9	88.5	99.4	*Note 3.1*
Other liabilities	0.9	1.8	1.2	*Note 5.10*
Total long-term liabilities	**2,630.5**	**1,969.1**	**1,925.1**	
Debt liabilities	379.5	270.5	276.2	*Note 4.1*
Trade liabilities	378.4	499.4	466.2	
Investment liabilities	74.9	177.6	43.1	*Note 5.7*
Provisions for employee benefits	130.7	115.5	128.1	*Note 5.8*
Other provisions	45.5	56.9	49.2	*Note 5.9*
Other liabilities	270.4	233.8	260.3	*Note 5.10*
Total short-term liabilities	**1,279.4**	**1,353.7**	**1,223.1**	
Total liabilities	**3,909.9**	**3,322.8**	**3,148.2**	
TOTAL EQUITY AND LIABILITIES	**7,414.7**	**6,806.3**	**6,650.6**	

The data as at 30 September 2018 have been restated as described in **Note 1.4** to these Quarterly Condensed Consolidated Financial Statements.

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

QUARTERLY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

			Other items of equity						
	Share capital	Supplementary capital	Measurement of equity instruments at fair value	Actuarial profits / (losses) on post-employment benefits	Measurement of hedging instruments	FX differences resulting from translation of financial statements	Retained earnings	Total equity	
31/12/2018	**2,239.3**	**628.2**	**(12.9)**	**(32.8)**	**1.5**	**75.8**	**584.4**	**3,483.5**	
Changes resulting from the implementation of IFRS 16	-	-	-	-	-	-	2.8	**2.8**	*Note 1.3*
1/01/2019	**2,239.3**	**628.2**	**(12.9)**	**(32.8)**	**1.5**	**75.8**	**587.2**	**3,486.3**	
Net result for the period	-	-	-	-	-	-	98.7	**98.7**	
Other comprehensive income for the period (net)	-	-	0.7	(11.6)	(9.5)	7.4	-	**(13.0)**	
Total comprehensive income	-	-	0.7	(11.6)	(9.5)	7.4	98.7	**85.7**	
Dividends	-	-	-	-	-	-	(67.2)	**(67.2)**	*Note 4.2*
Other changes for the period	-	153.2	-	-	-	-	(153.2)	**-**	
30/09/2019	**2,239.3**	**781.4**	**(12.2)**	**(44.4)**	**(8.0)**	**83.2**	**465.5**	**3,504.8**	
1/01/2018	**2,239.3**	**619.3**	**(12.9)**	**(22.1)**	**20.5**	**59.9**	**409.4**	**3,313.4**	
Net result for the period	-	-	-	-	-	-	194.3	**194.3**	
Other comprehensive income for the period (net)	-	-	-	(3.2)	(15.0)	12.9	-	**(5.3)**	
Total comprehensive income	-	-	-	(3.2)	(15.0)	12.9	194.3	**189.0**	
Other changes for the period	-	8.9	-	-	-	-	(8.9)	**-**	
30/09/2018 (restated)	**2,239.3**	**628.2**	**(12.9)**	**(25.3)**	**5.5**	**72.8**	**594.8**	**3,502.4**	

Restatement of comparable data is described in **Note 1.3** and **1.4** to these Quarterly Condensed Consolidated Financial Statements.

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

QUARTERLY CONSOLIDATED CASH FLOW STATEMENT

	9 months ended 30/09/2019	9 months ended 30/09/2018	
Cash flow from operating activities			
Profit before tax	**129.0**	**245.2**	
Adjustments			
Depreciation, amortization and impairment losses	530.3	425.9	*Note 2.2*
(Profits) / losses on interest, dividends	39.7	12.8	
Received / (paid) interest	1.2	4.0	
Received / (paid) income tax	(38.1)	(57.1)	
Movement in working capital	(76.9)	(10.8)	
Other adjustments	(21.9)	(14.2)	
Net cash from operating activities	**563.3**	**605.8**	
Cash flow from investing activities			
Expenditures on the acquisition of non-financial non-current assets	(816.6)	(509.5)	
Proceeds from the sale of non-financial non-current assets	15.0	23.0	
Proceeds from the sale of other financial assets	1.0	5.3	
Proceeds from dividends received	2.4	1.1	
Proceeds from repayment of loans	-	0.3	
Inflows / (outflows) on bank deposits over 3 months	200.0	(149.0)	
Other inflows / (outflows) from investing activities	10.2	7.2	
Net cash from investing activities	**(588.0)**	**(621.6)**	
Cash flow from financing activities			
Payments on financial lease liabilities	(95.9)	(37.1)	*Note 4.1*
Proceeds from bank loans and borrowings	99.3	0.4	*Note 4.1*
Repayment of bank loans and borrowings	(186.1)	(181.6)	*Note 4.1*
Interest paid on financial lease liabilities and bank loans and borrowings	(40.0)	(23.3)	*Note 4.1*
Grants received	57.5	3.0	
Dividends paid out to owners	(67.2)	-	
Other outflows from financing activities	(3.9)	(1.6)	
Net cash from financing activities	**(236.3)**	**(240.2)**	
Net increase / (decrease) in cash and cash equivalents	(261.0)	(256.0)	
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	0.8	1.8	
Cash and cash equivalents as at the end of the reporting period, including:	**187.1**	**262.6**	
restricted cash	*43.0*	*33.2*	

EXPLANATORY NOTES TO THE QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General information

1.1 Key information about the Group's business

Information about the Parent Company

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

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

The composition of the Parent Company's management and supervisory bodies and the Parent Company's shareholding structure as at 30 September 2019 are presented in the Additional Information to the Consolidated Quarterly Report for Q3 2019 in **Chapters 3.1** and **3.2**, respectively.

Information about the Group

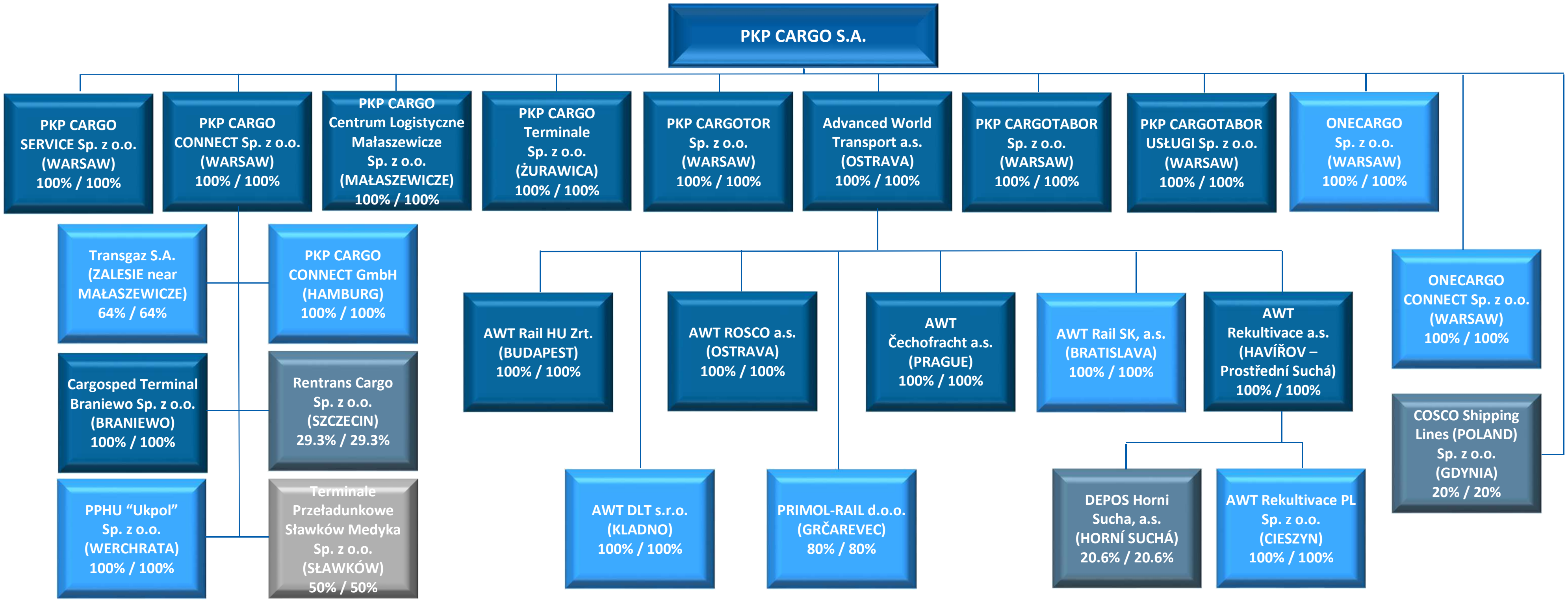
The Group's core business is rail freight transport. In addition to rail freight transport services, the Group also provides additional services:

As at the balance sheet date, the PKP CARGO Group (hereinafter: "Group") comprised PKP CARGO S.A. as its parent company and 22 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 September 2019 is as follows:



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

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

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

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

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

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

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

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

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

1.2 Basis for preparation of the Quarterly Condensed Consolidated Financial Statements

These Quarterly Condensed Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards and related interpretations adopted by the European Union ("EU IFRS"), published and in effect at the time of preparation of these Consolidated Financial Statements and in accordance with the Finance Minister's Regulation of 29 March 2018 on the current and periodic information transmitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent (Journal of Laws of 2018 Item 757, "Regulation").

These Quarterly Condensed Consolidated Financial Statements should be read together with the audited Consolidated Financial Statements of the PKP CARGO Group for the year ended 31 December 2018 prepared according to EU IFRS.

These Quarterly 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 its business as a going concern operations for a period of at least 12 months of the date of the financial statements .

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

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

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

These Quarterly 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 recorded in the profit or loss, provided they are not deferred in other comprehensive income when they are eligible for recognition as cash flows' hedging. Non-cash items measured at historical cost expressed in a foreign currency are converted using the exchange rate on the transaction date.

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

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

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 September 2019 and 31 December 2018, for the purposes of valuation of the financial statements of foreign operations 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	
	30/09/2019	31/12/2018	9 months ended 30/09/2019	9 months ended 30/09/2018
EUR	4.3736	4.3000	4.3086	4.2535
CZK	0.1693	0.1673	0.1675	0.1662
HUF	0.0131	0.0134	0.0133	0.0133
CHF	4.0278	3.8166	3.8620	3.7081

These Quarterly Condensed Consolidated Financial Statements have not been audited by a statutory auditor. The line items of the consolidated statement of financial position as at 31 December 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.

In these Quarterly 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 9 months ended 30 September 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 respectively in **Notes 1.3** and **1.4** to these Quarterly Condensed Consolidated Financial Statements.

These Quarterly Condensed Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 20 November 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 Quarterly 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.

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

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

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. 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.

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.

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

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

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 the right-of-use assets by the amount of the provision for onerous contracts recognized in accordance with IAS 37 directly before the date of first application of IFRS 16,
- the use of post-factual knowledge and experience in determining the term of the lease if the contract contains options for 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 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

The lease period in contracts for the perpetual usufruct right to land is defined as the period remaining until the date to which these rights have been granted.

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

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

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

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

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:

Consolidated statement of financial position:

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

Consolidated statement of profit or loss and other comprehensive income

The implementation of IFRS 16 has also affected the structure of the statement of profit or loss and other comprehensive income. In the period of 9 months ended 30 September 2019, due to the implementation of the new standard, depreciation increased by PLN 84.2 million, the operating result increased by PLN 13.1 million and the profit before tax fell by PLN 11.6 million. Implementation of the new standard, caused that EBITDA is higher by approximately PLN 97.3 million.

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:

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

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

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 Group considers to be 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 into for an indefinite term for which the Group has estimated the lease period, the lease liability is correspondingly higher.
In order to calculate the amount of lease liabilities recognized in accordance with IFRS 16, the total amounts of future minimum fees arising from the operating lease contracts as at 31 December 2018 have been adjusted to the current value by applying the pertinent discount rate.

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

Standard / Interpretation	Effective date
Amendments to IFRS 9 "Financial Instruments" – Prepayment features with negative compensation	1 January 2019
Interpretation of IFRIC 23 – Uncertainty over income tax treatments	1 January 2019
Amendments to IAS 28 "Investments in associates and joint ventures"	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 and 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 September 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:

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
Amendments to IFRS 9 "Financial Instruments", IFRS 7 "Financial Instruments: Disclosures" and IAS 39 "Financial Instruments: Recognition and Measurement"	1 January 2020
IFRS 17 "Insurance contracts"	1 January 2021

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

1.4 Corrections of prior period errors

The amount of provisions for employee benefits is calculated by an independent actuarial company using the forecasted individual benefits method. As at 31 December 2018, the Parent Company discovered that during previous periods the calculation of provisions for jubilee bonuses and retirement and disability pension severance pays was based on incorrect periods of the duration of employment with railroad companies, which duration is an input for the calculation and payment of such benefits. Accordingly, the Parent Company remeasured, 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 Quarterly Condensed Consolidated Financial Statements, the Group has restated data for the 9 months ended 30 September 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 Quarterly Condensed Consolidated Financial Statements has also been restated accordingly.

QUARTERLY CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	9 months ended 30/09/2018 (published)	Corrections of prior period errors	9 months ended 30/09/2018 (restated)
Employee benefits	(1,199.3)	(1.0)	(1,200.3)
Operating profit without depreciation (EBITDA)	**701.6**	**(1.0)**	**700.6**
Profit on operating activities (EBIT)	**275.7**	**(1.0)**	**274.7**
Financial revenue and (expenses)	(29.4)	1.0	(28.4)
Profit before tax	**245.2**	**-**	**245.2**
NET PROFIT	**194.3**	**-**	**194.3**
TOTAL COMPREHENSIVE INCOME	**189.0**	**-**	**189.0**

QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30/09/2018 (published)	Corrections of prior period errors	30/09/2018 (restated)
ASSETS			
Deferred tax assets	136.8	4.1	140.9
Total non-current assets	**4,977.2**	**4.1**	**4,981.3**
TOTAL ASSETS	**6,646.5**	**4.1**	**6,650.6**
EQUITY AND LIABILITIES			
Other items of equity	(26.3)	(6.4)	(32.7)
Retained earnings	605.9	(11.1)	594.8
Total equity	**3,519.9**	**(17.5)**	**3,502.4**
Provisions for employee benefits	557.4	17.1	574.5
Total long-term liabilities	**1,908.0**	**17.1**	**1,925.1**
Provisions for employee benefits	123.6	4.5	128.1
Total short-term liabilities	**1,218.6**	**4.5**	**1,223.1**
Total liabilities	**3,126.6**	**21.6**	**3,148.2**
TOTAL EQUITY AND LIABILITIES	**6,646.5**	**4.1**	**6,650.6**

1.5 Material estimates based on professional judgment and estimates

In the period of 9 months ended 30 September 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. Provisions were calculated using the discount rate of 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%. The effect of restatement as at 30 September 2019 is presented in **Note 5.8** to these Quarterly Condensed Consolidated Financial Statements.
- provisions for VAT liabilities – in the period of 9 months ended 30 September 2019, the Group derecognized the provision for VAT settlement liabilities for the period from April 2013 to July 2013 in the amount of PLN 24.4 million. The decision on derecognizing the provision was made on the basis of the inspection results issued by the Mazowiecki Customs and Tax Office in Warsaw.
- 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 9 months ended 30 September 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.

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

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 Quarterly Condensed Consolidated Financial Statements.

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

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

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

2.1 Revenues from contracts with customers (cont.)

9 months ended 30/09/2018	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	330.4	3.4	716.9	2,143.1	**3,193.8**
Revenue from other transportation activity	0.9	0.5	1.6	134.9	**137.9**
Revenue from siding and traction services	-	5.4	75.5	105.4	**186.3**
Revenue from transshipment services	0.5	-	0.4	94.5	**95.4**
Revenue from reclamation services	-	1.9	-	64.6	**66.5**
Revenue from sales of goods and raw materials	-	-	-	40.2	**40.2**
Other revenues	1.1	7.0	3.5	73.5	**85.1**
Total	**332.9**	**18.2**	**797.9**	**2,656.2**	**3,805.2**
Revenue recognition date					
At a point of time	-	-	-	55.3	**55.3**
Over a period	332.9	18.2	797.9	2,600.9	**3,749.9**
Total	**332.9**	**18.2**	**797.9**	**2,656.2**	**3,805.2**

3 months ended 30/09/2018	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	96.0	0.9	250.4	753.4	**1,100.7**
Revenue from other transportation activity	0.3	0.2	0.7	46.2	**47.4**
Revenue from siding and traction services	-	1.9	24.8	35.0	**61.7**
Revenue from transshipment services	0.2	-	0.3	38.6	**39.1**
Revenue from reclamation services	-	1.2	-	23.5	**24.7**
Revenue from sales of goods and raw materials	-	-	-	13.5	**13.5**
Other revenues	0.3	1.2	1.1	28.8	**31.4**
Total	**96.8**	**5.4**	**277.3**	**939.0**	**1,318.5**
Revenue recognition date					
At a point of time	-	-	-	21.5	**21.5**
Over a period	96.8	5.4	277.3	917.5	**1,297.0**
Total	**96.8**	**5.4**	**277.3**	**939.0**	**1,318.5**

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

2.1 Revenues from contracts with customers (cont.)

Geography

The Group defines the geographical territory of business as the location of the registered office of the service recipient, and not as the country of the service provision. Poland is the key geographic area of the Group's activity. Revenue from contracts with customers of the Group generated on external customers and broken down based on country of their leadquarters is presented below:

	9 months ended 30/09/2019	3 months ended 30/09/2019	9 months ended 30/09/2018	3 months ended 30/09/2018
Poland	2,590.7	852.8	2,703.4	950.2
Czech Republic	434.7	146.9	454.5	152.7
Germany	218.5	72.3	208.8	75.0
Slovakia	89.6	24.9	114.4	39.6
Other countries	283.1	94.4	324.1	101.0
Total	**3,616.6**	**1,191.3**	**3,805.2**	**1,318.5**

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

	30/09/2019	31/12/2018
Poland	5,307.2	4,310.7
Czech Republic	798.3	727.7
Other countries	3.7	4.9
Total	**6,109.2**	**5,043.3**

Information on key customers

In the period of 9 months ended 30 September 2019 and 9 months ended 30 September 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

	30/09/2019	30/09/2018
As at the beginning of the reporting period	**37.1**	**43.6**
Recognition of revenue before the payment due date	43.0	68.3
Reclassification to receivables	(37.1)	(43.4)
As at the end of the reporting period	**43.0**	**68.5**

Liabilities from contracts with customers

	30/09/2019	30/09/2018
As at the beginning of the reporting period	**1.6**	**5.2**
Recognition of revenues:		
From the opening balance of liabilities from contracts with customers	(1.6)	(5.2)
From liabilities from contracts with customers recognized during the period	(0.3)	(0.3)
Payment received or due in advance	1.9	3.1
As at the end of the reporting period	**1.6**	**2.8**

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

2.2 Operating expenses

Consumption of traction electricity and traction fuel

	9 months ended 30/09/2019	3 months ended 30/09/2019	9 months ended 30/09/2018	3 months ended 30/09/2018
Consumption of traction fuel	(132.7)	(40.4)	(149.3)	(53.8)
Consumption of traction electricity	(297.5)	(109.9)	(299.6)	(106.1)
Total	**(430.2)**	**(150.3)**	**(448.9)**	**(159.9)**

Other services

	9 months ended 30/09/2019	3 months ended 30/09/2019	9 months ended 30/09/2018	3 months ended 30/09/2018
Repair services	(33.4)	(14.7)	(35.0)	(14.2)
Rent and fees for the use of real properties and rolling stock	(65.2)	(25.0)	(154.4)	(55.9)
Telecommunications services	(4.8)	(1.6)	(4.7)	(1.5)
Legal, consulting and similar services	(10.6)	(3.6)	(10.2)	(3.8)
IT services	(33.4)	(11.1)	(33.0)	(11.2)
Maintenance and operation services for facilities and fixed assets	(28.8)	(9.6)	(22.1)	(7.8)
Transshipment services	(11.0)	(3.1)	(11.7)	(4.2)
Reclamation services	(56.5)	(22.0)	(51.6)	(20.4)
Other services	(40.8)	(12.8)	(40.5)	(13.2)
Total	**(284.5)**	**(103.5)**	**(363.2)**	**(132.2)**

Employee benefits

	9 months ended 30/09/2019	3 months ended 30/09/2019	9 months ended 30/09/2018	3 months ended 30/09/2018
Payroll	(966.0)	(325.6)	(898.5)	(309.8)
Social security expanses	(204.0)	(67.9)	(192.8)	(65.3)
Expenses for contributions to the Company Social Benefits Fund	(20.1)	(6.2)	(19.8)	(6.6)
Other employee benefits during employment	(33.9)	(11.2)	(29.6)	(7.9)
Post-employment benefits	(4.1)	(1.3)	(5.0)	(1.7)
Movement in provisions for employee benefits	(56.8)	8.7	(54.6)	6.2
Total	**(1,284.9)**	**(403.5)**	**(1,200.3)**	**(385.1)**

Other expenses

	9 months ended 30/09/2019	3 months ended 30/09/2019	9 months ended 30/09/2018	3 months ended 30/09/2018
Consumption of non-traction fuel	(20.6)	(6.6)	(20.6)	(4.9)
Consumption of electricity, gas and water	(26.3)	(5.6)	(25.8)	(3.7)
Consumption of materials	(68.4)	(21.7)	(76.1)	(26.7)
Taxes and charges	(26.3)	(9.0)	(24.2)	(9.5)
Cost of goods and raw materials sold	(27.4)	(12.0)	(24.3)	(8.7)
Business trips	(24.5)	(8.2)	(24.9)	(8.5)
Other	(16.7)	(5.8)	(18.7)	(5.8)
Total	**(210.2)**	**(68.9)**	**(214.6)**	**(67.8)**

Depreciation, amortization and impairment losses

	9 months ended 30/09/2019	3 months ended 30/09/2019	9 months ended 30/09/2018	3 months ended 30/09/2018
Depreciation of rolling stock	(370.1)	(131.1)	(335.7)	(113.4)
Depreciation of other property, plant and equipment	(59.9)	(14.9)	(58.9)	(19.7)
Depreciation of the right-of-use assets	(90.3)	(32.7)	-	-
Amortization of intangible assets	(10.0)	(3.4)	(13.3)	(4.3)
(Recognized) / reversed impairment losses:				
Rolling stock	-	-	(18.0)	0.1
Total	**(530.3)**	**(182.1)**	**(425.9)**	**(137.3)**

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

2.3 Other operating revenue and (expenses)

Other operating revenue and (expenses)

	9 months ended 30/09/2019	3 months ended 30/09/2019	9 months ended 30/09/2018	3 months ended 30/09/2018
Profit on disposal				
Profit on sales of non-financial non-current assets	5.5	2.5	3.9	2.4
Reversed impairment losses				
Trade receivables	4.0	(0.6)	8.5	1.5
Other				
Penalties and compensations	12.8	4.4	12.0	5.7
Reversal of other provisions [1]	25.4	24.6	0.7	0.3
Interest on trade and other receivables	2.1	0.7	3.8	1.6
Net result on FX differences on trade receivables and liabilities	-	-	1.6	(2.1)
Other	5.2	1.9	3.6	1.5
Total other operating revenue	**55.0**	**33.5**	**34.1**	**10.9**
Recognized impairment losses				
Trade receivables	(9.2)	(3.6)	(8.1)	(2.5)
Other				
Penalties and compensations	(6.0)	(1.8)	(6.9)	(2.4)
Costs of liquidation of non-current and current assets	(3.9)	(1.9)	(3.2)	(1.9)
Recognized other provisions	(5.9)	(1.9)	(4.6)	(1.2)
Net result on FX differences on trade receivables and liabilities	(0.5)	1.0	-	-
Other	(4.4)	(1.6)	(4.1)	(1.4)
Total other operating expenses	**(29.9)**	**(9.8)**	**(26.9)**	**(9.4)**
Other operating revenue and (expenses)	**25.1**	**23.7**	**7.2**	**1.5**

[1] In the period of 9 month ended 30 September 2019, the derecognized provisions item refers mainly to the derecognition of the provision for VAT settlement liabilities in the amount of PLN 24.4 million, which is described in **Note 1.5** of these Quarterly Condensed Consolidated Financial Statements.

2.4 Financial revenue and (expenses)

Financial revenue and (expenses)

	9 months ended 30/09/2019	3 months ended 30/09/2019	9 months ended 30/09/2018	3 months ended 30/09/2018
Interest income	4.2	0.8	8.0	2.7
Dividend income on shares and stocks	0.3	-	0.2	0.2
Other	1.2	(0.5)	5.1	0.1
Total financial revenue	**5.7**	**0.3**	**13.3**	**3.0**
Interest expenses (1)	(43.8)	(14.1)	(22.9)	(7.2)
Settlement of the discount on provisions for employee benefits	(13.3)	(4.5)	(14.3)	(4.8)
Net result on Fx differences	(1.5)	(1.5)	(1.3)	0.2
Other	(2.3)	(0.8)	(3.2)	(1.3)
Total financial expenses	**(60.9)**	**(20.9)**	**(41.7)**	**(13.1)**
Financial revenue and (expenses)	**(55.2)**	**(20.6)**	**(28.4)**	**(10.1)**

(1) The increase in interest expenses during the period of 9 month ended 30 September 2019 was caused mainly by the recognition of interest expense on leases in the amount of PLN 23.5 million resulting from the entry into force of IFRS 16.

The data for the period of 9 months ended 30 September 2018 have been restated due to the correction of prior period errors, as described in **Note 1.4** to these Quarterly Condensed Consolidated Financial Statements.

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

3. Explanatory notes on taxation

3.1 Income tax

Income tax recognized in profit / loss

	9 months ended 30/09/2019	3 months ended 30/09/2019	9 months ended 30/09/2018	3 months ended 30/09/2018
Current income tax				
Current tax charges	(5.8)	(1.6)	(57.5)	(20.3)
Adjustments recognized in the current year relating to tax from previous years	(0.7)	-	(1.6)	(0.4)
Deferred tax				
Deferred income tax of the reporting period	(23.8)	(8.6)	8.2	(7.0)
Income tax recognized in profit / loss	**(30.3)**	**(10.2)**	**(50.9)**	**(27.7)**

According to the legal provisions in effect, no differentiation of rates is expected in the future periods. Frequent differences of opinions as to legal interpretation of the tax regulations, both within the State bodies, and between the State bodies and enterprises, entail lack of certainty and give rise to conflicts. Therefore, the tax risk in Poland is much higher than usually observed in the countries with better developed tax systems. Tax returns may be subject to control for a period of five years, starting from the end of the year of the tax payment. As a result of such controls, the Group's tax settlements may be increased by additional tax liabilities.

Deferred income tax recognized in other comprehensive income

	9 months ended 30/09/2019	3 months ended 30/09/2019	9 months ended 30/09/2018	3 months ended 30/09/2018
Deferred tax on the measurement of hedging instruments	2.2	3.9	3.5	(3.2)
Deferred tax on actuarial profits / (losses) on post-employment benefits	2.7	-	0.8	-
FX differences from translation of the balance of deferred income tax recognized in other comprehensive income (1)	(0.9)	(0.8)	(1.9)	1.1
Deferred income tax recognized in other comprehensive income	**4.0**	**3.1**	**2.4**	**(2.1)**

(1) This item is disclosed under equity as FX differences resulting from translation of financial statements.

Balance of deferred tax assets and liabilities

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

	30/09/2019	31/12/2018
Deferred tax assets	116.5	135.6
Deferred tax liabilities	(89.9)	(88.5)
Total	**26.6**	**47.1**

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

3.1 Income tax (cont.)

Table of movements in deferred tax before the set-off

9 months ended 30/09/2019	31/12/2018	Effect of the implementation of IFRS 16	1/01/2019	Recognized in profit or loss	Recognized in other comprehensive income	Fx differences resulting from translation of deferred tax balance	30/09/2019
Temporary differences relating to deferred tax (liabilities) / assets:							
Non-financial non-current assets	(133.4)	11.9	(121.5)	(30.8)	-	(0.9)	**(153.2)**
Right-of-use assets and lease liabilities	-	(9.5)	(9.5)	3.7	-	(0.1)	**(5.9)**
Other provisions and liabilities	10.8	(1.4)	9.4	5.2	-	-	**14.6**
Inventories	(4.1)	-	(4.1)	0.2	-	-	**(3.9)**
Lease receivables	-	(1.7)	(1.7)	(0.8)	-	-	**(2.5)**
Trade receivables	3.6	-	3.6	(1.1)	-	-	**2.5**
Provisions for employee benefits	134.0	-	134.0	2.7	2.7	-	**139.4**
Other	0.3	-	0.3	(1.5)	2.2	0.1	**1.1**
Unused tax losses	35.9	-	35.9	(1.4)	-	-	**34.5**
Total	**47.1**	**(0.7)**	**46.4**	**(23.8)**	**4.9**	**(0.9)**	**26.6**

As at 30 September 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 40.3 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 September 2019 that it will be impossible to realize the above assets.

9 months ended 30/09/2018	1/01/2018	Recognized in profit or loss	Recognized in other comprehensive income	Fx differences resulting from translation of deferred tax balance	30/09/2018
Temporary differences relating to deferred tax (liabilities) / assets:					
Non-financial non-current assets	(144.1)	5.2	-	(2.1)	**(141.0)**
Other provisions and liabilities	9.5	8.7	-	-	**18.2**
Inventories	(1.9)	(3.2)	-	-	**(5.1)**
Trade receivables	4.7	(1.8)	-	-	**2.9**
Provisions for employee benefits	129.8	2.0	0.8	0.1	**132.7**
Other	(4.3)	(1.1)	3.5	-	**(1.9)**
Unused tax losses	37.2	(1.6)	-	0.1	**35.7**
Total	**30.9**	**8.2**	**4.3**	**(1.9)**	**41.5**

Tax loss not recognized in calculation of deferred tax assets

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

	30/09/2019	31/12/2018
AWT CE s.r.o.	-	20.2
AWT Rail HU Zrt.	21.8	22.1
AWT Čechofracht a.s.	12.8	9.2
PKP CARGOTABOR USŁUGI Sp. z o.o.	7.5	7.5
CARGOSPED Terminal Braniewo Sp. z o.o.	1.6	1.6
Total	**43.7**	**60.6**

In the period of 9 months ended 30 September 2019, in connection with the merger of AWT CE s.r.o. and Advanced World Transport a.s., the company lost the possibility of settling tax losses in the amount of PLN 20.2 million.

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

3.1 Income tax (cont.)

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

Year	2019	2020	2021	2022	2023	2024 and beyond	Total
Unused tax losses	3.8	4.3	9.2	6.4	7.0	13.0	**43.7**

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

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	**60.6**

4. Explanatory notes on debt

4.1 Reconciliation of debt liabilities

As at 30 September 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

30/09/2019	In functional currency	In foreign currency		Total
	PLN	EUR	CZK	
Bank loans and borrowings	682.5	570.7	-	**1,253.2**
Leases	701.6	133.8	48.2	**883.6**
Total	**1,384.1**	**704.5**	**48.2**	**2,136.8**
Variable-interest-rate liabilities	729.8	493.8	-	**1,223.6**
Fixed-interest-rate liabilities	654.3	210.7	48.2	**913.2**
Total	**1,384.1**	**704.5**	**48.2**	**2,136.8**

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

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

4.1 Reconciliation of debt liabilities (cont.)

Reconciliation of debt liabilities

9 months ended 30/09/2019	Bank loans and borrowings	Leases	Total
31/12/2018	**1,331.8**	**95.2**	**1,427.0**
Effect of the implementation of IFRS 16	-	803.7	**803.7**
1/01/2019	**1,331.8**	**898.9**	**2,230.7**
Obtained debt	99.3	85.7	**185.0**
Transaction costs	1.7	-	**1.7**
Accrual of interest	16.2	25.8	**42.0**
Payments under debt, including:			**-**
Repayments of the principal	(186.1)	(95.9)	**(282.0)**
Interest paid	(16.9)	(23.1)	**(40.0)**
Transaction costs	(1.7)	-	**(1.7)**
Other	-	(10.4)	**(10.4)**
FX valuation	7.8	1.6	**9.4**
Fx differences resulting from translation	1.1	1.0	**2.1**
30/09/2019	**1,253.2**	**883.6**	**2,136.8**
Long-term	1,009.8	747.5	**1,757.3**
Short-term	243.4	136.1	**379.5**
Total	**1,253.2**	**883.6**	**2,136.8**

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

	Presentation in the statement of profit or loss and other comprehensive income	9 months ended 30/09/2019
Revenue from operating leases	Revenues from contracts with customers	31.5
Interest income from finance leases	Financial revenue	0.4
Costs on account of:		
Short-term leases	Other services	(30.9)
Leases of low-value assets	Other services	(5.0)
Variable lease fees not included in the measurement of lease liabilities	Other services	(2.4)

9 months ended 30/09/2018	Bank loans and borrowings	Finance leases	Total
1/01/2018	**1,562.3**	**139.1**	**1,701.4**
Obtained debt	0.4	0.8	**1.2**
Transaction costs	1.2	-	**1.2**
Accrual of interest	19.5	3.4	**22.9**
Payments under debt, including:			
Repayments of the principal	(181.6)	(37.1)	**(218.7)**
Interest paid	(19.9)	(3.4)	**(23.3)**
Transaction costs	(1.2)	-	**(1.2)**
FX valuation	12.2	1.0	**13.2**
Fx differences resulting from translation	1.9	0.7	**2.6**
30/09/2018	**1,394.8**	**104.5**	**1,499.3**
Long-term	1,146.3	76.8	**1,223.1**
Short-term	248.5	27.7	**276.2**
Total	**1,394.8**	**104.5**	**1,499.3**

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

4.1 Reconciliation of debt liabilities (cont.)

Net debt

	30/09/2019	31/12/2018
Bank loans and borrowings	1,253.2	1,331.8
Leases	883.6	95.2
Total debt	**2,136.8**	**1,427.0**
Cash and cash equivalents	(187.1)	(447.3)
Bank deposits over 3 months	-	(201.1)
Total net debt	**1,949.7**	**778.6**
EBITDA	925.0	907.0
Net debt/EBITDA	**2.1**	**0.9**

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 September 2019 was calculated based on the projected EBITDA for 2019 of PLN 925.0 million.

The covenants 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 September 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 1.4.

Unused credit lines

Type of loan	Bank Name	Period of availability	Currency of the contract	30/09/2019	31/12/2018
Investment loan	European Investment Bank	19/07/2020	EUR	22.6	70.7
Investment loan	Bank Gospodarstwa Krajowego	31/12/2019	PLN	100.0	-
Investment loan	Bank Gospodarstwa Krajowego	31/12/2019	PLN	99.8	-
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	-	0.7
Overdraft	Bank Polska Kasa Opieki S.A.	24/05/2020	PLN	100.0	100.0
Total				**572.4**	**171.4**

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. By 30 September 2019 under the above agreements, the Group used the amount of PLN 50.2 million. The remaining part of loans is 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 September 2019, there were no breaches of any loan agreements.

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

4.2 Equity

Share capital

	30/09/2019	31/12/2018
The share capital consists of:		
Ordinary shares – fully paid up and registered	2,239.3	2,239.3

As at 30 September 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 articles of association of the Parent Company, PKP S.A. holds special personal rights to appoint and dismiss Supervisory Board Members in a number equal to half the composition of the Supervisory Board plus one. PKP S.A. has a personal right to appoint the Supervisory Board Chairperson and to determine the number of Supervisory Board Members. Additionally, in the event that PKP S.A.'s share in the Company's share capital is 50% or less, PKP S.A. will have an exclusive personal right to propose candidates for the President of the Parent Company's Management Board. The personal rights of PKP S.A. shall be vested always when PKP S.A. holds at least 25% of the Parent Company's share capital.

In the period of 9 months ended 30 September 2019 and the period of 9 months ended 30 September 2018, there were no movements in the Parent Company's share capital.

Supplementary capital

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

Retained earnings

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 Quarterly 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).

The dividend was paid on 10 July 2019.

4.3 Cash and cash equivalents

Structure of cash and cash equivalents

	30/09/2019	31/12/2018
Cash on hand and on bank accounts	130.6	204.6
Bank deposits up to 3 months	56.5	242.7
Total	**187.1**	**447.3**
including restricted cash	*43.0*	*39.6*

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

As at 30 September 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.

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

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

9 months ended 30/09/2019	Rolling stock	Other property, plant and equipment					
		Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
31/12/2018	**6,471.2**	**943.7**	**432.1**	**98.2**	**41.1**	**71.9**	**1,587.0**
Effect of the implementation of IFRS 16	(217.4)	(42.8)	(6.3)	(10.7)	-	-	**(59.8)**
1/01/2019	**6,253.8**	**900.9**	**425.8**	**87.5**	**41.1**	**71.9**	**1,527.2**
Increases / (decreases):							
Periodic repairs of rolling stock	-	-	-	-	-	457.0	**457.0**
Other acquisitions	-	-	-	-	-	343.0	**343.0**
Purchases of leased items	25.3	-	-	6.2	-	-	**6.2**
Settlement of fixed assets under construction	763.2	16.4	18.0	3.3	1.5	(802.4)	**(763.2)**
Grant for non-current assets	(57.8)	-	-	-	-	-	**-**
Sales	(16.4)	-	(0.4)	(1.4)	-	-	**(1.8)**
Liquidation	(260.4)	(2.1)	(1.2)	(0.1)	(0.1)	(0.2)	**(3.7)**
Reclassified to assets held for sale	(28.8)	(0.1)	-	-	-	-	**(0.1)**
FX differences	9.5	1.8	0.4	0.1	-	0.3	**2.6**
Other	(3.5)	3.7	0.2	2.8	-	(0.2)	**6.5**
30/09/2019	**6,684.9**	**920.6**	**442.8**	**98.4**	**42.5**	**69.4**	**1,573.7**
Accumulated depreciation							
31/12/2018	**(2,263.4)**	**(234.1)**	**(301.1)**	**(60.8)**	**(33.9)**	**-**	**(629.9)**
Effect of the implementation of IFRS 16	56.5	1.1	1.9	6.8	-	-	**9.8**
1/01/2019	**(2,206.9)**	**(233.0)**	**(299.2)**	**(54.0)**	**(33.9)**	**-**	**(620.1)**
(Increases) / decreases:							
Depreciation	(370.1)	(29.3)	(24.1)	(4.1)	(2.4)	-	**(59.9)**
Purchases of leased items	(4.6)	-	-	(4.6)	-	-	**(4.6)**
Sales	14.9	-	0.4	1.3	-	-	**1.7**
Liquidation	253.5	1.7	1.2	0.1	-	-	**3.0**
Reclassified to assets held for sale	18.5	0.1	-	-	-	-	**0.1**
FX differences	(2.2)	(0.3)	(0.2)	(0.1)	-	-	**(0.6)**
Other	23.4	(1.2)	(0.2)	(22.3)	-	-	**(23.7)**
30/09/2019	**(2,273.5)**	**(262.0)**	**(322.1)**	**(83.7)**	**(36.3)**	**-**	**(704.1)**
Accumulated impairment loss							
1/01/2019	**(210.8)**	**(2.8)**	**(1.7)**	**-**	**-**	**(2.7)**	**(7.2)**
(Increases) / decreases:							
Sales	0.1	-	-	-	-	-	**-**
Liquidation	0.7	0.4	-	-	-	0.1	**0.5**
Reclassified to assets held for sale	1.7	-	-	-	-	-	**-**
FX differences	(1.9)	-	-	-	-	-	**-**
30/09/2019	**(210.2)**	**(2.4)**	**(1.7)**	**-**	**-**	**(2.6)**	**(6.7)**
Net value							
1/01/2019	**3,836.1**	**665.1**	**124.9**	**33.5**	**7.2**	**69.2**	**899.9**
30/09/2019	**4,201.2**	**656.2**	**119.0**	**14.7**	**6.2**	**66.8**	**862.9**

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

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

9 months ended 30/09/2018	Rolling stock	Other property, plant and equipment					
		Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
1/01/2018	**6,024.6**	**914.6**	**405.9**	**100.5**	**39.5**	**41.2**	**1,501.7**
Increases / (decreases):							
Periodic repairs of rolling stock	-	-	-	-	-	415.6	**415.6**
Other acquisitions	-	-	-	-	-	58.2	**58.2**
Finance leases	-	-	0.8	-	-	-	**0.8**
Settlement of fixed assets under construction	427.8	13.0	6.9	1.0	1.2	(449.9)	**(427.8)**
Subsidies	-	-	-	-	-	(6.9)	**(6.9)**
Sales	(0.4)	(0.3)	(1.1)	(2.3)	-	-	**(3.7)**
Liquidation	(243.1)	(0.6)	(1.0)	(0.1)	(0.1)	-	**(1.8)**
Reclassified to assets held for sale	(30.3)	-	-	-	-	-	**-**
FX differences	15.3	2.6	0.7	0.8	-	0.3	**4.4**
Other	-	-	0.6	-	(0.7)	-	**(0.1)**
30/09/2018	**6,193.9**	**929.3**	**412.8**	**99.9**	**39.9**	**58.5**	**1,540.4**
Accumulated depreciation							
1/01/2018	**(2,129.5)**	**(195.7)**	**(270.7)**	**(60.4)**	**(31.6)**	**-**	**(558.4)**
(Increases) / decreases:							
Depreciation	(335.7)	(27.3)	(24.5)	(5.0)	(2.1)	-	**(58.9)**
Sales	0.3	0.1	1.0	2.2	-	-	**3.3**
Liquidation	237.2	0.5	0.9	0.1	0.1	-	**1.6**
Reclassified to assets held for sale	8.6	-	-	-	-	-	**-**
FX differences	(3.0)	(0.3)	(0.2)	(0.2)	-	-	**(0.7)**
Other	-	-	(0.6)	-	0.6		**-**
30/09/2018	**(2,222.1)**	**(222.7)**	**(294.1)**	**(63.3)**	**(33.0)**	**-**	**(613.1)**
Accumulated impairment loss							
1/01/2018	**(144.7)**	**(2.7)**	**(0.3)**	**-**	**-**	**(2.7)**	**(5.7)**
(Increases) / decreases:							
Recognition	(18.0)	-	-	-	-	-	**-**
Liquidation	0.5	-	-	-	-	-	**-**
Reclassified to assets held for sale	3.4	-	-	-	-	-	**-**
FX differences	(0.9)	-	-	-	-	-	**-**
30/09/2018	**(159.7)**	**(2.7)**	**(0.3)**	**-**	**-**	**(2.7)**	**(5.7)**
Net value							
1/01/2018	**3,750.4**	**716.2**	**134.9**	**40.1**	**7.9**	**38.5**	**937.6**
including finance lease	*246.1*	*-*	*10.8*	*7.0*	*-*	*-*	***17.8***
30/09/2018	**3,812.1**	**703.9**	**118.4**	**36.6**	**6.9**	**55.8**	**921.6**
including finance lease	*180.6*	*-*	*7.6*	*4.2*	*-*	*-*	***11.8***

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

5.2 Right-of-use assets

Movement in right-of-use assets

9 months ended 30/09/2019	Rolling stock	Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Total
Gross value						
Effect of the implementation of IFRS 16	310.1	729.2	14.6	14.0	1.2	**1,069.1**
1/01/2019	**310.1**	**729.2**	**14.6**	**14.0**	**1.2**	**1,069.1**
Increases / (decreases):						
New leases	74.7	1.8	0.8	8.0	0.4	**85.7**
Periodic repairs of rolling stock	3.2	-	-	-	-	**3.2**
Return of leased items	(5.1)	(1.8)	-	-	-	**(6.9)**
Purchases of leased items	(25.3)	-	-	(6.2)	-	**(31.5)**
Other	2.0	(6.9)	-	-	-	**(4.9)**
Fx differences	1.6	0.5	0.2	0.1	-	**2.4**
30/09/2019	**361.2**	**722.8**	**15.6**	**15.9**	**1.6**	**1,117.1**
Accumulated depreciation						
Effect of the implementation of IFRS 16	(56.5)	(1.1)	(1.9)	(6.8)	-	**(66.3)**
1/01/2019	**(56.5)**	**(1.1)**	**(1.9)**	**(6.8)**	**-**	**(66.3)**
(Increases) / decreases:						
Depreciation	(41.2)	(43.2)	(2.2)	(3.4)	(0.3)	**(90.3)**
Return of leased items	1.6	0.1	-	-	-	**1.7**
Purchases of leased items	4.6	-	-	4.6	-	**9.2**
Other	(2.6)	(2.5)	(0.1)	-	-	**(5.2)**
Fx differences	(0.4)	(0.1)	-	-	-	**(0.5)**
30/09/2019	**(94.5)**	**(46.8)**	**(4.2)**	**(5.6)**	**(0.3)**	**(151.4)**
Net value						
1/01/2019	**253.6**	**728.1**	**12.7**	**7.2**	**1.2**	**1,002.8**
30/09/2019	**266.7**	**676.0**	**11.4**	**10.3**	**1.3**	**965.7**

5.3 Investments in entities accounted for under the equity method

Detailed information on the entities accounted for under the equity method

	Carrying amount	
	30/09/2019	31/12/2018
COSCO Shipping Lines (POLAND) Sp. z o.o.	0.9	0.8
Terminale Przeładunkowe Sławków - Medyka Sp. z o.o.	20.1	19.5
Transgaz S.A.	6.1	6.3
Trade Trans Finance Sp. z o.o.	-	8.1
Rentrans Cargo Sp. z o.o.	7.8	8.1
PPHU "Ukpol" Sp. z o.o.	-	-
PKP CARGO CONNECT GmbH	0.5	1.0
AWT Rail SK a. s.	2.5	3.5
Total	**37.9**	**47.3**

Investments in entities accounted for under the equity method

	9 months ended 30/09/2019	9 months ended 30/09/2018
As at the beginning of the reporting period	**47.3**	**53.6**
Business combinations under common control [1]	(7.7)	-
Share in the profit / (loss) of entities measured by the equity method	1.4	(1.1)
Movement in equity on account of dividends	(3.3)	(1.4)
Fx differences resulting from translation of financial statements	0.2	0.3
As at the end of the reporting period	**37.9**	**51.4**

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

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

5.4 Inventories

Structure of inventories

	30/09/2019	31/12/2018
Strategic inventories	34.1	31.4
Rolling stock during liquidation	14.6	20.7
Other inventories	126.5	114.1
Impairment losses	(7.6)	(4.5)
Net inventories	**167.6**	**161.7**

5.5 Trade receivables

Structure of trade receivables

	30/09/2019	31/12/2018
Trade receivables	821.2	840.7
Impairment loss on receivables	(156.3)	(155.4)
Total	**664.9**	**685.3**
Non-current assets	1.8	0.7
Current assets	663.1	684.6
Total	**664.9**	**685.3**

5.6 Other assets

Structure of other assets

	30/09/2019	31/12/2018
Financial assets		
FX forwards	0.8	3.5
Shares in unlisted companies	7.3	6.8
Non-financial assets		
Costs settled over time:		
Prepayments for purchase of electricity	36.8	31.2
Lease rents	1.9	12.3
Insurance	9.5	7.4
IT services	9.4	4.2
Company Social Benefits Fund	8.6	-
Purchase of transportation services for eligible person	4.3	-
Other costs settled over time	4.1	6.2
Prepayments for purchase of non-financial non-current assets	8.0	-
Other	2.3	1.6
Other receivables		
VAT settlements	31.5	65.2
Income tax receivables	35.3	3.0
Other	9.6	5.0
Intangible assets		
Licenses	21.6	28.5
Other intangible assets	0.3	0.2
Intangible assets under development	6.0	6.0
Total	**197.3**	**181.1**
Non-current assets	49.1	56.7
Current assets	148.2	124.4
Total	**197.3**	**181.1**

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

5.7 Investment liabilities

Structure of investment liabilities

	30/09/2019	31/12/2018
Investment liabilities related to rolling stock	238.0	234.3
Investment liabilities related to real properties	1.8	18.1
Other	3.8	35.0
Total	**243.6**	**287.4**
Long-term liabilities	168.7	109.8
Short-term liabilities	74.9	177.6
Total	**243.6**	**287.4**

5.8 Provisions for employee benefits

Structure of provisions for employee benefits

	30/09/2019	31/12/2018
Post-employment defined benefit plans		
Retirement and disability severance benefit	217.0	195.8
Company Social Benefits Fund	122.6	130.2
Transportation benefits	33.4	32.8
Post-mortem benefits	8.3	7.9
Other employee benefits		
Jubilee awards	312.6	304.0
Other employee benefits (unused holidays / bonuses)	44.9	36.3
Total	**738.8**	**707.0**
Long-term provisions	608.1	591.5
Short-term provisions	130.7	115.5
Total	**738.8**	**707.0**

5.9 Other provisions

Structure of other provisions

	30/09/2019	31/12/2018
Provision for penalties imposed by anti-monopoly authorities	14.6	14.8
Provision for land reclamation	5.3	5.3
Provision for onerous contracts	-	3.7
Provision for VAT liabilities	-	23.6
Other provisions	30.1	30.0
Total	**50.0**	**77.4**
Long-term provisions	4.5	20.5
Short-term provisions	45.5	56.9
Total	**50.0**	**77.4**

Provision for penalties imposed by anti-monopoly authorities

As at 30 September 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 0.4 million for a penalty recognized in connection with a pending procedure initiated by the Czech Antimonopoly Office.

In connection with a change of the expected date of closing the UOKiK case, as at 30 September 2019 the Group reclassified its provision of PLN 14.2 million from long-term to short-term.

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.

Provision for onerous contracts

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

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

5.9 Other provisions (cont.)

Provision for VAT liabilities

In the period of 9 months ended 30 September 2019, the Group derecognized the provision for VAT settlement liabilities in the amount of PLN 24.4 million, which is described in **Note 1.5** of these Quarterly Condensed Consolidated Financial Statements.

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 September 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

	30/09/2019	31/12/2018
Financial liabilities		
FX forwards	2.0	0.2
Other liabilities		
Liabilities arising out of collateral (deposits, bid bonds, guarantees)	35.7	36.9
Public law settlement(1)	119.5	86.9
Settlements with employees	100.2	95.2
Other settlements	6.1	9.6
VAT settlements	7.0	6.5
Current income tax liabilities	0.8	0.3
Total	**271.3**	**235.6**
Long-term liabilities	0.9	1.8
Short-term liabilities	270.4	233.8
Total	**271.3**	**235.6**

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

6. Financial instruments

6.1 Financial instruments

Categories and classes of financial instruments

Financial assets by categories and classes	Note	30/09/2019	31/12/2018
Hedging financial instruments			
Derivatives	*Note 5.6*	0.8	3.5
Financial assets measured at fair value through other comprehensive income			
Investments in equity instruments	*Note 5.6*	7.3	6.8
Financial assets measured at amortized cost			
Trade receivables	*Note 5.5*	664.9	685.3
Bank deposits over 3 months		-	201.1
Cash and cash equivalents	*Note 4.3*	187.1	447.3
Financial assets excluded from the scope of IFRS 9		11.9	-
Total		**872.0**	**1,344.0**

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

6.1 Financial instruments (cont.)

Financial liabilities by categories and classes	Note	30/09/2019	31/12/2018
Hedging financial instruments			
Derivatives	*Note 5.10*	2.0	0.2
Bank loans and borrowings	*Note 4.1*	493.8	468.1
Financial liabilities measured at amortized cost			
Bank loans and borrowings	*Note 4.1*	759.4	863.7
Trade payables		379.5	499.9
Investment liabilities	*Note 5.7*	243.6	287.4
Financial liabilities excluded from the scope of IFRS 9	*Note 4.1*	883.6	95.2
Total		**2,761.9**	**2,214.5**

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

Hedge accounting

In the period from 1 January 2019 to 30 September 2019, the Group applied cash flow hedge accounting. The purpose of the hedging activity was to mitigate the impact of the FX risk within the EUR/PLN currency pair on future cash flows. The hedged item is a highly probable cash flow denominated in EUR.

As at 30 September 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 September 2019, the nominal amount of the hedging instrument was EUR 112.9 million, which is an equivalent of PLN 493.8 million.
- in forward foreign exchange contracts. The hedged cash flows will be realized until September 2021. As at 30 September 2019, the value of assets and liabilities on account of the measurement of the hedging instrument was PLN 0.8 million and PLN 1.5 million, respectively.

This item also includes measurement of hedging instruments in a subsidiary in the form of forward foreign exchange contracts on the EUR/PLN currency pair, hedging future cash flows. The hedged cash flows will be realized until July 2020. As at 30 September 2019, the value of liabilities on account of measurement of hedging instruments was PLN 0.5 million.

Fair value hierarchy

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

	30/09/2019		31/12/2018	
	Level 2	Level 3	Level 2	Level 3
Assets				
Derivatives – forward FX contracts	0.8	-	3.5	-
Investments in equity instruments - shares in unlisted companies	-	7.3	-	6.8
Liabilities				
Derivatives – forward FX contracts	2.0	-	0.2	-

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

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 as at 30 September 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

	9 months ended 30/09/2019	9 months ended 30/09/2018
As at the beginning of the reporting period	**6.8**	**6.2**
Sale of a share in an unlisted company	-	(0.4)
Profits / (losses) for the period recognized in other comprehensive income	0.7	-
As at the end of the reporting period	**7.5**	**5.8**

In the period of 9 months ended 30 September 2019 and the period of 9 months ended 30 September 2018, there were no transfers between level 2 and level 3 of the fair value hierarchy.

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

6.1 Financial instruments (cont.)

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

9 months ended 30/09/2019	Hedging financial instruments	Investments in equity instruments	Financial assets measured at amortized cost	Financial assets excluded from the scope of IFRS 9	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IFRS 9	Total
Dividends and profit-sharing	-	0.3	-	-	-	-	**0.3**
Interest income / (expense)	(2.1)	-	5.4	0.4	(16.2)	(25.8)	**(38.3)**
FX differences	(0.1)	-	1.7	-	(2.8)	(1.6)	**(2.8)**
Impairment losses / revaluation	-	-	(5.2)	-	-	-	**(5.2)**
Transaction costs related to loans	-	-	-	-	(1.7)	-	**(1.7)**
(Profit) / loss on the sale of investments	-	0.8	-	-	-	-	**0.8**
Effect of settlement of cash flow hedge accounting	3.4	-	-	-	-	-	**3.4**
Gross profit / (loss)	**1.2**	**1.1**	**1.9**	**0.4**	**(20.7)**	**(27.4)**	**(43.5)**
Revaluation	(11.7)	0.7	-	-	-	-	**(11.0)**
Other comprehensive income	**(11.7)**	**0.7**	**-**	**-**	**-**	**-**	**(11.0)**

In the period of 9 months ended 30 September 2019, the effect of settling cash flow hedge accounting adjusted the value of revenue from contracts with customers in the amount of PLN 3.4 million.
In the period of 9 months ended 30 September 2019, the change in the measurement of hedging financial instruments recognized in other comprehensive income included a change in the measurement of derivatives in the amount of PLN (4.5) million and bank loans in the amount of PLN (7.2) million, recognized as part of the hedge accounting applied by the Group.

9 months ended 30/09/2018	Hedging financial instruments	Investments in equity instruments	Financial assets measured at amortized cost	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IFRS 9	Total
Dividends and profit-sharing	-	0.3	-	-	-	**0.3**
Interest income / (expense)	(2.2)	-	10.5	(17.4)	(3.4)	**(12.5)**
FX differences	-	-	3.7	(2.4)	(1.0)	**0.3**
Impairment losses / revaluation	-	-	(0.4)	-	-	**(0.4)**
Transaction costs related to loans	-	-	-	(1.2)	-	**(1.2)**
(Profit) / loss on the sale of investments	-	5.0	-	-	-	**5.0**
Effect of settlement of cash flow hedge accounting	5.6	-	-	-	-	**5.6**
Gross profit / (loss)	**3.4**	**5.3**	**13.8**	**(21.0)**	**(4.4)**	**(2.9)**
Revaluation	(18.5)	-	-	-	-	**(18.5)**
Other comprehensive income	**(18.5)**	**-**	**-**	**-**	**-**	**(18.5)**

In the period of 9 months ended 30 September 2018, the effect of settling cash flow hedge accounting adjusted the value of revenue from contracts with customers in the amount of PLN 5.9 million and financial expenses in respect of interest on finance lease liabilities in the amount of PLN (0.3) million.
In the period of 9 months ended 30 September 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 (6.7) million and bank loans in the amount of PLN (11.8) million, recognized as part of the hedge accounting applied by the Group.

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

7. Other notes

7.1 Related party transactions

Transactions with the State Treasury and its other related parties

In the period of 9 months ended 30 September 2019 and the period of 9 months ended 30 September 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 Quarterly 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 9 months ended 30 September 2019 and the period of 9 months ended 30 September 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 or amount. In the periods covered by these Quarterly Condensed Consolidated Financial Statements, the Group's most important clients among other parties related to the State Treasury were members of the following groups: ENEA, JSW, PGE, PGG and Azoty. 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 Quarterly Condensed Consolidated Financial Statements, the Group entered into the following commercial transactions with PKP Group related parties:

	9 months ended 30/09/2019		30/09/2019	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent company	0.2	51.2	0.2	552.9
Subsidiaries / co-subsidiaries – unconsolidated	4.4	9.8	1.6	1.4
Associates	0.1	0.3	-	-
Other PKP Group related parties	11.4	437.8	2.2	59.0

	9 months ended 30/09/2018		31/12/2018	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent company	0.3	52.2	1.4	9.6
Subsidiaries / co-subsidiaries – unconsolidated	6.8	10.1	2.6	1.5
Associates	1.7	0.2	-	-
Other PKP Group related parties	9.4	536.3	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 September 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 PLN million) (translation of a document originally issued in Polish)

7.1 Related party transactions (cont.)

Loans granted to / received from related parties

	30/09/2019	31/12/2018
Loans received from related parties	-	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	
	9 months ended 30/09/2019	9 months ended 30/09/2018	9 months ended 30/09/2019	9 months ended 30/09/2018
Short-term benefits	2.0	1.7	4.6	5.5
Post-employment benefits	-	0.5	0.9	2.1
Termination benefits	-	0.1	-	-
Total	**2.0**	**2.3**	**5.5**	**7.6**

Remunerations of Supervisory Board Members	Parent Company		Subsidiaries	
	9 months ended 30/09/2019	9 months ended 30/09/2018	9 months ended 30/09/2019	9 months ended 30/09/2018
Short-term benefits	0.9	0.7	1.2	0.8
Total	**0.9**	**0.7**	**1.2**	**0.8**

Remunerations of other members of key management personnel	Parent Company		Subsidiaries	
	9 months ended 30/09/2019	9 months ended 30/09/2018	9 months ended 30/09/2019	9 months ended 30/09/2018
Short-term benefits	5.0	4.7	15.1	14.7
Post-employment benefits	0.1	0.7	0.9	0.7
Termination benefits	0.1	0.1	0.3	0.1
Total	**5.2**	**5.5**	**16.3**	**15.5**

In the period of 9 months ended 30 September 2019 and the period of 9 months ended 30 September 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

	30/09/2019	31/12/2018
Contractual liabilities on account of the acquisition of non-financial non-current assets	1,280.2	538.4
Total	**1,280.2**	**538.4**

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

- contracts concluded by the Parent Company in September 2019 with the consortium of NEWAG S.A. and NEWAG LEASE Sp. z o.o. s.k. for the delivery of 31 new locomotives with additional elements with a total value of PLN 518.9 million, to be delivered by June 2022.
- contracts concluded by the Parent Company in March 2019 with Tatravagónka a.s. for the delivery of 936 container platforms with a total value of PLN 368.4 million, to be delivered by December 2022.

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

- contracts concluded 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 127.2 million,
- contracts concluded 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 157.9 million.

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

7.3 Contingent liabilities

Structure of contingent liabilities

	30/09/2019	31/12/2018
Guarantees issued on the Group's order	89.2	125.0
Other contingent liabilities	115.0	119.8
Total	**204.2**	**244.8**

Guarantees issued on the Group's order

As at 30 September 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

Events occurring after the balance sheet date are described in **Note 1.1** to these Quarterly Condensed Consolidated Financial Statements.

7.5 Approval of the financial statements

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

Parent Company's Management Board

Czesław Warsewicz
President of the Management Board

Leszek Borowiec
Management Board Member

Grzegorz Fingas
Management Board Member

Witold Bawor
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 20 November 2019

Quarterly financial information of **PKP CARGO S.A.** for the period of 9 months ended 30 september 2019

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

QUARTERLY SEPARATE STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	9 months ended 30/09/2019	3 months ended 30/09/2019	9 months ended 30/09/2018	3 months ended 30/09/2018
Revenues from contracts with customers	2,710.0	881.8	2,871.9	997.3
Consumption of traction electricity and traction fuel	(388.1)	(137.2)	(405.4)	(142.5)
Services of access to infrastructure	(434.5)	(143.7)	(543.7)	(189.7)
Other services	(230.3)	(73.0)	(301.0)	(108.6)
Employee benefits	(991.8)	(308.5)	(915.2)	(290.5)
Other expenses	(134.5)	(43.2)	(120.3)	(38.3)
Other operating revenue and (expenses)	0.2	2.6	5.4	(0.1)
Operating profit without depreciation (EBITDA)	**531.0**	**178.8**	**591.7**	**227.6**
Depreciation, amortization and impairment losses	(433.3)	(147.5)	(333.8)	(114.0)
Profit on operating activities (EBIT)	**97.7**	**31.3**	**257.9**	**113.6**
Financial revenue and (expenses)	(12.7)	(17.1)	4.6	(8.2)
Profit before tax	**85.0**	**14.2**	**262.5**	**105.4**
Income tax	(22.3)	(8.6)	(51.1)	(23.2)
NET PROFIT	**62.7**	**5.6**	**211.4**	**82.2**
OTHER COMPREHENSIVE INCOME				
Measurement of hedging instruments	(10.9)	(19.3)	(17.7)	14.8
Income tax	2.1	3.7	3.4	(2.8)
Total other comprehensive income subject to reclassification in the financial result	**(8.8)**	**(15.6)**	**(14.3)**	**12.0**
Actuarial profits / (losses) on post-employment benefits	(12.4)	-	(1.5)	-
Income tax	2.4	-	0.3	-
Measurement of equity instruments at fair value	0.7	-	-	-
Total other comprehensive income not subject to reclassification in the financial result	**(9.3)**	**-**	**(1.2)**	**-**
Total other comprehensive income	**(18.1)**	**(15.6)**	**(15.5)**	**12.0**
TOTAL COMPREHENSIVE INCOME	**44.6**	**(10.0)**	**195.9**	**94.2**
Earnings per share (PLN per share)				
Weighted average number of ordinary shares	44,786,917	44,786,917	44,786,917	44,786,917
Basic and diluted earnings per share	**1.40**	**0.13**	**4.72**	**1.84**

The data for the period of 9 months ended 30 September 2018 have been restated, as described in Note 1.4 of the Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Capital Group for the period of 9 months ended 30 September 2019.

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

QUARTERLY SEPARATE STATEMENT OF FINANCIAL POSITION

	30/09/2019	31/12/2018	30/09/2018
ASSETS			
Rolling stock	3,764.3	3,425.7	3,182.2
Other property, plant and equipment	491.1	543.1	539.2
Right-of-use assets	575.9	-	-
Investments in related parties	805.5	805.5	807.3
Lease receivables	20.0	-	-
Financial assets	5.7	5.7	5.7
Other assets	35.9	35.3	33.3
Deferred tax assets	70.0	87.2	91.9
Total non-current assets	**5,768.4**	**4,902.5**	**4,659.6**
Inventories	78.4	84.2	91.2
Trade receivables	440.1	479.4	499.6
Lease receivables	1.2	-	-
Financial assets	2.4	203.4	405.2
Other assets	114.0	90.4	72.7
Cash and cash equivalents	29.3	222.4	81.8
Total current assets	**665.4**	**1,079.8**	**1,150.5**
Non-current assets classified as held for sale	1.5	-	1.5
TOTAL ASSETS	**6,435.3**	**5,982.3**	**5,811.6**
EQUITY AND LIABILITIES			
Share capital	2,239.3	2,239.3	2,239.3
Supplementary capital	744.7	596.7	596.7
Other items of equity	(50.8)	(32.7)	(22.4)
Retained earnings	359.2	511.3	468.7
Total equity	**3,292.4**	**3,314.6**	**3,282.3**
Debt liabilities	1,454.9	999.9	1,053.5
Investment liabilities	165.0	109.7	4.1
Provisions for employee benefits	542.1	528.8	513.9
Other provisions	-	14.2	14.2
Other financial liabilities	0.9	-	0.1
Total long-term liabilities	**2,162.9**	**1,652.6**	**1,585.8**
Debt liabilities	292.8	231.3	234.9
Trade liabilities	202.9	292.6	279.6
Investment liabilities	154.5	225.5	116.0
Provisions for employee benefits	104.9	92.6	102.3
Other provisions	32.9	19.4	9.3
Other financial liabilities	0.6	1.7	17.2
Other liabilities	191.4	152.0	184.2
Total short-term liabilities	**980.0**	**1,015.1**	**943.5**
Total liabilities	**3,142.9**	**2,667.7**	**2,529.3**
TOTAL EQUITY AND LIABILITIES	**6,435.3**	**5,982.3**	**5,811.6**

The data as at 30 September 2018 have been restated, as described in Note 1.4 to the Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Capital Group for the period 9 months ended 30 September 2019.

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

QUARTERLY SEPARATE STATEMENT OF CHANGES IN EQUITY

			Other items of equity				
	Share capital	Supplementary capital	Measurement of equity instruments at fair value	Actuarial profits / (losses) on post-employment benefit	Measurement of hedging instruments	Retained earnings	Total
31/12/2018	**2,239.3**	**596.7**	**(12.9)**	**(18.4)**	**(1.4)**	**511.3**	**3,314.6**
Changes resulting from the implementation of IFRS 16	-	-	-	-	-	0.4	**0.4**
1/01/2019	**2,239.3**	**596.7**	**(12.9)**	**(18.4)**	**(1.4)**	**511.7**	**3,315.0**
Net result for the period						62.7	**62.7**
Other comprehensive income for the period (net)	-	-	(8.8)	(10.0)	0.7	-	**(18.1)**
Total comprehensive income	-	-	(8.8)	(10.0)	0.7	62.7	**44.6**
Dividends		-	-	-	-	(67.2)	**(67.2)**
Other changes for the period		148.0	-	-	-	(148.0)	**-**
30/09/2019	**2,239.3**	**744.7**	**(21.7)**	**(28.4)**	**(0.7)**	**359.2**	**3,292.4**
1/01/2018	**2,239.3**	**589.2**	**(12.9)**	**(10.8)**	**16.8**	**264.8**	**3,086.4**
Net result for the period	-	-	-	-	-	211.4	**211.4**
Other comprehensive income for the period (net)	-	-	-	(1.2)	(14.3)	-	**(15.5)**
Total comprehensive income	-	-	-	(1.2)	(14.3)	211.4	**195.9**
Other changes for the period		7.5	-	-	-	(7.5)	**-**
30/09/2018 (restated)	**2,239.3**	**596.7**	**(12.9)**	**(12.0)**	**2.5**	**468.7**	**3,282.3**

The reasons for the restatement of comparative data are described in Notes 1.3 and 1.4 of the Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Capital Group for the period of 9 months ended 30 September 2019.

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

QUARTERLY SEPARATE CASH FLOW STATEMENT

	9 months ended 30/09/2019	9 months ended 30/09/2018
Cash flow from operating activities		
Profit before tax	**85.0**	**262.5**
Adjustments		
Depreciation, amortization and impairment losses	433.3	333.8
(Profits) / losses on interest. dividends	(1.2)	(20.9)
Received / (paid) interest	0.8	3.4
Received / (paid) income tax	(28.8)	(40.8)
Movement in working capital	5.3	(13.2)
Other adjustments	(15.5)	(7.3)
Net cash from operating activities	**478.9**	**517.5**
Cash flow from investing activities		
Expenditures on the acquisition of non-financial non-current assets	(753.3)	(472.9)
Proceeds from the sale of non-financial non-current assets	12.2	20.2
Proceeds from dividend received	33.2	30.7
Inflows / (outflows) from bank deposits over 3 months	200.0	(150.0)
Other inflows / (outflows) from investing activities	4.7	5.8
Net cash from investing activities	**(503.2)**	**(566.2)**
Cash flow from financing activities		
Payments on financial lease liabilities	(51.2)	(24.1)
Proceeds from bank loans and borrowings	99.3	-
Repayment of bank loans and borrowings	(169.1)	(164.8)
Interest paid on finance lease and bank loans and borrowings	(30.6)	(18.4)
Grants received	57.1	3.0
Dividends paid out to owners	(67.2)	-
Inflows / (outflows) as part of cash pool	(3.0)	40.4
Other inflows from financing activities	(4.1)	(1.5)
Net cash from financing activities	**(168.8)**	**(165.4)**
Net increase / (decrease) in cash and cash equivalents	(193.1)	(214.1)
Cash and cash equivalents as at the beginning of the reporting period	222.4	295.9
Cash and cash equivalents as at the end of the reporting period, including:	**29.3**	**81.8**
restricted cash	*20.7*	*15.8*

Other information to **PKP CARGO** Group's consolidated quarterly report for Q3 2019

ADDITIONAL INFORMATION TO THE CONSOLIDATED QUARTERLY REPORT FOR Q3 2019

LIST OF TABLES

LIST OF FIGURES

1. Introduction

Dear Stakeholders,

In 2019, the key factor affecting the performance of the PKP CARGO Group is the situation of the entire rail cargo transport sector, which features lower quantum of transport compared to 2018, caused mainly by the lower demand for bulk cargo transport, including mainly aggregates and metal ore. This in turn causes a decline in revenues and financial ratios of rail operators, PKP CARGO included. On the other hand, we are earning growing revenues from the intermodal transport sector and we are improving our efficiency, which partially offsets the negative external factors affecting our industry.

I would also like to note that all our main ratios after three quarters of 2019 are higher than the average of 2013-2018. Our revenue (PLN 3.62 billion) is roughly PLN 250 million higher than the average after three quarters since PKP CARGO was listed on the exchange. In the period from January to September, EBITDA reached nearly PLN 616 million (without the impact of IFRS 16), which in the previous years it was less than PLN 497 million on average. The net profit of PLN 98.7 million was lower than last year’s but nearly PLN 16.5 million higher than the average of the 2013-2018 period.

2. Organization of the PKP CARGO Group

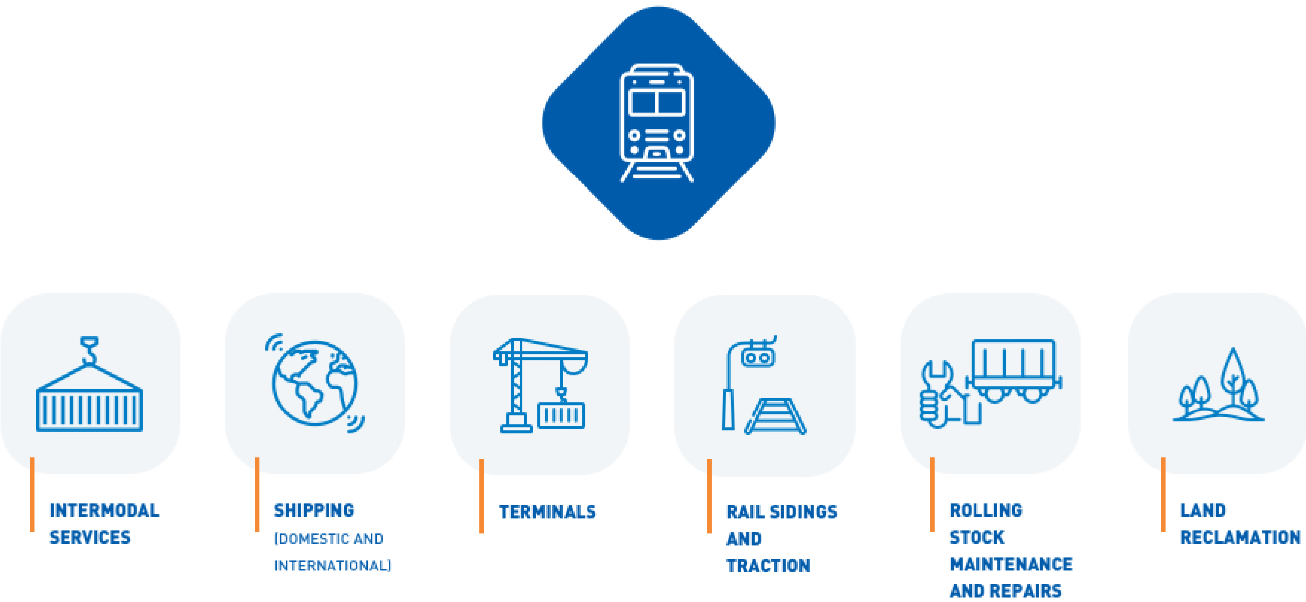
2.1 Highlights on the Company and the PKP CARGO Group[1]

The PKP CARGO Group is the biggest 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 UTK[2]) and it is a leading operator on the Czech market (according to SZDC[3]).

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

Poland Czech Republic Germany Netherlands Austria Slovakia Hungary Lithuania Slovenia

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

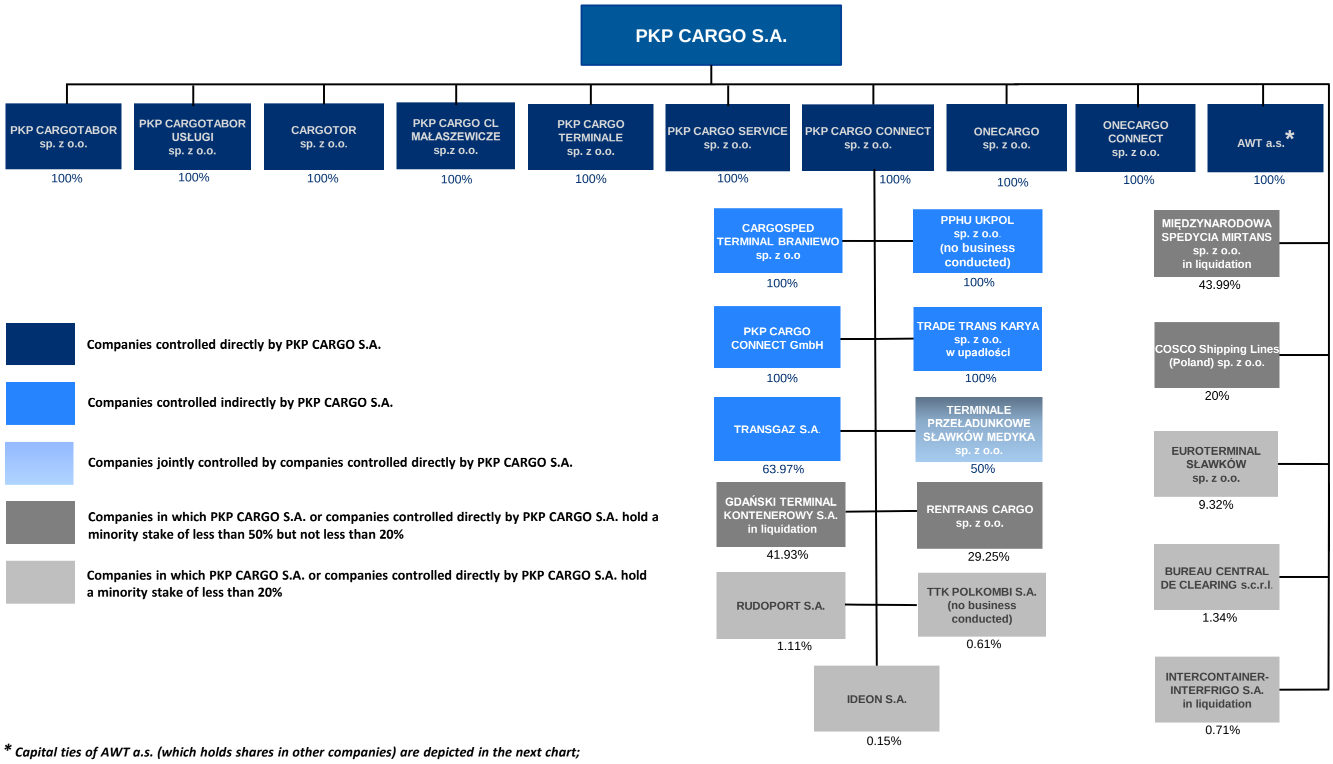


[1] Whenever the Report mentions:
- the Company or the Parent Company, it should be construed to mean PKP CARGO S.A.,
- the PKP CARGO Group or the Group, it should be construed to mean PKP CARGO S.A. and its subsidiaries collectively.

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

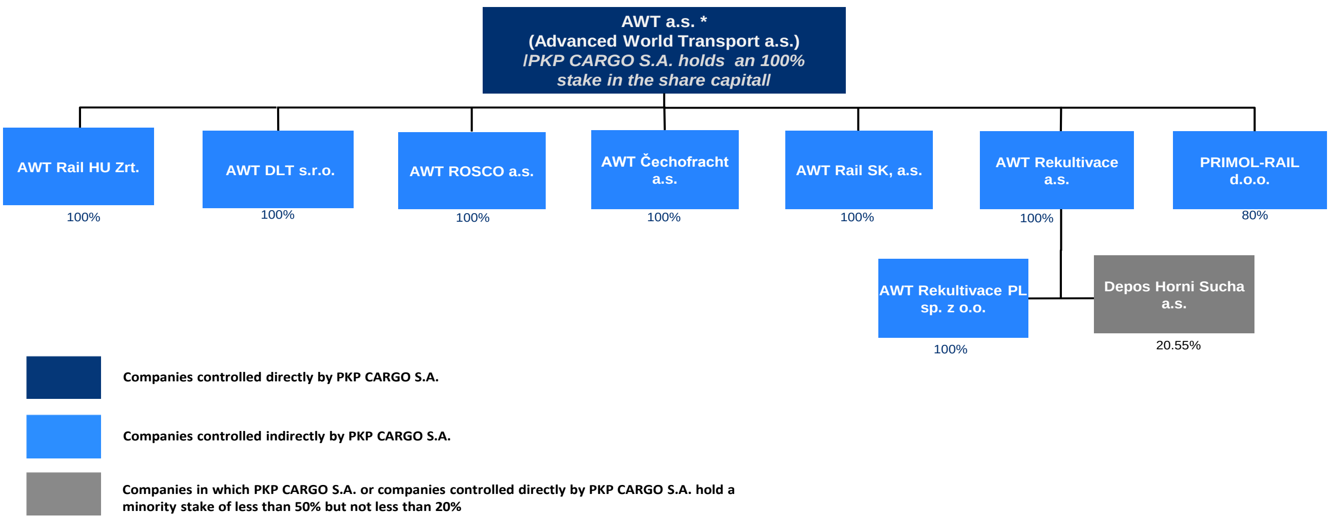
The chart below presents the structure of capital links with the companies, in which PKP CARGO S.A. or its subsidiaries hold shares – as at 30 September 2019:

Figure 1 Structure of capital links with the companies, in which PKP CARGO S.A. or its subsidiaries hold shares – as at 30 September 2019



Source: Proprietary material

Figure 2 Structure of the AWT Group as at 30 September 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).

According to the confirmation received, on 5 June 2019 the District Court for Gdańsk-Północ made an entry in the National Court Register showing the effective date of the removal of CARGOSPED SKŁADY CELNE sp. z o.o. w likwidacji as of 20 October 2018. As a result of the above, the company CARGOSPED SKŁADY CELNE sp. z o.o. w likwidacji ended its legal existence and is no longer an affiliate of PKP CARGO S.A.

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).

As of 8 July 2019, the company AWT Trading s.r.o. v likvidaci, fully owned by AWT Rekultivace a.s., was removed from the Czech Register of Commercial Undertakings. As a result of the above, the company AWT Trading s.r.o. v likvidaci ended its legal existence and is no longer an affiliate of PKP CARGO S.A.

On 31 July 2019, the District Court for the Capital City of Warsaw registered the merger of PKP CARGO CONNECT sp. z o.o. as the acquirer with Trade Trans Finance sp. z o.o. as the acquiree. As a result of the above, the company Trade Trans Finance sp. Z o.o. was resolved (ceased to exist) and is no longer an affiliate of PKP CARGO S.A.

On 27 August 2019, AWT Cechofracht a.s. signed an agreement to sell its holdings in RND s.r.o., in which it held 51% of the share capital. As a result of the above, RND s.r.o. ceased to be an affiliate of PKP CARGO S.A.

On 12 September 2019, the Court Monitor published an announcement that the District Court in Rzeszów launched proceedings against P.P.H.U. UKPOL sp. z o.o. (which is fully-owned by PKP CARGO CONNECT sp. z o.o.) to dissolve an entity entered in the Register without a liquidation procedure.

As at 2 October 2019, AWT a.s. changed its name; its current name is PKP CARGO INTERNATIONAL a.s.

On 7 October 2019, the District Court Lublin-Wschód registered an entry on the removal of Trade Trans Karya sp. z o.o. w upadłości (which is fully-owned by PKP CARGO CONNECT sp. z o.o.) from the Court Register. The entry has not yet become legal.

On 31 October 2019, a merger was registered in the National Court Register between the company PKP CARGO TERMINALE Sp. z o.o. with its registered office in Żurawica with PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o. with its registered office in Małaszewicze, by way of a transfer of all the assets of the company being acquired, i.e. PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o. to PKP CARGO TERMINALE Sp. z o.o. as the surviving company. As a result, PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o. ceased its existence as a separate legal entity.

On 12 November 2019, PKP CARGO S.A. signed an agreement to sell to PKP S.A. a 50% stake in ONECARGO sp. z o.o. with its registered office in Warsaw, as a result of which PKP CARGO S.A. ceased to be the sole shareholder of that company and the shareholding structure of ONECARGO sp. z o.o. and votes at the Shareholder Meeting of ONECARGO are distributed as follows: 50% PKP CARGO S.A. and 50% PKP S.A.

2.2 Consolidated entities

The Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Group as at 30 September 2019 encompass PKP CARGO S.A. and 13 subsidiaries consolidated by the full method:

Table 1 Subsidiaries consolidated by the full method

Company name	Core business
PKP CARGO SERVICE Sp. z o.o.	Comprehensive handling of rail sidings, rail freight transport and maintenance of rail infrastructure.
PKP CARGOTABOR Sp. z o.o.	Repair and maintenance of rolling stock and physical liquidation of rail cars and locomotives, repairs of electrical machinery and wheel sets as well as weighing and adjustment of rolling stock.
PKP CARGOTABOR USŁUGI Sp. z o.o.	Collection, treatment and disposal of waste and recovery of raw materials. As at the delivery date of the report, the company does not conduct any operating activity.
PKP CARGO CENTRUM LOGISTYCZNE MAŁASZEWICZE Sp. z o.o.	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.
PKP CARGO TERMINALE Sp. z o.o.	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.
CARGOSPED TERMINAL BRANIEWO Sp. z o.o.	Transshipment of goods and buying and selling of coal. The company is a direct importer of coal from Russia and it is active in wholesale and retail sales in this area.
CARGOTOR Sp. z o.o.	Managing track and service infrastructure (rail sidings and track systems) along with the requisite plant and buildings, making infrastructure available to rail operators on commercial terms.
PKP CARGO CONNECT Sp. z o.o.	Freight forwarding and logistics services in Poland and abroad. The company provides comprehensive logistics services using rail and vehicle, marine and inland water transportation by organizing transport, transshipment, storage, warehousing, packaging and distribution. Customs clearance services to clients of the Group.
Advanced World Transport a.s. (from 2 October 2019 as PKP CARGO INTERNATIONAL a.s.)	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").
AWT Rosco a.s.	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.
AWT Cechofracht a.s.	International freight forwarding services.
AWT Rekultivace a.s.	Construction engineering business, including management and revitalization of post-industrial areas (including mining areas), demolition works, management of waste treatment facilities, elimination of underground mining pits, decontamination of soil, etc.
AWT Rail HU Zrt	Rail transport services and rail siding handling services in Hungary on the basis of its own rail operator's license.

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

Since 26 July 2019 (when the amendments to the PKP CARGO S.A. Articles of Association were registered in the National Court Register), 2 Management Board Members acting jointly or 1 Management Board Member acting jointly with a commercial proxy, are authorized to make representations on behalf of the company.

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
Czesław Warsewicz	President of the Management Board	27 March 2018	to date
Leszek Borowiec	Management Board Member in charge of Finance	27 March 2018	to date
Witold Bawor	Management Board Member in charge of Operations	26 October 2017	to date
Grzegorz Fingas	Management Board Member in charge of Commerce	1 April 2016	to date
Zenon Kozendra	Management Board Member – Employee Representative	14 July 2016	to date

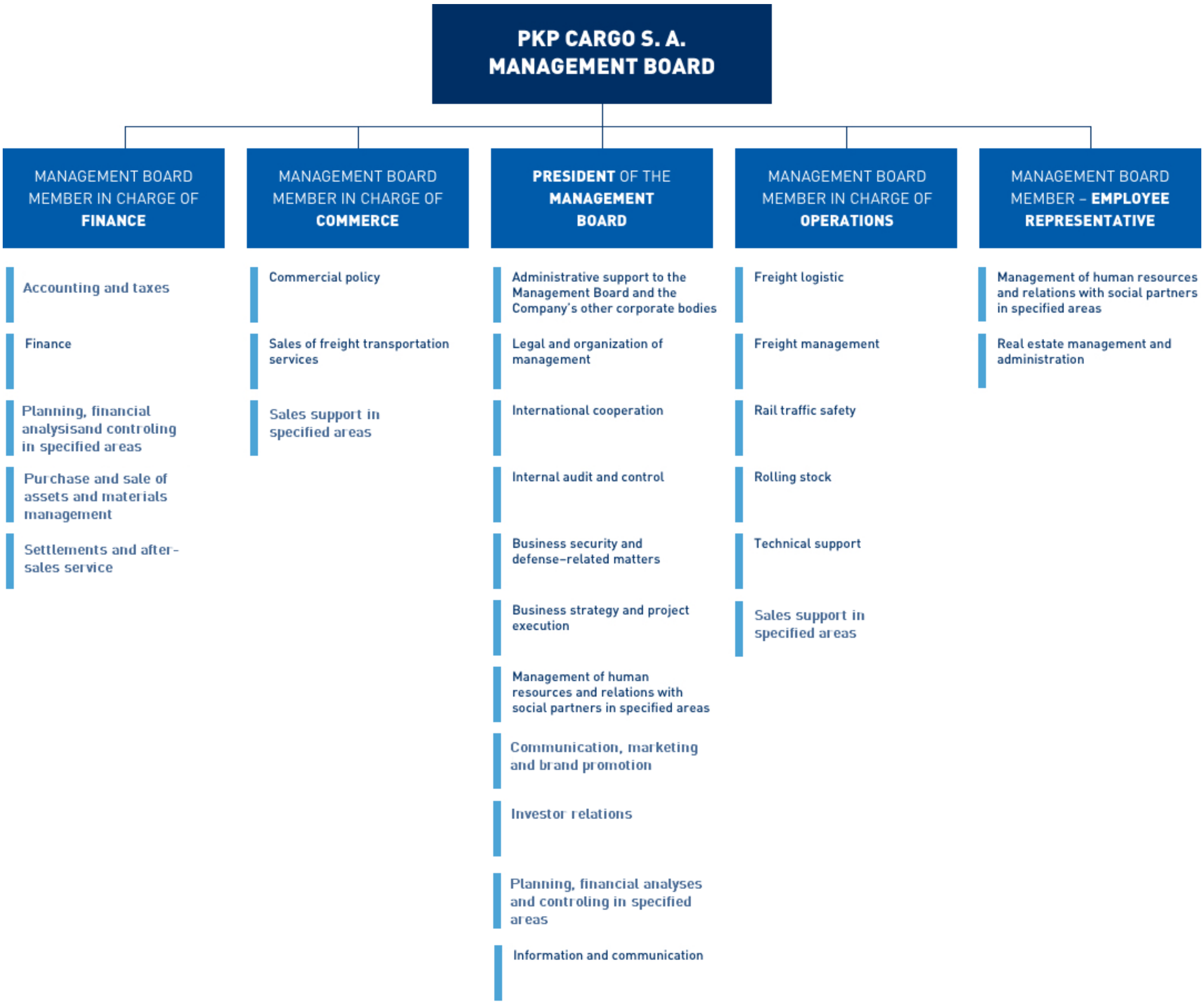
Source: Proprietary material

On 27 May 2019, the Supervisory Board adopted a resolution appointing the following persons to the Management Board for the joint 7th term of office (which started on the date of holding the Ordinary Shareholder Meeting of PKP CARGO S.A., i.e. 26 June 2019):

- Mr. Czesław Warsewicz 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 September 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:
   - finance 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:
   - execution of transports,
   - 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

According to the Articles of Association, 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 in a specific term of office is set by PKP S.A. (in the 7th 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, 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
Krzysztof Mamiński	Supervisory Board Chairman Supervisory Board Member	26 March 2018 6 March 2017	to date
Mirosław Antonowicz	Supervisory Board Member Supervisory Board Deputy Chairman	1 June 2017 27 June 2017	to date
Krzysztof Czarnota	Supervisory Board Member	20 May 2016	to date
Zofia Dzik	Supervisory Board Member	11 May 2016	to date
Dariusz Górski	Supervisory Board Member	26 June 2019*	to date
Małgorzata Kryszkiewicz	Supervisory Board Member	17 December 2015	to date
Paweł Sosnowski	Supervisory Board Member	7 June 2018	to date
Jerzy Sośnierz	Supervisory Board Member	1 May 2018	to date
Tadeusz Stachaczyński	Supervisory Board Member	20 May 2016	to date
Władysław Szczepkowski	Supervisory Board Member	14 March 2017	to date
Raimondo Eggink	Supervisory Board Member	13 April 2015	26 June 2019*

* 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

The 7th term of office of the PKP CARGO S.A. Supervisory Board began on 26 June 2019, which was the date of holding the Ordinary Shareholder Meeting of PKP CARGO S.A.

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
Dariusz Górski	Committee Member Committee Chairman	1 July 2019	to date
Małgorzata Kryszkiewicz	Committee Member	20 May 2016 1 July 2019	26 June 2019* to date
Zofia Dzik	Committee Member	20 May 2016 1 July 2019	26 June 2019* to date
Raimondo Eggink	Committee Member Committee Chairman	20 May 2016 31 May 2016	26 June 2019* 26 June 2019*

* 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
Zofia Dzik	Chairperson	20 May 2016 1 July 2019	26 June 2019* to date
Mirosław Antonowicz	Committee Member	27 June 2017 1 July 2019	26 June 2019* to date
Władysław Szczepkowski	Committee Member	27 November 2017 1 July 2019	26 June 2019* 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
Mirosław Antonowicz	Committee Member	27 June 2017	26 June 2019*
		1 July 2019	to date
	Committee Chairman	28 May 2018	26 June 2019*
		1 July 2019	to date
Dariusz Górski	Committee Member	1 July 2019	to date
Władysław Szczepkowski	Committee Member	23 April 2018	26 June 2019*
		1 July 2019	to date
Raimondo Eggink	Committee Member	23 June 2016	26 June 2019*

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

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

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

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

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

Source: Proprietary material

3.3 Shareholders holding at least 5% of the total votes

Table 8 Shareholder structure of PKP CARGO S.A. as at 30 September 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. (1)	14,784,194	33.01%	14,784,194	33.01%
Nationale-Nederlanden OFE (2)	7,751,187	17.31%	7,751,187	17.31%
Aviva OFE (3)	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	19,913,165	44.46%	19,913,165	44.46%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

(1) According to a notice sent by the shareholder on 24 June 2014.
(2) According to a notice sent by the shareholder on 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 22 August 2019, i.e. the delivery date of the H1 2019 report, to the delivery date of this report, were as follows:

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

Name	Number of PKP CARGO S.A. shares held by Management Board members
as at the delivery date of this report	
Czesław Warsewicz	2,500
Leszek Borowiec	0
Grzegorz Fingas	0
Witold Bawor	46
Zenon Kozendra	46
as at 22 August 2019	
Czesław Warsewicz	1,500
Leszek Borowiec	0
Grzegorz Fingas	0
Witold Bawor	46
Zenon Kozendra	46

Source: Proprietary material

The holdings of the Company's shares or rights to such shares by members of the Company's Supervisory Board from 22 August 2019, i.e. the delivery date of the H1 2019 report, to the delivery date of this report, were as follows:

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

Name	Number of PKP CARGO S.A. shares held by Supervisory Board members
as at the delivery date of this report	
Krzysztof Mamiński	0
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
as at 22 August 2019	
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

Source: Proprietary material

4. Key areas of operation of the PKP CARGO Group

4.1 Macroeconomic environment

Polish economy

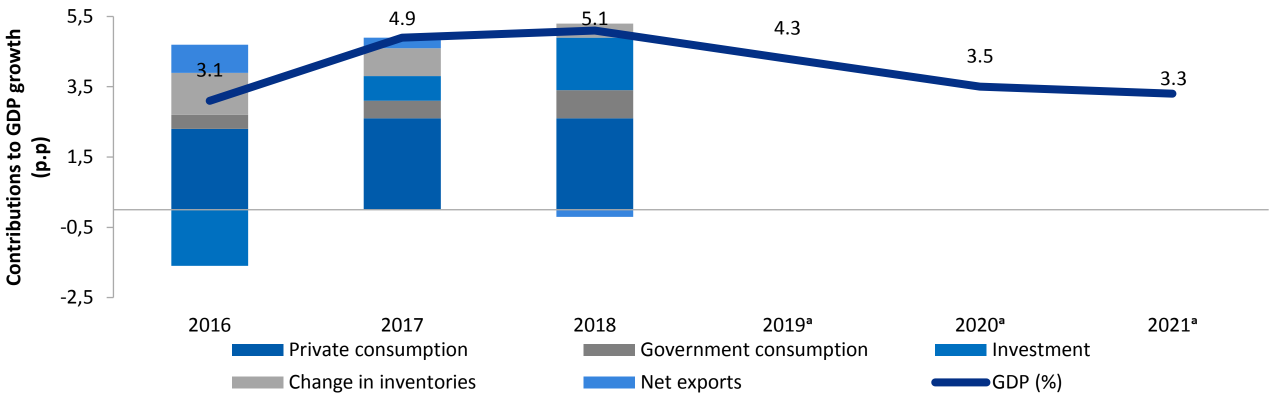
In accordance with details from GUS, in Q2 2019 Poland's GDP growth slowed down to 4.4% yoy from 4.7% yoy in Q1 2019.[4] As a result, the national economic growth has been declining yoy since Q2 2018. At the same time, the quarterly GDP growth, adjusted for seasonality, slowed down from 1.4% qoq in Q1 2019 to 0.8% qoq in Q2 2019, which indicates the likely further slowdown of the economic growth over the coming quarters.[5] The currently available data on business activity (industrial output, construction, actual retail sales) for the period of July-September 2019 and the noticeable weakening of business tendency indicators (GUS, NBP) suggest a further decline of the GDP growth in Poland to slightly above 4.0% in Q3 2019.[6]

The key factors driving the economic growth in Poland in Q2 2019 were as follows:

- household consumption, which accelerated in Q2 this year to 4.4% (from 3.9% yoy in Q1 2019). In Q2 2019, the strong increase in private consumption was supported by the persistently high rate of growth in real wages, continued decrease in the unemployment rate compared to the same period in 2018, historically strong consumer sentiment and new social transfers (including among others additional pension benefits).[7] According to the most recent data published by the Central Statistical Office, the current unemployment level at 5.1% in September this year was the lowest in 30 years.
- investments, although with a rate of growth down to 9.0% yoy in Q2 2019 (from 12.6% yoy in Q1 2019). Q2 2019 saw a slower pace of growth in investment expenditures of both the public sector (in particular in local government units, following their accumulation before the local government elections in 2018) and the private sector (weaker demand and growing uncertainty as to the future situation in the macroeconomic environment).[8]

In Q2 2019, the impact of the foreign trade balance on the domestic GDP growth was neutral. At the same time, the growth of exports as well as imports was lower than the quarter before, which was caused by the declining economic conditions among Poland's main trading partners and weaker domestic demand (also because of the lower growth in investments, which depend to a large extent on imports). Inventories brought a negative contribution to GDP for the third quarter in a row[9].

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 – median forecasts from the Bloomberg's macroeconomic survey; data without decomposition

Source: Proprietary material based on the data of the Central Statistical Office of Poland and the Bloomberg platform

[4] Central Statistical Office of Poland
[5] Central Statistical Office of Poland
[6] Central Statistical Office of Poland, National Bank of Poland
[7] Central Statistical Office of Poland
[8] Central Statistical Office of Poland
[9] Central Statistical Office of Poland

The progressing economic slowdown abroad, together with the deterioration of both forward-looking indicators (GUS, NBP) and the data from the real economy in Poland contributed to a revision of domestic GDP growth forecasts for the coming quarters. According to the median of expectations of economists and analysts surveyed by the Bloomberg platform, the average annual GDP growth in Poland will be 4.3% in 2019 as compared to 5.1% in 2018 and will decrease to an average of 3.5% in 2020 and 3.3% in 2021.[10] The considerable slowdown in the business activity growth rate in Poland has also been noted by the most recent macroeconomic projections prepared by domestic (NBP) and foreign (IMF, OECD) forecasting organizations.

According to the NBP's economic projections presented in July 2019, the main factors of economic growth in Poland in the coming quarters will include: household consumption (due to the still favorable situation on the domestic labor market, high availability of cheap credit and a positive impact of both the existing and announced social benefits and fiscal changes) and investment demand (high utilization of production capacity, restricted supply of labor encouraging actions aimed at increasing productivity, the opportunity to finance investments with cheap credit, considerable demand for housing)[11]. According to NBP's analysts, the contribution of net exports to GDP in 2019-2021 will be negative, driven by a slowdown in exports (due to weak economic standing of Poland's main trading partners, especially Germany) and relatively high increase in imports (continuing strong internal demand)[12].

In Q3 2019, the CPI consumer price index in Poland gradually increased, ultimately exceeding the NBP's inflation target (2.5%)[13]. There were numerous factors that contributed to the acceleration of the inflation rate, including: higher food prices (meat, fruit and vegetables, among others), increases in regulated prices (including waste disposal fees) and an increase in core inflation (among others, in respect of telecommunications, insurance and tourism services)[14]. NBP's analysts expect that, due to the postponed inflationary effect of the current demand and wage pressures, further increases in administered good prices and the expected increase in electricity prices, the average annual CPI will be 2.9% in 2020 (culminating in the first quarter of the year) and 2.6% in 2021[15].

Czech economy

According to data published by the Czech Statistical Office, in Q2 2019 the country's rate of economic growth decreased to 2.5% yoy from 2.8% yoy in Q1 2019.[16] At the same time, the GDP growth rate adjusted for seasonality accelerated to 2.8% yoy, compared to 2.7% in Q1 2019, slightly exceeding the earlier estimations of the Czech Ministry of Finance (2.7% yoy).[17]

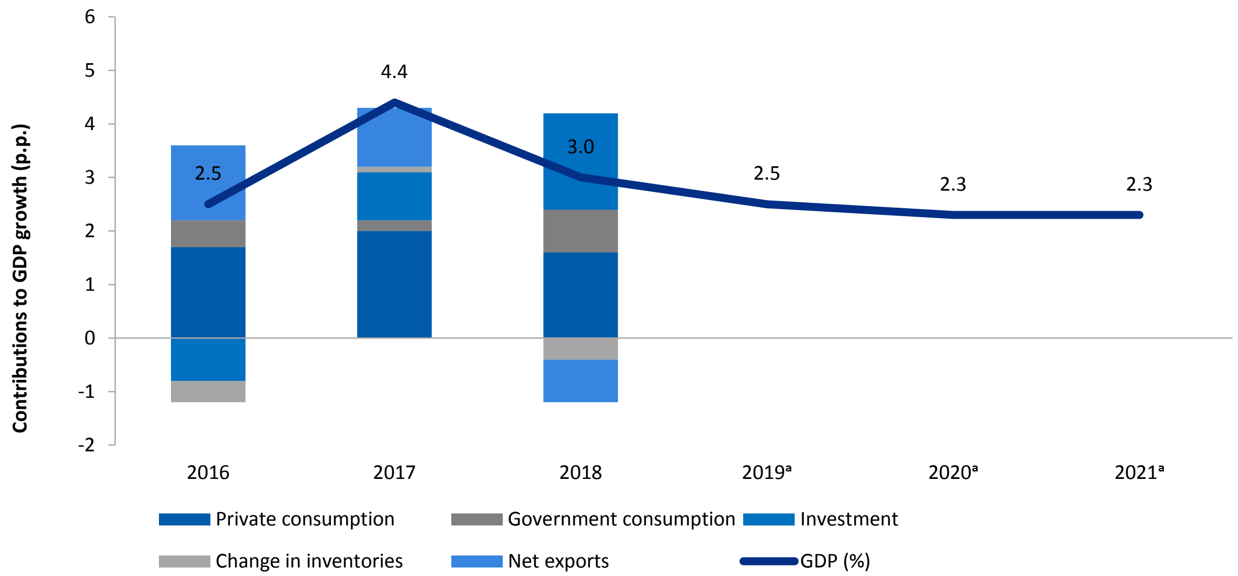
The key factors driving the economic growth in the Czech Republic in Q2 2019 included:

- consumption of households, the growth rate of which stabilized at the same level as in Q1 2019 and stood at 2.7% yoy. Private consumption benefited from, among others, a further stable increase in wages and employment, the lowest unemployment rate in the EU and an increase in social benefits (including pensions) introduced at the beginning of 2019[18];
- net exports, including export growth, accelerated to 2.2% yoy vs. 1.4% yoy in Q1 2019 (while the growth in imports fell to 1.4% yoy from 2.0% yoy in Q1 2019). At the same time, trade was lower than in 2018, driven by an economic slowdown in the economies of Czech Republic's main economic partners (including Germany)[19].

The GDP growth in Q2 2019 was also positively affected by: consumption of the public sector (an increase in employment and expenditures co-financed as part of EU's structural funds) and investments (mainly housing).[20].

[10] Bloomberg
[11] National Bank of Poland
[12] National Bank of Poland
[13] Central Statistical Office of Poland
[14] Central Statistical Office of Poland
[15] National Bank of Poland
[16] Czech Statistical Office, seasonally unadjusted data
[17] Czech Statistical Office
[18] Eurostat, Czech Statistical Office
[19] Czech Statistical Office
[20] 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 Macroeconomic forecasts of the Ministry of Finance of the Czech Republic – July 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 most recent projections published by the Czech Ministry of Finance, in the coming quarters we should expect further gradual (although limited) decline in GDP growth rate in the Czech Republic. The Finance Ministry's analysts forecast that in 2019 the average annual economic growth rate will drop to 2.5% only to stabilize at 2.3% in the 2020-2021 period.[21] During that period, consumption of households will remain the main factor driving economic growth (with the continuing considerable salary growth, high demand for labor and changes in the fiscal policy that are beneficial to consumers). Analysts of the Czech Finance Ministry believe that the remaining components of GDP, i.e. public consumption, investments and net exports, will also have a positive effect on the economic growth rate in the coming quarters, however, with the exception of the foreign trade balance, their contribution to GDP will be lower than in 2018.[22]

Economists working for the Czech Finance Ministry also expect an increase in the average annual consumer price index from 2.1% in 2018 to 2.5% in 2019[23]. The higher inflation in 2019 was caused by base factors (high salary pressures in the economy, higher prices of rentalsand apartments sales) as well as increases in regulated prices (especially electricity) and higher food prices. At the same time, analysts of the Czech Finance Ministry forecast that, in the subsequent quarters, CPI growth should decline towards the inflation target set by the Czech Central Bank (2.0%), reaching an average of 2.2% in 2020 and 1.8% in 2021.[24] The factors driving the decrease in inflation will include, among others, 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)[25].

[21] Czech Republic's Ministry of Finance
[22] Czech Republic's Ministry of Finance
[23] Czech Republic's Ministry of Finance
[24] Czech Republic's Ministry of Finance
[25] Czech Republic's Ministry of Finance

Industry in Poland

In the period of 9 months of 2019, total industrial production sold[26] increased 4.5% yoy (compared to a 5.9% yoy growth in the corresponding period of 2018).[27] In the subsequent quarters of 2019, the rate of production growth gradually weakened and in Q3 2019 the industrial production growth rate was significantly weaker than in the previous periods (+6.1% yoy in Q1, +4.2% yoy in Q2 and +3.3% in Q3 of this year). In 9M 2019, the sector's growth rate was driven by the industrial processing segment (+4.9% yoy), which accounts for nearly 90% of total output sold. An increase in yoy output was also recorded in the mining and quarrying segment (+2.3% yoy) and water supply with sewage and waste management (+9.6% yoy). On the other hand, a decline drop in yoy production was observed in generation and supply of electricity (-0.7% yoy).[28]

In 9M 2019, the increase in output sold yoy was recorded in 27 industry sectors (out of 34 classified by the Central Statistical Office).[29] Among the industry branches that were the most important from the perspective of the PKP CARGO Group's potential business, the highest yoy growth in industrial output was recorded in: metal products (+6.0%), chemicals and chemical products (+5.9% yoy), vehicles and auto parts (+4.5%), products from other non-metallic materials (+4.0%) and wood and wood products (+1.3% yoy). In the same period, a decline in industrial output sold was recorded in sectors related to the extraction of hard coal and lignite (-5.8% yoy) and production of metals (-1.7% yoy)[30].

The latest values of the Purchasing Managers' Index (PMI) also indicate that the relatively low growth rate of industrial production should be continued in the coming months. Since November 2018, the PMI for Poland index has been below the 50.0 mark, which denotes the boundary between technical recovery and recession in the industrial processing sector. In Q3 2019, the index fell to the average level of 48.0 points compared to 48.7 points in Q2 2019 and 48.5 points in H1 2019. In September 2019, PMI fell again to 47.8 points (only slightly higher than the 47.4 points in July 2019, which was the lowest level recorded since 2013). The decline of the index in September was affected mainly by the component related to the inflow of new orders (domestic and foreign), which was at the lowest level since 2009. During that period, forecasts of future production volumes worsened again among the surveyed companies, driven among others by the lower expected scale of foreign demand. As a result, the future production component reached the lowest level in the entire history of the publication (that is since 2012).[31]

In Q3 2019, the business tendency indicator published by the Central Statistical Office for the industrial processing sector in Poland was also falling (down to 2.9 points from 6.5 in Q2 2019 and 6.8 in Q1 2019). In September 2019, the business tendency indicator published by the Central Statistical Office for the industry was at its lowest level since December 2016[32].

Other factors significantly affecting the condition of the industries of key importance from the PKP CARGO Group' point of view in 9M 2019 included:

Mining industry

- decrease in hard coal output in the first 9 months of 2019 by 1.1 million tons yoy, i.e. down 2.4% yoy (output at 46.1 million tons compared to 47.3 million tons in January-September 2018). In 9M 2019, the best month in terms of mining output volume was March with 5.4 million tons, and the worst one was June with 4.7 million tons – which was the lowest level of mining output in the history of data published by the Industrial Development Agency. In September this year production of hard coal remained at the level similar to that of August (5.0 million tons) and was 2.8% higher than in September 2018.[33]
- in 9M 2019, sales of hard coal stood at 43.5 million tons, down 3.4 million tons yoy (-7.3% yoy).[34] From March to August 2019, sales volumes of coal by mines were lower than output volumes (in total the difference between output and sales in this period reached 3.0 million tons). This trend was broken in September, when the mines sold 5.15 million tons of hard coal, or 2.5% more than they produced in that period; sales went up by 3.3% yoy. A downward yoy trend in hard coal sales has been observed since July 2017 (except for the summer months of 2018: July and August). In May and June

[26] Enterprises employing more than 9 persons
[27] Central Statistical Office of Poland
[28] Central Statistical Office of Poland
[29] Central Statistical Office of Poland
[30] Central Statistical Office of Poland
[31] Markit IHS
[32] Central Statistical Office of Poland
[33] Industrial Development Agency (ARP)
[34] Industrial Development Agency (ARP)

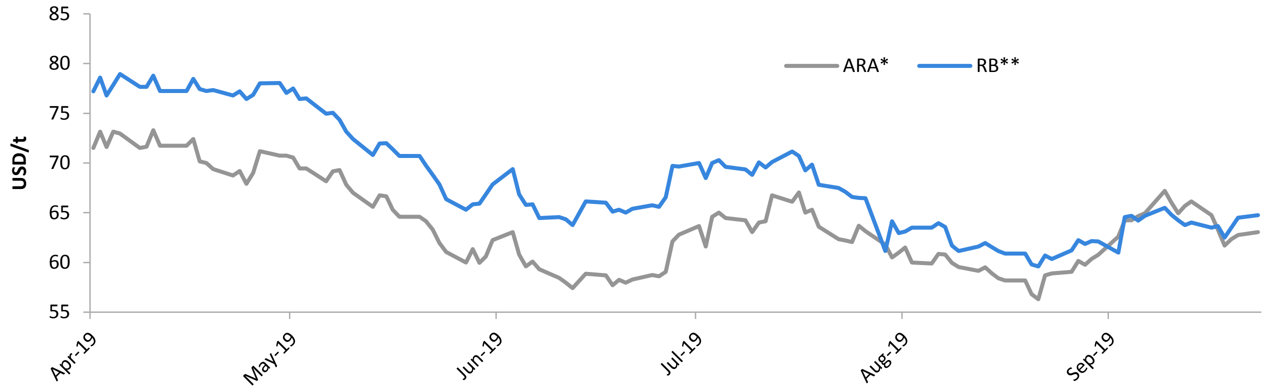
2019, the volume of sales was the lowest in the history of data published by the Industrial Development Agency and stood at 4.3 million tons (-14.7% yoy) and 4.4 million tons (-12.3% yoy), respectively.[35]

- hard coal inventories as at the end of September 2019 stood at 4.7 million tons or 2.8 million tons more than in the corresponding period of 2018 when it was 1.9 million tons.[36] In September this year, the volume of coal inventories decreased slightly, for the first time in 6 months.
- decrease in hard coal imports in the first 8 months of 2019 by 12.3% yoy to 11.0 million tons. During that time, the commodity was imported predominantly from Russia (-20.9% yoy to 7.0 million tons, accounting for 63.9% of total imports), Australia (+123.9% yoy to 1.5 million tons) and the United States (-45.0% yoy to 0.6 million tons).[37]
- decrease in the average quarterly coal price in ARA ports in the period of 9 months of 2019 to USD 69.5/t from USD 92.2/t in the corresponding period of 2018 (-24.6% yoy)[38]. Since September 2018, coal prices in ARA ports have been steadily decreasing to the average of USD 80.6/t in Q1 2019, USD 66.1/t in Q2 2019 and USD 62.1/t in Q3 2019. The continuing downward trend in ARA coal prices resulted from, among other things, the inventory levels in the ports approaching the historical maximums, along with a general decrease in demand for the material due to energy production from renewable sources and gas.[39]
- imported coal in Baltic ports may be purchased at half the price of Polish coal in the Silesia region. In June of this year, the price of a ton of coal in the Western European ports of Amsterdam-Rotterdam-Antwerp was about USD 64 (more than USD 104/t in the same period of 2018). At that time, the prices of coal in the Baltic ports (where mainly Russian coal is delivered) were even lower, at about USD 46/t (nearly USD 45 less than in 2018). On the Polish market (on which most companies are controlled by the State Treasury), the price of coal with comparable parameters was more than USD 80/t.
- 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 9M 2019, hard coal for the power industry was on average more expensive by 9.4% than the year before (PSCMI 1 was PLN 259.1 per ton on average in that period). Hard coal for the heating industry was 3.8% yoy more expensive in the period of January-September 2019 (the average value of PSCMI 2 was PLN 310.6 per ton).[40] Therefore, the persisting low prices in Western European terminals have no direct effect on the Polish market. This is due to the applicable principles for contracting coal for the domestic power industry, among others in Polska Grupa Górnicza (the formulas based on global coal prices, electricity prices and inflation were changed two years ago into long-term fixed-price contracts). This stabilizes prices on the Polish market and eliminates price shocks, but as a result the current coal prices for power companies do not meetthe global market prices.
- reduction in domestic electricity consumption over the three quarters of 2019 by 0.7% yoy to the level of 125.8 TWh.[41] Since 2015, the demand for electricity has been increasing with a stable rate of 1-2% per year, in parallel with the dynamic economic growth. In that period, businesses did not invest in energy efficiency because electricity prices were falling. In 2019, GDP continues to grow but the economy consumes less electricity, mainly due to its prices (the price increases in January this year provided incentive for energy savings). The lower demand for electricity translated directly to a lower demand for coal in power plants (the costs of coal affect directly electricity prices for buyers and therefore power plants reduce coal purchases from Polish mines to the minimum contracted levels).
- decrease in total electricity output over the first three quarters of 2019 by 2.9% yoy, including in hard coal-fired commercial power plants by 3.1% yoy and in lignite-fired power plants by 14.3% yoy, with a concurrent significant increase in electricity generated from other sources, including wind farms by 23.6% yoy and gas-fired power plants by 18.1% yoy[42].
- slight decline in the share of hard coal in the national energy mix to 49.5% in the three quarters of 2019 from 49.6% in the corresponding period of 2018 (-0.1 p.p. yoy).[43]

[35] Data have been published since January 2007.
[36] Industrial Development Agency (ARP)
[37] Eurostat
[38] Wirtualny Nowy Przemysł [Virtual New Industry]
[39] Industrial Development Agency (ARP)
[40] Industrial Development Agency (ARP)
[41] Polskie Sieci Elektroenergetyczne
[42] Polskie Sieci Elektroenergetyczne
[43] Polskie Sieci Elektroenergetyczne

- increased in energy imports. (The surplus of imports over exports in the three quarters of 2019 has reached 7.4 TWh, compared to 4.7 TWh in the corresponding period of 2018 – marking an increase of 56.8%).[44]

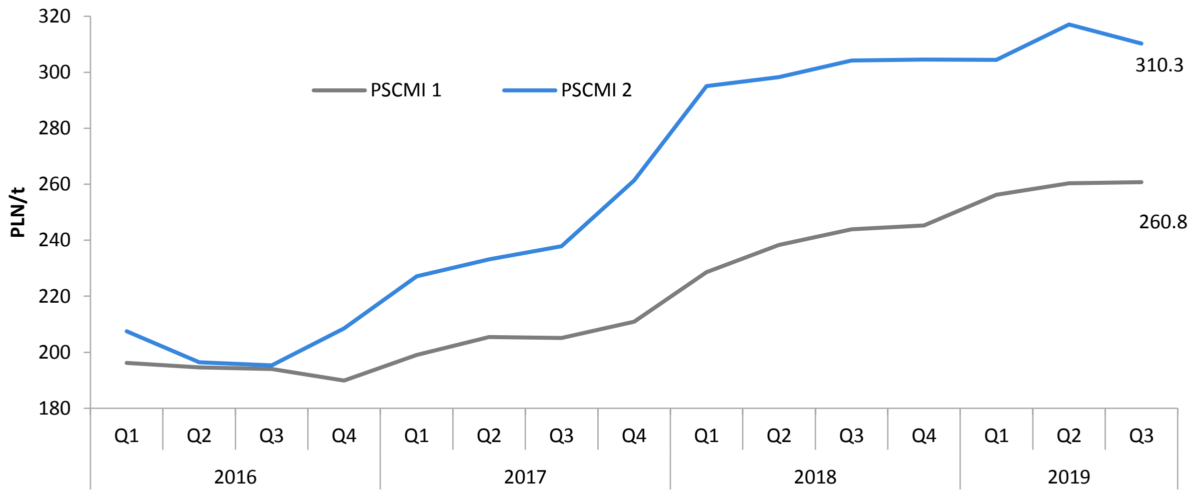
Figure 6 Current and historical values of coal price indices on the European ARA* vs. RB** markets



* ARA – Amsterdam, Rotterdam and Antwerp;
** RB – Richards Bay (South Africa)

Source: Proprietary material based on Virtual New Industry data

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



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

Hard coal output in Poland is systematically decreasing and its inventories on the domestic market are growing. In the beginning of August 2019, the power industry and mining industry had a total of 12.9 million tons of coal inventories, of which 4.5 million tons of coal were stored on mine coal yards and 4.8 million tons at power plants (plus inventories stored by municipal and industrial heat plants and on yards of coal trading companies).[45] Accordingly, the reserves accumulated in Poland are equal to nearly 3 months worth of domestic production of this raw material. Despite such a high level of inventories, Polish coal is still twice as expensive as the imported one. At the same time, domestic demand for electricity in 9M 2019 fell yoy for the first time since 2014 (among others due to high prices), power plants produce less and less energy from coal and more electric power is imported. All these factors have contributed to the lower demand for coal on the domestic market.

[44] Polskie Sieci Elektroenergetyczne
[45] Wysokie Napięcie [High Voltage] Portal

Construction industry

- in 9M 2019, construction and assembly production increased 5.3% yoy, compared to a 19.8% yoy growth in the corresponding period of 2018. In each quarter of 2019, construction and assembly production growth was lower than in the corresponding period of 2018 and was declining regularly. The rate of growth in capital expenditure works (5.1% yoy) was lower than that of renovation works (5.6% yoy).[46]
- in the period of 9 months of 2019, the yoy increase in construction and assembly output was observed in all sectors of the construction industry, i.e. in the civil engineering segment (by 8.7% yoy), construction of buildings (by 4.1%) and specialized construction (by 1.7%). In the land and water civil construction segment, the largest increase in output was recorded in the construction of other civil engineering facilities (by 36.6%), railroads (by 35.2%) and pipelines, telecommunication and electricity lines (by 15.9%).[47]

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 9M 2019 construction and assembly output related to motorways, expressways and streets fell by 4.0% yoy, but in Q3 2019 the decrease accelerated[48].

Steel industry

- increase in global steel production in the period of 9 months of 2019 to 1,391.2 million tons (+3.9% yoy)[49].
- during the 9 months of 2019, the Chinese metallurgical industry produced 747.8 million tons of steel (+8.4% yoy).[50]
- decline in steel production in the European Union during the 9 months of 2019 to 122.5 million tons (-2.8% yoy).[51]
- Global steel demand increase, according to the World Steel Association, .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).[52] 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.
- In the period of 9 months of 2019, decline in crude steel output in Poland by an average of 9.3% yoy to 7.0 million tons and in the volume of manufactured hot-rolled products by an average 7.1% yoy to 7.1 million tons, with a concurrent increase in the production of steel pipes by 3.1% yoy to 0.6 million tons.[53]
- Production sold of metals in Poland fell as compared to the January-September 2018 period (-1.7%) and an increase in production sold of metal products (+6.0%, of which structural metal elements +8.2%).[54]
- drop in coke output in Poland in the period of 9 months of 2019 by 4.0% yoy to 6.8 million tons.[55]
- announced and implemented furnace shutdowns in order to reduce production: ArcelorMittal, US Steel, Salzgitter and SSAB (The shutdown proces of the blast furnace at the AMP steelworks in Krakow begins on November 23).[56]
- deteriorating business conditions in the European steel sector – the steel industry is adversely affected by an increase in energy prices and greenhouse gas emission rights (tightening of the EU's climate policy), high prices of raw materials and insufficient measures taken to protect the European market against the inflow of steel from non-EU countries

[46] Central Statistical Office of Poland
[47] Central Statistical Office of Poland
[48] Central Statistical Office of Poland
[49] World Steel Association
[50] Puls Biznesu
[51] World Steel Association
[52] World Steel Association
[53] Central Statistical Office of Poland
[54] Central Statistical Office of Poland
[55] Central Statistical Office of Poland
[56] Wirtualny Nowy Przemysł [Virtual New Industry]

(which translates directly into a significant increase in imports from third countries). The pending trade war between the USA and Chine is also an important factor.[57]

Industry in the Czech Republic

During the 8 months of 2019, industrial production volume in the Czech Republic was similar to the corresponding period of 2018, increasing by just 0.3% yoy.[58]At the same time in August 2019, production decreased by 3.8% yoy.[59] Stagnation in the industrial sector's output since early 2019 reflected among others: a slower inflow of new orders, both domestic and foreign, compared to 8M 2018 (which was driven by the strong deterioration of business conditions observed in the euro area). During that period new orders increased on average by 2.9% yoy compared to 3.8% yoy growth in the corresponding period of 2018 (of which domestic orders increased by 5.2% yoy and export orders by 2.0% yoy).[60]

The slight increase in industrial production in 8M 2019 was driven primarily by the industrial processing segment (+0.5% yoy).[61] Production in the electricity production and water and gas supply segment increased only slightly (+0.1% yoy). On the other hand, mining output and extraction of raw materials was much lower than in the corresponding period of 2018 (-4.9% yoy).[62]

Despite the overall growth in industrial production, in most key branches of industry (that are important in terms of the potential transport business of PKP CARGO Group entities) production decreased yoy in 8M 2019. The largest yoy decrease in output was recorded in the production of wood and wood products (-8.6%), hard coal and lignite mining (-6.0%), metals (-4.6%), products from other non-metallic materials (-3.7% yoy), chemicals and chemical products (-2.8% yoy) and metal products (-0.3%). On the other hand, production of cars and other motor vehicles increased yoy during the period (+2.1%).[63]

The most recently published PMI values suggest that the poor business conditions in the Czech Republic's industrial sector will continue. In Q3 2019, the PMI for the Czech Republic was 44.3 points (compared to the average of 47.3 points in H1 2019 and 54.6 points in Q3 2018).[64] Even though the index stabilized in August and September 2019 following a series of declines since July 2018, its current levels still indicate a technical slowdown in the Czech Republic's industrial sector (the level of 50.0 points indicating a boundary between recovery and recession in the sector). In September 2019, the PMI was 44.9 points, remaining at the August level, however it was the second lowest reading since 2009 (after the record low result in July). All key components of the PMI remained weak in September, including current production levels, new orders (domestic and foreign) and employment (whose sub-index reached its lowest level since November 2019). Given the uncertainty related to the possible escalation of the US-China trade conflict and the scale of economic slowdown in the euro area countries, the future demand expected by businesses also remained very low and was at the second lowest level (after August this year) since 2012.[65]

Transport activities of the PKP CARGO Group companies on the Czech market are focused on the transport of hard coal, coke, aggregates and other construction materials as well as intermodal transport (with a significant role of automotive sector products). As a result, the situation in related sectors of the industry, i.e. mining, construction, steel mills and the production of motor vehicles, had a direct impact on the transport performance of the PKP CARGO Group companies providing services on the Czech market.

In 9M 2019, the key factors affecting the business conditions in the above industry branches included:

- continuing strong downward trend in hard coal mining – in the period of 8 months of 2019, a total of 2.1 million tons of hard coal was produced in the Czech Republic (-25.6% yoy), while in July and August 2019 the negative growth rate yoy was lower than at the beginning of the current year[66];
- increase in hard coal imports by 8.7% yoy to 2.2 million tons in the period of January-July 2019 and a decrease in exports of hard coal by 18.5% yoy to 0.8 million tons (in the corresponding period of 2018, exports stood at 1.0 million tons);[67]
- decrease in lignite production by 3.2% yoy to 24.4 million tons in 8M 2019 (down by 0.8 thousand tons yoy)[68];

[57] Wirtualny Nowy Przemysł [Virtual New Industry]
[58] Czech Statistical Office
[59] Czech Statistical Office
[60] Czech Statistical Office
[61] Czech Statistical Office
[62] Czech Statistical Office
[63] Czech Statistical Office
[64] Markit IHS
[65] Markit IHS
[66] Ministry of Industry and Trade of the Czech Republic
[67] Ministry of Industry and Trade of the Czech Republic
[68] Ministry of Industry and Trade of the Czech Republic

- in January-May 2019, decreased lignite imports by -20.4% yoy to 0.2 million tons and lower exports of this commodity by -23.2% yoy to 0.4 million tons (in the corresponding period of 2018, exports stood at 0.4 million tons)[69];
- drop in coke production in the period of 8 months of 2019 by 5.5% yoy to 1.6 million tons[70];
- decrease in steel output (in 9M 2019 the production volume of raw steel fell 5.0% yoy to 3.6 million tons)[71];
- declining growth of construction and assembly output. In the period of January-August 2019 the output increased by 4.6% yoy on average (of which civil engineering output improved by 8.7% yoy and construction of buildings progressed by 3.2% yoy). In recent months, the growth rate in the construction sector has been lower than in early 2019, which was caused, among others, by a smaller scale of infrastructural projects.[72]
- slight yoy increase in output of the automotive sector: in 9M 2019, the Czech manufacturers made 1.1 million motor vehicles of all types (passenger, trucks, buses and motorcycles), 0.8% more than in the same period of 2018.[73] 2018 was however a record year in terms of the number of vehicles manufactured

4.2 Freight transportation activity

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

4.2.1 Rail transport market in Poland

In 9M 2019, 76 carriers operated on the country's rail freight market, including PKP CARGO S.A. and PKP CARGO SERVICE Sp. z o.o.[74] During that period, they transported a total of 177.6 million tons of cargo (-4.9% yoy) and achieved a freight turnover of 42.2 billion tkm (-4.9% yoy).[75] In spite of the year-on-year decrease, the total volume of transport on the rail freight market in Poland was still higher than in the corresponding periods of 2015-2017. The worse performance yoy is partially a statistical effect of the "high base performance" in 2018, which was the highest since the beginning of the financial crisis in 2008. During the 9 months of 2019, the average haul of rail freight transport remained at the level of 238 km, similar to that in the corresponding period of 2018.[76]

In the period of January-August 2019, the volume of rail freight transport in Poland decreased yoy in most of the cargo categories.[77] The following transport services suffered the largest decreases yoy:

- hard coal (down by 7.4% yoy to 59.0 million tons). The lower transport of hard coal resulted from the overall lower demand for this material, reflected, among others, in the lower production in coal-fired power plants, a strong reduction of its imports or a systematic increase of its inventory levels in coal yards and at power plants and CHP plants. The level of hard coal transport services was also affected by the scheduled repairs of power units in CHP plants and modernization projects executed on PKP PLK's rail infrastructure (including repairs of rail lines to power plants);
- aggregates, stone, sand and gravel (down by 8.2% to 33.2 million tons). The decrease in freight volume of aggregates, sand and gravel by reflected the weaker demand by key clients: contractors working on large infrastructure projects executed under the National Road and Motorway Construction Program 2023 and the National Railway Program. Demand for aggregates and construction materials was also reduced following the termination of some contracts by GDDKiA (among others, for sections of the S5, S7 or S61 expressways and the A1 motorway), while other companies attempted to renegotiate (increase the value) of previously signed contracts. As a result of the above, several large infrastructural projects have been halted or delayed.
- iron ore (by 11.0% yoy to 7.1 million tons). The decrease in the freight volume of iron ore was caused mainly by the lower demand for steel and steel goods (lower production of steel and steel goods in Poland). The additional problems of legal nature (the need to draw up an annex to the contract between PKP and the Ukrainian Railways) caused a temporary suspension of iron ore transports from Ukraine in Q1 2019.

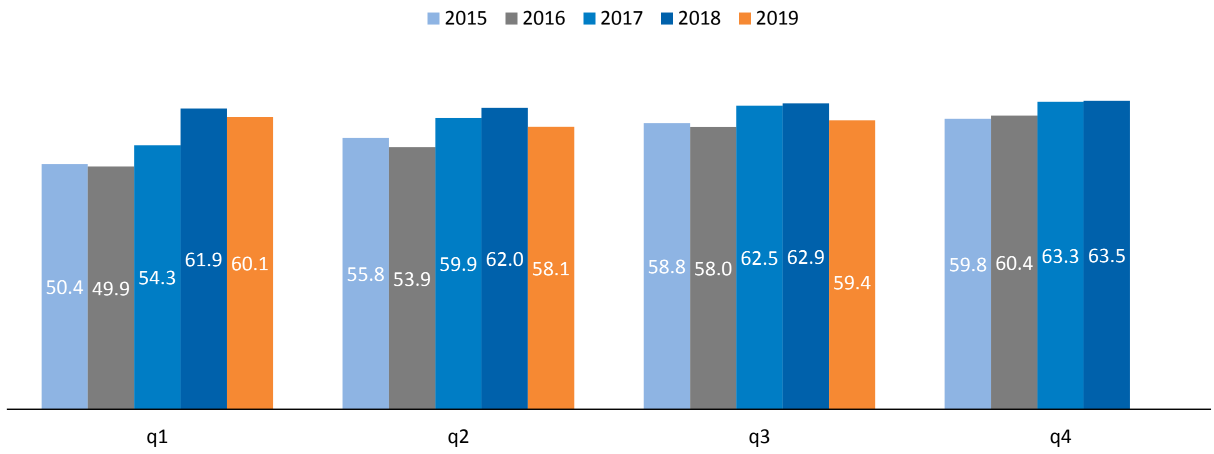
[69] Ministry of Industry and Trade of the Czech Republic
[70] Ministry of Industry and Trade of the Czech Republic
[71] Worldsteel.org
[72] Czech Statistical Office, seasonally adjusted data
[73] AutoSAP
[74] Office of Rail Transport, the statistics take into account entities providing transport services 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, including a PKP CARGO Group entity, PKP CARGO International (formerly AWT a.s.)
[75] Office of Rail Transport
[76] Office of Rail Transport
[77] Central Statistical Office of Poland – data for the first 8 months of 2019

In total, the above cargo categories represented 63.4% of the market in reporting period.

Only the following volumes increased yoy in 8M 2019:

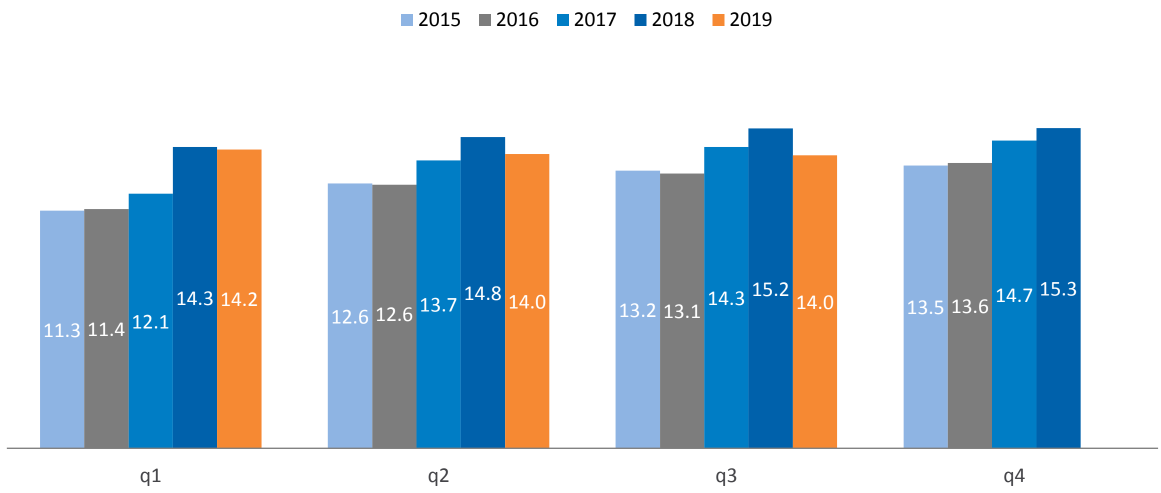
- transport of chemicals and chemical products (by 3.7% yoy to 6.8 million tons), which was fostered, among others, by the increase in the sector's production sold, (in Poland mainly fertilizers);
- transport of refined petroleum products (by 2.4% yoy to 11.5 million tons) driven among others by the stable increase in demand for fuels in the Polish economy and the resulting increase in sales volumes;

Figure 8 Rail freight volumes in Poland (in million tons), by quarter in 2015-2019



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

Figure 9 Rail freight turnover in Poland (billion tkm), by quarter in 2015-2019

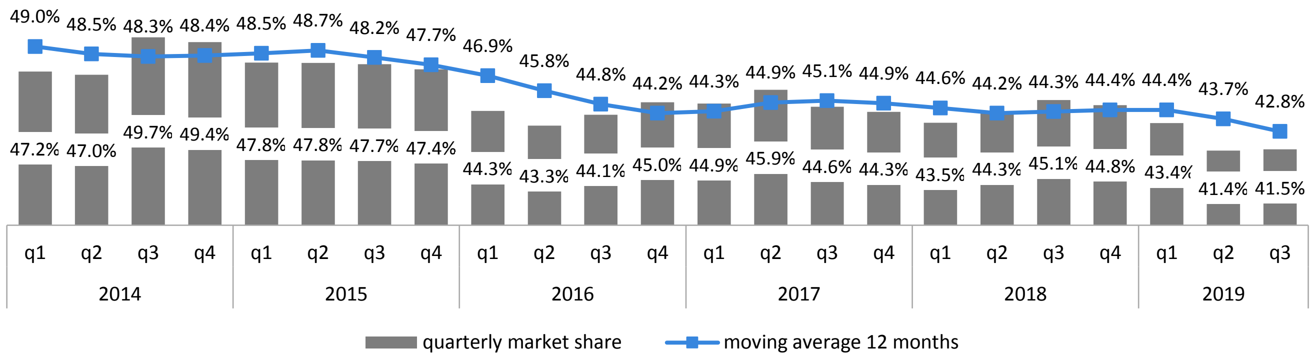


Source: Proprietary material based on the Office of Rail Transport's data

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

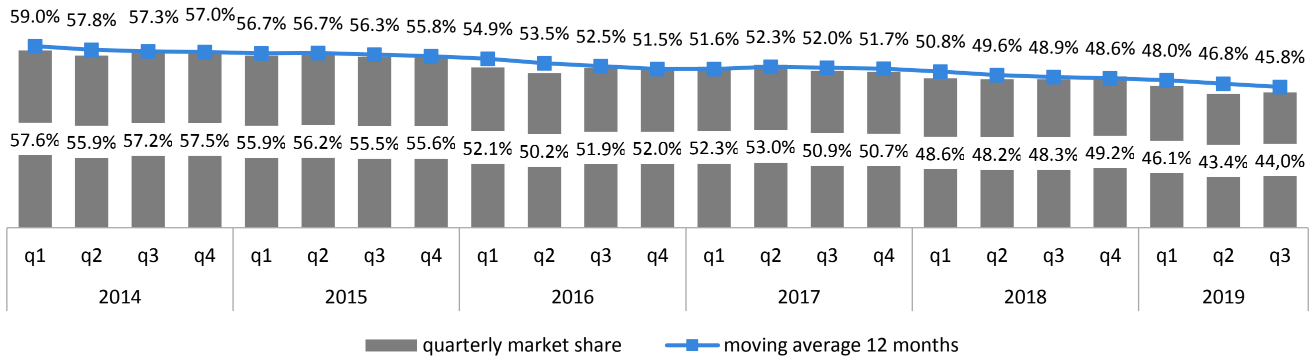
In 9M 2019, the PKP CARGO Group[78], in spite of a decrease of its shares on the year on year basis retained its strong leading position on the rail freight transport market in Poland with a 42.1% market share (-2.1 p.p. yoy) in terms of freight volume and a 44.5% market share in terms of freight turnover (-3.8 p.p. yoy). The respective shares of the PKP CARGO Group's parent company, that is PKP CARGO S.A., were 40.7% (-2.7 p.p. yoy) and 44.2% (-3.9 p.p. yoy), respectively, in that period.[79]

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



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

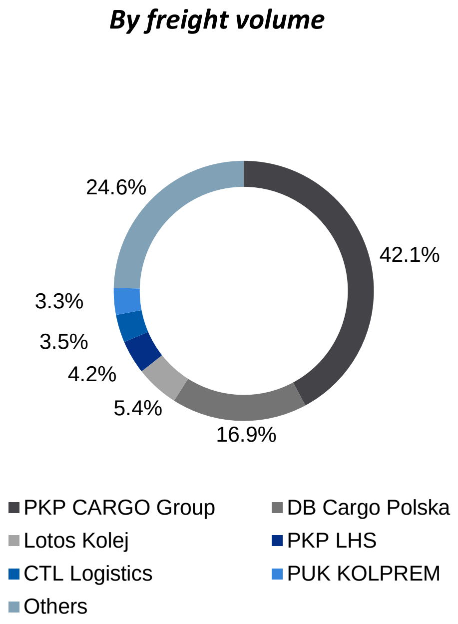
Figure 11 Share of the PKP CARGO Group in total freight turnover in Poland in 2014-2019

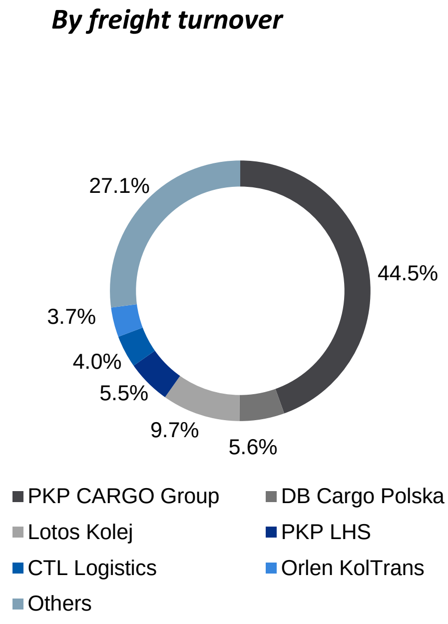


Source: Proprietary material based on the Office of Rail Transport's data

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

Figure 12 Market shares of the biggest cargo rail operators in Poland in 9M 2019





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

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

In 9M 2019, the competitors of the PKP CARGO Group transported in total 102.7 million tons of freight (-1.3% yoy), with the largest volume transported by: DB Cargo Polska (29.9 million tons, down 3.4% yoy), Lotos Kolej (9.6 million tons, up 1.8% yoy) and PKP LHS (7.4 million tons, down 7.9% yoy).[80]

In 9M 2019, freight turnover of the PKP CARGO Group's competitors was 23.4 billion tkm (+2.1% yoy), most of which was posted by Lotos Kolej (4.1 billion tkm, up 2.3% yoy), DB Cargo Polska (+2.4 billion tkm, down 2.0% yoy) and PKP LHS (+2.3 billion tkm, down 10.5% yoy)[81].

When all the competing operators are analyzed in aggregate, the increase in freight turnover with a simultaneous decline in transported volume of cargo was achieved through a significant increase in average haul. In the period of 9 months of 2019, the average haul recorded by the PKP CARGO Group's competitors increased by 7.6 km yoy to 227.9 km (+3.4% yoy)[82].

In terms of freight volume, in 9M 2019 the largest yoy decreases in market shares were recorded by the following competitors of the PKP CARGO Group: CTL Logistics (-0.8 p.p. yoy, freight volume down 20%), CD Cargo Poland (-0.2 p.p. yoy, freight volume down nearly 20%) and KP Kotlarnia (-0.2 p.p. yoy, freight volume down by more than 20%). In terms of freight turnover, the largest decreases in market share were suffered by the following operators: CTL Logistics (-0.8 p.p. yoy, freight turnover down by over 20%), STK (-0.6 p.p. yoy, freight turnover down by more than 40%) and CD Cargo Poland (-0.5 p.p. yoy, freight turnover down by nearly 25%)[83].

At the same time, in the period of 9 months 2019 the market shares of small rail operators strongly increased (each with a market share below 2%). In 9M 2019, their combined share in the rail freight transport market reached 22.1% (+1.7 p.p. yoy) in terms of freight volume and 19.8% (+4.0 p.p. yoy) in terms of freight turnover.[84] In Q3 2019 however, the upward market share trend for small companies slowed down.

---

[80] Own calculations based on Office of Rail Transport data
[81] Own calculations based on Office of Rail Transport data
[82] Own calculations based on Office of Rail Transport data
[83] Own calculations based on Office of Rail Transport data
[84] Proprietary material based on Office of Rail Transport data, January 2019.

4.2.3 Rail freight transport market in the Czech Republic

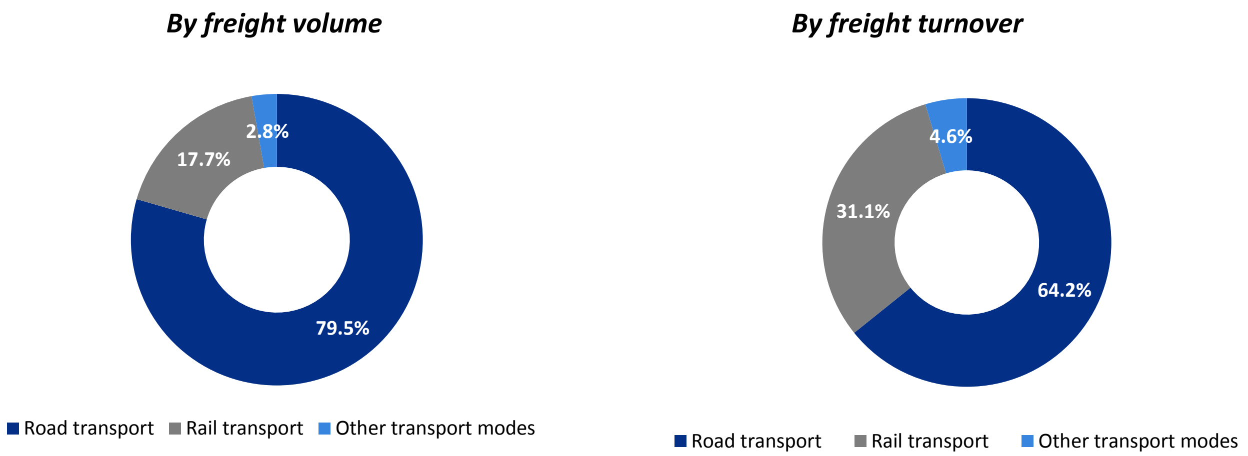
In H1 2019, a total of 284.4 million tons of cargo was transported in the Czech Republic (+6.8% yoy) and freight turnover stood at 26.5 billion tkm (-13.1% yoy).[85] In that period, a yoy increase in freight volume was recorded in all transport segments except for aviation, whereas freight turnover increased on a yoy basis only for rail transport and inland waterway transport. The decline in freight turnover of the whole market coupled with a dynamic increase in freight volume resulted from a decrease in the average haul to 93.4 km (-18.6% yoy)[86].

Table 11 Cargo transport market in the Czech Republic in 6M 2019

Item	FREIGHT VOLUME			FREIGHT TURNOVER			AVERAGE HAUL		
	Volume (m tons)	Change yoy	Change % yoy	Volume (bn tkm)	Change yoy	Change % yoy	Distance (km)	Change yoy	Change % yoy
Total market	284.4	18	6.8%	26.5	-4	-13.1%	93.4	-21.3	-18.6%
Road transport	226	15.1	7.2%	17.1	-4.1	-19.4%	75.4	-24.9	-24.8%
Rail transport	50.4	2.2	4.5%	8.3	0.1	1.8%	163.9	-4.3	-2.6%
Other transport branches	7.9	0.7	10.1%	1.2	0	-3.1%	155.9	-21.2	-12.0%

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

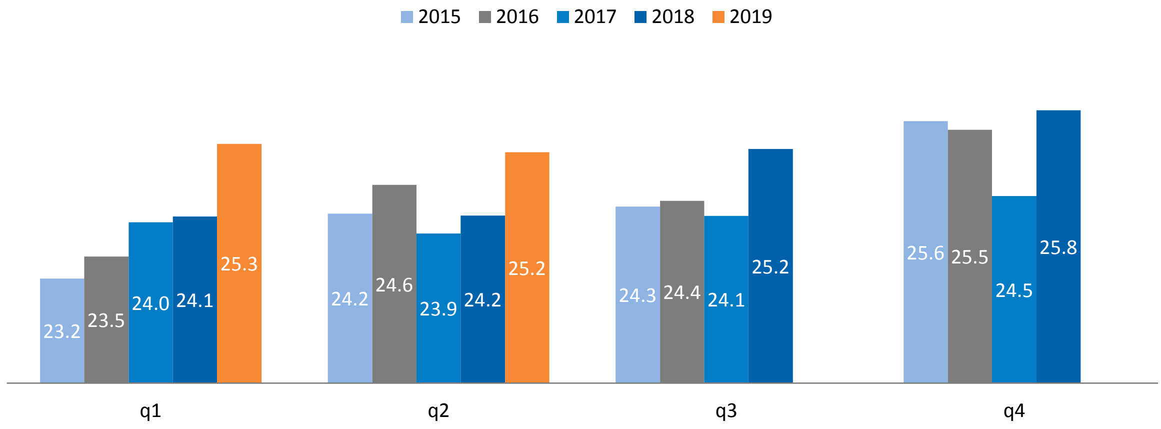
Figure 13 Shares of transport sector branches in the cargo transport market in the Czech Republic, 6M 2019



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

[85] Ministry of Transport of the Czech Republic
[86] Ministry of Transport of the Czech Republic

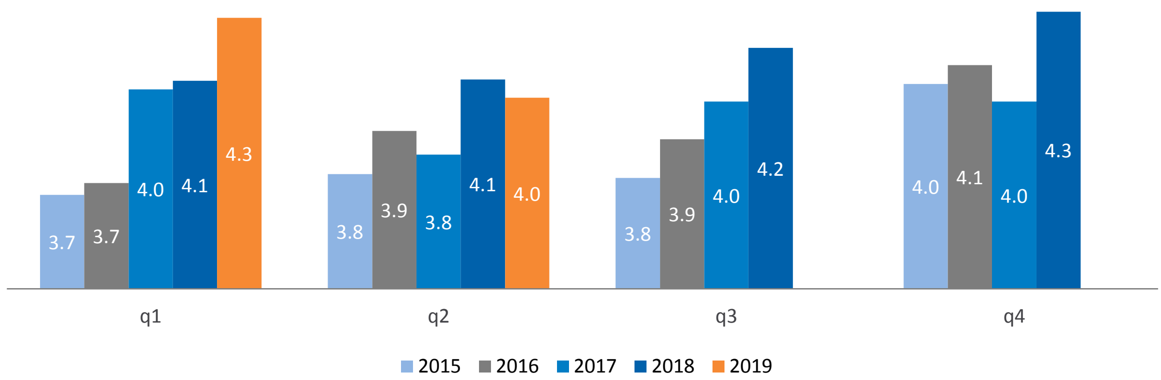
Figure 14 Rail freight transport in the Czech Republic, by freight volume, quarterly in 2015-2019 (million tons)*



**data for Q3 2019 will be available at the turn of 2019 and 2020*

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

Figure 15 Rail freight transport in the Czech Republic by freight turnover, quarterly in 2015-2019 (billion tkm)*



* *data for Q3 2019 will be available at the turn of 2019 and 2020*

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

4.2.4 Position of PKP CARGO International (formerly AWT a.s.) on 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 rail freight transport market with a license for the carriage of cargo, including the following PKP CARGO Group companies: PKP CARGO S.A. and PKP CARGO International (formerly Advanced World Transport a.s. – AWT).[87]

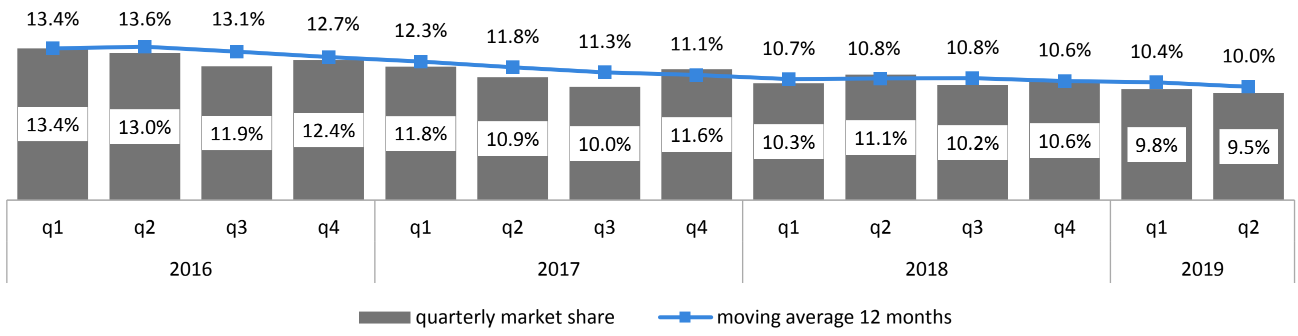
In 9M 2019, PKP CARGO International transported a total of 7.1 million tons of freight (-8.7% yoy) and achieved freight turnover of 0.8 billion tkm (-6.9% yoy).[88] At the same time, the average haul recorded by PKP CARGO International increased in that period to 119.6 km (+2.0% yoy). As a result of the falling freight turnover, in 9M 2019, the share of PKP CARGO International

[87] SŽDC
[88] PKP CARGO International's own statistics

decreased to 6.4% (-1.2%). Despite the decrease in the market share, PKP CARGO International remained the third largest operator on the Czech transport market in terms of freight turnover.[89]

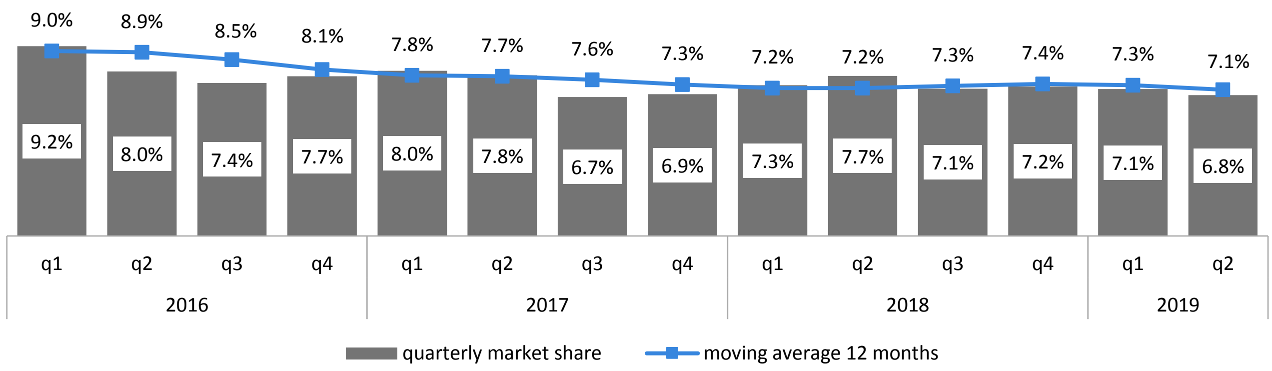
In 9M 2019, PKP CARGO International posted lower freight volumes yoy among others for: the transport of aggregates (-64.2% yoy to 0.3 million tons), crude oil and petrochemical products (-12.8% yoy to 0.4 million tons) and coke and lignite (-10.8% yoy to 1.2 million tons).[90] During that period, the transport of hard coal increased dynamically yoy (+ 4.1% up to 2.9 million tons). The increased transport volumes of hard coal was caused primarily by the increased turnover of the raw material in international relations (import, transit), even though the local production remained in a downward trend (related to the ongoing restructuring processes in the Czech mining sector).[91] In 9M 2019, higher yoy transport volumes were also recorded in metals and metal products (+101.1% to 0.1 million tons), chemicals and chemical products (+21.9% to 0.4 million tons) and the intermodal freight segment (+4.0% to 1.1 million tons)[92].

Figure 16 PKP CARGO International's quarterly market shares in total freight volume in the Czech Republic in 2016-2019*



data for Q3 2019 will be available at the turn of 2019 and 2020
Source: Proprietary material based on data from the Czech Ministry of Transport and PKP CARGO International

Figure 17 PKP CARGO International's quarterly market shares in terms of freight turnover in the Czech Republic in 2016-2019*

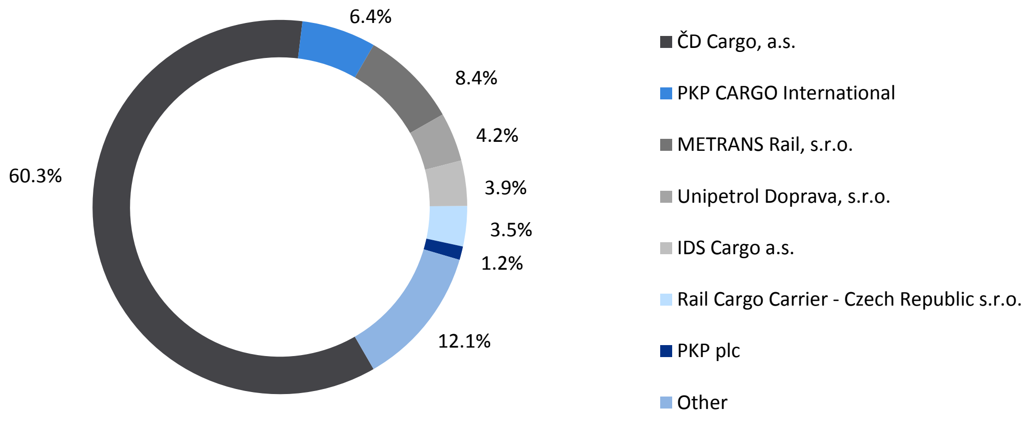


**data for Q3 2019 will be available at the turn of 2019 and 2020*

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

[89] SŽDC
[90] PKP CARGO International's own statistics
[91] PKP CARGO International's own statistics
[92] PKP CARGO International's own statistics

Figure 18 Market shares of the biggest rail operators by operational freight turnover in the Czech Republic in 9M 2019 (btkm)



Source: SŽDC (Czech rail infrastructure manager)

In the period of 9 months of 2019, ČD Cargo a.s maintained its leading position on the Czech rail freight market, even though it lost a large portion of its market share, i.e. 5.1 p.p. yoy and its market share is now 60.3%[93]. The market shares of PKP CARGO Group companies were also lower than in the corresponding period of 2018: PKP CARGO International (-1.2 p.p. to 6.4%) and PKP CARGO S.A. (-0.2 p.p. to 1.2%). The market share of other companies listed by SŽDC increased yoy in 9M 2019. Conversely, the largest increases in the market shares were recorded by IDS Cargo (+1.1 p.p. yoy to 3.9%) and Metrans Rail (+0.9 p.p. yoy to 8.4%). The latter (specializing in intermodal transport) accordingly strengthened its second position on the whole rail transport market in the Czech Republic. A significant yoy increase in market share in 9M 2019 was also recorded by other rail operators recorded by SŽDC as a single category of unspecified entities (+3.6 p.p. to 10.5%)[94].

The decline in the market share of PKP CARGO S.A. in the Czech freight transport market was a direct result of its yoy decrease in freight volumes. In 9M 2019, the Company recorded yoy decreases in the volumes of hard coal and lignite transported 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 increased yoy the volumes of wood transported from ports, including in transit to Slovakia.[95]

[93] SŽDC
[94] SŽDC
[95] 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 9M 2018 and 2019 is presented in the consolidated data of PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and PKP CARGO International (formerly 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., PKP CARGO International a.s. (formerly 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 PKP CARGO International a.s.) received a B certificate, which means that it is licensed to independently render transport services in Slovenia.

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

Table 12 Freight turnover of the PKP CARGO Group in 9M and Q3 2018 and 2019

Item	9M 2019	9M 2018	Change 9M 2019/ 9M 2018		9M 2019	9M 2018	Q3 2019	Q3 2018	Change Q3 2019/ Q3 2018	
	(million tkm)			*%*	*% of total*		*(million tkm)*			*%*
Solid fuels[1]	7,497	8,043	-545	-6.8%	37%	35%	2,433	2,607	-174	-6.7%
of which hard coal	6,360	6,876	-517	-7.5%	31%	30%	2,071	2,212	-141	-6.4%
Aggregates and construction materials[2] *	3,995	5,425	-1,430	-26.4%	20%	23%	1,285	2,041	-756	-37.0%
Metals and ores[3]	2,323	2,801	-478	-17.1%	11%	12%	685	896	-212	-23.6%
Chemicals[4]	1,577	1,679	-102	-6.1%	8%	7%	502	556	-53	-9.6%
Liquid fuels[5]	745	845	-100	-11.8%	4%	4%	261	322	-61	-19.0%
Timber and agricultural produce[6]	767	1,010	-243	-24.0%	4%	4%	231	321	-90	-28.1%
Intermodal transport	3,028	2,926	103	3.5%	15%	13%	1,098	1,009	88	8.8%
Other[7]-	467	557	-90	-16.2%	2%	2%	176	187	-10	-5.5%
Total	**20,399**	**23,285**	**-2,885**	**-12.4%**	**100%**	**100%**	**6,671**	**7,940**	**-1,268**	**-16.0%**

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 13 Freight volume of the PKP CARGO Group for 9M and Q3 2018 and 2019

Item	9M 2019	9M 2018	Change 9M 2019/ 9M 2018		9M 2019	9M 2018	Q3 2019	Q3 2018	Change Q3 2019/ Q3 2018	
	(m tons)			*%*	*% of total*		*(m tons)*			*%*
Solid fuels[1]	39.9	42.1	-2.2	-5.2%	49%	46%	13.1	14.0	-0.9	-6.2%
of which hard coal	35.9	38.1	-2.2	-5.9%	44%	42%	11.7	12.8	-1.0	-8.1%
Aggregates and construction materials[2]	15.5	19.6	-4.1	-20.7%	19%	22%	5.3	7.5	-2.2	-29.5%
Metals and ores[3]	7.6	9.5	-1.8	-19.2%	9%	10%	2.3	3.0	-0.7	-24.4%
Chemicals[4]	4.9	5.2	-0.3	-6.1%	6%	6%	1.5	1.6	-0.1	-8.1%
Liquid fuels[5]	2.6	2.8	-0.2	-7.2%	3%	3%	0.9	1.1	-0.1	-13.3%
Timber and agricultural produce[6]	2.8	2.9	-0.1	-3.7%	3%	3%	0.8	1.0	-0.1	-14.6%
Intermodal transport	7.1	6.6	0.5	8.1%	9%	7%	2.5	2.2	0.3	11.4%
Other[7]	1.7	2.0	-0.3	-15.0%	2%	2%	0.6	0.7	-0.1	-13.9%
Total	**82.2**	**90.7**	**-8.5**	**-9.3%**	**100%**	**100%**	**27.0**	**31.1**	**-4.1**	**-13.1%**

Source: Proprietary material

In 9M 2019, the average haul of freight transported by rail by the PKP CARGO Group was 248 km (-3.4% yoy).

Table 14 Average haul of the PKP CARGO Group in 9M and Q3 2018 and 2019

Item	9M 2019	9M 2018	Change 9M 2019/ 9M 2018		Q3 2019	Q3 2018	Change Q3 2019/ Q3 2018	
	(km)			%	(km)			%
Solid fuels[1]	188	191	-3	-1.6%	186	187	-1	-0.5%
of which hard coal	177	181	-3	-1.8%	176	173	3	1.9%
Aggregates and construction materials[2]	257	277	-20	-7.1%	243	272	-29	-10.7%
Metals and ores[3]	304	296	8	2.7%	301	298	3	1.1%
Chemicals[4]	325	325	0	0.0%	332	337	-5	-1.6%
Liquid fuels[5]	283	298	-15	-5.0%	281	301	-20	-6.6%
Timber and agricultural produce[6]	278	353	-75	-21.1%	282	335	-53	-15.8%
Intermodal transport	424	443	-19	-4.3%	445	455	-11	-2.3%
Other[7]	271	275	-4	-1.4%	290	264	26	9.8%
Total	**248**	**257**	**-9**	**-3.4%**	**247**	**255**	**-8**	**-3.3%**

Source: Proprietary material

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

Key factors affecting the volume of transport in various cargo categories in 9M 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 transport services by PKP CARGO International a.s. – acquisition of new contracts, including from the Czech Republic to Hungary and from Poland to the Czech Republic;
- lower yoy production and sales of hard coal;
- decline in electricity generation in hard coal-fired commercial power plants;
- lower coal imports from Russia – no sales markets, full cargo yards;
- higher transport of coke despite a decline of its production in Poland;
- 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;
- maintenance of the average commercial speed in Poland translating into an extended rolling stock circulation.

AGGREGATES AND CONSTRUCTION MATERIALS

- slower 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 the slower performance 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, delays in the signing of new contracts;
- 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);
- significant competition of small rail operators;

- reduced expenditures of PKP CARGO International a.s. for the construction and maintenance of rail lines;
- 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).

INTERMODAL TRANSPORT

- higher percentage of cargo that used to be transported in conventional ways and is now transported in containers (e.g. wood chips, shavings, 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 transport services by PKP CARGO International a.s. – new transport services provided, including on routes 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.

METALS AND ORES

- declining production of steel in Poland – declining demand for steel, increased prices of carbon dioxide emission rights and energy costs;
- 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;
- reduction of iron ore transport services from Ukraine to Kraków due to ArcelorMittal Poland's decision to shut down steel production in Poland and the EU (the shutdown process ofthe blast furnace in Krakowbegins on November 23) – the client is consuming inventories;
- 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 (production relaunched in October).

CHEMICALS

- decline in transport of hydrocarbons in imports from the east, offset by higher transit transport to Germany and to Hungary;
- 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;
- increased transport of fertilizer imported from Russia and Germany.

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 freight routes of PKP CARGO International a.s. – decline in the share of transported volumes from Germany.

TIMBER AND AGRICULTURAL PRODUCE

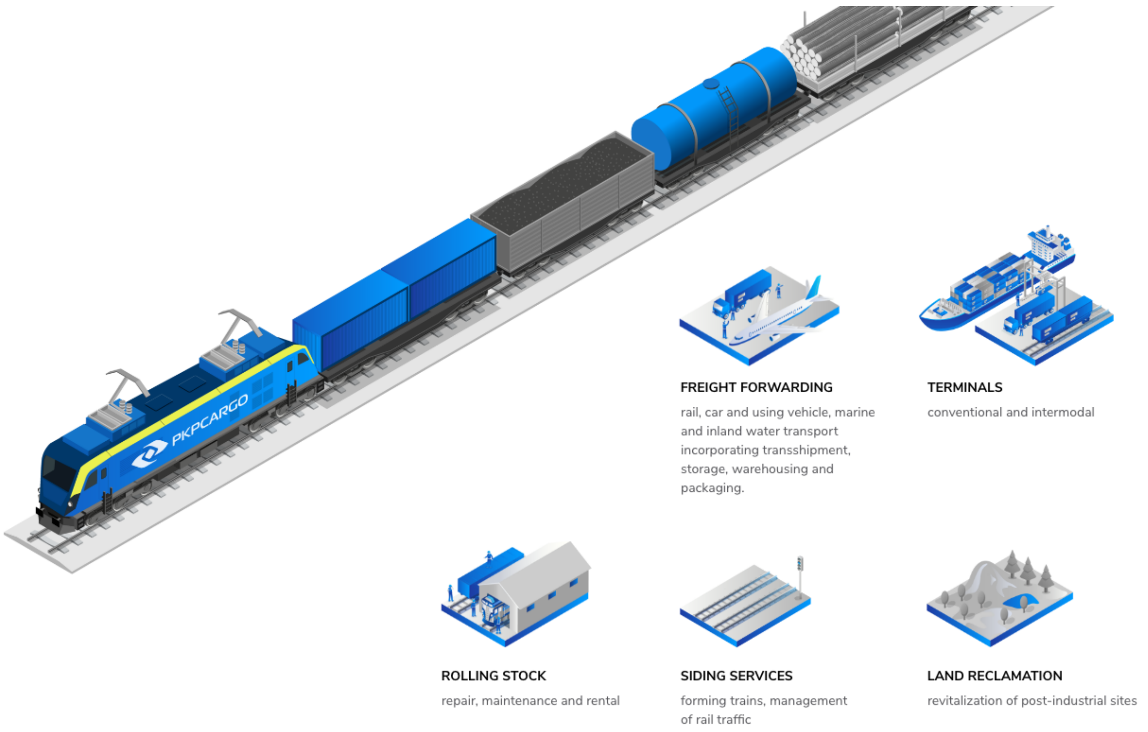
- higher imports of wood chips from Belarus;
- malt transport services in imports from the Czech Republic;
- lack of transport of sugar beets (drought);
- considerable decline in transports in AWT Rail HU ZRt. – no transports of agricultural produce and lower grain transports;
- decline in the average 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;
- launch of domestic rape oil transports.

4.3 Other services

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



4.4 Headcount

Information concerning movements in headcount in the PKP CARGO Group and PKP CARGO S.A. in 9M 2019 and in the corresponding period of 2018 is provided below.

Figure 19 Headcount in the Company and the PKP CARGO Group in 9M 2019 and 2018

In 9M 2019, the average headcount in the PKP CARGO Group increased by 358 FTEs yoy. In PKP CARGO S.A. itself, the headcount increased by 237 FTEs yoy.

4.5 PKP CARGO Group's investments

In 9M 2019, the PKP CARGO Group incurred capital expenditures of PLN 802.9 million, up 68.4% 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). Additionally, expenditures for right-of-use assets under IFRS 16 amounted to PLN 88.9 million. Total expenditures of the PKP CARGO Group in 9M 2019 reached PLN 891.8 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 locomotives and wagons – in total PLN 762.9 million (or 95.0% 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 4.7 million, investment construction activity in the amount of PLN 18.6 million, purchases of other machinery and other workshop and office equipment for PLN 16.7 million as well as right-of-use assets for PLN 88.9 million, chiefly related to rolling stock (PLN 77.8 million).

A detailed summary of the PKP CARGO Group's capital expenditures in 9M 2019 compared to the corresponding period of last year is presented in the following table.

Table 15 Capital expenditures on property, plant and equipment, intangible assets and right-of-use assets in the PKP CARGO Group in 9M 2019 as compared to 9M 2018 (millions of PLN)

Item	9M 2019	9M 2018	Change yoy	Change yoy in %
Investment construction activity	18.6	25.3	-6.7	-26.5%
Purchases of locomotives	49.5	-	49.5	-
Modernization of locomotives	209.0	24.5	184.5	753.1%
Purchase of wagons	47.4	1.4	46.0	3285.7%
Workshop machinery and equipment	13.9	4.8	9.1	189.6%
ICT development	4.7	4.2	0.5	11.9%
Other	2.8	1.0	1.8	180.0%
Components in overhaul, including:	457.0	415.6	41.4	10.0%
Repairs and periodic inspections of locomotives	*117.9*	*110.2*	*7.7*	*7.0%*
Repairs and periodic inspections of wagons	*339.1*	*305.4*	*33.7*	*11.0%*
Total	**802.9**	**476.8**	**326.1**	**68.4%**
Right-of-use assets	88.9			
Total	**891.8**			

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

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 Warsewicz 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.
- PKP S.A. (Company shareholder) appoints the following to the Supervisory Board of the 7th term of office: Mr. Krzysztof Mamiński, Mr. Mirosław Antonowicz, Mr. Władysław Szczepkowski, Mr. Paweł Sosnowski and Mrs. 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.
- 2 contracts signed with PGNiG Termika S.A. for the transport of coal to the client's plants and provision of rail siding services. Under these contracts, the Company will transport 1.97 million tons of steam coal from 1 January to 31 December 2020.
- Publication of the PKP CARGO Group's Integrated Report for 2018.
- Merger of PKP CARGO CONNECT as the acquirer with Trade Trans Finance as the acquiree.
- As at 30 June 2019, PKP CARGO 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. PKP CARGO made the financial settlements with the electricity suppliers in H2 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.

September

- The Supervisory Board gives its consent for PKP CARGO to sign a cooperation agreement with PKP S.A. for the joint execution, through ONECARGO sp. z o.o., of an investment project involving construction of an intermodal terminal in Zduńska Wola – Karsznice with a proviso that the maximum value of PKP CARGO's performances in connection with the execution of the Investment Project will not exceed the gross amount of PLN 25 million.
- The Supervisory Board gives its consent and then an agreement is signed with the consortium of NEWAG S.A. and NEWAG LEASE Sp. z o.o. s. k-a for the delivery of 31 new six-axis electric locomotives. The net value of the agreement will not exceed PLN 518.9 million.
- PKP CARGO S.A. signs a letter of intent with Forespo Poland expressing interest in leasing and selling the assets of the former Wagon Factory Gniewczyna.
- The Management Board of PKP CARGO CONNECT makes a decision to derecognize the provision for liabilities on account of VAT settlements for the period from April 2013 to July 2013 in the amount of PLN 24.4 million, which was reflected in PKP CC's profit or loss for Q3 2019, affecting the financial result of the PKP CARGO Group.
- Commencement of talks with P.U. Hatrans Sp. z o.o. on the acquisition by PKP CARGO of shares in P.U. Hatrans, which is an organizer of rail connections on the Łódź – Chengdu – Xiamen route as part of the Belt and Road Project.

October

- PKP CARGO and PGNiG Obrót Detaliczny declare in a letter of intent that they are considering cooperation involving the provision of services by PKP CARGO consisting of transport of liquefied natural gas LNG as a gaseous fuel via the rail network.
- Commencement of talks with Vest Trans Rail SRL, Ferest Logistics SRL and Romcargounit SRL on the acquisition of shares in these entities by PKP CARGO. The companies provide rail freight services on the Romanian market.
- The Supervisory Board gives its consent to incur of an obligation through PKP CARGO executing a contract with the consortium of companies: Wagony Świdnica sp. z o.o. and ASTRA RAIL INDUSTRIES S.A. to deliver 220 new flat wagons to be used for intermodal transport with a performance deadline of 30 November 2022. The gross value of the agreement will not exceed PLN 126.1 million.
- PKP CARGO S.A. receives a distinction in the 14th edition of The Best Annual Report 2018 contest in the Online Annual Report category.
- On 31 October 2019, a merger was registered in the National Court Register between the company PKP CARGO TERMINALE Sp. z o.o. with its registered office in Żurawica with PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o. with its registered office in Małaszewicze.

November

- Publication of the estimation of selected financial and operating data of the PKP CARGO Group for 9M 2019 and adjustment of the EBITDA forecast

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

5.1 Key economic and financial figures of PKP CARGO Group

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

Table 16 Financial highlights of the PKP CARGO Group

PKP CARGO Group	PLN million[96]		EUR million	
	9M 2019	9M 2018*	9M 2019	9M 2018
Exchange rates (PLN/EUR)			**4.3086**	**4.2535**
Operating revenue	3,671.6	3,839.3	852.2	902.6
Profit / loss on operating activities	182.8	274.7	42.4	64.6
Profit / loss before tax	129.0	245.2	29.9	57.6
Net profit / loss	98.7	194.3	22.9	45.7
Total comprehensive income attributable to the owners of the parent company	85.7	189.0	19.9	44.4
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 / loss per share (PLN/EUR)	2.20	4.34	0.51	1.02
Diluted earnings / loss per share (PLN/EUR)	2.20	4.34	0.51	1.02
Net cash flow from operating activities	563.3	605.8	130.7	142.4
Net cash flow from investing activities	-588.0	-621.6	-136.5	-146.1
Net cash flow from financing activities	-236.3	-240.2	-54.8	-56.5
Movement in cash and cash equivalents	-261.0	-256.0	-60.6	-60.2
	30/09/2019	**31/12/2018**	**30/09/2019**	**31/12/2018**
Exchange rates (PLN/EUR)			**4.3736**	**4.3000**
Non-current assets	6,246.3	5,187.2	1,428.2	1,206.3
Current assets	1,166.7	1,619.1	266.7	376.5
Non-current assets classified as held for sale	1.7	-	0.4	-
Share capital	2,239.3	2,239.3	512.0	520.8
Equity attributable to the owners of the parent company	3,504.8	3,483.5	801.4	810.1
Non-current liabilities	2,630.5	1,969.1	601.4	457.9
Current liabilities	1,279.4	1,353.7	292.5	314.8

Source: Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Group for the period of 9 months ended 30 September 2019 prepared according to EU IFRS

* Restatement of data is described in detail in **Note 1.4 to the CFS**[97]

[96] 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.
[97] Any reference to a Note in the "Additional Information to the Consolidated Quarterly Report" should be construed as a reference to a Note to the Consolidated Financial Statements ("CFS") of the PKP CARGO Group for the period of 9 months ended 30 September 2019 prepared according to EU IFRS, unless stated otherwise.

Table 17 Financial highlights of PKP CARGO S.A.

PKP CARGO S.A.	PLN million		EUR million	
	9M 2019	9M 2018	9M 2019	9M 2018
Exchange rates (PLN/EUR)			**4.3086**	**4.2535**
Operating revenue	2,728.0	2,892.3	633.2	680.0
Profit / loss on operating activities	97.7	257.9	22.7	60.6
Profit / loss before tax	85.0	262.5	19.7	61.7
Net profit / loss	62.7	211.4	14.6	49.7
Comprehensive income	44.6	195.9	10.4	46.1
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 / loss per share (PLN/EUR)	1.40	4.72	0.32	1.11
Diluted earnings / loss per share (PLN/EUR)	1.40	4.72	0.32	1.11
Net cash flow from operating activities	478.9	517.5	111.1	121.7
Net cash flow from investing activities	-503.2	-566.2	-116.8	-133.1
Net cash flow from financing activities	-168.8	-165.4	-39.2	-38.9
Movement in cash and cash equivalents	-193.1	-214.1	-44.8	-50.3
	30/09/2019	**31/12/2018**	**30/09/2019**	**31/12/2018**
Exchange rates (PLN/EUR)			**4.3736**	**4.3000**
Non-current assets	5,768.4	4,902.5	1,318.9	1,140.1
Current assets	665.4	1,079.8	152.2	251.1
Non-current assets classified as held for sale	1.5	-	0.3	-
Share capital	2,239.3	2,239.3	512.0	520.8
Equity	3,292.4	3,314.6	752.8	770.8
Non-current liabilities	2,162.9	1,652.6	494.5	384.3
Current liabilities	980.0	1,015.1	224.1	236.1

Source: Quarterly Financial Information of PKP CARGO S.A. for the period of 9 months ended 30 September 2019 prepared according to EU IFRS

The following average PLN to EUR exchange rates set by the National Bank of Poland have been used to translate selected financial data in the periods covered by the Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Group and the Quarterly Financial Information of PKP CARGO S.A. for the period of 9 months ended 30 September 2019:

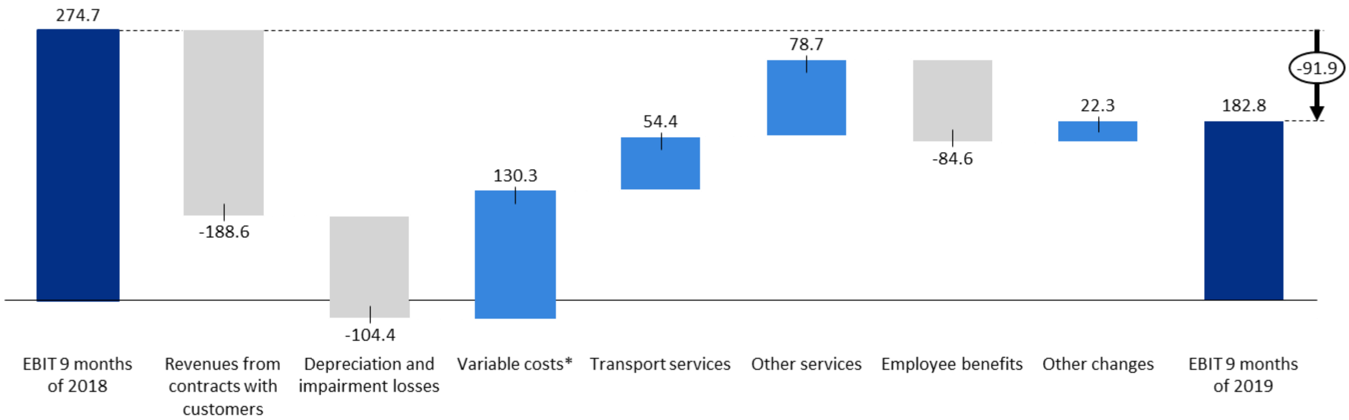
- exchange rate on the last day of the reporting period: 30 September 2019: EUR 1 = PLN 4.3736; 31 December 2018: EUR 1 = PLN 4.3000;
- average exchange rate in the period calculated as the arithmetic mean of the exchange rates prevailing on the last day of each month in a given period: 1 January – 30 September 2019: EUR 1 = PLN 4.3086, 1 January – 30 September 2018: EUR 1 = PLN 4.2535.

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

Statement of profit or loss of the PKP CARGO Group

In the period of the first 9 months of 2019, EBIT reached PLN 182.8 million, having gone down by PLN 91.9 million compared to the corresponding period of the previous year (-33.5%).

Figure 20 EBIT in 9M 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.

In 9M 2019, due to the implementation of IFRS 16, depreciation increased by PLN 84.2 million, the operating result increased by PLN 13.1 million and the pre-tax result fell by PLN 11.6 million. Owing to the application of the new standard, EBITDA went up by approximately PLN 97.3 million **(Note 1.3 to the CFS).**

The following is the explanation of the most significant changes affecting EBIT in the first 9 months of 2019 as compared to the first 9 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 9.3%) coupled with an increase in transport rates partially offsetting the decrease in revenues for transport and freight forwarding services. 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 implementation of IFRS 16 as of 1 January 2019 (for details see **Note 1.3 to the CFS**). Without the standard application effect, depreciation and impairment losses increase by PLN 20.2 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 12.4% decrease in freight turnover and the reduced price list of PKP Polskie Linie Kolejowe S.A. for the 2018/2019 train timetable. Furthermore, in 9M 2019, the Parent Company recognized the effect of compensation for higher electricity prices. The final effect of the settlement was PLN 35.5 million; lower costs of transport services resulted from a greater use of own resources and a 12.4% 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 decline in import transports;
- 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 as of 1 September 2018 and as of 1 August 2019 in PKP CARGO S.A.). Additionally, the movement in provisions for employee benefits increased by PLN 2.2 million. At the same time, the PKP CARGO Group recorded an increase in the average headcount by 358 FTEs. Increasing employment is associated with the long-term approach adopted to hiring more

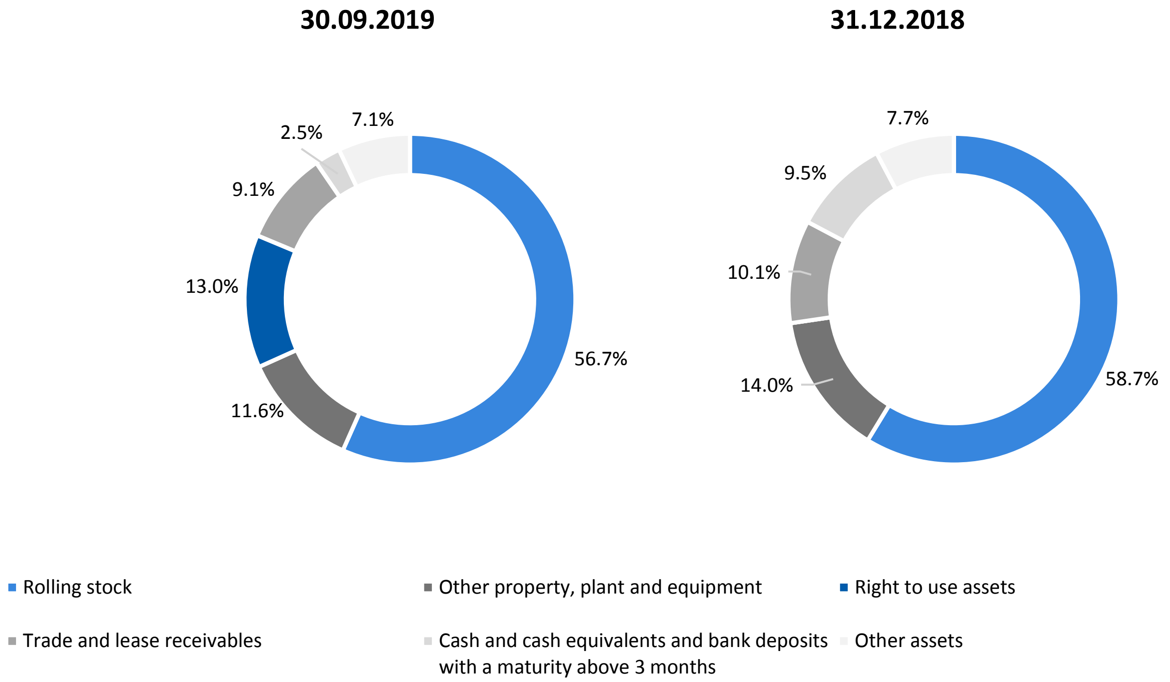
people for employee teams that are crucial for the PKP CARGO Group's operations as they are the ones who handle the freight volumes and maintain the rolling stock in proper technical condition. Detailed changes in the headcount level are presented in section **4.4 "Headcount"**.

Statement of financial position of the PKP CARGO Group

ASSETS

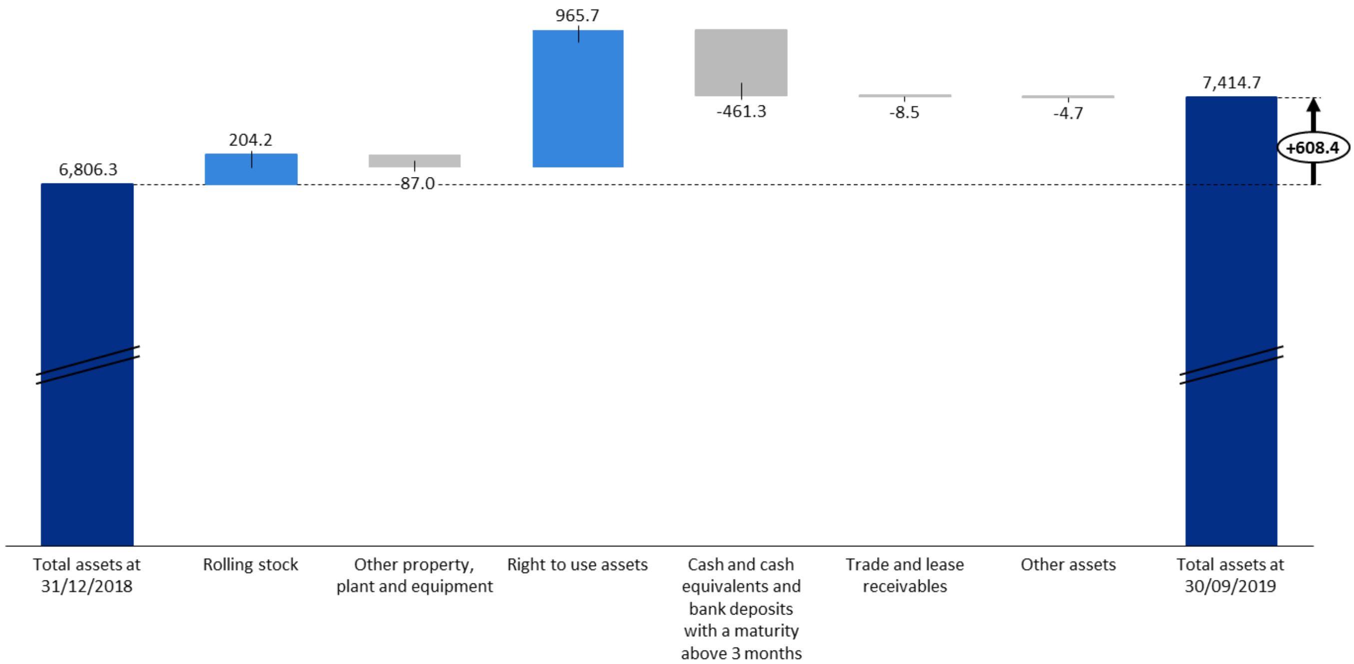
The biggest share in the asset structure as at 30 September 2019 was held by rolling stock, which accounted for 56.7% of total assets, compared to 58.7% as at 31 December 2018. A significant change resulting from the implementation of IFRS 16 compared to 31 December 2018 was occurred in newly disclosed position right-of-use assets, which as at 30 September 2019 accounted for 13.0% of total assets. The largest share in the structure of current assets as at 30 September 2019 in relation to total assets was attributable to trade and lease receivables (9.1%).

Figure 21 Structure of assets – as at 30 September 2019 and 31 December 2018



Source: Proprietary material

Figure 22 Movement in the Group's assets in the first 9 months of 2019 (in PLN million)



Source: Proprietary material

The implementation of IFRS 16 has affected the structure of the statement of financial position as at 30 September 2019. Compared to the published statement as at 31 December 2018, following the implementation of IFRS 16 with effect as of 1 January 2019, 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. As at 1 January 2019, the item of both short-term and long-term debt liabilities also increased, by PLN 803.7 million. 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**.

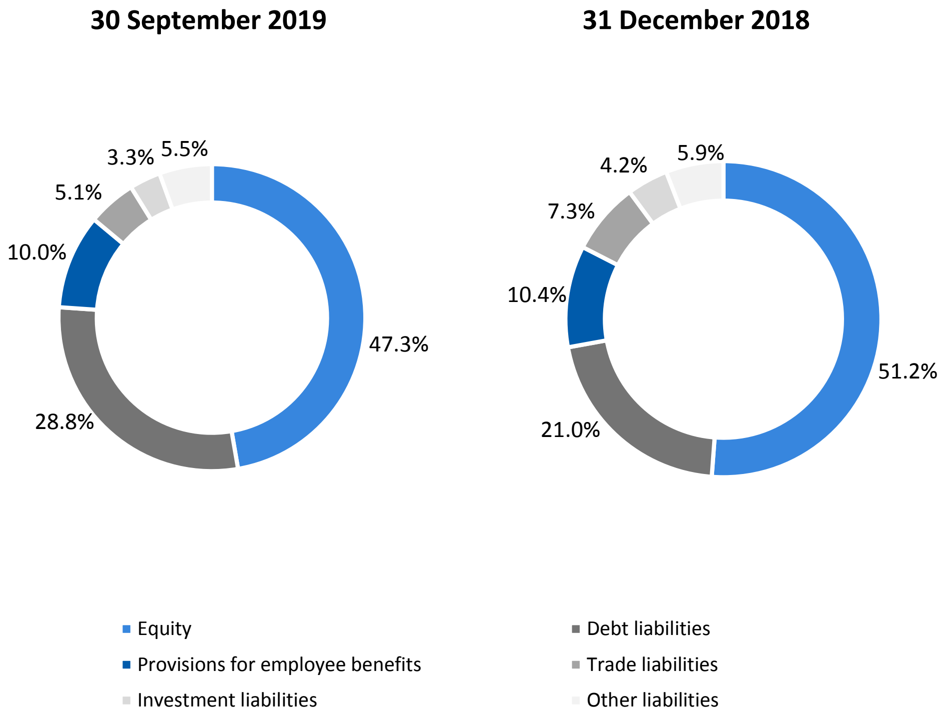
The following is the explanation of the most significant changes affecting the value of assets as at 30 September 2019 as compared to 31 December 2018:

- the value of rolling stock increased by PLN 204.2 million as a result of capital expenditures in rolling stock in the amount of PLN 762.9 million (mainly P4 and P5 periodic repairs of rolling stock, P3 periodic inspections, modernization of locomotives and purchases of locomotives and wagons), while the depreciation of rolling stock in 9M 2019 amounted to PLN 370.1 million and PLN 160.9 million worth of rolling stock was reclassified following the application of IFRS 16 to the right-of-use assets item. Details on movements in rolling stock are described in **Note 5.1. to the CFS;**
- The decrease in the value of other property, plant and equipment by PLN 87.0 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 9 months of 2019 in the amount of PLN 59.9 million. Details on movements pertaining to other property, plant and equipment resulting from the implementation of IFRS 16 are described above and in **Note 5.1. to the CFS;**
- The 'right-of-use assets' line item of PLN 965.7 million as at 30 September 2019 was a result of the application of IFRS 16 as of 1 January 2019. Details on the 'right-of-use assets' line item and movements 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 above 3 months by PLN 461.3 million was mainly attributable to capital expenditures and repayment of liabilities under loans and borrowings;

EQUITY AND LIABILITIES

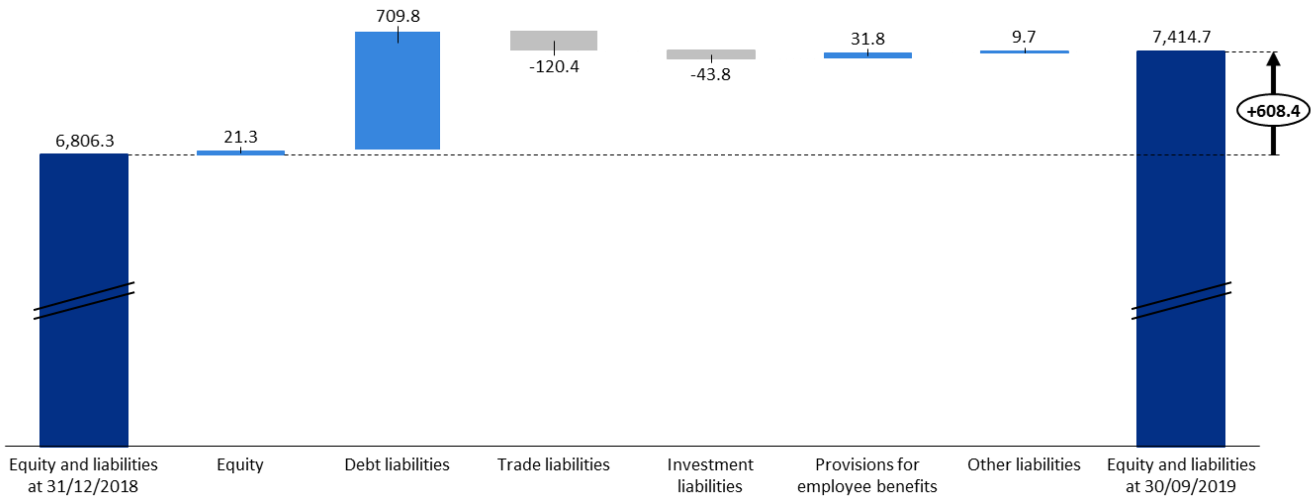
The largest share in the structure of the PKP CARGO Group's equity and liabilities as at 30 September 2019 was attributable to equity, which accounted for 47.3% of the sum of equity and liabilities, compared to 51.2% as at 31 December 2018. Debt liabilities accounted for 28.8% of total equity and liabilities, compared to 21.0% as at 31 December 2018, which wasrelated to the introduction of IFRS 16 as of 1 January 2019.

Figure 23 Structure of the Group's equity and liabilities as at 30 September 2019 and 31 December 2018



Source: Proprietary material

Figure 24 Movement in the Group's equity and liabilities in the first 9 months of 2019 (in PLN million)



Source: Proprietary material

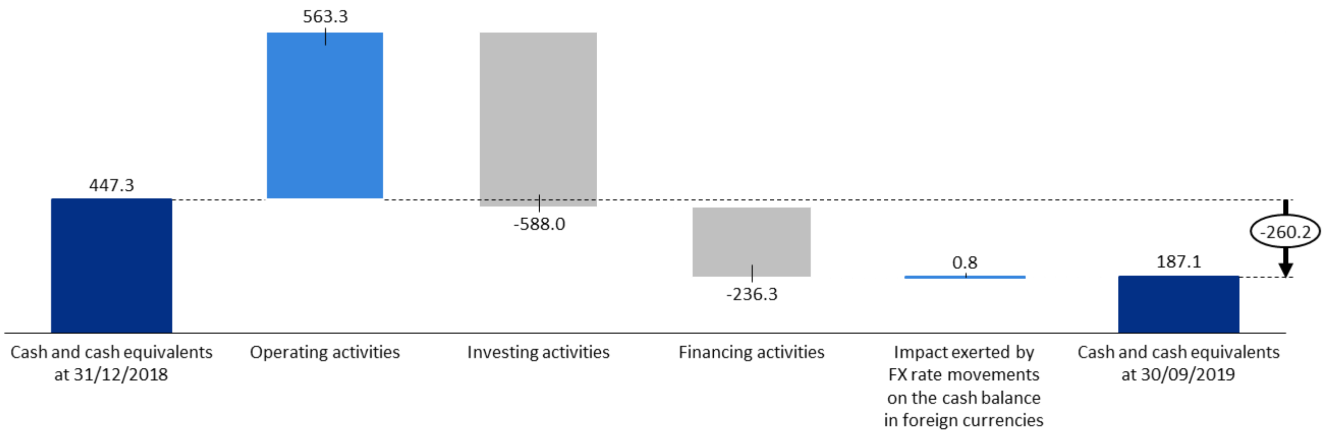
The following is the explanation of the most significant changes affecting the value of capital and liabilities assets as at 30 September 2019 as compared to 31 December 2018:

- increase in equity resulting chiefly from posting a positive financial result for the period of 9 months of 2019 in the amount of PLN 98.7 million, coupled with the payment of the 2018 dividend of PLN 67.2 million in connection with the resolution adopted byPKP CARGO S.A. Shareholder Meeting on 26 June 2019;
- increase in debt liabilities by PLN 709.8 million resulting mainly from the application of IFRS 16 as of 1 January 2019 (the effect of this application on this line item as at 1 January 2019 was PLN 803.7 million), while the debt was reduced through repayment of bank loans and borrowings and leases in the amount of PLN 282.0 million and bank loans of PLN 99.3 million were incurred. Details on movements resulting from the implementation of IFRS 16 are described in **Note 1.3. to the CFS;**
- decrease in trade liabilities by PLN 120.4 million caused mainly by a fall in the levelof operating expenses;
- decrease in investment commitments by PLN 43.8 million resulting from a decrease in property investment commitments by PLN 16.3 million and decrease in other investment commitments by PLN 31.2 million;
- increase in provisions for employee benefits by PLN 31.8 million, largely due to the increased provisions for retirement and disability severance pays.

Statement of cash flows of the PKP CARGO Group

The value of cash and cash equivalents as at 30 September 2019 decreased by PLN 260.2 million compared to 31 December 2018.

Figure 25 Cash flows of the PKP CARGO Group in the first 9 months of 2019 (in PLN million)



Source: Proprietary material

- Net cash flow from operating activities were generated on the result before tax of PLN 129.0 million and depreciation and impairment losses of PLN 530.3 million. The decrease in cash flows from operating activities mainly resulted from changes in the working capital amount, by PLN 76.9 million, and payment of income tax in the amount of PLN 38.1 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 816.6 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 9 months of 2019, cash flow from financing activities resulted chiefly from the repayment of loans and borrowings, lease installments and interest payments on leases and loans and borrowings in the amount of PLN 322.0 million, offset by PLN 99.3 million of loan drawdowns. Moreover, in 9M 2019 dividend distributed to shareholders amounted to PLN 67.2 million and 57.5 million of subsidies were received, mainly for the purchases of the rolling stock.

5.1.3 Selected financial and operating ratios of the PKP CARGO Group

The table below presents the PKP CARGO Group's key financial and operating ratios in 9M 2019 compared to the corresponding period of the previous year.

Table 18 Key financial and operating ratios of the PKP CARGO Group in 9M 2019 as compared to the corresponding period of 2018

Item	9M 2019	9M 2018*	Change	Rate of change
			2019 - 2018	2019/2018
EBITDA margin[1]	19.4%	18.2%	1.2 p.p.	6.4%
Net profit margin[2]	2.7%	5.1%	-2.4 p.p.	-46.9%
Net financial debt to EBITDA ratio[3]	*2.1*	*1.0*	*1.1*	*119.9%*
Net financial debt to EBITDA ratio adjusted for the impact of IFRS 16[3]	*1.4*	*1.0*	*0.4*	*46.0%*
ROA[4]	1.2%	3.4%	-2.2 p.p.	-64.7%
ROE[5]	2.5%	6.4%	-3.9 p.p.	-60.7%
Average distance covered per locomotive (km/day)[6]	223.3	250.3	-27.0	-10.8%
Average gross train tonnage per operating locomotive (tons)[7]	1,454.0	1,462.0	-8.0	-0.5%
Average running time of train locomotives (hours per day)[8]	14.7	15.7	-1.0	-6.4%
Freight turnover per employee (thousands tkm/employee)[9]	861.4	998.4	-137.0	-13.7%

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

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 result 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 net financial debt to EBITDA ratio 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 and based on EBITDA 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 result for the last 12 months to total assets.
5. Calculated as the ratio of net result 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.

put on those that pertain to profitability and operational efficiency and enable the assessment of changes in profitability and 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 **5.1.2 Analysis of selected financial highlights of the PKP CARGO Group.** The net financial debt to EBITDA ratio adjusted for the impact of IFRS 16 worsened as a result of a decline in EBITDA and an increase in net financial debt. 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 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 S.A. network);
- The decrease in the freight turnover per employee ratio was caused by a fall in freight turnover by 12.4% yoy coupled with an increase in the headcount by 1.5% yoy.

5.2 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 line 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.
- The large number of railway track closures has had and will continue to have a direct adverse effect on the throughput of the railway lines and stations in the coming year.

Rail infrastructure access charges

- In 9M 2019, they represented approx. 12.4% 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.
- Scrap prices decreased in Q3 2019. In Q4, prices are likely to remain at their current levels.
- 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 was 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.

5.3 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 Quarterly Condensed Consolidated Financial Statements, the Management Board of the Parent Company, having analyzed the consolidated financial and operational results for 9M 2019 and the situation on the rail freight market, hereby upholds the adjusted projection of PKP CARGO Group's EBITDA for 2019 at approx. PLN 925 million, which was published on 6 November 2019 in Current Report 52/2019.

5.4 Information about production assets

5.4.1 Rolling stock

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

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

During the 9 months of 2019, the number of locomotives and wagons used by the Group decreased. The PKP CARGO Group keeps purchasing new locomotives and wagons and at the same time carries out the disposal process of its oldest rolling stock. Moreover, locomotives are being modernized – during the first 9 months of 2019, 14 overhauls were performed with modernization of series ET41 locomotives and 20 overhauls of series SM48/ST48 locomotives. At present the PKP CARO Group owns 2350 locomotives.

In Q4 2019 it plans to sell 91 wrecks of locomotives and, at the same time, 7 electric locomotives with Dragon 2 combustion modules will be purchased.

Figure 26 Structure of rolling stock used by the PKP CARGO Group as at 30 September 2019 and 31 December 2018

5.4.2 Real estate

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

The table below presents changes in real estate owned and used by the PKP CARGO Group during the first 9 months of 2019.

Table 19 Real estate owned and used by PKP CARGO Group as at 30 September 2019 as compared to 31 December 2018

Item	30/09/2019	31/12/2018	Change 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]	730,065	738,392	-8,327

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. In the analyzed period, the largest contribution was made by the reduction of space in buildings leaded by CARGOTOR Sp. z o.o. (-5,670 m^2) and demolition by PKP CARGO International (formerly AWT) of one of its buildings with the area of 440 sqm.

6. Other key information and events

6.1 Proceedings pending before the court, arbitration bodies or public administration bodies

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 particular in the notes concerning contingent liabilities.

6.2 Information on transactions with related parties

In the first 9 months of 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 were concluded.

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

6.3 Information on extended guarantees and sureties for loans or borrowings

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

6.4 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

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

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

Company's Management Board

Czesław Warsewicz
President of the Management Board

Leszek Borowiec
Management Board Member

Grzegorz Fingas
Management Board Member

Witold Bawor
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 20 November 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