ANNUAL REPORT FOR 2019

PKP CARGO CAPITAL GROUP

Consolidated annual report for 2019

PKPCARGO

Dear Stakeholders,

2019 was a difficult year for the PKP CARGO Group and for the whole rail freight sector, with the declining volume of freight and freight turnover. This was a result of the worsening of business conditions on the bulk cargo transport market, driven by several factors that were beyond our control. The PKP CARGO Group transported approximately 11% less freight than in 2018, but other bulk transport operators were in a similar situation. In 2019 we successfully conducted the optimization and internal streamlining process for all PKP CARGO Group companies and therefore, even though the freight volume fell, the PKP CARGO Group generated profits on all levels.

The transport performance of the PKP CARGO Group was affected primarily by the lower freight volume of bulk cargo: hard coal, aggregates and metal ore. These commodities constitute approximately 70% of freight and their reduction has significant impact on the performance achieved by the company. The demand for coal in Poland has decreased driven by the reduction of electricity production from coal in favor of renewable energy sources. Coal production fell to the lowest levels in more than 70 years (less than 62 million tons) and is comparable to production levels in the first years after the war. Less coal from Polish mines means a lower freight volume, which is not offset by imports. We must be aware that this trend may continue this year as well.

PKP CARGO very quickly felt the effects of the blast furnace shut down at the Tadeusz Sendzimir Steelworks in Krakow, since ArcelorMittal is a large client commissioning our services not only to transport raw materials required for steel production but also finished products.

In 2019 we also faced the challenge related to the slowdown of growth in infrastructural investments, which meant for us lower transport of stone aggregate. Large road and rail projects were halted when contractors abandoned the sites, or suspended or delayed, for example as a result of increasing prices offered in tenders by construction companies or for legal and organizational reasons. This situation was different from the one in 2018 when the front of construction works was very wide and stone mines could hardly keep up with the orders.

This year should be more positive, which is indicated by data from the market. We are also preparing for larger freight volumes of aggregates as infrastructural investments co-funded by the European Union reach the final phase. The construction of roads and railways must be settled by the end of 2023, and since many investment tasks still remain to be carried out, the demand for raw materials such as aggregates, sand, gravel and cement will have to increase. On the other hand, however, we still do not know how the coronavirus epidemic will affect the transport sector.

The expected improvement in business conditions on the bulk transport market will certainly not change our priorities, which are to transform PKP CARGO from a rail operator to a logistics operator. This is why we focused on this transformation in the past year, among others by increasing our transport resources in the intermodal transport segment. We successfully completed a tender for the delivery of 1156 flatcars for container transport by the year 2022, out of which 50% will be financed by a subsidy from EU sources.

Last year we also kicked off the process of integrating all the terminals owned by the PKP CARGO Group into a single efficient entity increasing our competitive advantage in the intermodal transport segment. PKP CARGO TERMINALE, an entity established last year, is part of the logistics operator's value chain and its full integration should be completed by the end of this year. The project of building a terminal in Zduńska Wola-Karsznice, which is to become the central transshipment hub in Poland, pursued together with PKP S.A., is an important part of this process. We want Poland to become not only a transit country but also a place to handle freight transported by sea or by land from Asia and China and other continents and countries, which is a business opportunity for us.

Our goal is to make PKP CARGO into a domestic logistics operator integrating and coordinating the logistics system in Poland. The process will happen over a longer period of time, but we must build the foundations right now and this is what we started in 2019. We have the potential and the capacity to achieve this goal.

Development naturally requires our commitment to ensuring the best possible financial standing of the PKP CARGO Group, mainly with our shareholders in mind, and achieving an increase in the Group's shareholder value.

Czesław Warsewicz

President of the PKP CARGO S.A. Management Board

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

Independent Auditor's Report
to the General Meeting and Supervisory Board of PKP CARGO SA

Report on the Audit of the Year-end Consolidated Financial Statements

Opinion

We have audited the year-end consolidated financial statements of the group, where the parent company is PKP CARGO SA ("the Parent Company" or "the Company") ("the Group"), which comprise the consolidated statement of profit or loss and other comprehensive income for the period from 1 January to 31 December 2019, the consolidated statement of financial position as at 31 December 2019, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, as well as notes to the consolidated financial statements including a description of accounting methods and other explanations ("the consolidated financial statements").

In our opinion, the accompanying consolidated financial statements:

- give a true and fair view of the Group's financial position as at 31 December 2019, as well as of its financial result and cash flows for the year then ended, in accordance with the applicable International Financial Reporting Standards as adopted by the European Union, as well as the adopted accounting methods (policies);
- are consistent, in content and in form, with the applicable laws and regulations and with the Parent Company's Statute.

The present opinion is consistent with the additional report to the Audit Committee, which we issued on the date of this report.

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing adopted by the National Council of Certified Auditors as National Standards on Auditing ("NSA") and in compliance with the Act on Certified Auditors, Audit Firms and on Public Supervision ("the Certified Auditors Act" – 2019 Journal of Laws, item 1421 with subsequent amendments) and Regulation (EU) No. 537/2014 of 16 April 2014 on specific requirements regarding statutory audit of public interest entities ("Regulation EU" – OJ L 158). Our responsibilities under those standards are further described in the "Responsibilities of the Auditor for the Audit of the Consolidated Financial Statements" section of this report.

We are independent of the Group's companies in accordance with the Code of Ethics for Professional Accountants issued by the International Federation of Accountants ("the IFAC Code") and adopted by resolutions of the National Chamber of Certified Auditors, and with other ethical requirements relevant to the audit of financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IFAC Code. During the audit, the engagement partner and the audit firm remained independent of the Parent Company in accordance with the independence requirements laid down in the Certified Auditors Act and Regulation EU.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of the most significance in the audit of the consolidated financial statements for the current reporting period. They include the most significant assessed types of risks of material misstatements, including assessed types of risks of material misstatements resulting from fraud. We addressed these matters in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and have summarized our response to these types of risks, and where relevant, presented our key observations relating to those risks. We do not express a separate opinion on these matters.

1. Valuation of rolling stock

Key audit matter

In its consolidated financial statements the Parent Company lists PLN 4.330 million in rolling stock, constituting 54,2% of its assets as at 31 December 2019. The matter has been classified as a risk of material misstatement due to the high percentage of rolling stock in the Group's assets and the significant effect of management's judgment on the values of assets disclosed in the consolidated financial statements.

Impairment tests performed on the assets of the Parent Company and PKP Cargo International Group showed no impairment.

Disclosures in the consolidated financial statements

The details of the Group's accounting policies on the valuation of property, plant and equipment, including the methods used to perform impairment write downs and calculate depreciation charges, are disclosed in Note 5.1 to the consolidated financial statements.

Audit procedures performed in response to the risk

During the audit we performed the following procedures related to the identified risk:

1. We read the accounting policy regarding the determination of depreciation rates, write-downs on fixed assets, and for rolling stock - determining the residual value of these assets,
2. We verified whether there were changes in the approach to estimates of write-downs on fixed assets, determination of depreciation rates and calculation of the residual value of rolling stock compared to the previous year; we obtained relevant documentation that was analyzed,
3. We conducted analytical credibility procedures for completeness and accuracy and the presence of depreciation,
4. We verified the impairment test of the assets of the Company and the PKP Cargo International Group, critically assessing the process of impairment testing, correctness of identification of the cash generating center, key test assumptions, mathematical test accuracy, the applied discount rates, analysis of test sensitivity to key input factors of the model,
5. We assessed the correctness and completeness of required disclosures in the financial statements,
1. 6. We assessed the impact of events after the balance sheet date on the estimates made as at the balance sheet day.

2. Provisions for employee benefits

Key audit matter

In its consolidated financial statements as at 31 December 2019 the Parent Company presents provisions for employee benefits in the amount of PLN 784 million, which constitutes 9,8% of its total liabilities and equity. The provisions have been classified as a key audit area due to their significant effect on the consolidated financial statements.

Disclosures in the consolidated financial statements

The Parent Company has made disclosures relating to provisions for employee benefits in Note 5.8 to the consolidated financial statements.

Audit procedures performed in response to the risk

In connection with the identified risk, we applied, among others, the following audit procedures:

1. We analysed the process of calculating estimates of provisions for employee benefits,
2. We verified whether there have been unjustified changes in the approach to provision estimates compared to the previous year,
3. We conducted analyses of reports on the actuarial valuation of provisions for employee benefits,
4. We conducted an assessment of the competence of the company preparing the actuarial valuation report,
5. We analysed the basic assumptions adopted for the valuation of provisions, including the discount rate,
6. We conducted an analysis of the impact of deviations of basic assumptions (discount rate, wage increases, employment growth) on the value of provisions.
7. We analysed the use of short-term provisions in 2019, compared to their estimates as at 31 December 2018.

3. Contingent liabilities

Key audit matter

In its consolidated financial statements as at 31 December 2019 the Parent Company presents other contingent liabilities relating to court proceedings associated with claims against the Group entities, where the probability of an outflow of funds is assessed as low, and claims where it is not possible to make a reliable estimate of the amount to be paid by the Company in the future, with a total value of 114.0 million PLN as at 31 December 2019.

The above contingent liabilities have been classified as a key audit area due to the difficulties in assessing their future outcome and their significant effect on the financial statements.

Disclosures in the consolidated financial statements

The Parent Company has made disclosures relating to contingent liabilities in Note 7.3 to the consolidated financial statements.

Audit procedures performed in response to the risk

Our audit procedures included:

1. Identification of the Group's internal control regarding the qualification of contingent liabilities,
2. Familiarizing ourselves with the current state of litigation and court cases,
3. Assessment of the correctness of qualification of disputes and court claims to contingent liabilities, by obtaining direct answers and positions of the Group's legal advisors with regard to assessing the risk of the disputes having an outcome unfavourable for the Group,
4. Review of audit documentation in other areas in terms of identifying events, contracts, commitments that may be contingent items,
5. Assessment of whether disclosures in the financial statements comply with the provisions of IAS 37 “Provisions, contingent liabilities and contingent assets”.

Responsibilities of the Parent Company’s Management and Supervisory Board for the Consolidated Financial Statements

The Parent Company’s Management is responsible for the preparation of the consolidated financial statements that give a true and fair view of the Group’s financial position and financial result in accordance with International Financial Reporting Standards as adopted by the European Union, the adopted accounting methods (policies), the applicable binding regulations and the Statute. The Parent Company’s Management is also responsible for such internal controls as it considers necessary to ensure that the consolidated financial statements are free from material misstatements resulting from fraud or error.

In preparing the consolidated financial statements the Parent Company’s Management is responsible for assessing the Group’s ability to continue as a going concern, disclosing, as applicable, any matters related to going concern and using the going concern basis of accounting, except in situations where the Management intends to either liquidate the Group or discontinue its operations, or has no realistic alternative but to do so.

The Parent Company’s Management and members of the Parent Company’s Supervisory Board are required to ensure that the consolidated financial statements meet the requirements of the Accounting Act of 29 September 1994 (“the Accounting Act” – 2019 Journal of Laws, item 351 with subsequent amendments). Members of the Parent Company’s Supervisory Board are responsible for overseeing the financial reporting process.

Responsibilities of the Auditor for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements due to fraud or error, and to issue an independent auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with NSA will always detect an existing material misstatement. Misstatements can arise from fraud or error and are considered material if it could be reasonably expected that they, individually or in the aggregate, could influence the economic decisions of users made on the basis of these consolidated financial statements.

The concept of materiality is applied by the auditor at the planning stage and when performing the audit and evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements, as well as when formulating the auditor’s opinion. In view of the above, all of the opinions and statements contained in the auditor’s report are expressed subject to the qualitative and quantitative level of materiality set in accordance with the applicable standards on auditing and the auditor’s professional judgement.

The scope of the audit does not include an assurance regarding the Group's future profitability, or regarding the effectiveness of the Parent Company's Management in the handling of the Group's affairs now or in the future.

Throughout an audit in accordance with NSA, we exercise professional judgement and maintain professional skepticism, as well as:

- identify and assess the risks of a material misstatement of the consolidated financial statements resulting from fraud or error, design and perform audit procedures in response to such risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, because fraud may involve collusion, forgery, deliberate omission, misrepresentation or override of internal controls;
- obtain an understanding of the internal controls relevant to the audit in order to plan our audit procedures, but not to express an opinion on the effectiveness of the Group's internal controls;
- evaluate the appropriateness of the accounting policies used and the reasonableness of the estimates and related disclosures made by the Parent Company's Management;
- conclude on the appropriateness of the Parent Company Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and contents of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group in order to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group's audit and remain solely responsible for our audit opinion.

We provide the Parent Company's Supervisory Board with information about, among others, the planned scope and timing of the audit and significant audit findings, including any significant weaknesses of internal controls that we identify during our audit.

We provide the Parent Company's Supervisory Board with a statement that we have complied with the relevant ethical requirements relating to independence, and that we will communicate to them all relationships and other matters that may reasonably be considered to constitute a threat to our independence, and where applicable, inform them of the related safety measures.

From the matters communicated to the Parent Company's Supervisory Board we determined those matters that were of the most significance to the audit of the consolidated financial statements for the current reporting period and were therefore chosen as key audit matters. We describe these matters in our auditor's report, unless law or regulations prohibit their public disclosure or when, in exceptional cases, we find that a given matter should not be presented in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such information.

Other Information, Including Report on Activities

Other information comprises the joint report on the activities of the Company and the Group for the financial year ended 31 December 2019 ("the Report on Activities") along with the Statement of Compliance with Rules of Corporate Governance and Report on Non-financial Information referred to in Article 49b par. 1 of the Accounting Act, which constitute separate sections of the Report on Activities, as well as the "Annual Report" for the financial year ended 31 December 2019 ("Annual Report") (together "Other Information").

Responsibilities of the Parent Company's Management and Supervisory Board

The Parent Company's Management is responsible for the preparation of Other Information in accordance with binding regulations.

The Parent Company's Management and members of its Supervisory Board are required to ensure that the Report on Activities along with its separate sections as well as Report on Non-financial Information meets the requirements of the Accounting Act.

Responsibilities of the Auditor

Our opinion on the consolidated financial statements does not cover Other Information.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether it is materially inconsistent with the consolidated financial statements or with our knowledge obtained during the audit, or otherwise appears to be materially misstated. If based on the work we have performed, we find a material misstatement of the Other Information, we are required to state this fact in our auditor's report. In accordance with the requirements of the Certified Auditors Act, it is also our responsibility to issue an opinion whether the Report on Activities has been prepared in accordance with binding regulations, and whether it is consistent with the information presented in the financial statements.

Moreover, we are required to report if the Company has prepared a Report on Non-financial Information, and to issue an opinion on whether the Company has included all of the required information in the Statement of Compliance with the Rules of Corporate Governance.

We received the Report on Activities prior to the issue of the present auditor's report, whereas the Annual Report will be available after this date. In the event that we find a material misstatement in the Annual Report, we are required to communicate this to the Parent Company's Supervisory Board.

Opinion on the Report on Activities

Based on the work we have performed during the audit, in our opinion the Report on Activities:

- has been prepared in accordance with Article 49 of the Accounting Act and par. 70 of the Minister's of Finance Decree of 29 March 2018 on the current and periodic information reported by the issuers of securities and on the conditions for recognizing as equally valid the information required by the regulations of a state that is not a member state (the "Current Information Decree" – 2018 Journal of Laws, item 757);
- is consistent with the information presented in the consolidated financial statements.

Furthermore, based on our knowledge obtained during the audit about the Parent Company and the Group and its environment we have identified no material misstatements in the Report on Activities.

Opinion on the Statement of Compliance with Rules of Corporate Governance

In our opinion, the Group's Statement of Compliance with Rules of Corporate Governance contains all of the information specified in paragraph 70 section 6 par. 5 of the Current Information Decree. In addition, in our opinion, the information indicated in paragraph 70 section 6 point 5 letters c-f, h and letter i of the Decree, contained in the Statement of Compliance with Rules of Corporate Governance is consistent with the applicable regulations and with the information contained in the financial statements.

Report on Non-financial Information

In accordance with the requirements of the Certified Auditors Act we confirm that the Group has prepared the Report on Non-financial Information referred to in Article 49b par. 1 of the Accounting Act as a separate section of the Report on Activities.

We have performed no assurance work on the Report on Non-financial Information and, accordingly, do not express any assurance thereon.

Report on Other Legal and Regulatory Requirements

Declaration on the Provision of Non-audit Services

To the best of our knowledge and belief we declare that any non-audit services we have provided to the companies of the Group are consistent with the law and the regulations binding in Poland, and that we have not provided any non-audit services prohibited by virtue of Article 5 par. 1 of Regulation EU and Article 136 of the of the Certified Auditors Act.

The non-audit services we have provided to the Parent Company and its subsidiaries in the audited period are listed in note 8.8.1 of the Reports on Activities.

Appointment of the Auditor

We were first appointed as auditors of the Group's consolidated financial statements in a resolution passed by the Parent Company's Ordinary General Meeting on 30 June 2016 and again in a resolution passed on 26 June 2019. We have audited the Group's consolidated financial statements continually since the financial year ended 31 December 2016, i.e. for 4 consecutive years.

The engagement partner on the audit resulting in this independent auditor's report is Marcin Krupa.

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

represented by the engagement partner

Marcin Krupa
Certified Auditor No. 11142

Dr. André Helin
Managing Partner of the General Partner
Certified Auditor No. 90004

Warsaw, 23 March 2020

PKPCARGO

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

Prepared in accordance with IFRS EU

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

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

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Supplementary capital	Other items of equity: Profits / (losses) on measurement of equity instruments at fair value	Other items of equity: Actuarial profits/ (losses) on post-employment benefits	Other items of equity: Measurement of hedging instruments	FX differences resulting from translation of financial statements	Retained earnings	Total equity	
1/01/2019 (audited)	**2,239.3**	**628.2**	**(12.9)**	**(32.8)**	**1.5**	**75.8**	**584.4**	**3,483.5**	
Changes resulting from the implementation of IFRS 16	-	-	-	-	-	-	2.8	**2.8**	*Note 1.3*
1/01/2019 (restated)	**2,239.3**	**628.2**	**(12.9)**	**(32.8)**	**1.5**	**75.8**	**587.2**	**3,486.3**	
Net result for the financial year	-	-	-	-	-	-	36.0	**36.0**	
Other comprehensive income for the financial year (net)	-	-	0.7	(42.2)	8.0	1.7	-	**(31.8)**	
Total comprehensive income	-	-	0.7	(42.2)	8.0	1.7	36.0	**4.2**	
Dividends	-	-	-	-	-	-	(67.2)	**(67.2)**	*Note 4.2*
Other changes for the financial year	-	153.2	-	-	-	-	(153.2)	**-**	*Note 4.2*
31/12/2019	**2,239.3**	**781.4**	**(12.2)**	**(75.0)**	**9.5**	**77.5**	**402.8**	**3,423.3**	
1/01/2018 (audited)	**2,239.3**	**619.3**	-	**(22.1)**	**20.5**	**59.9**	**400.3**	**3,317.2**	
Changes resulting from the implementation of IFRS 9	-	-	(12.9)	-	-	-	9.1	**(3.8)**	
1/01/2018 (restated)	**2,239.3**	**619.3**	**(12.9)**	**(22.1)**	**20.5**	**59.9**	**409.4**	**3,313.4**	
Net result for the financial year	-	-	-	-	-	-	183.9	**183.9**	
Other comprehensive income for the financial year (net)	-	-	-	(10.7)	(19.0)	16.5	-	**(13.2)**	
Total comprehensive income	-	-	-	(10.7)	(19.0)	16.5	183.9	**170.7**	
Other changes for the financial year	-	8.9	-	-	-	(0.6)	(8.9)	**(0.6)**	
31/12/2018	**2,239.3**	**628.2**	**(12.9)**	**(32.8)**	**1.5**	**75.8**	**584.4**	**3,483.5**	

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

CONSOLIDATED CASH FLOW STATEMENT

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

EXPLANATORY NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

1.1 Key information about the Group's business

Information about the Parent Company

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

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

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

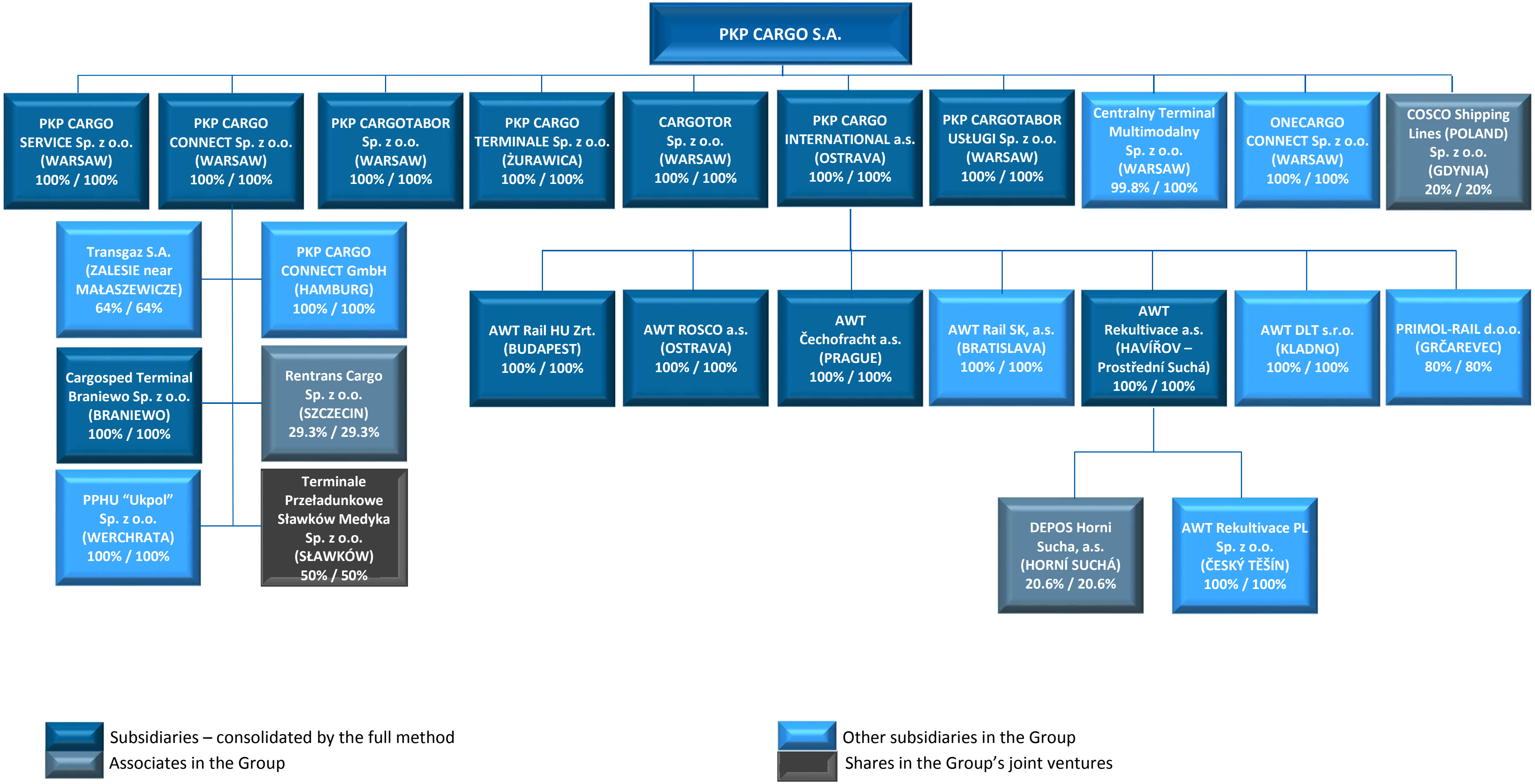
Information about the Group

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

As at the balance sheet date, the PKP CARGO Group (hereinafter: "Group") comprised PKP CARGO S.A. as its parent company and 21 subsidiaries. In addition, the Group held shares in 3 associated entities and 1 joint venture.

The duration of individual Group companies is unlimited.

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



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

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

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

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

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

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

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

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

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

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

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

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

1.2 Basis for preparation of the Consolidated Financial Statements

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

These Consolidated Financial Statements for the year ended 31 December 2019 have been prepared on the assumption that the Group will continue to be a going concern in the foreseeable future. As at the preparation date of the Financial Statements, there are no circumstances indicating any substantial doubt about the Group's ability to continue as a going concern operations for the period of at least 12 months of the date of the financial statements.

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

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

These Consolidated Financial Statements have been audited by a statutory auditor.

The Group's accounting principles described in individual notes were applied in a continuous manner to all presented periods, except for changes resulting from the entry into force of IFRS 16, as described in Note 1.3 Accounting policy. The significant estimates and judgments for the key items of the consolidated financial statements were presented in individual notes to these Consolidated Financial Statements.

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

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

Note	Title	Amount recognized in the Consolidated Financial Statements 2019	2018	Accounting Policy	Significant estimates and judgments
2.1	Revenues from contracts with customers	4,781.6	5,183.0	X	X
2.2	Operating expenses	(4,674.9)	(4,919.5)		
2.3	Other operating revenue and (expenses)	36.7	14.1		
2.4	Financial revenue and (expenses)	(71.6)	(42.0)		
3.1	Income tax	(37.5)	(59.9)	X	X
5.1	Rolling stock	4,329.6	3,997.0	X	X
5.1	Other property, plant and equipment	872.4	949.9	X	X
5.2	Rights-of-use assets	1,078.8	-	X	X
5.3	Investments in entities accounted for under the equity method	40.4	47.3	X	
5.4	Inventories	161.0	161.7	X	
5.5	Trade receivables	594.3	685.3	X	X
	Lease receivables	11.6	-		
	Income tax receivables	51.4	3.0		
	Bank deposits over 3 months	-	201.1		
5.6	Other assets	187.7	178.1	X	
3.1	Deferred tax assets	113.7	135.6		X
4.4	Cash and cash equivalents	550.4	447.3	X	
4.2	Equity	3,423.3	3,483.5	X	
4.1	Debt liabilities	2,622.7	1,427.0	X	X
	Trade liabilities	414.9	499.9		
5.7	Investment liabilities	338.5	287.4	X	
5.8	Provisions for employee benefits	784.2	707.0	X	X
5.9	Other provisions	51.0	77.4	X	
5.10	Other liabilities	264.4	235.6	X	
3.1	Deferred tax liability	92.3	88.5		X
7.3	Contingent liabilities	229.1	244.8	X	X

Consolidation rules

The Consolidated Financial Statements comprise the standalone financial statements of the Parent Company and its controlled entities (subsidiaries) for the financial year ended on 31 December 2019 and 31 December 2018. The financial statements of the subsidiaries, after taking into consideration adjustments introduced to make them compliant with EU IFRS, are prepared for the same reporting period as the statements of the Parent Company, based on uniform accounting principles applied for transactions and similar economic events.

Revenues and costs of subsidiaries are taken into account in the consolidated statement of profit or loss and other comprehensive income from the date of acquisition of the given entity to the date of its effective disposal. All transactions effected within the Group, negative balances and revenues and costs of operations effected between the Group companies have been fully eliminated from the consolidation.

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

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

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

As at 31 December 2019 and 31 December 2018, for the needs of valuation of financial statements of foreign operations subject to consolidation, the Group adopted the following exchange rates:

Currency	Items of the statement of financial position		Items of the statement of profit or loss and other comprehensive income and cash flow statement	
	31/12/2019	31/12/2018	2019	2018
EUR	4.2585	4.3000	4.3018	4.2669
CZK	0.1676	0.1673	0.1676	0.1663
HUF	0.0129	0.0134	0.0132	0.0133

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

1.3 Applied International Financial Reporting Standards platform

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

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

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

Effect of application of the new standard

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

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

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

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

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

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

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

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

1.3 Applied International Financial Reporting Standards platform (cont.)

Consolidated statement of financial position as at 1 January 2019

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

Consolidated statement of profit or loss and other comprehensive income

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

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

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

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

1.3 Applied International Financial Reporting Standards platform (cont.)

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

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

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

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

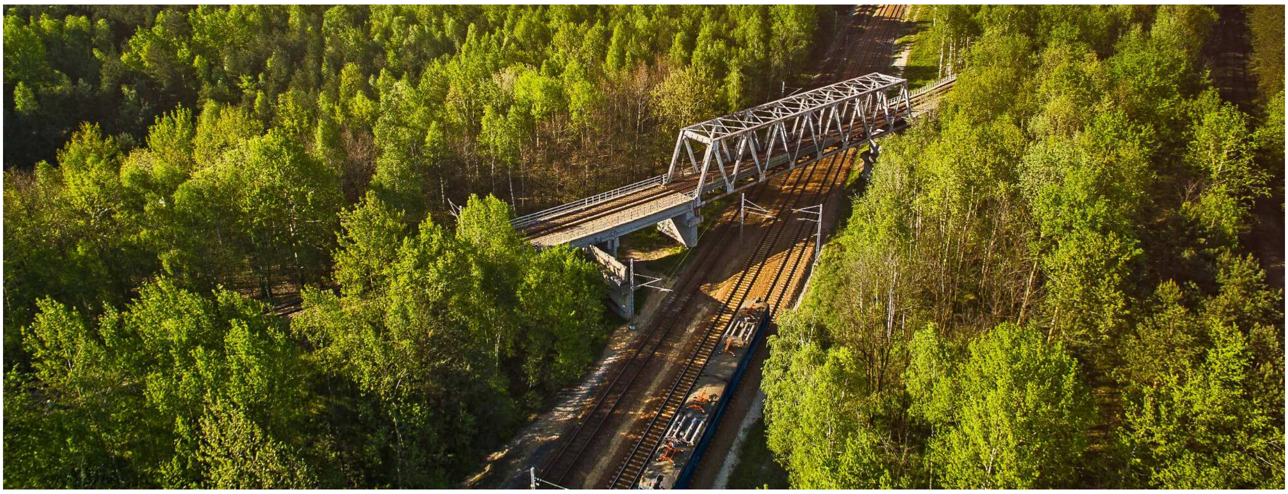
In the opinion of the Parent Company's Management Board, the standards and interpretations mentioned below will not result in any major amendments to the Accounting Policy applied by the Group in the successive reporting periods:

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

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

IFRS as approved by the EU do not currently differ materially from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following standards, their amendments and interpretations, which as at 31 December 2019 have not yet been approved by the EU and have not entered into effect. In the opinion of the Parent Company's Management Board, the EU's endorsement of the following standards will not trigger the need to modify significantly the accounting policies applied by the Group:

Standard / Interpretation	Effective date
Amendments to IFRS 3 "Business combinations" – Definition of a business	1 January 2020
IFRS 17 "Insurance contracts"	1 January 2021



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

2.1 Revenues from contracts with customers

Accounting policy applied

The Group recognizes revenue from contracts with customers in such a manner as to reflect the transfer of promised goods or services to the customer in the amount corresponding to the remuneration expected to be payable to the Group in return. Revenues from contracts with customers is disclosed at fair value of the payment received or due less VAT, refunds, rebates and discounts.
Revenues are recognized upon (or during) fulfillment of the obligation to make the performance through the provision of the promised good or service (i.e. asset) to the customer.
Revenues from sales of services are recognized in the statement of profit or loss and other comprehensive income over time, because the customer receives and at the same time benefits from the performance provided by the Group as it is being provided. The Group is of the opinion that this condition is fulfilled, because the work performed by it to date would not have to be substantially re-performed by another entity if it were to complete the remaining portion of the obligation toward the customer.
Revenues from sales of materials, goods and finished products are recognized in the statement of profit or loss and other comprehensive income when the customer obtains control over the asset in question. The moment of the transfer of control is the same as the moment when the significant risk and benefits resulting from their ownership were transferred.

Variable remuneration

Commercial contracts contain a variable remuneration element resulting from the following:
- the possibility of imposing penalties on the client in connection with its failure to meet the contractual provisions pertaining to transportation of a specified freight volume,
- the possibility of imposing fines on the Group by the client in the event of failure to transport the ordered freight volume.

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

Contract assets

The Group recognizes in its statement of financial position a contract asset constituting the Group's right to remuneration in return for goods or services that the Group has provided to the customer if this right is dependent on a condition other than the passage of time. Assets arising from contracts with customers are presented under the trade receivables item and include predominantly assets related to services that have not yet been invoiced but have been completed or are in the process of being provided.

Contract liabilities

The Group recognizes in its statement of financial position a contract liability constituting the Group's obligation to transfer goods or services to the customer in return for which the Group has obtained remuneration (or the amount of remuneration is due) from the customer. The Group recognizes a contract liability chiefly in connection with remuneration received in advance for services that have not yet been provided by the Group.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

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

- from the degree of progress of transport services, which are measured based on the estimated level of freight volume the transportation of which has not been completed as at the balance sheet date and the average obtainable price,
- from the freight volume that has already been delivered to the destination but has not yet been collected by the customer. The measurement takes into account the actual freight volume and the average obtainable price,
- from rents for wagons owned by the Group which are used by foreign rail transport companies in the course of transport services rendered outside Poland. This item is measured based on the quantity of wagons outside Poland (data obtained from IT systems) and prices resulting from agreements and contracts with foreign rail freight companies.
- from reclamation and construction works that are currently in the process of acceptance by the client or, in accordance with the contract, the stage of works that would enable invoicing has not yet been achieved. The Group measures revenue based on the scope of work performed as at the balance sheet date and the rates resulting from contracts/orders.

The value of recognized revenue estimates as at the balance sheet date is presented in this note in the table on movement in assets arising from contracts with customers.

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

2.1 Revenues from contracts with customers (cont.)

Structure of revenues from contracts with customers

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

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

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

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

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

2.1 Revenues from contracts with customers (cont.)

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

The following table present revenues related to unfulfilled (or partially unfulfilled) performance commitments as at the end of the financial year that the Group expects to recognize in the future:

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

In accordance with IFRS 15.121, in the case of other executed commercial agreements, the Group takes advantage of a practical simplification and refrains from disclosing information on the total transaction price assigned to a performance commitment that was not fulfilled at the end of the period and refrains from disclosing the period in which revenue from fulfilling the performance commitment is expected to be recognized. The possibility of applying this simplification is due to the fact that a significant portion of contracts are entered into for a period not longer than 12 months or the Group has the right to recognize revenue in the invoiced amount.

Geography

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

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

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

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

Information on key customers

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

Assets from contracts with customers

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

Liabilities from contracts with customers

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

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

2.2 Operating expenses

Consumption of traction electricity and traction fuel

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

Other services

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

Employee benefits

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

Other expenses

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

Depreciation, amortization and impairment losses

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

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

2.3 Other operating revenue and (expenses)

Other operating revenue and (expenses)

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

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

2.4 Financial revenue and (expenses)

Financial revenue and (expenses)

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

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

3. Explanatory notes on taxation

3.1 Income tax

Accounting policy applied

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

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

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

The Tax Group

In the period from 1 January 2017 to 31 December 2019, selected companies of the PKP CARGO Group formed a tax group. The Tax Group consisted of:
- PKP CARGO S.A.,
- PKP CARGO SERVICE Sp. z o.o.,
- PKP CARGOTABOR Sp. z o.o.,
- PKP CARGOTABOR USŁUGI Sp. z o.o.,
- PKP CARGO TERMINALE Sp. z o.o.
- PKP CARGO CONNECT Sp. z o.o.

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

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

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

The Group recognizes a deferred tax asset based on the assumption that taxable income would be achieved in the future, allowing the Group to use the asset. According to the long-term financial forecasts developed by the Group, these assets are not impaired as at the balance sheet date. A future deterioration of the tax results might lead to this assumption becoming unfounded.

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

3.1 Income tax (cont.)

Income tax recognized in profit / loss

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

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

Deferred income tax recognized in other comprehensive income

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

Reconciliation of the effective tax rate

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

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

3.1 Income tax (cont.)

The corporate income tax rate effective in Poland in the years 2018 - 2019 amounted to 19%. In the case of the PKP CARGO INTERNATIONAL Group companies, the relevant tax rates were as follows: 19% in the Czech Republic and 10% in Hungary.

Balance of deferred tax assets and liabilities

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

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

Movements in deferred tax before the set-off

2019	1/01/2019 (audited)	Effect of the implementation of IFRS 16	1/01/2019 (restated)	Recognized in profit or loss	Recognized in other comprehensive income	FX differences resulting from translation of deferred tax balance	31/12/2019
Temporary differences relating to deferred tax (liabilities) / assets:							
Non-financial non-current assets	(133.4)	11.9	(121.5)	(45.3)	-	(0.2)	**(167.0)**
Rights-of-use assets and lease liabilities	-	(9.5)	(9.5)	3.5	-	-	**(6.0)**
Other provisions and liabilities	10.8	(1.4)	9.4	7.6	-	-	**17.0**
Inventories	(4.1)	-	(4.1)	(0.6)	-	-	**(4.7)**
Lease receivables	-	(1.7)	(1.7)	(0.4)	-	-	**(2.1)**
Trade receivables	3.6	-	3.6	(1.9)	-	-	**1.7**
Provisions for employee benefits	134.0	-	134.0	4.9	10.0	-	**148.9**
Other	0.3	-	0.3	(0.4)	(1.9)	-	**(2.0)**
Unused tax losses	35.9	-	35.9	(0.3)	-	-	**35.6**
Total	**47.1**	**(0.7)**	**46.4**	**(32.9)**	**8.1**	**(0.2)**	**21.4**

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

3.1 Income tax (cont.)

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

Maturity analysis of deferred tax assets from tax losses

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

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

Based on the long-term forecasts adopted in the Group, as at 31 December 2019 the Parent Company's Management Board believes the risk that the above assets cannot be realized is low.

Expiration dates of the tax losses to which deferred tax assets were applied as at 31 December 2018

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

Tax loss not recognized in calculation of deferred tax assets

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

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

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

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

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

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

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

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

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

4.1 Reconciliation of debt liabilities

Accounting policy applied

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

Accounting policy applied since 1 January 2019

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

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

After the initial recognition, the Group measures the lease liability by:
- increasing the carrying amount to reflect interest on the lease liability;
- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications.

The Group takes advantage of an exemption and does not apply the requirements for measurement of lease liabilities and rights-of-use assets in respect of:
- short-term leases, i.e. leases where the term of the agreement is no longer than 12 months and which do not include a purchase option;
- leases for which the underlying asset is low value. The Group defines assets of low value as those whose value, when new, does not exceed PLN 25,000.

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

Accounting policy applied until 31 December 2018

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

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

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

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

4.1 Reconciliation of debt liabilities (cont.)

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

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

a) the discount rate

The Group discounts lease payments using the interest rate implicit in the lease, if that rate can be readily determined; otherwise it uses the incremental borrowing rate. As regards the agreements recognized as at 1 January 2019 n connection with the implementation of IFRS 16, due to the limited scope of available data necessary to determine it, the Group has ascertained the current value of the lease liability based on the lessee's incremental borrowing rate. The incremental borrowing rate is calculated on the basis of the following two components:

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

b) term of lease

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

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

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

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

Items in foreign currencies

31/12/2019	In the functional currency – PLN	In foreign currency		Total
		EUR	CZK	
Bank loans and borrowings	1,085.2	541.0	-	**1,626.2**
Leases	807.7	142.3	46.5	**996.5**
Total	**1,892.9**	**683.3**	**46.5**	**2,622.7**
Variable-interest-rate liabilities	1,234.5	469.7	-	**1,704.2**
Fixed-interest-rate liabilities	658.4	213.6	46.5	**918.5**
Total	**1,892.9**	**683.3**	**46.5**	**2,622.7**

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

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

4.1 Reconciliation of debt liabilities (cont.)

Reconciliation of debt liabilities

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

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

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

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

Net debt

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

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

4.1 Reconciliation of debt liabilities (cont.)

The Net Debt/EBITDA ratio is presented below

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

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

Unused credit and lease facilities

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

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

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

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

Breaches of the terms and conditions of loan agreements

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

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

4.2 Equity and capital management policy

Accounting policy applied

The share capital is presented in the in the consolidated financial statements at the value specified in the Parent Company's Articles of Association, regardless of the entry in the National Court Register (the 'substance over form' rule).

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

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

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

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

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

Share capital

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

As at 31 December 2019 and 31 December 2018, the share capital consisted of common shares with a par value of PLN 50 each. Fully paid up ordinary shares with a par value of PLN 50 are equivalent to one vote at the shareholder meeting and carry the right to a dividend.

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

In the financial years ended 31 December 2019 and 31 December 2018, there were no movements in the share capital of the Parent Company.

Movement in supplementary capital and retained earnings

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

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

The dividend was paid on 10 July 2019.

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

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

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

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

4.2 Equity and capital management policy (cont.)

Equity management

The main objective of equity management in the Group is to ensure the ability to continue operations, create value for shareholders and benefits for other stakeholders. In accordance with the adopted policy and assumptions following from the facility agreements concluded, the Group accepts the maximum level of debt up to 60% of total assets (hence equity may not be lower than 40% of total assets). The debt level is monitored by the Group as at the end of each quarter. The assumed capital structure can be ensured through: issue of new shares, sale of assets, return of capital to the shareholders or adjustment of the dividend amount.

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

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

4.3 Liquidity risk management

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

Maturity of the Group's financial liabilities as at the balance sheet date by maturity date based on contractual undiscounted payments (together with interest payable in the future):

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

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

4.4 Cash and cash equivalents

Accounting policy applied

Cash and cash equivalents include cash on hand, cash in bank accounts, bank deposits payable on demand, other short-term investments with high liquidity and with the original maturity date of up to three months.

Structure of cash and cash equivalents

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

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

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

4.5 Notes to the statement of cash flows

Movement in working capital

2019	Movement in statement of financial position	Effect of the implementation of IFRS 16	Movement in tax settlements	Net cash flow from investing activities	Net cash flow from financing activities	Other	Net cash flow from operating activities (movement in working capital)
Inventories	0.7	-	-	7.0	-	-	7.7
Trade receivables	91.0	-	-	(0.9)	-	-	90.1
Other assets	(9.6)	(9.5)	-	19.2	-	(14.4)	(14.3)
Provisions	50.8	3.7	-	-	-	(0.1)	54.4
Trade liabilities	(85.0)	12.1	-	-	-	-	(72.9)
Investment liabilities	51.1	-	-	(76.7)	-	-	(25.6)
Other liabilities	28.8	-	0.3	1.6	-	0.7	31.4
Total	**127.8**	**6.3**	**0.3**	**(49.8)**	**-**	**(13.8)**	**70.8**

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

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

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

Other adjustments

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

Non-cash transactions

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

- Offsetting mutual settlements

In 2019, the Group set off trade receivables with liabilities arising from the purchase of non-financial non-current assets. The total amount of set offs in 2019 amounted to PLN 0.8 million, whereas in 2018 it was PLN 1.4 million.

- Liquidation of rolling stock

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

5. Explanatory notes to the statement of financial position

5.1 Rolling stock and other property, plant and equipment

Accounting policy applied

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

An item of property, plant and equipment is removed from the statement of financial position at the moment of sale or when no economic benefits are expected from its use. When it is decided to derecognize an item of property, plant and equipment, its carrying amount is recognized in the profit or loss of the period in which the decision was taken. Items of rolling stock are an exception – their residual value is recognized in the inventory item when the decision is made to liquidate them.
Within rolling stock items, the Group identifies and separates all the material elements, or components, making up the given asset with different economic useful lives. The material components of freight cars and commercial locomotives distinguished by the Group comprise the main part of the rolling stock item and the repair/periodic inspection part. In addition, the residual value (scrap value) is established for the rolling stock items.

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

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

Accounting policy applied

Repairs and inspections

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

After completing repair or modernization at level 4 and 5, a technical railworthiness certificate is issued. A technical railworthiness certificate confirms that the given rolling stock asset is allowed to be used until the next repair at level P4 or P5. An asset may be operated in the entire certificate validity period provided also that a P3 inspection is carried out halfway through the cycle. If no repair / inspection at levels P3, P4 and P5 is carried out, the rolling stock asset loses its operational capacity and cannot be used in rail transport. The Group considers periodic repairs and inspections at levels P3, P4 and P5 as the condition for continuous use of rolling stock asset item and at the moment of performing such a repair, if the criteria for its recognition are satisfied, the costs of the repair are recognized in the carrying amount of the rolling stock asset and are depreciated in the period between repairs.

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

Residual value of rolling stock

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

Depreciation of property, plant and equipment

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

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

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

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

	Useful lives
Real properties, including:	
Land and perpetual usufruct rights to land are not depreciated	
Buildings, premises and civil and water engineering facilities	from 5 to 75 years
Technical machinery and equipment	from 2 to 40 years
Rolling stock, including:	
Freight cars:	
- main part of a wagon	from 36 to 48 years
- periodic repairs of wagons	from 4 to 6 years
- periodic inspections of wagons	from 2 to 3 years
Electric locomotives:	
- main part of a locomotive,	from 24 to 45 years
- periodic repairs of locomotives	from 4 to 8 years
- periodic inspections of locomotives	from 2 to 4 years
Other means of transport	from 2 to 25 years
Other fixed assets	from 2 to 25 years

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

Accounting policy applied

Impairment of property, plant and equipment

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

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

Economic useful lives of fixed assets

The Group estimates the economic useful lives of individual items of property, plant and equipment and on this basis determines the depreciation rates for these items. The estimates are based on the expected economic useful lives of the assets. Depreciation rates may change in the event of circumstances causing a change in the expected useful life, which in turn affects the value of the depreciation charges and the net carrying amount of specific items of property, plant and equipment in future periods. The verification of the useful lives of property, plant and equipment conducted as at 31 December 2019 and 31 December 2018 did not reveal the need to make material changes to previous periods.

Residual value of the rolling stock

As at 31 December 2019, the Group verified the residual value of its rolling stock. As a result of this verification, the Group decided to update the residual value of its rolling stock, however this change did not have a material impact on the value of the impairment loss on rolling stock.

Impairment of non-current assets

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

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

PKP CARGO S.A.

The recoverable amount of the analyzed assets was determined on the basis of their estimated value in use using the net discounted cash flows method, in line with detailed financial projections developed for 2020-2029. In the opinion of the Parent Company's Management Board, adopting financial projections for more than five years is reasonable because the property, plant and equipment used by the Parent Company have a considerably longer economic useful lives.
Presented below are the key assumptions affecting the estimate of the value in use of the tested cash-generating units:
a) in the whole period covered by the detailed projection, the compound annual growth rate (CAGR) of operating revenue will be at 1.1% in real terms,
b) in the whole period covered by the detailed projection, capital expenditures will achieve annual operating revenue of 14.6% in real terms,
c) the after-tax weighted average capital cost (WACC) level will be at 5.33% in real terms,
d) after the detailed projection period, the growth of future cash flows was assumed at 0.0% in real terms.

Since the recoverable amount determined as a result of the test exceeded the carrying amount of the assets tested as at 31 December 2019, the Parent Company recognized no impairment loss for the assets.

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

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

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

PKP CARGO INTERNATIONAL GROUP

The recoverable amount of the analyzed assets was determined on the basis of their estimated value in use using the net discounted cash flows method, in line with detailed financial projections developed for 2020-2029. In the opinion of the Group, adopting financial projections for more than five years is reasonable, because the property, plant and equipment used by the PKP CARGO INTERNATIONAL Group have considerably longer useful lives and such projections enable a better depiction of the impact of expected changes in the Czech coal and rail market on the Group's performance.

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

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

Because the recoverable amount determined as a result of the test was not materially different from the carrying amount of the tested non-current assets owned by the PKP CARGO INTERNATIONAL Group, the Group did not revalue the impairment loss for the assets as at 31 December 2019, which as at that date amounted to PLN 101.6 million.

Presented below is the estimated amount of impairment loss as at 31 December 2019 when changing only the following key parameters and keeping the other assumptions on a fixed level:

	PKP CARGO INTERNATIONAL GROUP	
	- 0.3 p.p.	+ 0.3 p.p.
WACC	(45.0)	39.3
Increase after the detailed projection period	24.4	(28.4)

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

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

Movement in rolling stock and other property, plant and equipment

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

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

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

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

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

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

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

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

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

As at 31 December 2019 and 31 December 2018, the carrying amount of rolling stock without valid technical railworthiness certificates, for which the Group recognized an impairment loss, was PLN 300 million and PLN 367 million, respectively.

5.2 Rights-of-use assets

Accounting policy applied

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

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

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

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

Useful life of rights-of-use assets

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

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

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

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

5.2 Rights-of-use assets (cont.)

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

Useful lives of rights-of-use assets

The Group estimates the economic useful lives of individual items of right-of-use assets and on this basis determines the depreciation rates for these items. If the lease transfers ownership of the underlying asset to the Group before the end of the lease term or if the Group expects to exercise its purchase option, the Group will depreciate the right-of-use asset from the commencement date to the end of the useful life of the asset. Otherwise, the Group depreciates the right-of-use asset until the earlier of: the end of the useful life of the asset or the end of the lease term.

Depreciation rates may change in the event of circumstances causing a change in the expected useful life, which in turn affects the value of the depreciation charges and the carrying amount of specific items of rights-of-use assets. The verification of the useful lives of rights-of-use assets conducted as at 31 December 2019 did not reveal the need to correct the previously applied depreciation rates.

Movement in rights-of-use assets

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

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

5.3 Investments in entities accounted for under the equity method

Detailed information on the entities accounted for under the equity method

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

Changes in investments in entities accounted for under the equity method

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

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

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

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

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

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

5.4 Inventories

Accounting policy applied

Inventories are carried at their cost or net realizable value, whichever is lower. Inventories releases are made using the FIFO method. The realizable value is the estimated sale price of inventories less any costs necessary to effect the sale. The Group creates impairment losses for inventory value if redundant or damaged inventories exist or when the net sale price of the inventory is lower than its carrying amount. The amount of the impairment loss for inventories is determined on the basis of usefulness analysis conducted at least at the end of each financial year. Based on this analysis, impairment losses for inventories are made with respect to inventories useless from the Group's point of view.

Structure of inventories

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

List of changes in impairment losses for inventories

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

5.5 Trade receivables

Accounting policy applied

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

The Group applies a simplified approach, as permitted by IFRS 9, and measures its impairment losses in an amount equal to credit losses expected throughout the lifetime of trade receivables.

The probability of incurred credit losses was estimated on the basis of the historical analysis of recoverability of the balances of trade receivables in specific aging ranges.

For this purpose, the indicators of default by counterparties for each aging range were estimated, in accordance with the table breaking down the aging structure of trade receivables.

Impairment losses are calculated by taking into account the rates of default and the amount of unpaid receivables as at the balance sheet date for each interval in the aging structure.

Moreover, the Group recognizes impairment losses on an individual basis in cases where an objective proof exists that the Group will be unable to recover the amounts due.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

The calculation and measurement of impairment losses on trade receivables and assets arising from contracts with customers is an area that requires estimation. Expected credit losses are calculated on the basis of an individual assessment of the recoverability of a given receivable and taking into account the model applied by the Group to estimate its counterparty default ratio. Impairment losses determined on a case by case basis require judgment of whether the receivable in question will be repaid by the counterparty, taking into account the established security and settlements made, if any. Such judgment is made by the Group companies' debt collection unit. The model of estimation of the counterparty default ratio applied by the Group is based on a simplified impairment loss matrix for each aging range based on the expected credit losses throughout the lifetime of the receivables. The estimation of the expected credit losses is based on a method that makes use of expected counterparty default ratios calculated on the basis of historical data for the years 2015-2019 obtained from financial and accounting systems. The calculation of impairment losses on receivables is presented in the following tables.

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

5.5 Trade receivables (cont.)

Structure of trade receivables

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

Reconciliation of impairment losses on trade receivables

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

Movement in the carrying amount of gross trade receivables

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

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

5.5 Trade receivables (cont.)

Age analysis of trade receivables

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

5.6 Other assets

Accounting policy applied

The accounting policy pertaining to financial instruments is described in **Note 6** to these Consolidated Financial Statements.
As other assets, the Group recognizes predominantly prepaid expenses which are set in the amount of incurred expenses that relate to future periods and will generate future economic benefits for the Group. Prepaid expenses are settle in line with the passage of time.
Other receivables include predominantly public law receivables measured at the amount due.
Intangible assets are presented at the cost of production less amortization and the total amount of the impairment loss of intangible assets. The Group applies straight-line depreciation.
The period of economic utility and method of amortization are verified at the end of each reporting period, and the results of estimate changes are settled prospectively.

Structure of other assets

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

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

5.7 Investment liabilities

Accounting policy applied

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

Structure of investment liabilities

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

5.8 Provisions for employee benefits

Accounting policy applied

The Group provides its employees with long-term benefits during their employment (jubilee awards) as well as post-employment benefits (retirement and disability severance benefits, transportation benefits and benefits from the Company Social Benefits Fund (ZFŚS) for old age and disability pensioners, post-mortem benefits). Jubilee awards are paid to employees upon reaching a specified number of years in employment. Retirement and disability severance pays are paid out as lump sum when the employee retires or begins to collect disability benefits. The amount of retirement and disability severance pays and jubilee awards depends on the number of years of service and the employee's average remuneration. Post-mortem benefits are paid out after the employee's death. The Group is establishing provisions for future liabilities arising out of the foregoing virtues to assign the costs to the respective periods. The employees are also vested with the right to receive post-employment benefits in the form of social benefits from the Company Social Benefits Fund and train fare discounts. In its statement of financial position, the Group captures the foregoing benefits at the current value of the liability as at the date ending the reporting period.
The amount of long-term benefits during the employment period and post-employment benefits is calculated by an independent actuarial firm using the forecast individual benefits method. The current value of liability on that account is determined through discounting the estimated future cash expenditures – using the interest rates based on market interest rates for government bonds. Current service cost reflects the increase in the defined benefit obligation resulting from employee service in the current period and is recognized in profit and loss as employee benefits, except when it is recognized as the cost of manufacturing an asset. Past service costs are recognized directly in the financial result. Net interest cost is calculated by applying a discount rate to the net value of the defined benefit obligation and presented in financial expenses.
Actuarial profits and losses resulting from adjustments of actuarial assumptions ex post and changes to actuarial assumptions are referred to equity through other comprehensive income in the period in which they arose. In case of jubilee awards, they are referred to the costs of the period.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

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

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

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

5.8 Provisions for employee benefits (cont.)

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

Sensitivity analysis of provisions for employee benefits

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

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

Movement in provisions for employee benefits

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

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

5.8 Provisions for employee benefits (cont.)

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

Items recognized in the result in reference to employee benefits programs

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

Actuarial (profits) / losses

2019	Change of demographic assumptions	Change of financial assumptions	Other amendments	Total
Actuarial losses / (profits) – post-employment benefits				
Retirement and disability severance benefits	(0.5)	19.6	18.3	**37.4**
Company Social Benefits Fund	(0.2)	16.4	(6.2)	**10.0**
Transportation benefits	(0.1)	4.3	(0.6)	**3.6**
Post-mortem benefits	(0.1)	0.6	0.7	**1.2**
Actuarial losses / (profits) – other long-term benefits				
Jubilee awards	(1.4)	24.2	29.5	**52.3**
Total	**(2.3)**	**65.1**	**41.7**	**104.5**

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

5.8 Provisions for employee benefits (cont.)

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

Analysis of maturities of paid out employee benefits

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

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

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

5.9 Other provisions

Accounting policy applied

Provisions are established if the Group is subject to an existing legal or usually expected obligation attributable to past events and when it may be reasonably expected that the fulfillment of this obligation will cause the outflow of cash and the amount of such obligation may be credibly estimated. The recognized amount of provisions reflects the most precise possible estimate of the amount that must be used to settle the ongoing liability as at the balance sheet date, taking into account the risk and uncertainty related to that liability. If provisions are measured using the method of estimated cash flows necessary to settle a current liability, its carrying amount corresponds to the value of those flows at the given moment (if the time value of money effect is material). If it is likely that a portion or all the economic benefits, required for settlement of provisions, may be recovered from a third party, such receivables shall be recognized as an asset component if the likelihood of recovering that amount is adequately high and may be credibly estimated.
If it is impossible to unequivocally determine whether the present liability exists, for example in the event of a court case, the Group shall establish reserves for such events if it concludes that after taking into account all the available evidence, such liability is more likely to exist as at the balance sheet date than it is not. If the present liability is more likely not to exist that it is to exist as at the balance sheet date, the Group shall disclose the information on the contingent liability unless it is unlikely that there will be the outflow of the means entailing economic benefits.

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

5.9 Other provisions (cont.)

Structure of other provisions

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

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

Provision for penalties imposed by anti-monopoly authorities

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

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

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

Provision for land reclamation

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

Provision for VAT liabilities

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

Provision for onerous contracts

As at 31 December 2018, the provision for onerous contracts represented a provision for losses arising from an operating lease agreement for a real property the expected lease revenues from which did not cover future lease expenses to be incurred by the Group.

In connection with the implementation of IFRS 16, the Group decided to apply a practical solution permitted by the standard and adjust the carrying amount of the right-of-use assets as at 1 January 2019 by the carrying amount of this provision.

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

5.9 Other provisions (cont.)

Other provisions

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

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

5.10 Other liabilities

Accounting policy applied

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

Structure of other liabilities

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

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

6. Financial instruments and principles of financial risk management

Accounting policy applied

The Group recognizes a financial asset or a financial liability in its statement of financial position when the Company becomes bound by the contractual provisions of the instrument.
At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.
After initial recognition, financial assets of a debt nature are classified as measured:

a) at amortized cost,
b) fair value through other comprehensive income,
c) at fair value through profit or loss.

Such classification is based on:

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

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

Accounting policy applied

Financial assets carried at amortized cost

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

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

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

Investments in equity instruments

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

Financial liabilities

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

a) financial liabilities at fair value through profit or loss,
b) liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies,
c) financial guarantee contracts,
d) commitments to provide a loan at a below-market interest rate,
e) contingent consideration recognized by the acquiring Group in a business combination to which IFRS 3 applies.

All financial liabilities held by the Group are classified as measured at amortized cost. Additionally, for other financial assets and financial liabilities, the Group presents derivative like forward. These instruments are used to hedge future cash flows. Upon provision of the hedge, the Group defines the hedging relationship. The effective portion of profits / (losses) related to a hedging instrument is recognized in other comprehensive income. The non-effective portion of profits or losses related to the hedging instrument is recognized in the period's financial result unless it has no material value. Profits/losses related to evaluation of hedging instruments and recognized in other comprehensive income are recognized in the financial result when the hedged item affects the financial performance. The Group derecognizes a financial asset when, and only when, the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and all related risks and rewards of ownership of the financial asset to another entity.

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

6.1 Financial instruments

Categories and classes of financial instruments

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

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

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

Hedge accounting

In the period from 1 January 2019 to 31 December 2019, the Group applied hedge accounting to its cash flows. The purpose of the hedging activity was to mitigate the impact of the FX risk within the EUR/PLN currency pair on future cash flows. The hedged item is a highly probable cash flow denominated in EUR.

As at 31 December 2019, the following hedging instruments were established by the Parent Company:

- investment loans denominated in EUR. The hedged cash flows will be realized until July 2034. As at 31 December 2019, the nominal amount of the hedging instrument was EUR 110.3 million, which is an equivalent of PLN 469.7 million,
- FX forward contracts. The hedged cash flows will be realized until September 2021. As at 31 December 2019, the value of the assets on account of measurement of a hedging instrument was PLN 6.6 million.

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

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

6.1 Financial instruments (cont.)

Fair value hierarchy

As at 31 December 2019 and 31 December 2018, financial instruments measured at fair value were FX forward contracts and investments in equity instruments.

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

Measurement methods for financial instruments carried at fair value

a) FX forward contracts

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

b) Investments in financial instruments

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

c) Other financial instruments

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

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

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

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

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

6.1 Financial instruments (cont.)

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

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

In the financial year ended 31 December 2019, the effect of settling cash flow hedge accounting adjusted the value of revenues from contracts with customers in the amount of PLN 4.7 million.
In the financial year ended 31 December 2019, the change in the measurement of hedging financial instruments recognized in other comprehensive income included a change in the measurement of derivatives in the amount of PLN 4.2 million and bank loans in the amount of PLN 5.7 million, recognized as part of the hedge accounting applied by the Group.

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

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

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

6.1 Financial instruments (cont.)

Offsetting financial assets

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

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

Offsetting financial liabilities

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

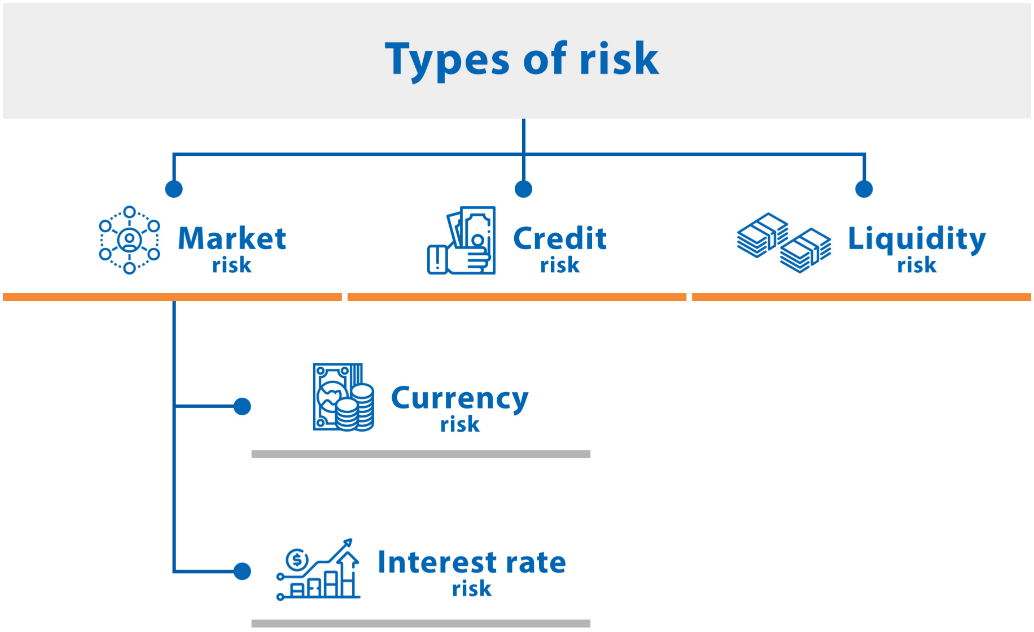
31/12 2018	Gross value of recognized financial liabilities	Net value of financial liabilities presented in the statement of financial position	Associated values not offset in the statement of financial position – cash collateral provided	Net value
Trade liabilities	499.9	499.9	(0.7)	499.2
Total	**499.9**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

The values presented in the above tables as securing trade receivables that have not been offset in the statement of financial position are recognized under other liabilities, while the values securing trade liabilities are recognized under other assets.

6.2 Objectives and principles of financial risk management

Objectives and principles of financial risk management

In the years covered by these Consolidated Financial Statements, the Group was exposed to the following types of financial risk:



Market risk

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

The principles of market risk management are implemented through assigned organizational units under the supervision of the Parent Company's Management Board. Market risk management is executed based on developed strategies, with partial utilization of derivative instruments. Derivatives are used only to limit the risk of a change in the carrying amount and the risk of cash flow changes. Transactions are entered into only with reliable partners, admitted to participation as a result of application of internal procedures.

According to the Financial Risk Management Policy in effect in the Group, in 2019, the Group applied FX risk management transactions for the EUR/PLN currency pair.

Foreign exchange risk management

As at 31 December 2019, the Group was exposed to foreign exchange risk concerning for the most part trade receivables and debt liabilities denominated in foreign currencies.

As a result of valuation of receivables and liabilities denominated in foreign currencies conducted as at the balance sheet date, and also as a result of ongoing settlements in foreign currencies, there arise positive and negative foreign exchange differences. Their values fluctuate during the year, which is caused by changes in exchange rates.

In a long-term perspective, the valuation risk matches the risk of change of cash flows, therefore the Group's cash flows are subject to hedging operations.

For the EUR/PLN exchange rate, there is partial natural hedging due to the fact that revenues from contracts with customers in EUR are partly balanced out by costs in the same currency. The FX risk management transactions used by the Group are aimed at hedging the net free position exposed to change of the value in PLN. For this purpose, the Group applied forward transactions for the currency pair EUR/PLN in 2018-2019 and established hedging relationships between cash flows arising from bank loans denominated in EUR and future highly probable cash flows arising from operating activities denominated in EUR.

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

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

Items in foreign currencies

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

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

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

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

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

Sensitivity to FX risk

The Group is exposed mainly to the foreign exchange risk associated with the EUR/PLN and CZK/PLN currency pairs in connection with its operating and financing activities. Deviations in exchange rates were calculated on the basis of the average volatility of each currency exchange rate in the period under analysis. Sensitivity of financial instruments to foreign exchange risk has been calculated as the difference between the original carrying amount of the financial Instruments (excluding derivatives such as forward contracts) and their potential value while assuming changes to foreign exchange rates. The tables below present the Group's exposure to the foreign exchange risk in 2019 and 2018.

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

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

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

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

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

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

FX forward transactions

To manage the foreign exchange risk in 2019 and 2018, FX forward transactions were applied on the EUR/PLN currency pair. (sale and purchase of currency).

List of unrealized FX forward contracts

As at 31 December 2019

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

As at 31 December 2018

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

Interest rate risk management

As at 31 December 2019, the Group was exposed to the risk of volatility of interest rate cash flows following from bank loans and lease agreements based on variable interest rates. Interest on lease agreements was accrued according to the reference rates increased by the financing party's margin. The reference rate for lease contracts denominated in EUR was EURIBOR 6M and for agreements signed in PLN the reference rate was WIBOR 1M.
As part of its fixed-rate lease liabilities, the Group recognizes, for the most part, liabilities arising from lease and tenancy contracts containing price indexation provisions based on the rate of inflation. In accordance with IFRS 16, changes in future lease payments caused by price indexation will not result in a change in the discount rate applied to the measurement of such liabilities.

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

The cash held by the Group as at 31 December 2019 was mainly in the form of fixed rate bank deposits which were concluded with time horizons depending on the Group's liquidity needs. In future periods, as a result of changes in the deposit interest rates, the cash position may be exposed to interest rate risk.

In 2018-2019, the Group did not use derivative instruments to hedge the interest rate risk.

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

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

Financial instruments by interest rate type

Financial assets	31/12/2019			31/12/2018		
	Interest rate			Interest rate		
	at a fixed interest rate	at a variable interest rate	Total	at a fixed interest rate	at a variable interest rate	Total
Lease receivables	11.6	-	**11.6**	-	-	-
Receivables from sale of non-financial non-current assets	0.5	-	**0.5**	-	-	-
Bank deposits over 3 months	-	-	-	201.1	-	**201.1**
Cash and cash equivalents	550.4	-	**550.4**	447.3	-	**447.3**
Total	**562.5**	**-**	**562.5**	**648.4**	**-**	**648.4**

Financial liabilities	31/12/2019			31/12/2018		
	Interest rate			Interest rate		
	at a fixed interest rate	at a variable interest rate	Total	at a fixed interest rate	at a variable interest rate	Total
Debt liabilities	918.5	1,704.2	**2,622.7**	75.6	1,351.4	**1,427.0**
Investment liabilities	204.6	-	**204.6**	235.1	-	**235.1**
Total	**1,123.1**	**1,704.2**	**2,827.3**	**310.7**	**1,351.4**	**1,662.1**

Interest rate fluctuation sensitivity

The sensitivity analyses presented below are based on the level of exposure of financial instruments to interest rate risk as at the balance sheet date. In the case of liabilities with variable interest rates, for the needs of the analysis it is assumed that the amount of outstanding liabilities as at the balance sheet date will be unpaid for the whole year. In 2019, the Group identified the exposure to interest rate risk mainly for WIBOR, EURIBOR, while in 2018 for WIBOR, EURIBOR and PRIBOR. Interest rate deviations are calculated on the basis of observations of average interest rate fluctuations. The sensitivity analysis presented below does not comprise the interest accrued as at the balance sheet date. The analysis results are presented in gross terms (before tax).

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

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

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

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

Credit risk management

The table below presents the items of the consolidated statement of financial position exposed to credit risk by financial instrument class:

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

The Group conducts its commercial activity by selling services to businesses with a deferred payment date. This may lead to the risk that receivables from counterparties for services provided may not be received. In order to minimize credit risk, the Group manages this risk by applying a client creditworthiness assessment procedure. This assessment is carried out for all clients who use deferred payment dates. Based on its internal policies, the Group grants deferred payment terms only to counterparties with acceptable standing and a positive history of cooperation.

Concentration of risk associated with trade receivables is limited due to the large number of business partners with commercial credit dispersed among different sectors of economy.

Structure of trade receivables in terms of entity types

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

In addition, to reduce the risk of problems with recovery of trade receivables, the Group accepts from its customers securities in the form of, among others: receivables insurance, bank / insurance guarantees, assignment of contracts, blockage on bank accounts, and promissory notes. As at 31 December 2019, 12.1% of trade receivables were secured.

The credit risk associated with cash and bank deposits is perceived as low. All entities in which the Group invests free cash operate in the financial sector. These include domestic banks, foreign banks and branches of foreign banks with a high creditworthiness. The concentration of risk involving cash held is presented in the table below.

Bank	Credit rating agency	Rating	31/12/2019
Bank A	Moody's	Baa1	28.0%
Bank B	Fitch	A-	27.3%
Bank C	Moody's	A2	19.0%
Bank D	Moody's	A3	9.1%
Bank E	Moody's	Aa2	5.8%
Bank F	Moody's	Aa3	4.4%
Other			6.4%
Total			**100.00%**

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

7. Other notes

7.1 Related party transactions

Transactions with the State Treasury and its other related parties

In the financial year ended 31 December 2019 and the financial year ended 31 December 2018, the State Treasury was an upper level parent entity for the PKP CARGO Group. Accordingly, all companies owned by the State Treasury (directly or indirectly) are the Group's related parties and are presented separately as PKP Group related parties and other State Treasury related parties. In these Consolidated Financial Statements, the Management Board of the Parent Company has disclosed transactions with significant related parties identified as such according to the best knowledge of the Management Board.

In the financial years ended 31 December 2019 and 31 December 2018, there were no transactions effected between the PKP CARGO Group and the State Treasury or other entities related to the State Treasury which would be material due to a non-standard scope or amount. In the periods covered by these Consolidated Financial Statements, the Group's most important clients among other parties related to the State Treasury were members of the following groups: ENEA, JSW, PGE, PGG, Azoty and PKN Orlen. In the financial year ended 31 December 2019, the Group's most important suppliers related to the State Treasury were PKN Orlen Group entities.

Transactions with PKP Group related parties

In the periods covered by this Consolidated Financial Statements the Group entered into the following commercial transactions with PKP Group related parties:

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

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

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

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

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

Loans granted to / received from related parties

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

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

7.1 Related party transactions (cont.)

Remunerations of key management personnel

Remunerations of key management personnel presented in this note include the amounts of benefits disbursed in the relevant period.

Remunerations of Management Board members	Parent Company		Subsidiaries	
	2019	2018	2019	2018
Short-term benefits	2.6	2.4	6.2	6.5
Post-employment benefits	-	0.5	1.0	3.1
Termination benefits	-	0.1	0.2	0.1
Total	**2.6**	**3.0**	**7.4**	**9.7**

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

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

In the financial year ended 31 December 2019 and 31 December 2018, the members of the key management personnel of the Parent Company and the PKP CARGO Group subsidiaries did not enter into any loan and guarantee transactions with the Group.

All related party transactions were effected on an arm's length basis.

7.2 Liabilities to incur expenditures for non-financial non-current assets

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

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

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

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

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

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

7.3 Contingent liabilities

Accounting policy applied

In compliance with the Group's accounting policy, a contingent liability is:

a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or

b) a present obligation that arises from past events but is not recognized in the statement of financial position or in the statement of profit or loss and other comprehensive income, because it is not likely that an outflow of resources embodying economic benefits will be required to settle the obligation or because the amount of the obligation cannot be measured with sufficient reliability.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

Contingent liability items subject to significant estimations pertain to claims brought against the Group to court. The decision on whether or not a claim should be recognized in the form of a provision or a contingent liability depends on an assessment of the probability of loss in the litigation carried out by internal legal services or external law firms. Such assessment of the estimates may change in subsequent periods as a result of future events, thus it may be necessary to establish a provision that would have an unfavorable effect on the Group's financial result.

Structure of contingent liabilities

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

Guarantees issued on the Group's order

As at 31 December 2019, the Group included in contingent liabilities guarantees issued by banks and insurance companies at the request of PKP CARGO Group companies. This line item comprises mainly commercial contract performance bonds, tender deposits and customs guarantees.

Other contingent liabilities

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

7.4 Collateral for repayment of liabilities

Assets constituting collateral for repayment of liabilities

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

Carrying amount of assets securing repayment of liabilities

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

7.5 Subsequent events

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

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

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

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

7.6 Approval of the financial statements

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

Parent Company's Management Board

Czesław Warsewicz
President of the Management Board

Leszek Borowiec
Management Board Member

Grzegorz Fingas
Management Board Member

Witold Bawor
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 23 March 2020

PKPCARGO

Management Board's report of the activities of **PKP CARGO CAPITAL GROUP** in 2019

PKP CARGO S.A.
with its registered office in Warsaw, ul. Grójecka 17, 02-021 Warsaw, registered in the District Court for the capital city of Warsaw, 12th Commercial Division under file number KRS 0000027702, with the share capital of PLN 2,239,345,850.00, paid up in full.

This document comprises the Report of the Management Board of PKP CARGO S.A. ("Company", "Parent Company") on the Activity of the PKP CARGO Group ("Group") in 2019. The document comprises also a report on the activity of the Parent Company.

MANAGEMENT BOARD REPORT ON THE ACTIVITY OF THE PKP CARGO GROUP FOR THE FINANCIAL YEAR 2019

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1. Introduction

Dear Stakeholders,

In 2019, the PKP CARGO Group posted worse financial performance than in the previous year due to the worse business conditions on the rail freight market. Despite the above, we closed the year in the black, which was something that many transport companies failed to achieve.

Revenues on sales reached PLN 4,781.6 million and EBITDA was PLN 859.9 million. Our EBIT amounted to PLN 143.4 million and net profit reached PLN 36 million.

REVENUES FROM CONTRACTS WITH CUSTOMERS	PLN 4 781.6 million
EBITDA	PLN 859.9 million
NET RESULT	PLN 36.0 million

2. Investor Relations

A key element of the effective operation of PKP CARGO S.A. as a stock exchange-listed company is the maintenance of professional communication with capital market stakeholders. A matter of priority in the Company's communication conducted within framework of its investor relations endeavors is to present to investors a reliable picture of the Company's operations, including its financial standing, to ensure equal access to information for all market participants.

As part of its stock exchange reporting activities, PKP CARGO S.A. published 54 current reports in 2019.

In 2019, PKP CARGO S.A., seeking to ensure the highest standards in the area of investor relations, conducted numerous events targeted at the investor community. Representatives of PKP CARGO S.A. participated in domestic and foreign conferences and roadshows organized by professional capital market institutions.

PKP CARGO S.A. runs a corporate website containing a comprehensive section for investors. The "Investor Relations" section, in order to ensure equal access to information for Polish and international investors and analysts is provided and continuously updated in two languages: Polish and English.

On 13-14 June 2019, PKP CARGO S.A. held the fifth edition of the "Investor Day" targeted at stock exchange analysts and institutional investors. During the Investor's Day, participants visited the Company's locomotive depot in Czechowice-Dziedzice and the modern dispatch center in Katowice.

The high level of PKP CARGO S.A.'s investor relations was confirmed by the awards and recognitions received – for the high quality of communication with the market and fulfillment of information and reporting duties the Company was again awarded the prestigious title "Transparent Company of the Year". The Company also received a distinction for its online annual report during the 14th Edition of The Best Annual Report contest and was classified 4th the best annual report ranking among all companies evaluated in this category by the Accounting and Tax Institute.

As part of the Company's continuous efforts aimed at improving the quality of its investor services, in 2020 PKP CARGO S.A. intends to continue its activities and develop communication tools in the area of investor relations.

The chart below presents a timeline demonstrating key events and activities in the area of investor relations which occurred in 2019.

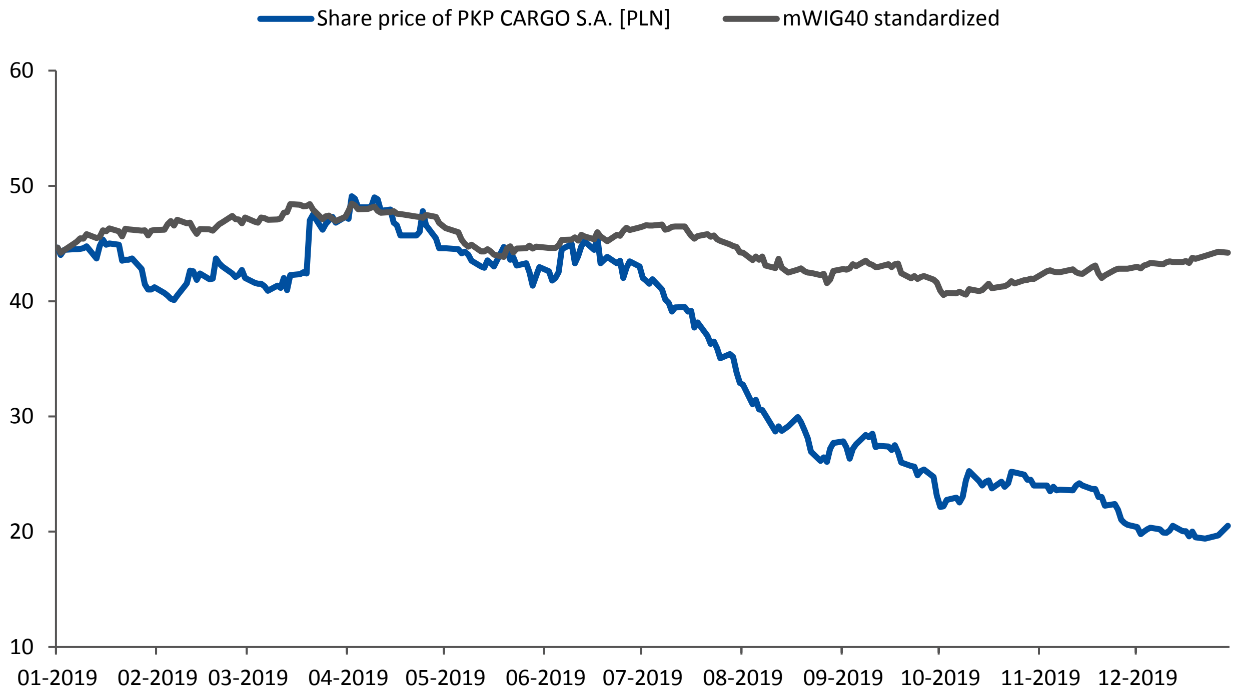
Figure 1 Major events and activities in 2019

Source: Proprietary material

In 2019, to the Company's best knowledge, recommendations pertaining to PKP CARGO S.A. stock were issued by eight domestic and foreign investment firms.

The following chart presents the stock exchange quotes for PKP CARGO S.A. in 2019 vis-à-vis the mWIG40 index and the most significant events that took place in the Company.

Figure 2 Stock exchange quotes for PKP CARGO S.A. in 2019



1. Publication of 2018 results and EBITDA forecast for 2019: 21 March
2. Report for Q1 2019: 23 May
3. Record date: 2 July
4. Report for H1 2019: 22 August
5. Publication of the revised EBITDA forecast for 2019: 6 November
6. Report for the first three quarters of 2019: 21 November

Source: Proprietary material

From 2 January 2019, which was the first trading day in 2019, to 30 December 2019, which was the last trading day in 2019, the price of PKP CARGO S.A. stock fell 54.1%. In the same period, the mWIG40 index decreased 1.0%. The average daily value of trade was approx. PLN 959 thousand and the average daily volume of trade was 28,546 shares. The stock price reached its peak on 3 April at PLN 49.10 per share, while the lowest price level was recorded on 24 December at PLN 19.40 (at closing prices).

The Company's stock is included in the most important indices for companies listed on the regulated market operated by the Warsaw Stock Exchange, namely WIG, mWIG40, WIG-Poland and WIG-ESG. Also, the Company's stock is taken into account in the STOXX® Europe Total Market index.

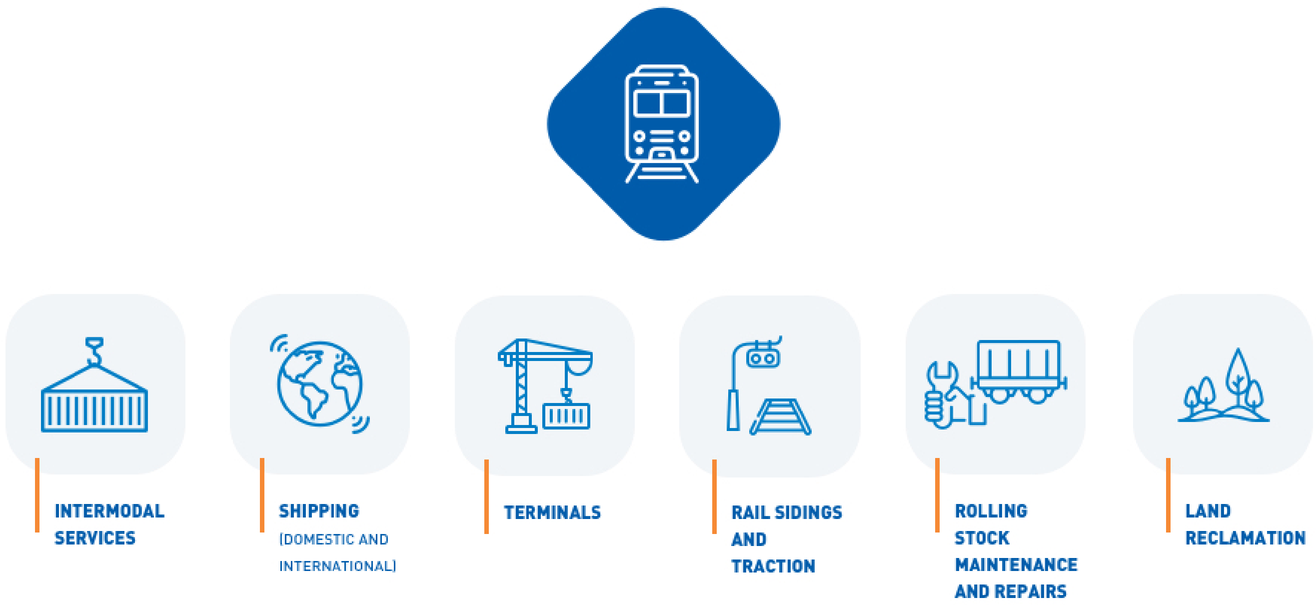
3. Organization of the PKP CARGO Group

3.1 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 the Office of Rail Transport – UTK[2]) and it is the second largest operator on the Czech market (according to SZDC[3]).

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

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



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

[2] Office of Rail Transport

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

3.2 Consolidated entities

The Consolidated Financial Statements for the financial year ended on 31 December 2019 includes PKP CARGO S.A. and 12 subsidiaries consolidated by the full method:

Table 1 Subsidiaries consolidated by the full method

Company name	Core business
PKP CARGO SERVICE Sp. z o.o.	Comprehensive handling of rail sidings, rail freight transport and maintenance of rail infrastructure.
PKP CARGOTABOR Sp. z o.o.	Repair and maintenance of rolling stock and physical liquidation of rail cars and locomotives, repairs of electrical machinery and wheel sets as well as weighing and adjustment of rolling stock.
PKP CARGOTABOR USŁUGI Sp. z o.o.	Collection, treatment and disposal of waste and recovery of raw materials. As at the delivery date of the report, the company does not conduct any operating activity.
PKP CARGO TERMINALE Sp. z o.o. (former CL Medyka-Żurawica and former CL Małaszewicze)	Transshipment, storage, segregation, packaging, crushing and a variety of other border services. The company owns terminals that facilitate the transshipment of bulk and unit cargo, including containers. The company also has the ability to offer rail gauge switching services and as the only company on the country's eastern border has a 6-chamber thaw room.
CARGOSPED TERMINAL BRANIEWO Sp. z o.o.	Transshipment of goods and buying and selling of coal. The company is a direct importer of coal from Russia and it is active in wholesale and retail sales in this area.
CARGOTOR Sp. z o.o.	Managing track and service infrastructure (rail sidings and track systems) along with the requisite plant and buildings, making infrastructure available to rail operators on commercial terms.
PKP CARGO CONNECT Sp. z o.o.	Freight forwarding and logistics services in Poland and abroad. The company provides comprehensive logistics services using rail and vehicle, marine and inland water transportation by organizing transport, transshipment, storage, warehousing, packaging and distribution. Customs clearance services to clients of the Group.
PKP CARGO INTERNATIONAL a.s. (formerly Advanced World Transport a.s.)	Comprehensive handling of rail freight transport (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 PKP CARGO INTERNATIONAL Group's (formerly, 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 Čechofracht a.s.	International freight forwarding services.
AWT Rekultivace a.s.	Construction engineering business, including management and revitalization of post-industrial areas (including mining areas), demolition works, management of waste treatment facilities, elimination of underground mining pits, decontamination of soil, etc.
AWT Rail HU Zrt (on 10 February 2020, the company's name was changed to PKP CARGO INTERNATIONAL HU Zrt.)	Rail transport services and rail siding handling services in Hungary on the basis of its own rail operator's license.

Additionally, a list of companies accounted for under the equity method is presented in **Note 5.3** of the Consolidated Financial Statements for the financial year ended 31 December 2019.

3.3 Organizational structure of PKP CARGO S.A.

PKP CARGO S.A.'s Management Board performs its tasks with the aid of reporting organizational units and their constituent organizational cells.

The following organizational units have been distinguished within the Company's organizational structure:

Company's Head Office

The key tasks of the Company's Head Office include supporting the operation of the Company's Management Board in the area of strategic, operational and financial management and handling the Company's affairs vis-a-vis its main clients and business partners, administration and coordination of the freight procedure. Departments of the Company's Head Office are organizational cells reporting to the President of the Management Board or individual Management Board members.

Units

The key tasks of the Units is to manage the resources in the area of their operations, organize and perform cargo deliveries in accordance with executed agreements using the rail freight procedure, transshipment, storage, transport with the use of other carriers, traction service of freights performed by the Company, lease of traction vehicles, repair of own rolling stock and provision of repair services, maintenance of technical equipment and workshop facilities and performance of the Company's objectives in the area of marketing and sales services.

The Units of the Company are as follows:

1. PKP CARGO S.A. Central Unit of the Company,
2. PKP CARGO S.A. Lower Silesian Unit of the Company
3. PKP CARGO S.A. Southern Unit of the Company
4. PKP CARGO S.A. Northern Unit of the Company
5. PKP CARGO S.A. Silesian Unit of the Company
6. PKP CARGO S.A. Eastern Unit of the Company
7. PKP CARGO S.A. Western Unit of the Company

3.4 Changes to the Company's basic management principles

No material changes in the PKP CARGO's basic management principles were made in 2019.

3.5 Description of changes in the Group's organization

In 2019, the following changes were made to the structure of capital ties:

- 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, the company CARGOSPED SKŁADY CELNE sp. z o.o. in liquidation 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. in liquidation, fully owned by AWT Rekultivace a.s., was removed from the Czech Register of Commercial Undertakings. As a result, the company AWT Trading s.r.o. in liquidation 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 Čechofracht a.s. signed an agreement to sell its stake in RND s.r.o., in which it held 51% of the share capital. As a result, RND s.r.o. ceased to be an affiliate of PKP CARGO S.A.
- On 12 September 2019, the Court and Business 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

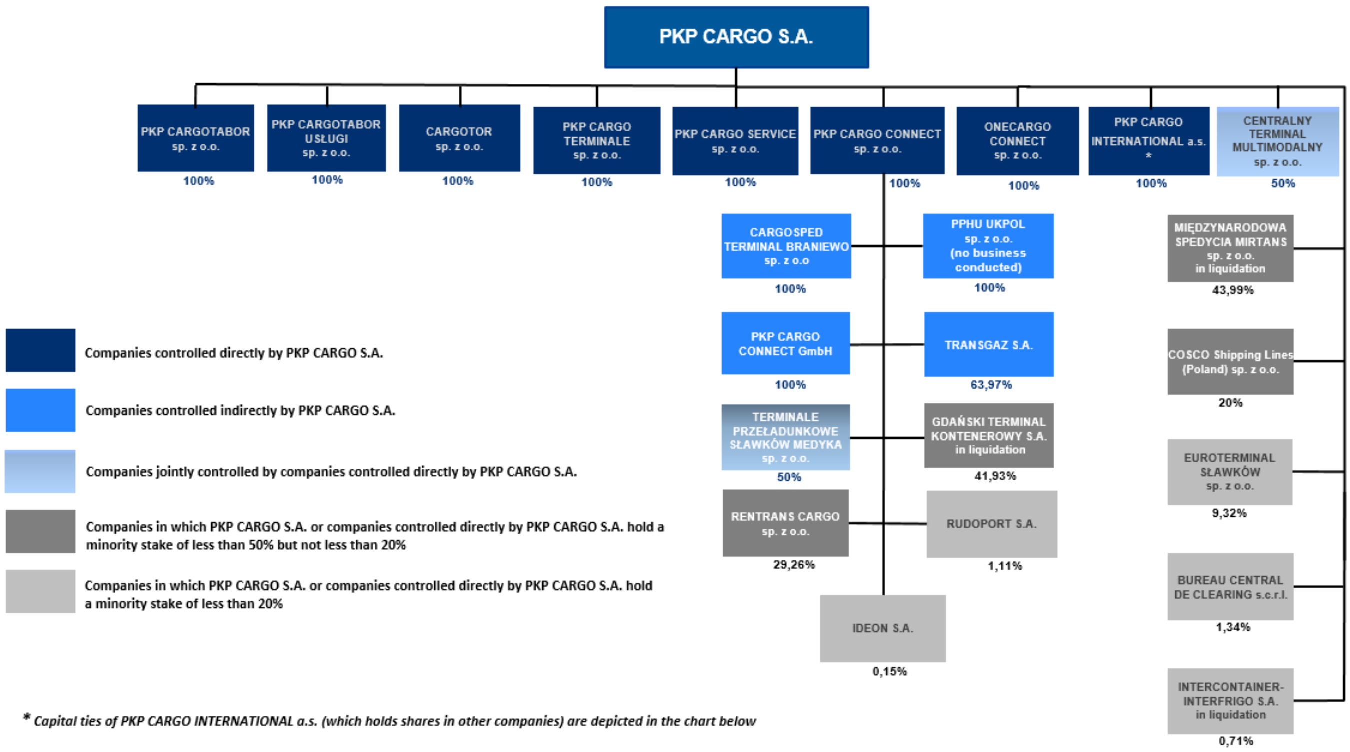
entered in the Register without a liquidation procedure. As at the date of publication of the report, the fact of the company's deletion from the National Court Register has not been published.

- 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. in bankruptcy (which was fully owned by PKP CARGO CONNECT sp. z o.o.) from the Court Register. The entry became final non-appealable on 3 November 2019.
- On 17 October 2019, an entry appeared in the National Court Register regarding the company TOWARZYSTWO TRANSPORTU KOMBINOWANEGO "POLKOMBI" SPÓŁKA AKCYJNA (in which PKP CARGO CONNECT sp. z o.o. held a 0.61% stake). It concerned the company's removal from the National Court Register. The entry became final non-appealable on 20 November 2019.
- 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.
- On 5 December 2019, a new name of the company operating hitherto under the name ONECARGO sp. z o.o. was entered in the National Court Register, meaning that on that date the company began operating under the name Centralny Terminal Multimodalny sp. z o.o. with its registered office in Warsaw.
- Effective as of 1 January 2020, a cross-border merger of AWT Rekultivace a.s. with its registered office in Havířov, Czech Republic (as the acquiring company) with its fully owned subsidiary AWT Rekultivace PL sp. z o.o. with its registered office in Cieszyn (as the acquired company). As a consequence, AWT Rekultivace PL sp. z o.o. was dissolved without liquidation (ended its legal existence) and, accordingly, as of 1 January 2020, ceased to be an affiliate of PKP CARGO.
- On 13 January 2020, an increase in the share capital of Centralny Terminal Multimodalny sp. z o.o. was registered, as a result of which the company's share capital increased to PLN 1,500,000 and, at the same time, the company's ownership structure and the distribution of votes at the Shareholder Meeting changed. Currently, the company's ownership structure is as follows: PKP CARGO S.A. holds a 99.83% stake (meaning that the company has once again become a subsidiary of PKP CARGO) and PKP S.A. holds a 0.17% stake.
- With effect as of 10 February 2020, AWT Rail HU Zrt. (a fully owned subsidiary of PKP CARGO INTERNATIONAL a.s.) changed its name and currently operates under the name PKP CARGO INTERNATIONAL HU Zrt. with its registered office in Budapest.

3.6 Information on capital ties of PKP CARGO

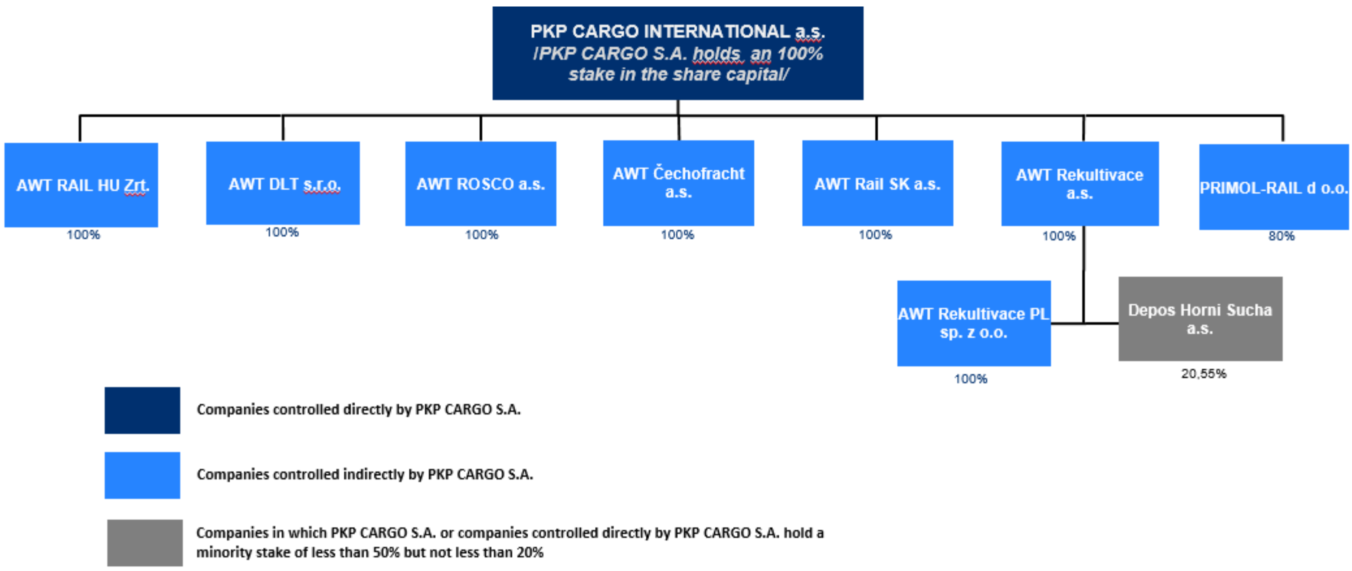
The chart below presents the structure of capital links with companies in which PKP CARGO S.A. or its subsidiaries hold an equity stake – as at 31 December 2019:

Figure 3 Structure of capital links with companies in which PKP CARGO S.A. or its subsidiaries hold an equity stake – as at 31 December 2019



Source: Proprietary material

Figure 4 Structure of the PKP CARGO INTERNATIONAL Group as at 31 December 2019



Source: Proprietary material

4. Key areas of operation of the Company and PKP CARGO Group

4.1 Macroeconomic environment

Polish economy

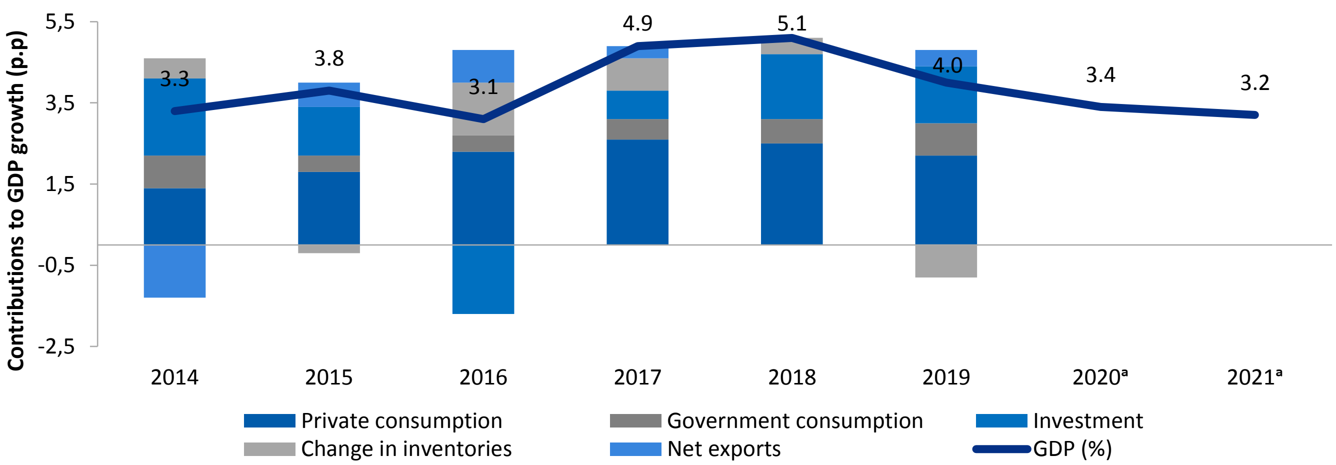
- In recent quarters, a gradual decline in the rate of economic growth in Poland has been observed. According to initial estimates by the Central Statistical Office (GUS), in 2019 the average annual GDP growth rate in Poland decreased 4.0% yoy compared to 5.1% yoy in 2018.[2] In Q4 2019 alone, the rate of real GDP growth in Poland declined to 3.2%, the lowest since the end of 2016.[3] Given the weak economic growth in the macroeconomic environment and the deterioration leading indicators for the domestic economy, a further moderate decrease in the rate of GDP growth in Poland is likely to occur in the coming quarters.[4]

The key factor driving the economic growth in 2019 was domestic demand, especially:

- household consumption, whose rate of growth fell to 3.9% yoy from 4.3% yoy in 2018.[5] In this period, private consumption was driven by various factors, including the continued stable increase in wages and employment, the drop in the unemployment rate close to historical lows and the fiscal stimulus resulting from the extended coverage of the Family 500+ program.[6] In this period, private consumption contributed 2.2 p.p. to real GDP growth.
- investments, which increased 7.8% yoy compared to an increase by 8.9% yoy in 2018.[7] The slightly lower rate of growth in capital expenditures than in 2018 resulted predominantly from their strong slowdown among local government units and the continued moderate investment activity of enterprises.[8] This was caused, without limitation, by increasing costs of running a business (more expensive raw materials and electricity, wage increases, etc.) as well as uncertainty as to the scale of future demand. The total investments contributed 1.4 p.p. to GDP growth in this period.[9]

In 2019, foreign trade also made a positive contribution to GDP, predominantly as a result of the relative resilience of exports to the slowdown in the macroeconomic environment (due to, among other factors, the growing share of exports of consumer goods) and a decrease in the economy's import intensity. Conversely, the balance of inventories had a negative impact on GDP growth in this period.[10]

Figure 5 Real GDP growth rate in Poland in 2014-2019, its decomposition and forecasts for 2020-2021 – seasonally unadjusted data



a – median forecast according to the Macroeconomic Survey of the National Bank of Poland – December 2019; data without decomposition
Source: Proprietary material based on the data of the Central Statistical Office of Poland and the National Bank of Poland

[2] Central Statistical Office of Poland
[3] money.pl
[4] "Gazeta Giełdy Parkiet"
[5] Central Statistical Office of Poland
[6] Bank Ochrony Środowiska
[7] Central Statistical Office of Poland
[8] Bank Ochrony Środowiska
[9] Central Statistical Office of Poland
[10] Central Statistical Office of Poland

According to the results of a macroeconomic survey conducted in December 2019 by the National Bank of Poland, the Polish economy's development outlook slightly deteriorated compared to the forecasts published in September 2019.[11] This resulted, among other factors, from a stronger than expected slowdown in investments in Q3 2019 and the persisting unfavorable macroeconomic environment. Economists surveyed by NBP currently expect the average annual GDP growth rate in Poland to decline to 3.4% in 2020 (adjustment by -0.2 p.p. compared to the September 2019 survey) and 3.2% in 2021 (adjustment by +0.1 p.p. compared to the September 2019 survey).[12]

In their opinion, the primary reason for the lower GDP growth rate in the coming quarters will be a markedly weaker investment demand caused by a smaller inflow of EU structural funds as well as a significant decrease in local government investments (rapidly increasing costs of public services and, at the same time, lower revenues caused by the PIT reduction).[13] In turn, household spending should continue to have a stabilizing effect on GDP growth, supported by the favorable situation in the labor market and a fiscal impulse (PIT reduction starting from Q4 2019).[14]

According to the surveyed economists, key risk factors affecting the growth rate of the Polish economy will include a possibly greater scale of economic downturn in the euro area and heightened geopolitical tensions (e.g. in the Strait of Hormuz region, a key oil transportation route), exacerbated by domestic factors, such as a growing shortage of labor and a strong inflation hike, which will have an unfavorable impact on real disposable income of households. Also international economic and forecasting centers (European Commission, World Bank, International Monetary Fund) expect the GDP growth rate in Poland in the following quarters to be significantly lower than in 2019.[15]

A major risk factor that has materialized in recent weeks and whose eventual impact on economic processes is currently difficult to quantify is the coronavirus epidemic. It has clearly intensified volatility in global financial markets and has caused severe economic disruptions in affected countries. If the rapid spread of the epidemic continues in the macroeconomic environment, a massively severe deterioration in the growth rate of Polish GDP vis-à-vis baseline forecasts cannot be ruled out. In the coming quarters, analysts who participated in the survey also expect an acceleration of consumer price inflation (CPI) in Poland to an average level of 3.3% yoy in 2020 (revision by +0.4 p.p. compared with the September 2019 survey) and 2.8% in 2021 (revision by +0.2 p.p. compared with the September 2019 survey).[16] Throughout the forecast period, the rate of inflation will remain above the NBP inflation target (2.5%). The increase in the inflation rate in 2020 will be driven both by base factors (rapid increase in the prices of services) and supply-side factors (higher energy prices, increases in regulated prices and food prices).

Czech economy

According to preliminary data published by the Czech Statistical Office, in Q4 2019 the rate of real GDP growth in the Czech Republic decreased 1.7% yoy from 2.5% yoy in Q3 2019.[17] Compared to the previous quarter, Czech GDP increased only 0.2% qoq, the least since the beginning of 2014.[18] The Czech economy's performance in Q4 2019 was slightly worse than previously estimated by the Ministry of Finance of the Czech Republic, which expected a growth rate of 1.9% yoy.[19]

According to information disseminated by the Czech Statistical Office, in 2019 the average annual GDP growth rate in the Czech Republic was 2.4% yoy, noticeably lower than in 2017 (+4.5% yoy) and 2018 (+2.8% yoy).[20]

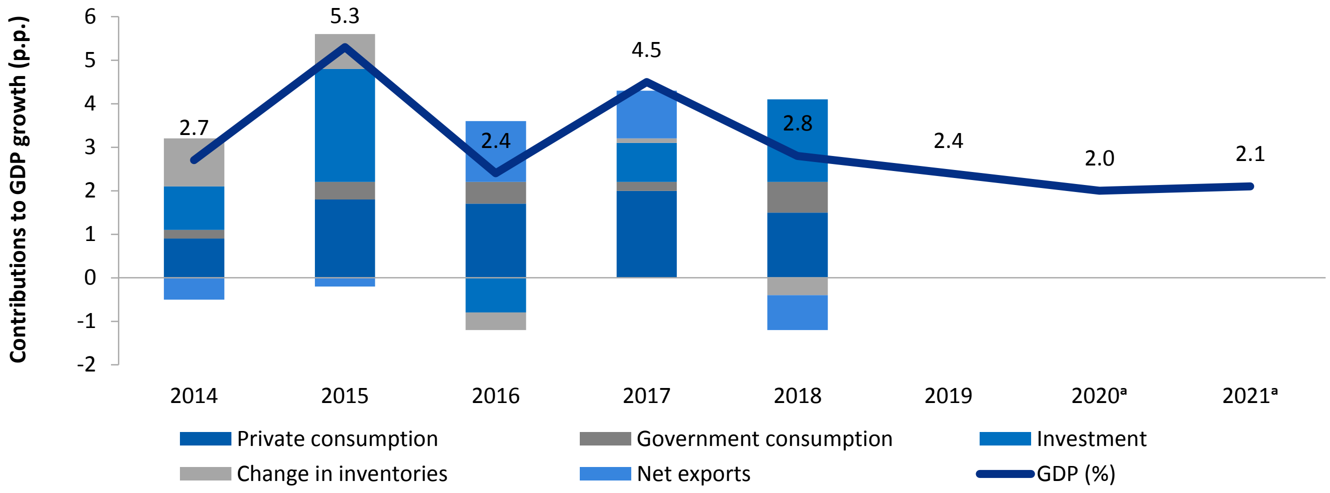
The key factor driving the Czech Republic's economic growth in 2019 was consumption, including:

- household consumption, whose good result was supported by the continued stable growth in disposable income, strong consumer mood level, a historically low unemployment rate and a decrease in the rate of savings compared to 2018;[21]
- public consumption, which accelerated during this period due to, among other factors, an increase in employment, indirect expenditures and social benefits;[22]

[11] National Bank of Poland
[12] National Bank of Poland
[13] Puls Biznesu
[14] Puls Biznesu
[15] European Commission, International Monetary Fund
[16] National Bank of Poland
[17] Czech Statistical Office
[18] Czech Statistical Office
[19] Czech Republic's Ministry of Finance
[20] Czech Statistical Office
[21] Eurostat, Czech Statistical Office
[22] Czech Republic's Ministry of Finance

In 2019, net exports and investments also contributed favorably to GDP, despite a strong decrease in the rate of growth in exports, imports and capital expenditures compared to 2018, which was partly due to the economic slowdown in the macroeconomic environment and a lower scale of infrastructural investments.[23]

Figure 6 Real GDP growth rate in the Czech Republic in 2014-2018, its decomposition and forecasts for 2019-2021



a preliminary estimate of the Czech Statistical Office – January 2019, data without decomposition
b Macroeconomic forecasts of the Ministry of Finance of the Czech Republic – January 2020, 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 forecasts published by the Czech Ministry of Finance in January 2020, the rate of GDP growth in the Czech Republic should stabilize at a relatively low level in the coming quarters. According to expectations of economists of the Czech Ministry of Finance, in 2020 the average annual GDP growth rate will decrease to 2.0% yoy from 2.4% yoy in 2019, and in 2021-2022 it will be a nudge higher at 2.1% yoy.[24] Czech analysts predict that the main driver of economic growth over the projection horizon will continue to be household consumption, supported by persistently high demand for jobs, stable growth in disposable incomes and changes in fiscal policy favorable to consumers (including increases in pensions).[25] Also other key components of GDP (public consumption, investments, net exports) are expected to exert a positive impact on the economic growth rate in the Czech Republic during the coming quarters and years, although at the same time their combined contribution to GDP will probably be lower than that of household consumption.[26]

In 2020, economists of the Czech Ministry of Finance also expect stabilization of the average annual rate of consumer price inflation (CPI) at the same level as in 2019 (+2.8% yoy), with a gradual decline in the rate of inflation in H2 2020.[27] According to Czech analysts, the main inflationary drivers in 2020 will be: persistent wage pressure (continuation of the rapid increase in wages) and demand pressure as well as increases in regulated prices (including an increase in excise duties on cigarettes and alcohol, translating into higher prices paid by consumers).[28] In the following years, economists of the Czech Ministry of Finance expect a decline in CPI inflation to a level in the vicinity of the central bank's inflation target (2.0%), to an average of 2.2% yoy in 2021 and 2.0% yoy in 2022, due to the subsiding inflationary effect of the factors mentioned above and the expected decrease in oil prices.[29]

[23] Czech Statistical Office, Ministry of Finance of the Czech Republic
[24] Czech Republic's Ministry of Finance, seasonally adjusted data
[25] Czech Republic's Ministry of Finance
[26] Czech Republic's Ministry of Finance
[27] Czech Republic's Ministry of Finance
[28] Czech Republic's Ministry of Finance
[29] Czech Republic's Ministry of Finance

Industry in Poland

In 2019, the rate of growth in total industrial output sold dropped to an average of 4.0% yoy compared to 5.8% yoy in 2018.[30] The quarterly rate of growth in production decreased steadily starting at the beginning of 2019, reaching 2.4% yoy in Q4 2019, the lowest level since the end of 2016. In 2019, growth in industrial production was driven by the manufacturing segment (+4.2% yoy), accounting for nearly 90% of total output sold. At the same time, compared to 2018, output also increased in other sectors specified by the Central Statistical Office: water supply, sewage and waste management (+9.6% yoy), mining and quarrying (+1.1% yoy), electricity generation and supply (+0.2% yoy).[31] According to analysts, in the coming quarters, the rate of growth in industrial output in Poland may be expected to stabilize at a slightly positive level, albeit lower than in 2017-2019.

In 2019, an increase in industrial output on a year-to-year basis was recorded in 27 industries (out of 34 industries reported on by the Central Statistical Office).[32] In particular, it is worth pointing out good performance in sectors with a high share of exports, which may indicate at least partial resilience of the domestic industry to the slowdown observed in the macroeconomic environment. As regards key sectors from the perspective of the PKP CARGO Group's business, an increase in industrial output yoy was recorded, among others, in: metal products (+6.1%), chemicals and chemical products (+4.3%), vehicles and auto parts (+3.1%), products from other non-metallic raw materials (+3.1%) and wood and wood products (+1.7%).[33] Year-on-year decreases were observed, among others, in: hard coal and lignite (5.8%), metal production (-2.0%), coke production and crude oil refining products (-1.1%).[34]

The anticipated stabilization of business in the industrial sector in Poland at relatively low levels in the coming months is suggested by recent values of the PMI (Purchasing Managers' Index) for the processing sector. Since November 2018, it has been clearly below the 50.0 point threshold, which is the technical borderline between recovery and recession in the manufacturing segment. In Q4 2019, the PMI for Poland averaged 46.8 points compared to 48.0 points in Q3 and 47.9 points in the whole of 2019. At the same time, in December 2019, the PMI increased to 48.0 points, the highest since August 2019. This was the second consecutive increase in the PMI and was mainly driven by factors related to current output levels and new orders, which showed a lower business deceleration rate than in previous months. December 2019 also brought a slight improvement in companies' expectations regarding the scale of output in the coming months. At the same time, demand projections are still clearly below the long-term average, which the surveyed managers see as driven by the economic slowdown observed in Poland and abroad.[35] The persistent weak economic situation in the industrial sector in Poland is also indicated by the results of NBP's latest quick monitoring of financial standing of enterprises carried out in January 2020.[36]

In Q4 2019, the business tendency indicator published by the Central Statistical Office for the industrial processing sector in Poland continued its downward trend and fell to an average of -3.4 points in this period from 2.9 points in Q3 2019 and 6.5 points in Q2 2019. In December 2019, the Central Statistical Office's business tendency indicator for industry stood at -4.9 points, the lowest since 2013.[37]

In 2019, other factors significantly affecting the condition of the industries of key importance (from the perspective of the PKP CARGO Group's potential business) included:

Mining industry

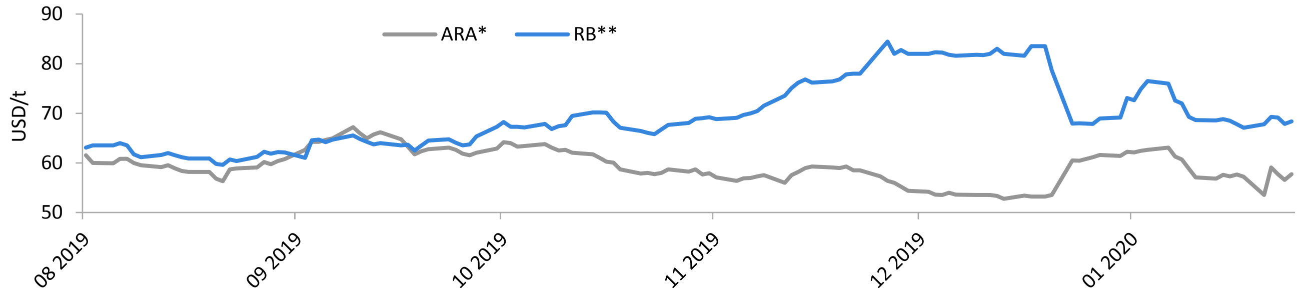
- decline in hard coal output by 1.8 million tons to 61.6 million tons (-2.8% yoy). In Q4 2019, the rate of decrease in output was even greater and stood at -3.9% yoy on average;[38]
- declining trend in yoy sales of hard coal continuing from the summer of 2018 (except for September 2019). In 2019, the total output of domestic mines was 3.2 million tons higher than the total sales volume, which dwindled to 58.4 million tons (-4.1 million tons or -6.5% yoy);[39]

[30] Central Statistical Office of Poland, enterprises employing more than 9 persons
[31] Central Statistical Office of Poland
[32] Central Statistical Office of Poland
[33] Central Statistical Office of Poland
[34] Central Statistical Office of Poland
[35] Markit IHS
[36] National Bank of Poland
[37] Central Statistical Office of Poland
[38] Industrial Development Agency (ARP)
[39] Industrial Development Agency (ARP)

- inventories of hard coal oscillating at the highest levels since August 2016 in coal yards, which at the end of December 2019 stood at 5.2 million tons (+121.9% yoy). According to analysts' estimates, approx. 14.5 million tons of hard coal is currently stored in Poland, including in the yards of power plants and cogeneration plants;[40]
- decrease in hard coal imports in the first 11 months of 2019 by 15.7% yoy to 14.9 million tons (following the historically high imports of this raw material in 2018). During this period, the commodity was imported predominantly from Russia (-18.9% yoy to 9.8 million tons, accounting for 63.9% of total imports), Australia (+53.1% yoy to 1.7 million tons) and Colombia (-25.3% yoy to 0.9 million tons);[41]
- sharp decline in steam coal prices in ARA ports. In 2019, the average ARA coal price was USD 66.7 per ton compared to USD 92.4 per ton in 2018 (-27.8% yoy). In each subsequent quarter from the beginning of 2019, the ARA prices were gradually falling. [42] The downward trend of coal prices on the European market observed in recent quarters was caused, among other factors, by a decrease in demand for coal due to the growing generation of energy from natural gas and renewable energy (mainly wind) in the EU and the high level of inventories in ARA ports. Unfavorable weather forecasts meant that inventories at European coal terminals kept growing;[43]
- persisting high values of domestic coal indices for commercial power plants (PSCMI 1) and the heating industry (PSCMI 2), which hovered at their highest levels since 2013 despite a significant drop in coal prices on global markets. In 2019, PSCMI 1 for the power sector increased to an average level of PLN 260.8 per ton (+9.1% yoy), while PSCMI 2 for the heating industry reached an average level of PLN 309.7 per ton (+3.0% yoy). [44] Accordingly, the downward trend in coal prices observed on international markets does not translate directly into prices on the domestic market. This is partly due to the applicable principles for contracting coal for the domestic power industry, among others in Polska Grupa Górnicza (formulas based in part on global coal prices have been changed into long-term fixed-price contracts). Despite the stabilizing effect of this mechanism on price behaviors on the Polish market, it simultaneously means a radical detachment of coal prices in Poland from global markets, confines its competitiveness and translates into increasing costs for power companies and smaller buyers;
- decrease in electricity consumption in Poland in 2019 by 0.9% yoy to 169.4TWh (the lowest since 2014), partly as a result of rapidly increasing energy prices and, as a consequence, saving measures taken by companies and households aimed at improving energy efficiency[45];
- major decrease in total electricity output in 2019 by 3.9% yoy, including in hard coal-fired commercial power plants by 5.1% yoy and in lignite-fired power plants by 15.4% yoy, with a concurrent significant increase in electricity generated from other sources, including gas-fired power plants by 26.2% yoy and wind farms by 19.1% yoy[46]. In Q4 2019 alone, these trends persisted or even intensified (e.g. hard coal output plunged nearly 15% yoy in November and December 2019);
- decrease in the share of hard coal in Poland's energy mix in 2019 to 49.2% (-0.6 p.p. yoy);[47]
- rapid increase in electricity imports, compensating for the lower domestic output. Wholesale electricity prices in neighboring countries are currently significantly lower than in Poland, which in the face of growing cross-border electricity flows translates into higher imports.[48] In 2019, net electricity imports to Poland were at their historical peak and stood at 10.6 TWh, almost twice as high as in 2018 (+85.8% yoy). In 2019, imports accounted for as much as 6.3% of total energy consumption in Poland (+2.9 p.p. yoy).[49]

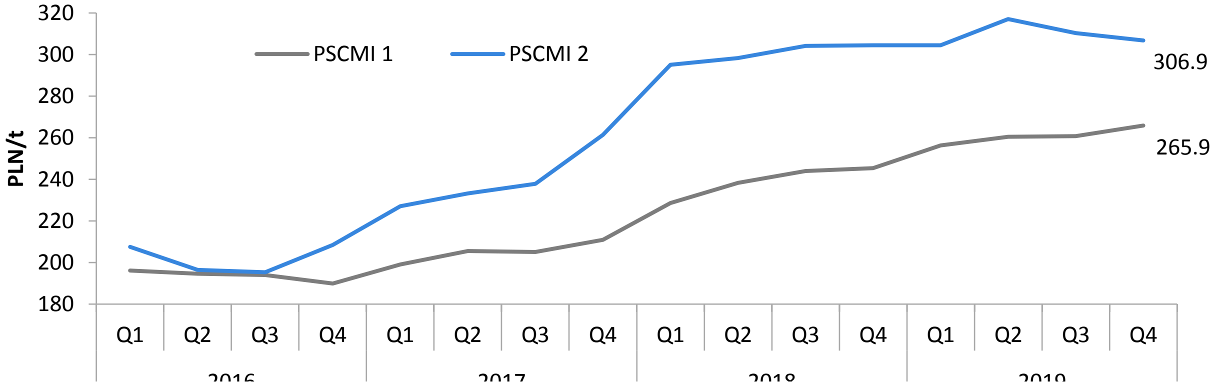
[40] Industrial Development Agency (ARP), forsal.pl
[41] Eurostat
[42] Wirtualny Nowy Przemysł [Virtual New Industry]
[43] Industrial Development Agency (ARP)
[44] Industrial Development Agency (ARP)
[45] Polskie Sieci Elektroenergetyczne
[46] Polskie Sieci Elektroenergetyczne
[47] Polskie Sieci Elektroenergetyczne
[48] Wysokienapiecie.pl
[49] Polskie Sieci Elektroenergetyczne

Figure 7 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 8 Current and historical values of coal price indices on the Polish market: power industry (PSCMI 1) and heating sector (PSCMI 2)



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

Construction industry

- increase in construction and assembly output by an average of 2.6% yoy in 2019, compared to a 17.9% increase in 2018.[50] Starting at the beginning of 2019, a gradual decrease in the growth rate of construction and assembly output was recorded, which in each month stood at a level clearly lower than in the corresponding period of 2018.[51]
- in 2019, a slight increase in construction and assembly output was recorded in all construction sectors identified by the Central Statistical Office, including: construction of buildings (+2.4% yoy), construction of civil engineering facilities (+2.6% yoy) and specialized construction works (+2.9% yoy). Among entities focusing on the construction of civil engineering facilities, the strongest increase in output was recorded for companies operating in the sector of pipelines, telecommunication lines and power lines (+13.1% yoy) and other civil engineering facilities (+3.1% yoy). In the main segment of this industry (construction of roads and rail lines), a decrease in output by -0.5% yoy was recorded;

The drop in output of the road and rail line construction segment was a direct consequence of the slowdown in investment work conducted under the National Road and Motorway Construction Program. In 2019, construction and assembly output related to motorways, expressways and streets declined by 8.6% yoy, with the strongest acceleration of the downward trend experienced in Q4 2019.[52] This resulted, among other factors, from termination of certain contracts by the General Directorate for National Roads and Motorways (GDDKiA) and attempts by some companies to renegotiate them (by increasing the value of the order due to a very sharp increase in the costs of labor and construction materials significantly exceeding even the most conservative business estimates) and difficulties in completing new tenders.

[50] Central Statistical Office of Poland, enterprises employing more than 9 persons
[51] Central Statistical Office of Poland
[52] Central Statistical Office of Poland

Steel industry

- decline in demand for products of the steel industry in Poland and in the broader macroeconomic environment. According to the data published by the Metallurgical Chamber of Industry and Commerce, apparent steel consumption and consumption of steel products in Poland in 2019 dropped by approx. 5.0% yoy. According to preliminary estimates of Eurofer analysts, demand for steel in the European Union in 2019 diminished by -3.3% yoy;
- in 2019, global steel output increased to 1,870 million tons (+3.4% yoy), driven mainly by China (+8.3% yoy to 996 million tons). Accordingly, China's share in global steel output increased from 50.9% in 2018 to 53.3% in 2019. In the European Union, steel production declined in this period to 159.4 million tons (-4.9% yoy);[53]
- persistent global overcapacity in the steel sector (of approx. 400 million tons at the end of 2019) which, combined with, among other factors, weaker demand, higher prices of energy and raw materials and more stringent climate standards, leads to poorer international competitiveness of producers in developed economies and their shrinking output levels;
- another major factor affecting the output of the steel sector in Poland and the European Union is an insufficient degree of protection measures taken against imports from third countries (including the Commonwealth of Independent States) that are not subject to EU climate requirements. The problem of excessive imports intensified after the United States imposed customs duties on steel and aluminum imports (as a consequence, certain producers redirected their sales from the USA to the European market). In 2019, imports of steel and steel products to Poland accounted for approx. 80% of the country's total domestic consumption;
- decline in crude steel output in Poland in 2019 by an average of 11.7% yoy to 9.1 million tons (after AMP shut down its blast furnace in Kraków in November and December 2019, the rate of yoy decline exceeded 20%) and in the volume of manufactured hot-rolled products by an average 8.3% yoy to 9.3 million tons, with a concurrent increase in the production of steel pipes by 0.6% yoy to 0.8 million tons;[54]
- decrease in metal output sold in Poland in 2019 to PLN 58.6 billion (a real decrease by 2.0% yoy), with a simultaneous yoy increase in sold production of metal products to PLN 111.4 billion (+6.1% yoy);[55]
- drop in coke output in Poland in 2019 by 6.1% yoy to 8.8 million tons;[56]
- shutdown of a blast furnace by Arcelormittal Polska in its Kraków steel mill in November 2019, which resulted in a decrease in steel output and, at the same time, in demand for input raw materials (coke, iron ore).[57]

Industry in the Czech Republic

Industry in the Czech Republic

In 2019, the total volume of industrial output in the Czech Republic decreased 0.4% yoy compared to an increase by 3.0% yoy in 2018.[58] Especially in Q4 2019, the economic situation of the industrial sector deteriorated substantially, when a decrease in output was recorded in each month, by -3.4% yoy on average. The poor performance of the Czech industrial sector in 2019 manifested itself in such indicators as a strong drop in the growth rate of new orders, mostly from foreign customers (due to the high degree of internationalization of the country's economy, the dynamics of economic development in the Czech Republic is strongly correlated with changes in the business situation in the euro area, which significantly weakened in 2019). In 2019, new orders in the industrial sector declined 1.2% yoy compared to a yoy increase by 3.5% in 2018 (the growth rate of domestic orders in 2019 was +3.0% yoy, while that of exports was only +0.4% yoy).[59] At the same time, in Q4 2019 alone, a strong decline occurred in new orders (-3.5% yoy), both from domestic customers (-2.8% yoy) and foreign customers (-3.9% yoy).[60]

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[53] World Steel Association
[54] Central Statistical Office of Poland
[55] Central Statistical Office of Poland
[56] Central Statistical Office of Poland
[57] Wirtualny Nowy Przemysł [Virtual New Industry]
[58] Czech Statistical Office
[59] Czech Statistical Office
[60] Czech Statistical Office

The slight decline in industrial output in 2019 was caused by all of the main segments identified by the Czech Statistical Office: industrial processing (-0.2% yoy), electricity production and water and gas supply (0.4% yoy) and, to the greatest extent, mining and quarrying of raw materials (-6.6% yoy).[61] In Q4 2019, the downward trend in all segments deteriorated even further.[62]

In 2019, a yoy decrease in output was recorded in the majority of key industrial sectors (from the perspective of potential transportation services to be provided by the PKP CARGO Group), including in hard and brown coal mining (largest magnitude of -8.0%), metals (-5.7%), wood and wood products (-5.6%) and products from other non-metallic commodities (-3.6% yoy).[63] On the other hand, production of cars and other motor vehicles increased slightly on a yoy basis during this period (+0.8%).[64]

Also, the current values of the PMI business sentiment indicator for the manufacturing sector in the Czech Republic are synonymous with stagnation in industrial output. In Q4 2019, the PMI for the Czech Republic declined to an average of 44.0 points from 44.3 points in Q3 2019 and 47.3 points in H1 2019 (hovering just above its minimum levels recorded in 2009).[65] All of its key components, including current output levels, new orders (from domestic and foreign customers) and employment the sub-index of which diminished in December 2019 to the lowest level since September 2009, contributed to the sinking of the Czech PMI in Q4 2019. In December 2019, companies' expectations regarding the scale of future demand also remained very weak, which Czech managers blamed on the economic slowdown witnessed in the economic environment. In this period, the future production component reached the second lowest level in the entire history of the publication (that is since 2012).[66]

The dominant role in the PKP CARGO Group's transportation services on the Czech rail freight market is played by such cargo categories as: hard coal, coke and lignite, aggregates, chemicals and intermodal transport (with a significant share of products from the automotive manufacturing sector). As a result, the situation in related sectors of the industry (mining, construction, steel mills and *automotive* production) translates directly into volumes available for transport and, as a result, the operating performance of PKP CARGO Group companies offering transportation services in the Czech Republic.

In 2019, the key factors affecting the business conditions in the said industry branches included:

- persisting strong downward trend in hard coal mining output associated with the restructuring process taking place in OKD's mines. In total, 3.4 million tons of hard coal was mined in the Czech Republic in 2019 (down by as much as -23.2% yoy);[67]
- increase in hard coal imports by 1.8% yoy to 3.2 million tons coupled with a very strong dive in raw material exports by -21.4% yoy to 1.3 million tons.[68] In October and November 2019 on a yoy basis, hard coal exports plunged (by -38.8% yoy on average) followed by a decrease in imports (by -2.9% yoy on average);[69]
- drop in lignite output by -4.4% yoy to 37.5 million tons. In Q4 2019, the rate of decline in lignite output accelerated to -6.2% yoy;[70]
- decline in lignite imports by -26.5% yoy to 0.2 million tons and in exports of this commodity by -19.6% yoy to 0.7 million tons;[71]
- decrease in coke output in 2019 by -7.6% yoy to 2.4 million tons. In Q4 2019 alone, the rate of decline accelerated to -12.3% yoy;[72]
- decrease in steel output (in 2019, the volume of crude steel output fell -7.6% yoy to 4.6 million tons);[73]
- major decline in growth of construction and assembly output. In 2019, its volume increased by an average of 3.9% yoy compared to an increase by 8.1% yoy in 2018 (of which construction of buildings improved 3.2% yoy in 2019 and civil engineering output grew by 5.9% yoy).[74] The lower rate of growth in the construction segment resulted, among other factors, from the smaller scale of infrastructural rail investments carried out.
- slight drop in yoy output of the automotive sector: a total of 1.5 million motor vehicles of all types (passenger cars, trucks, buses and motorcycles) were manufactured in the Czech Republic in 2019, or -0.6% yoy less than in 2018.[75] However, in 2018, Czech automotive manufacturers recorded the highest level of production in history, therefore the slight decrease in output compared to 2018 may at least partly be explain by the high base effect;

[61] Czech Statistical Office
[62] Czech Statistical Office
[63] Czech Statistical Office
[64] Czech Statistical Office
[65] Markit IHS
[66] Markit IHS
[67] Ministry of Industry and Trade of the Czech Republic
[68] Ministry of Industry and Trade of the Czech Republic, data for the first 11 months of 2019
[69] Ministry of Industry and Trade of the Czech Republic, data for the first 11 months of 2019
[70] Ministry of Industry and Trade of the Czech Republic
[71] Ministry of Industry and Trade of the Czech Republic, data for the first 11 months of 2019
[72] Ministry of Industry and Trade of the Czech Republic, data for the first 11 months of 2019
[73] Worldsteel.org
[74] Czech Statistical Office, seasonally adjusted data
[75] AutoSAP

4.2 Freight transportation activity

4.2.1 Rail transport market in Poland

In 2019, rail freight services in Poland were provided by 83 operators (licensed by the President of the Office of Rail Transport and providing freight transport services, including the following PKP CARGO Group companies: PKP CARGO S.A. and PKP CARGO SERVICE Sp. z o.o.).[76] In this period, they transported a total of 236.4 million tons of cargo (-5.5% yoy) and achieved a freight turnover of 55.9 billion tkm (-6.3% yoy).[77] Despite the strong yoy decrease in freight volume, in 2019 the total volume of freight services on the market was only slightly lower than in 2017 (239.9 million tons) and at the same time well above the average for the years 2013-2016 (227.3 million tons). At the same time, in 2019, the average haul for the whole market was 236.5 km compared to 238.3 km in 2018.[78]

In 2019, a yoy decline in freight volume was recorded in most cargo categories identified by the Central Statistical Office[79], of which the strongest was in:

- aggregates, stone, sand and gravel (down by 10.3% to 49.1 million tons). The lower freight volume of aggregates resulted directly from the weaker demand for construction materials, partly as a consequence of delays in the execution of large infrastructural projects under the “National Road and Motorway Construction Program” and the “National Railway Program”. Some of the companies executing these projects attempted to renegotiate (increase the value) the contracts entered into in previous years due to the sharp increases in the costs of materials and employee compensation sharply exceeding their original calculations. Moreover, due to the unsatisfactory progress of work, the General Directorate for National Roads and Motorways terminated contracts with some contractors (including for the construction of certain sections of the S5, S7, S61 expressways and the A6 motorway). The need to announce tenders and select new contractors translated into a complete suspension of the construction of these sections in 2019;
- hard coal (down by 5.4% yoy to 89.7 million tons). The decline in the hard coal freight volume reflected the overall slump in demand for this commodity: lower energy generation in hard coal-fired power plants (by 5.1% yoy), weaker of this commodity than in 2018, falling sales and mining output, and persisting very high inventory levels in coal yards at power plants and cogeneration plants, currently the highest since 2016. Periodic repairs of power units in cogeneration plants as well as work on the rail network carried out by PKP PLK also had a significant impact on the freight volume of hard coal;
- iron ore (down 15.5% yoy to 9.7 million tons) and metals and metal products (down 10.0% yoy to 9.2 million tons). The decrease in the freight volume of iron ores and metals was caused by the overall decline in demand for products of the steel industry in Poland (in 2019, steel consumption decreased by an estimated 5.0% yoy, due to deterioration of the economic situation, in particular in the construction sector). The decline in demand was followed by a decrease in the output of steel and steel products in Poland at a time when approx. 80% of domestic consumption was satisfied by imports. Moreover, in 2019, there was a temporary suspension of operations at the Częstochowa Steelworks (due to financial problems) and the shutdown of the blast furnace at ArcelorMittal’s steel mill in Kraków in November 2019, which also translated into lower volumes available for rail transport.

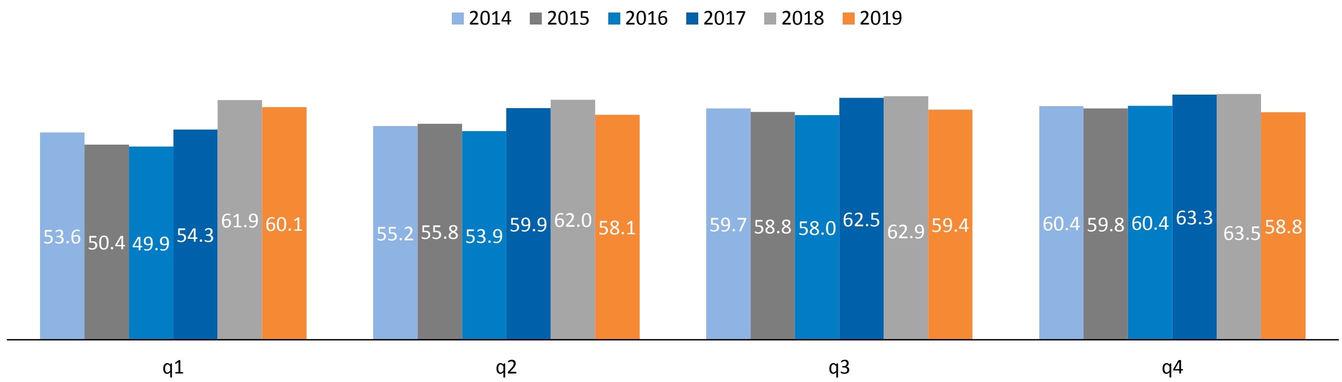
Combined, these cargo categories accounted for 67.6% of the market’s freight volume in this period.

In 2019, a yoy increase in freight volume was recorded only for:

- chemicals and chemical products (by 1.0% yoy to 10.0 million tons), caused by, among other factors, the rapid increase in the sector’s sold production in Poland;
- transport of refined petroleum products (by 0.5% yoy to 17.5 million tons), driven partly by the persisting increase in demand for fuels in the Polish economy and the resulting increase in sales volumes;
- intermodal freight, caused partly by the stable growth in international trade passing through seaports (greater volume of container transshipment);

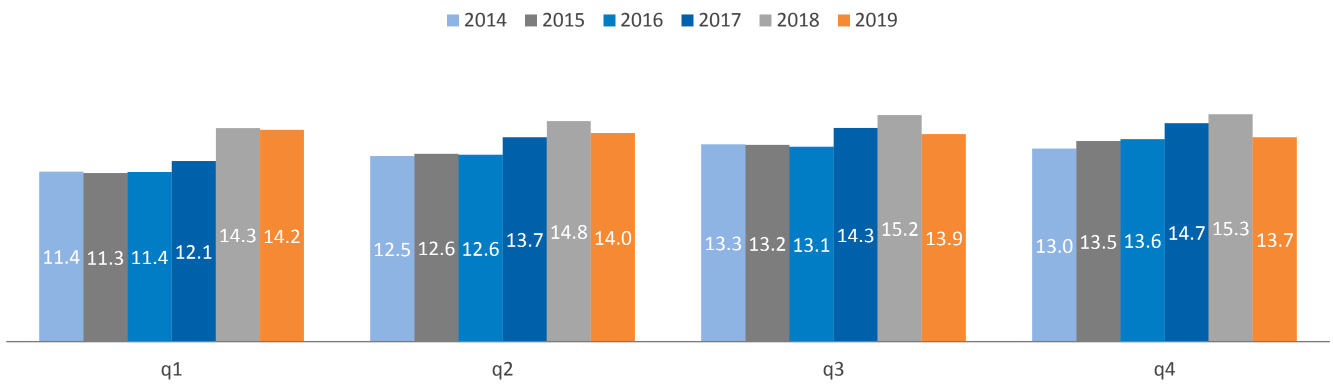
[76] Office of Rail Transport, the statistics take into account entities providing transport services under a license issued by the President of the Office of Rail Transport. Moreover, there are companies operating on the market under an international license, including a PKP CARGO Group entity, PKP CARGO International (formerly AWT a.s.)
[77] Office of Rail Transport
[78] Office of Rail Transport
[79] Central Statistical Office of Poland – data for 2019

Figure 9 Rail freight volumes in Poland in 2014-2019 (million tons)



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

Figure 10 Rail freight turnover in Polandin 2014-2019 (billion tkm)



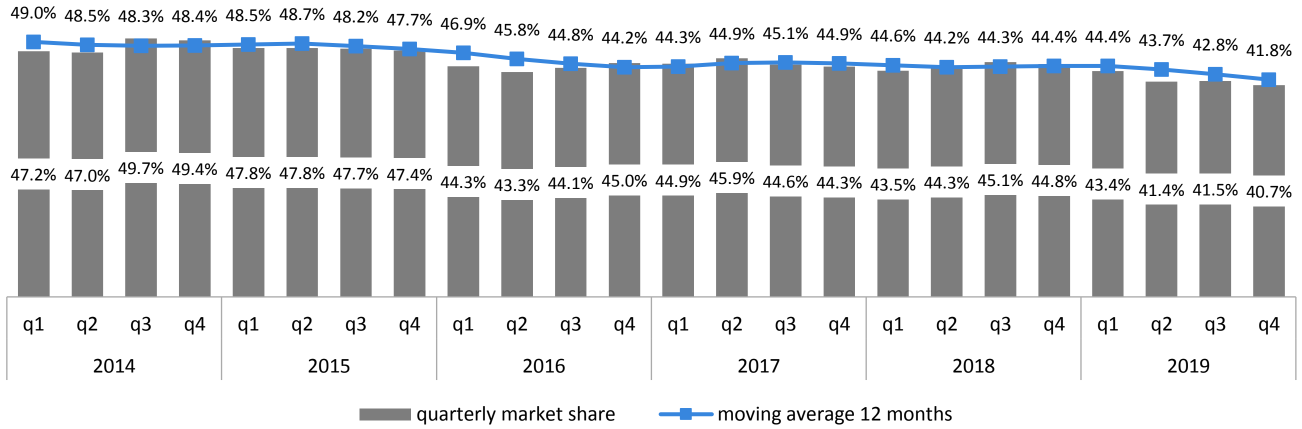
Source: Proprietary material based on the Office of Rail Transport's data

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

Despite the yoy decline in market share, in 2019 the PKP CARGO Group[80] upheld its position as the absolute leader of the rail freight transportation market in Poland. The PKP CARGO Group's market share was 41.8% (-2.6 p.p. yoy) in terms of freight volume and 44.2% in terms of freight turnover (-4.4 p.p. yoy). The respective shares of the PKP CARGO Group's parent company, that is PKP CARGO S.A., were 40.3% (-3.2 p.p. yoy) and 43.9% (-4.4 p.p. yoy), respectively, in that period.[81]

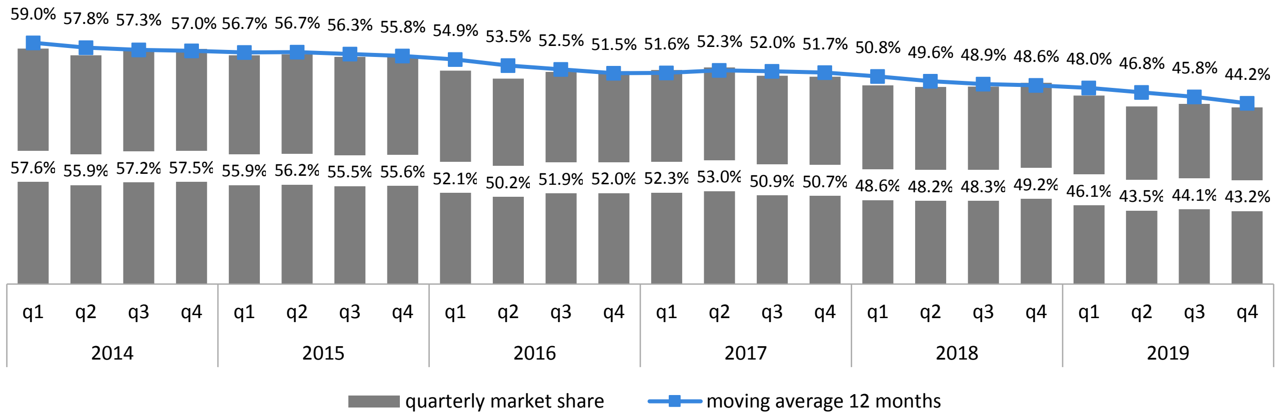
[80] The freight volume of the PKP CARGO Group also takes into account the volumes transported by PKP CARGO International (formerly AWT a.s.) in Poland.
[81] Office of Rail Transport

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



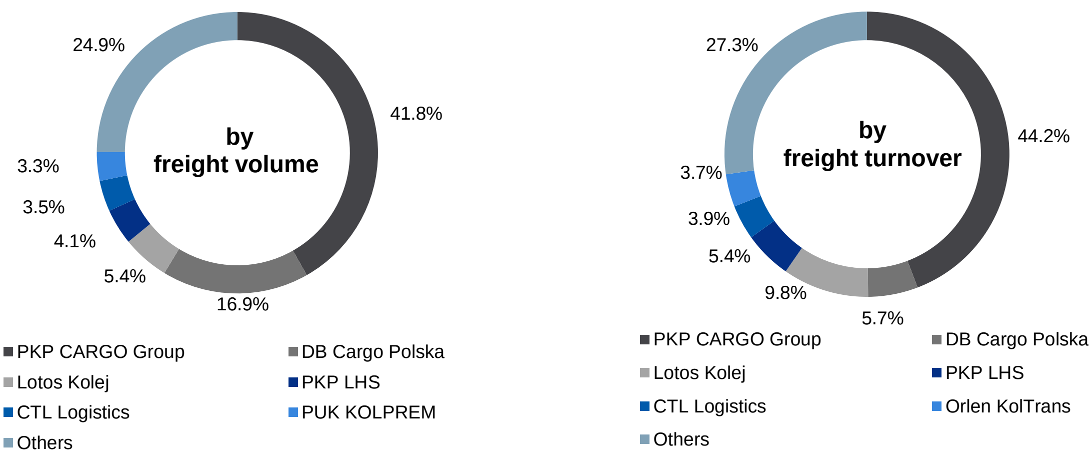
Source: Proprietary material based on the Office of Rail Transport's data

Figure 12 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

Figure 13 Market shares of the largest rail operators in Poland in 2019 by freight volume and freight turnover



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

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

In 2019, the PKP CARGO Group's competitors transported a total of 137.6 million tons of freight (-1.1% yoy). In this period, the largest volume was transported by: DB Cargo Polska (40.0 million tons, down 2.7% yoy), Lotos Kolej (12.8 million tons, up 2.4% yoy) and PKP LHS (9.8 million tons, down 8.9% yoy).[82]

At the same time, in 2019, competitors of the PKP CARGO Group recorded a slight yoy increase in freight turnover, to 31.2 billion tkm (+1.7% yoy). In this period, the largest freight turnover was achieved by: Lotos Kolej (5.5 billion tkm, up 2.7% yoy), DB Cargo Polska (3.2 billion tkm, down 1.8% yoy)/y) and PKP LHS (3.0 billion tkm, down 10.4% yoy).[83]

The yoy increase in total freight turnover by competitive rail carriers, coupled with the simultaneous decrease in freight volume, resulted from an extension of the average haul. The average haul of competing companies has been increasing continuously on a yoy basis since 2013. In 2019, it stood at 227 km (up 6 km or 2.8% compared to 2018).[84]

In terms of freight volume, the following competitors of the PKP CARGO Group recorded the largest yoy decreases in market share: CTL Logistics (-0.6 p.p. yoy, freight volume down by almost 20% yoy), KP Kotlarnia (-0.3 p.p. yoy, freight volume down by 25% yoy) and CD Cargo Poland (-0.2 p.p. yoy, freight volume down by almost 20% yoy). In terms of freight turnover, the largest decreases in market share were suffered by the following operators: CTL Logistics (-0.7 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 (-0.4 p.p. yoy, freight turnover down by nearly 25%)[85].

In 2019, the market share of small rail operators (with a unit share of less than 2%) increased the most on a yoy basis, including companies focusing their business on the intermodal transport segment. In this period, the combined share of small carriers in the rail freight transport market in Poland swelled to 22.3% (+1.7 p.p. yoy) in terms of freight volume and 20.8% (+3.9 p.p. yoy) in terms of freight turnover.[86] Moreover, in 2019 a strong yoy increase in freight volume and market share was also recorded by the fuel companies Lotos Kolej and Orlen KolTrans.[87]

4.2.3 Rail freight transport market in the Czech Republic

During the first 9 months of 2019, a total of 457.0 million tons of cargo was transported in the Czech Republic (+4.9% yoy) and freight turnover stood at 40.3 billion tkm (-12.0% yoy).[88] In this period, a yoy increase in freight volume was recorded in all transport segments (except for aviation), whereas freight turnover increased on a yoy basis only for inland waterway transport. The very sharp decrease in freight turnover across the Czech freight market despite a noticeable increase in freight volume was a direct consequence of a significant reduction in the average haul to 88.1 km (-16.1% yoy).[89] At the same time, it is worth pointing out that, despite the slight decrease in year-on-year terms, the average haul for rail transport is more than twice as long as for road transport.

Table 2 Freight transport market in the Czech Republic in 9M 2019[90]

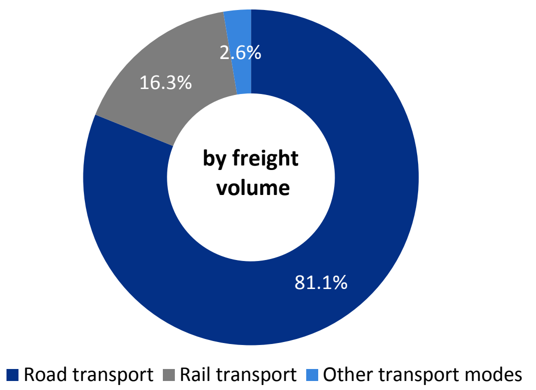
Item	FREIGHT VOLUME			FREIGHT TURNOVER			AVERAGE HAUL		
	Volume (million tons)	Change yoy	Change % yoy	Volume (billion tkm)	Change yoy	Change % yoy	Distance (km)	Change yoy	Change % yoy
Total market	457.0	21.1	4.9%	40.3	-5.5	-12.0%	88.1	-16.9	-16.1%
Road transport	370.6	19.3	5.5%	26.1	-5.4	-17.1%	70.4	-19.2	-21.4%
Rail transport	74.3	0.8	1.1%	12.2	-0.1	-0.8%	164.0	-3.2	-1.9%
Other transport branches	12.1	1.0	9.2%	2.0	-0.004	-0.2%	164.4	-15.5	-8.6%

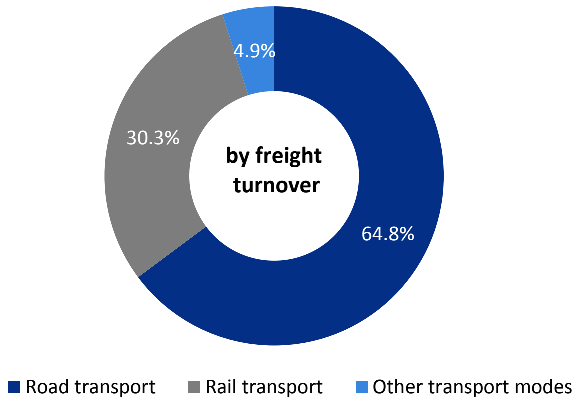
Source: Proprietary material based on data published by the Ministry of Transport of the Czech Republic

In Q3 2019 alone, rail transport in the Czech Republic recorded a drop in freight volume to 23.8 million tons (5.4% yoy) and freight turnover to 3.9 billion tkm (-5.9% yoy).[91]

[82] Proprietary material based on Office of Rail Transport data
[83] Proprietary material based on Office of Rail Transport data
[84] Proprietary material based on Office of Rail Transport data
[85] Proprietary material based on Office of Rail Transport data
[86] Proprietary material based on Office of Rail Transport data, January 2019.
[87] Proprietary material based on Office of Rail Transport data
[88] Ministry of Transport of the Czech Republic
[89] Ministry of Transport of the Czech Republic
[90] In this Management Board Report on the Activity of the PKP CARGO Group for the financial year 2019, to facilitate the reading, some figures were rounded off which may cause slight deviations in the presented data. In all cases of possible distortions, the data were presented with greater accuracy.
[91] Ministry of Transport of the Czech Republic

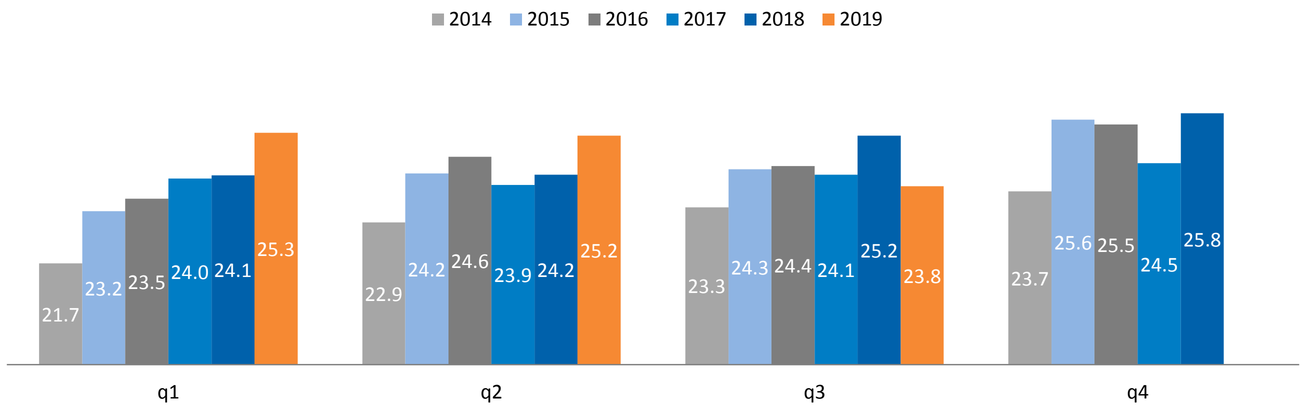
Figure 14 Shares of transport sector branches in the cargo transport market in the Czech Republic, 9M 2019





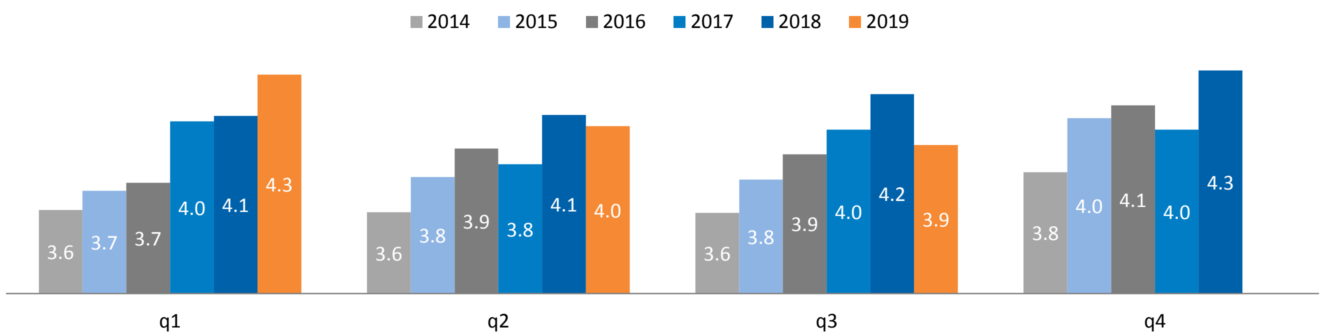
Source: Proprietary material based on data published by the Ministry of Transport of the Czech Republic

Figure 15 Rail freight transport in the Czech Republic by freight volume in 2014-2019 (million tons)



** data for Q4 2019 will be available at the turn of Q1 and Q2 2020.*
Source: Proprietary material based on data published by the Ministry of Transport of the Czech Republic

Figure 16 Rail freight transport in the Czech Republic by freight turnover in 2014-2019 (billion tkm)



** data for Q4 2019 will be available at the turn of Q1 and Q2 2020.*
Source: Proprietary material based on data published by the Ministry of Transport of the Czech Republic

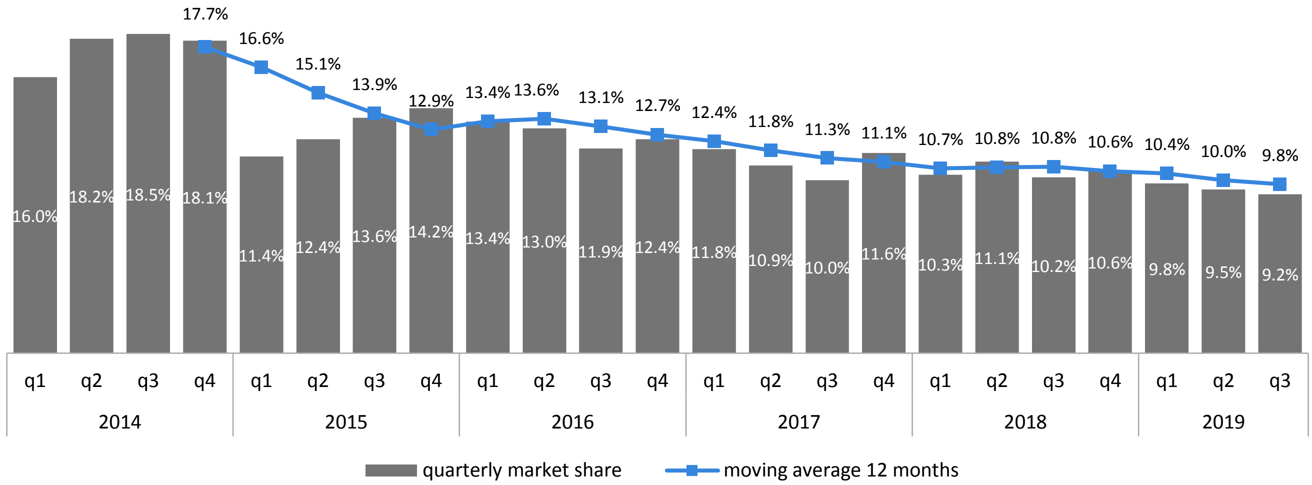
4.2.4 Position of PKP CARGO Group companies in the rail transport market in the Czech Republic

According to data published by SŽDC (Czech Rail Infrastructure Manager), 107 operators are currently licensed to provide rail freight services in this country, including two members of the PKP CARGO Group: PKP CARGO S.A. and PKP CARGO International a.s. (formerly Advanced World Transportation a.s. – AWT).[92] In 2019, the share of the PKP CARGO Group in the Czech market in terms of freight turnover was 8.4%.[93]

In 2019, PKP CARGO International transported 9.4 million tons of freight (-10.0% yoy) and achieved freight turnover of 1.1 billion tkm (-7.0% yoy).[94] In the same period, the average haul of PKP CARGO International increased to 120.2 km (+3.4% yoy), which was still below the average for the whole Czech rail transport market.[95] The fall in freight turnover achieved by PKP CARGO International translated directly into a decrease in the company's market share to 7.2% (-0.4 p.p. yoy), although the company managed to maintain its position of the third largest operator on the Czech transportation market (in terms of freight turnover).[96]

In 2019, PKP CARGO International posted a lower freight volume yoy for various cargo categories, including: aggregates (-56.0% yoy to 0.5 million tons), hard coal (-6.3% yoy to 3.7 million tons) and coke and lignite (-4.5% yoy to 1.7 million tons).[97] In 2019, the company's ore transport services ceased (-94.8% yoy). In turn, sharp yoy increases were achieved in the freight volume of metals and metal products (+80.9% yoy to 0.2 million tons) and chemicals and chemical products (+19.9% yoy to 0.6 million tons). Oil and fuel volumes also increased on a year-on-year basis (+2.9% yoy to 0.6 million tons) as did intermodal transport (+1.3% to 1.5 million tons).[98]

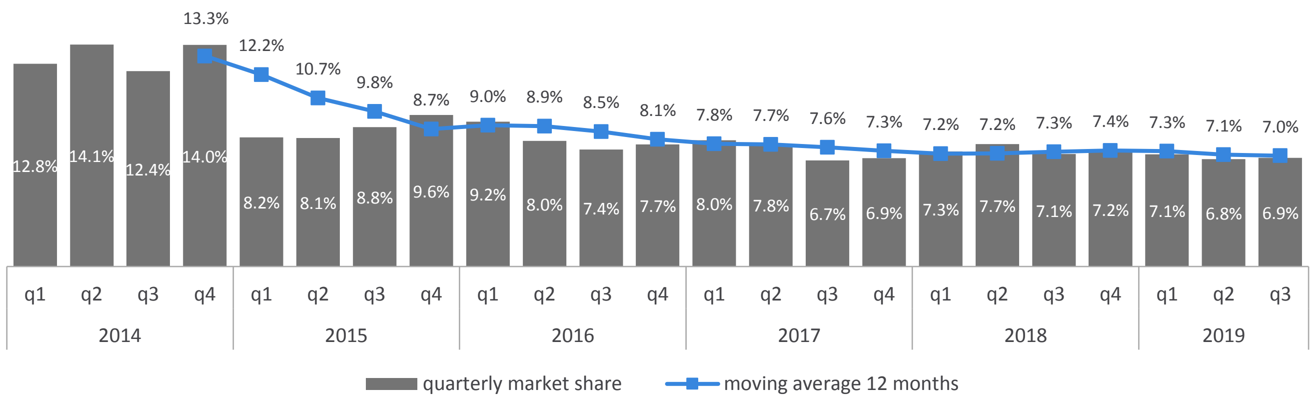
Figure 17 PKP CARGO International's quarterly market shares in total freight volume in the Czech Republic in 2014-2019*



** data for Q4 2019 will be available at the turn of Q1 and Q2 2020.*
Source: Proprietary material based on data from the Czech Ministry of Transport and PKP CARGO International

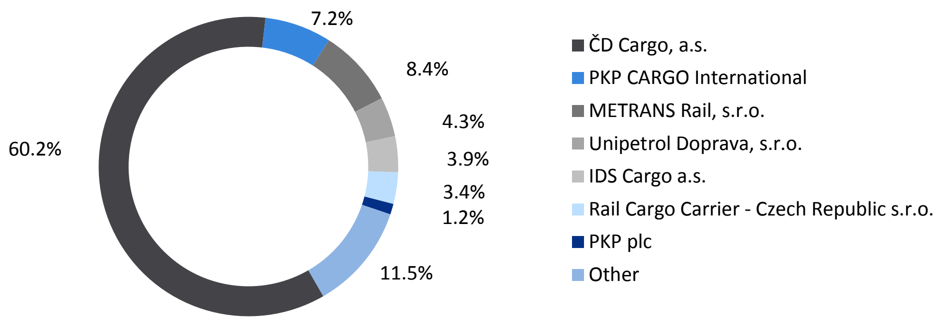
[92] SŽDC
[93] SŽDC
[94] PKP CARGO International's own statistics
[95] PKP CARGO International's own statistics
[96] SŽDC
[97] PKP CARGO International's own statistics
[98] PKP CARGO International's own statistics

Figure 18 PKP CARGO International's quarterly market shares in terms of freight turnover in the Czech Republic in 2014-2019*



** data for Q4 2019 will be available at the turn of Q1 and Q2 2020.*
Source: Proprietary material based on data from the Czech Ministry of Transport and PKP CARGO International

Figure 19 Market shares of the biggest rail operators by operational freight turnover in the Czech Republic in 2019 (btkm)



Source: SŽDC (Czech rail infrastructure manager)

In 2019, ČD Cargo a.s. maintained its strong leading position on the Czech rail freight market, even though its market share dwindled to 60.2% (-4.8 p.p. yoy).[99] In this period, on a yoy basis, the market shares of the following members of the PKP CARGO Group declined as well: PKP CARGO International (-0.4 p.p. to 7.2%) and PKP CARGO S.A. (0.2 p.p. to 1.2%). The other carriers listed by SŽDC recorded yoy increases in their market share in 2019, of which the largest ones were achieved by Metrans Rail (+0.9 p.p. yoy to 8.4%), IDS CARGO (+0.8 p.p. yoy to 3.9%) and Unipetrol Doprava (+0.7 p.p. to 4.3%).[100] The first of these companies, an international logistics operator focusing on the provision of container freight services in the region covered by the Three Seas Initiative, strengthened its position as the second largest freight carrier in the Czech Republic.[101] A strong yoy increase in market share in 2019 was also recorded by the combined group of other rail operators (not directly listed by SŽDC) (+2.4 p.p. to 9.8%).[102]

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 volume in 2018. In 2019, the Company recorded yoy decreases in the volumes of hard coal and lignite transported from Poland, ores imported from Ukraine and through 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, and cement clinker in imports to the Czech Republic.[103]

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[99] SŽDC
[100] SŽDC
[101] metrans.eu
[102] SŽDC
[103] PKP CARGO S.A.'s own statistics

4.2.5 Rail transport business of the Company and the PKP CARGO Group

Data on the transportation activity of the PKP CARGO Group in 2014-2019 include consolidated data of 5 freight carriers that belong to 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.

PKP CARGO S.A. accounts for 94% of the PKP CARGO Group's freight turnover.

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 3 PKP CARGO Group's freight turnover in 2014-2019

Item	2019	2018	2017	2016	2015	2014	Change 2019/2018	
	(million tkm)[104]							*%*
Solid fuels[1]	10,015	10,931	11,515	12,542	13,593	12,181	-917	-8.4%
of which hard coal	8,502	9,313	10,155	11,070	12,387	10,757	-812	-8.7%
Aggregates and construction materials[2]	5,208	7,185	5,882	4,636	5,261	6,142	-1,977	-27.5%
Metals and ores[3]	2,742	3,732	4,027	3,436	3,757	3,698	-990	-26.5%
Chemicals[4]	2,068	2,204	2,357	2,078	2,019	1,913	-136	-6.2%
Liquid fuels[5]	1,071	1,165	1,340	1,091	839	781	-93	-8.0%
Timber and agricultural produce[6]	1,052	1,384	1,764	1,562	1,660	1,733	-332	-24.0%
Intermodal transport	4,060	4,072	3,235	2,474	2,031	1,832	-12	-0.3%
Other[7]	656	718	891	703	679	667	-62	-8.7%
Total	**26,870**	**31,390**	**31,011**	**28,521**	**29,839**	**28,947**	**-4,520**	**-14.4%**

**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.*

Source: Proprietary material

Table 4 PKP CARGO Group's freight turnover in Q4 of 2014-2019

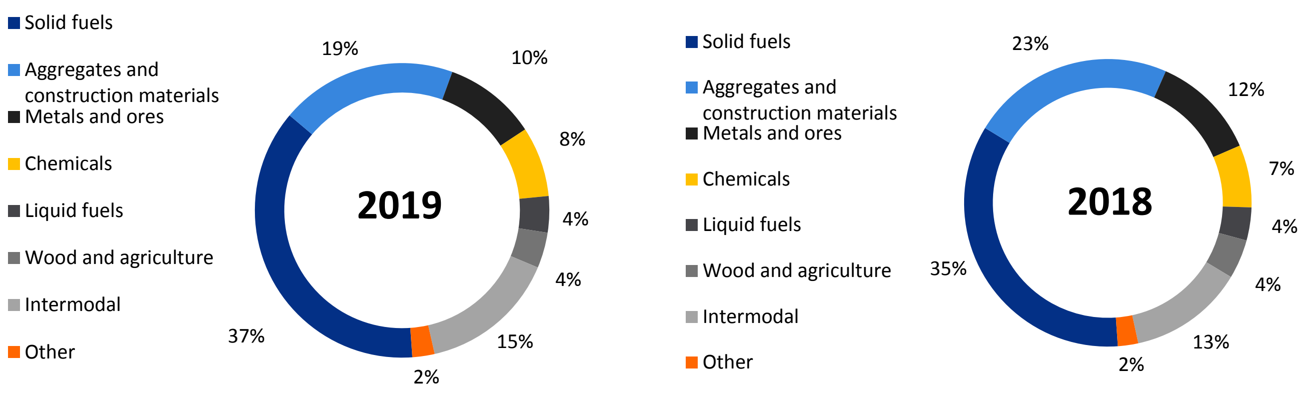
Item	Q4 2019	Q4 2018	Q4 2017	Q4 2016	Q4 2015	Q4 2014	Change Q4 2019/ Q4 2018	
	(million tkm)							*%*
Solid fuels[1]	2,517	2,889	2,924	3,339	3,926	3,307	-371	-12.9%
of which hard coal	2,142	2,437	2,589	2,971	3,629	2,938	-295	-12.1%
Aggregates and construction materials[2]	1,213	1,760	1,644	1,368	1,256	1,609	-548	-31.1%
Metals and ores[3]	419	931	1,010	825	1,003	879	-512	-55.0%
Chemicals[4]	491	524	581	525	484	500	-34	-6.4%
Liquid fuels[5]	326	320	309	272	255	210	6	2.0%
Timber and agricultural produce[6]	285	374	491	477	445	406	-89	-23.8%
Intermodal transport	1,031	1,146	889	721	593	451	-115	-10.0%
Other[7]	189	161	229	180	185	162	28	17.4%
Total	**6,471**	**8,105**	**8,076**	**7,707**	**8,148**	**7,525**	**-1,634**	**-20.2%**

**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.*

Source: Proprietary material

[104] In this Management Board Report on the Activity of the PKP CARGO Group for the financial year 2019, to facilitate the reading, some figures were rounded off which may cause slight deviations in the presented data. In all cases of possible distortions, the data were presented with greater accuracy.

Figure 20 Share of freight turnover completed by the PKP CARGO Group in each commodity segment in 2019 and 2018



Source: Proprietary material

PKP CARGO S.A. accounts for 88% of the PKP CARGO Group's freight volume.

Table 5 PKP CARGO Group's freight volume in 2014-2019

Item	2019	2018	2017	2016	2015	2014	Change 2019/2018	
	(million tons)							%
Solid fuels[1]	53.3	56.6	57.7	59.8	63.3	56.9	-3.3	-5.8%
of which hard coal	47.9	51.2	51.7	53.7	57.8	52.0	-3.2	-6.3%
Aggregates and construction materials[2]	20.4	26.0	22.2	18.2	19.9	21.5	-5.6	-21.6%
Metals and ores[3]	9.3	12.6	13.0	11.3	12.4	12.4	-3.3	-26.2%
Chemicals[4]	6.3	6.8	7.0	6.3	5.9	6.0	-0.4	-6.6%
Liquid fuels[5]	3.7	3.9	4.5	3.0	3.0	2.7	-0.2	-6.1%
Timber and agricultural produce[6]	3.7	4.0	4.5	4.4	4.7	4.8	-0.3	-7.8%
Intermodal transport	9.5	9.2	7.6	6.5	5.2	4.5	0.3	2.7%
Other[7]	2.3	2.7	2.6	2.0	1.9	1.9	-0.4	-14.3%
Total	**108.6**	**121.9**	**119.1**	**111.5**	**116.3**	**110.7**	**-13.3**	**-10.9%**

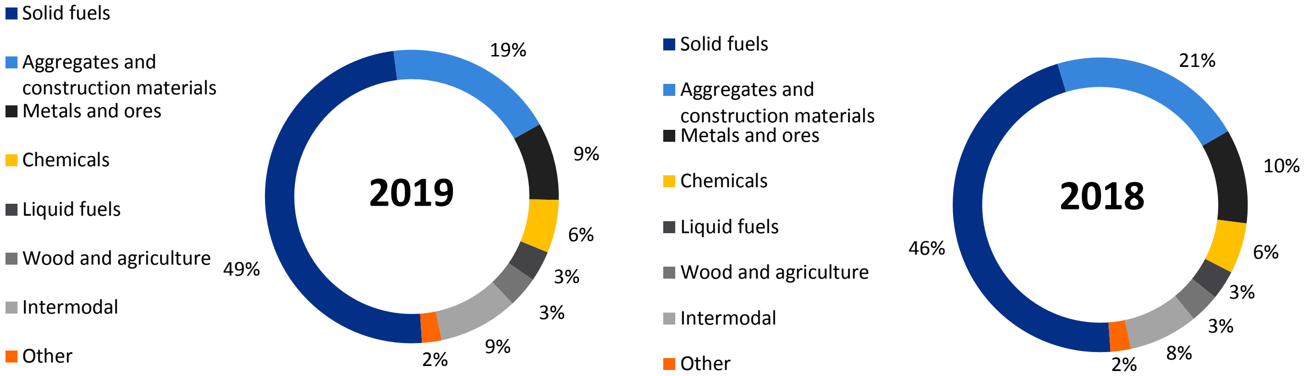
Source: Proprietary material

Table 6 PKP CARGO Group's freight volume in Q4 of 2014-2019

Item	Q4 2019	Q4 2018	Q4 2017	Q4 2016	Q4 2015	Q4 2014	Change Q4 2019/ Q4 2018	
	(million tons)							%
Solid fuels[1]	13.4	14.5	14.8	16.1	18.7	16.2	-1.1	-7.4%
of which hard coal	12.1	13.1	13.2	14.5	17.2	14.9	-1.0	-7.6%
Aggregates and construction materials[2]	4.9	6.4	6.3	5.5	5.0	5.6	-1.5	-24.1%
Metals and ores[3]	1.7	3.1	3.3	3.0	3.0	2.9	-1.5	-47.2%
Chemicals[4]	1.5	1.6	1.8	1.6	1.4	1.5	-0.1	-8.2%
Liquid fuels[5]	1.0	1.1	1.0	0.8	0.9	0.8	0.0	-3.2%
Timber and agricultural produce[6]	0.9	1.1	1.3	1.2	1.3	1.2	-0.2	-18.2%
Intermodal transport	2.3	2.6	2.0	1.9	1.5	1.1	-0.3	-10.9%
Other[7]	0.6	0.7	0.7	0.5	0.5	0.5	-0.1	-12.2%
Total	**26.4**	**31.2**	**31.1**	**30.6**	**32.4**	**29.8**	**-4.8**	**-15.5%**

Source: Proprietary material

Figure 21 Share of freight volume transported by the PKP CARGO Group in each commodity segment in 2019 and 2018



Source: Proprietary material

In 2019, the average haul of freight transported by the PKP CARGO Group was 248 km (-3.9% yoy).

In 2019 and Q4 2019 alone, the average haul of freight transported by PKP CARGO S.A. was 265 km and 262 km, respectively.

Table 7 PKP CARGO Group's average haul in 2014-2019

Item	2019	2018	2017	2016	2015	2014	Change 2019/2018	
	(km)							%
Solid fuels[1]	188	193	200	210	215	214	-5	-2.8%
of which hard coal	177	182	196	206	214	207	-5	-2.6%
Aggregates and construction materials[2]	255	276	265	255	264	285	-21	-7.6%
Metals and ores[3]	295	296	309	304	304	299	-1	-0.5%
Chemicals[4]	326	325	337	329	345	320	1	0.4%
Liquid fuels[5]	292	298	295	359	280	290	-6	-2.0%
Timber and agricultural produce[6]	286	346	390	356	351	362	-61	-17.6%
Intermodal transport	428	440	425	382	393	404	-13	-2.9%
Other[7]	281	264	339	346	352	348	17	6.6%
Total	**248**	**258**	**260**	**256**	**257**	**261**	**-10**	**-3.9%**

Source: Proprietary material

Table 8 PKP CARGO Group's average haul in Q4 of 2014-2019

Item	Q4 2019	Q4 2018	Q4 2017	Q4 2016	Q4 2015	Q4 2014	Change Q4 2019/ Q4 2018	
	(km)							%
Solid fuels[1]	187	199	198	208	210	205	-12	-5.9%
of which hard coal	177	186	196	205	211	198	-9	-4.8%
Aggregates and construction materials[2]	249	275	263	250	251	285	-25	-9.2%
Metals and ores[3]	252	296	306	275	333	298	-44	-14.9%
Chemicals[4]	330	324	326	327	339	334	6	1.9%
Liquid fuels[5]	313	297	325	322	293	276	16	5.4%
Timber and agricultural produce[6]	307	329	377	390	352	335	-23	-6.9%
Intermodal transport	439	435	440	389	383	406	4	0.9%
Other[7]	310	232	327	331	358	347	78	33.7%
Total	**245**	**260**	**260**	**252**	**252**	**253**	**-14**	**-5.5%**

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 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);
- lower yoy production and sales of hard coal;
- decline in electricity generation in hard coal-fired commercial power plants;
- failure by power sector to collect contracted coal volumes, resulting in an increase in coal inventories stored in coal yards;
- lower (though remaining high) coal imports from Russia;
- stable freight volume of coke despite a decline in its output 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 and their gradual re-opening at the end of 2019;
- maintenance of the average commercial speed in Poland translating into an extended rolling stock circulation.

AGGREGATES AND CONSTRUCTION MATERIALS

- delayed 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 caused by a slowdown in work in the first half of the year;
- delays in the execution of road construction projects resulting from the absence of an agreement between the investor and the contractors working on sections of the A1, S3, S5 and S7 roads demanding indexation of contracts – termination of contracts by GDDKiA, long wait for the signing of new contracts;
- 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;
- reduced deliveries of limestone to German power plants caused by strong 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);
- high degree of competition due to the development of transportation capacity by other carriers previously operating on few routes;
- 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).

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 in iron ore transport services from Ukraine to Kraków due to a key client's decision to diminish steel production in Poland and the EU (shutdown of the blast furnace in Kraków on 23 November 2019);
- decrease in the volume of iron ore transported to Czech steelworks due to reduced steel production;
- lower volume of slag transported from steel mills due to difficulties in obtaining it;
- lower volume of transported metals – weaker demand for finished products, high volume of scrap inventories;
- taking over scrap metal deliveries by road transport operators – strong price competition;
- no shipments from the Częstochowa Steelworks – filing for bankruptcy (production relaunched in October, transportation services in December 2019);
- decrease in the average haul as a result of changes in the structure of freight routes after the shutdown of the blast furnace in Kraków.

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, 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 from/to the terminal in Paskov;
- decrease in the volume of metals transported in containers due to the difficult situation on the steel market (lower competitiveness and expectation of price cuts);
- takeover of a portion of transport services in transit from China and exports to Austria by operators from the clients' corporate groups (impact mainly in Q4 2019);
- decrease in the volume of grain transported in containers due to a renovation of the dispatch station.

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;
- decrease in freight volume and change in the supply logistics at the PKP CARGO Group's largest client in this segment – due to changes resulting from the current demand and supply situation and the provision of transport services by an operator from the client's own group;
- lower volumes of transported imports – overhaul of a refinery in Slovakia.

TIMBER AND AGRICULTURAL PRODUCE

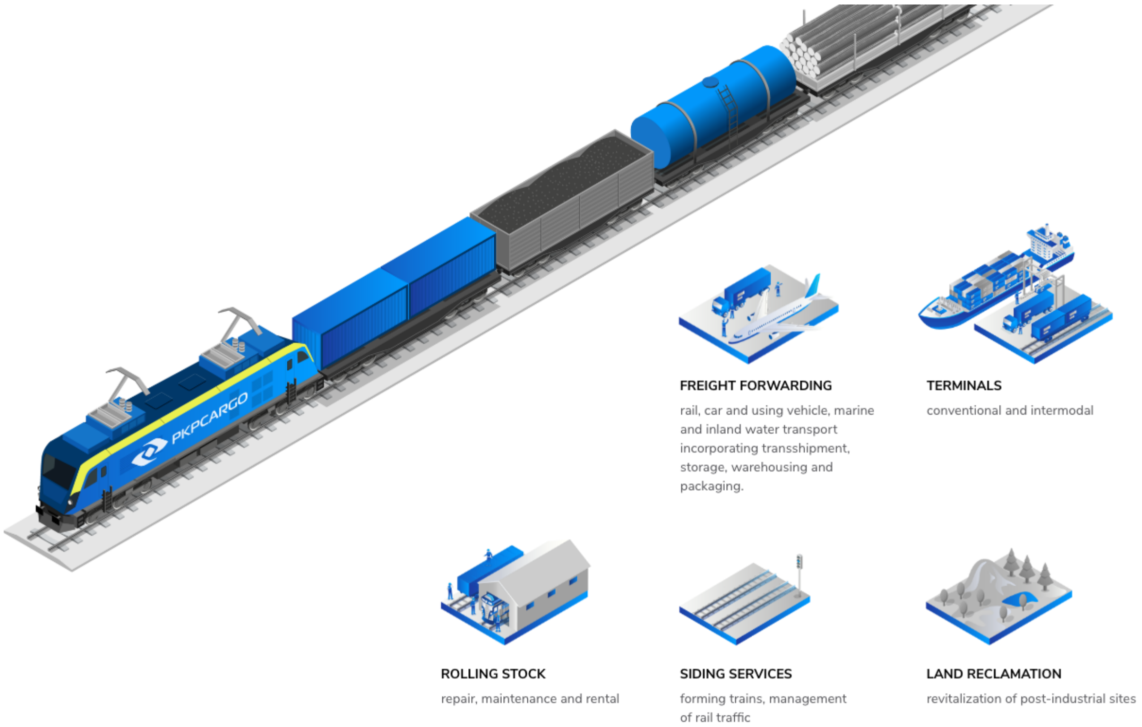
- higher imports of wood chips from Belarus;
- malt transport services in imports from the Czech Republic;
- increase in the volume of sugar transported in imports/exports, increase in the volume of transported rapeseed middlings and molasses;
- no sugar beets available for transport – due to drought, all crops were ordered to be transported by road;
- 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;
- increase in the average haul in Q4 caused by a higher freight volume of cars transported by PKP CARGO International a.s. and PKP CARGO S.A. (over long distances).

4.3 Other services

The PKP CARGO 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 Group's Consolidated Financial Statements. 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 Information on selling markets and sources of supply.

Key clients

The Company operates in one principal geographic area, i.e. Poland, where its registered offices are also located. Total revenues for all geographic areas outside Poland for the financial year ended 31 December 2019 and 31 December 2018 did not exceed 12% of total revenue from contracts with customers. There is no single geographic area (outside of Poland) which generated more than 5% of revenues from contracts with customers.

In the period ended 31 December 2019, sales in the company to the Arcelor Mittal Group represented 10.2% of total revenues from agreements with clients, while in the period ended 31 December 2018 they represented 10.8%.

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.

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

Note 2.1 to the CFS and **Note 2.1 to the SFS** present the Group's revenues generated by external clients by geographic area.

Key suppliers

As they operate on the freight transport market, both the PKP CARGO Group and Parent Company are dependent on the largest supplier of access services to rail infrastructure in Poland, namely PKP Polskie Linie Kolejowe S.A. (PKP PLK). This company is a domestic supplier that provides access to the prevalent portion of rail infrastructure in Poland in accordance with the price list approved annually by the President of the Office of Rail Transport. This infrastructure is made available for a fee on the same terms to all carriers offering passenger and cargo rail transport. PKP PLK renders services to the PKP CARGO Group that include the provision of access to rail infrastructure, the provision of access to traction network equipment, the directing and carrying of traffic and access to train handling equipment. PKP PLK's percentage of procurement costs in 2019 (meaning the sum of the costs of external services and of the consumption of raw materials and supplies) was 34.3% in the PKP CARGO S.A., while it was 30.1% in the Group.

Moreover, the Group's main supplier for traction fuel and traction energy is PKP Energetyka S.A. This supplier specializes in selling and supplying electricity, selling liquid fuels and providing electrical energy-related services. PKP Energetyka S.A.'s percentage of procurement costs in 2019 (meaning the sum of the costs of external services and of the consumption of raw materials and supplies) was 29.9% in the PKP CARGO S.A., while it was 26.1% in the Group.

4.5 Headcount

Information concerning movements in headcount in the PKP CARGO Group and PKP CARGO S.A. in 2014-2019 is provided below.

Table 9 Headcount in 2013-2019 in the PKP CARGO Group and PKP CARGO S.A. (active employees only)

Item	Headcount as at:							Change YTD
	31/12/ 2019	31/12/ 2018	31/12/ 2017	31/12/ 2016	31/12/ 2015	31/12/ 2014	31/12/ 2013	
PKP CARGO Group	**23,571**	**23,643**	**23,253**	**23,144**	**23,805**	**24,960**	**26,553**	**-72**
including: PKP CARGO S.A.	*17,140*	*17,308*	*17,043*	*17,429*	*17,979*	*20,830*	*22,480*	*-168*

Source: Proprietary material

Table 10 Average headcount in FTEs in 2014-2019 in the PKP CARGO Group and PKP CARGO S.A. (active employees only)

Item	Average headcount in FTEs						Change 2019-2018
	12 months 2019	12 months 2018	12 months 2017	12 months 2016	12 months 2015	12 months 2014	
PKP CARGO Group	**23,657**	**23,385**	**23,278**	**23,441**	**24,375**	**26,185**	**272**
including: PKP CARGO S.A.	*17,293*	*17,135*	*17,177*	*17,698*	*18,484*	*22,010*	*158*

Source: Proprietary material

Table 11 Average headcount in persons in 2014-2019 in the PKP CARGO Group and PKP CARGO S.A. (active employees only)

Item	Average headcount in persons						Change 2019-2018
	12 months 2019	12 months 2018	12 months 2017	12 months 2016	12 months 2015	12 months 2014	
PKP CARGO Group	**23,710**	**23,431**	**23,305**	**23,465**	**24,407**	**26,215**	**279**
including: PKP CARGO S.A.	*17,309*	*17,146*	*17,182*	*17,702*	*18,486*	*22,012*	*163*

Source: Proprietary material

Table 12 Change in the headcount structure in 2013-2019 in the PKP CARGO Group and PKP CARGO S.A. (active employees only)

Item	Headcount as at: 31/12/2019	31/12/2018	31/12/2017	31/12/2016	31/12/2015	31/12/2014	31/12/2013	Change YTD
White-collar positions – the Group	**5,439**	**5,379**	**5,281**	**5,272**	**5,324**	**5,349**	**5,566**	**60**
including: PKP CARGO S.A.	*3,936*	*3,886*	*3,805*	*3,825*	*3,863*	*4,462*	*4,706*	*50*
Blue-collar positions – the Group	**18,132**	**18,264**	**17,972**	**17,872**	**18,481**	**19,611**	**20,987**	**-132**
including: PKP CARGO S.A.	*13,204*	*13,422*	*13,238*	*13,604*	*14,116*	*16,368*	*17,774*	*-218*
Total	**23,571**	**23,643**	**23,253**	**23,144**	**23,805**	**24,960**	**26,553**	**-72**
including: PKP CARGO S.A.	*17,140*	*17,308*	*17,043*	*17,429*	*17,979*	*20,830*	*22,480*	*-168*

Source: Proprietary material

A comparison of 2019 with 2018 reveals growth in the average headcount in the PKP CARGO Group by 272 FTEs (by 158 FTEs in PKP CARGO S.A. alone).

4.6 The Company's and the PKP CARGO Group's investments

4.6.1 Capital expenditures

PKP CARGO S.A.

In 2019, the Company incurred capital expenditures for 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 P3 periodic inspections[105]) of PLN 1,032.4 million, which was 24.6% higher than the actuals in 2018. Moreover, in the same period, the Company acquired right-of-use assets worth PLN 185.4 million resulting from the entry into force of IFRS16. The Company's total expenditures in 2019 amounted to PLN 1,217.8 million. Capital expenditures and right-of-use assets outside the country, that is for the purchase of Samms series flat wagons and flat wagons for container transport and multi-system locomotives as well as the acquisition of right-of-use assets covering rental of locomotives and cars, amounted to PLN 156.2 million.

The biggest part of capital expenditures in the Company in 2019 was allocated for the execution of investment tasks associated with the rolling stock, mainly for repairs and periodic inspections of the rolling stock (the number of periodic repairs and periodic inspections performed in individual periods is derived from the cycles specified in the Maintenance System Documentation (DSU) of the rolling stock approved by the Office of Rail Transport and the quantum of rolling stock maintained as fit for operation as required for the provision of transportation services), the purchase of 3 multi-system locomotives, modernization of 49 locomotives, the purchase of 83 Sammns series flat wagons and the purchase of 50 Sggrs(s) series flat wagons for a total of PLN 1,004.3 million (or 97.3% of total capital expenditures).

Moreover, the Company incurred capital expenditures in the IT area, in particular to purchase hardware and ICT equipment along with intangible assets (software) for the total amount of PLN 11.4 million (chiefly for the roll-out of IT systems and the purchase of ICT hardware), for investment construction in the amount of PLN 7.0 million, namely the construction and modernization of buildings, in particular workshop facilities, the construction and modernization of water supply, sewage removal and central heating networks and the acquisition of machinery and equipment and workshop and office fit-out in the

[105] P3 – maintenance operations performed on specialist control posts, when the vehicle is withdrawn from service, with partial dismantling of sub-assemblies
P4 – maintenance operations performed in plants fitted with technical facilities and measurements stations, encompassing planned replacement or repairs of sub-assemblies
P5 – renovation of the vehicle, encompassing dismantling of sub-assemblies and their replacement with new or regenerated ones

amount of PLN 9.7 million. Also, the Company incurred fees related to right-of-use assets in the amount of PLN 185.4 million, including: real property rental contracts for PLN 45.8 million, rolling stock rental contracts for PLN 29.2 million and contracts for the rental of cars and other equipment for PLN 7.2 million as well as the acquisition of fixed assets in the form of leases for 6 six-axle electric locomotives for PLN 94.8 million and IT equipment, machinery and equipment and cars for PLN 8.4 million.

Table 13 Capital expenditures in PKP CARGO S.A. in 2014 – 2019 (PLN millions)

Investment area	2019	2018	2017	2016	2015	2014	Change 2019-2018	Change 2019 / 2018 %
Investment construction activity	7.0	13.1	5.5	4.5	19.9	11.1	-6.1	-46.6%
Purchases of locomotives	65.3	43.4	53.0	199.4	0.0	0.0	21.9	50.5%
Modernization of locomotives	252.0	146.3	64.2	35.4	69.6	48.3	105.7	72.3%
Purchase of wagons	69.9	11.1	12.5	0.0	20.1	57.2	58.8	529.7%
Workshop machinery and equipment	8.5	6.8	4.3	2.8	6.0	5.9	1.7	25.0%
ICT development	11.4	12.2	14.5	16.5	32.3	20.6	-0.8	-6.6%
Other	1.2	0.7	0.5	2.2	5.5	2.7	0.5	71.4%
Components in overhaul, including:	617.1	594.8	356.7	185.0	283.6	433.2	22.3	3.8%
Repairs and periodic inspections of locomotives	*162.2*	*160.2*	*76.5*	*45.0*	*137.8*	*125.2*	*2.0*	*1.3%*
Repairs and periodic inspections of wagons	*454.9*	*434.6*	*280.2*	*140.0*	*145.8*	*308.0*	*20.3*	*4.7%*
Total	**1,032.4**	**828.4**	**511.2**	**445.8**	**437.0**	**579.0**	**204.0**	**24.6%**
Right-of-use assets	185.4							
Total	**1,217.8**							

Source: Proprietary material

The funding mix of capital expenditures towards property, plant and equipment, intangible assets and right-of-use assets in the Company in 2019 was as follows: PLN 770.0 million of own funds, PLN 295.4 million of debt funds, PLN 103.9 million of lease funds, PLN 47.4 million of targeted grants and PLN 1.1 million of EU grants.

Also, PLN 263.8 million in expenditures incurred in 2018 was refinanced in 2019 as follows:

- targeted grant of PLN 9.7 million for the purchase of Sammns series flat wagons,
- loan in the amount of PLN 253.8 million for the purchase and repair of rolling stock.

In turn, capital expenditures incurred in 2019 for the purchase of 50 Sggrs(s) series flat wagons financed with own funds of PLN 22.5 million will be 50% refinanced in 2020 with an EU grant.

PKP CARGO Group

In 2019, the Group incurred capital expenditures for 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 P3 periodic inspections) as well as intangible assets of PLN 1,112.7 million, which was 24.5% higher than the actuals in 2018. Moreover, in the same period, the PKP CARGO Group acquired rights to use assets worth PLN 237.6 million resulting from the entry into force of IFRS16. The expenditures incurred by the PKP CARGO Group in 2019 totaled PLN 1,350.3 million.

The majority of the capital expenditures in the Group in 2019 was allocated for the execution of investment tasks associated with rolling stock, mainly for periodic repairs and periodic check-ups of rolling stock (the number of periodic repairs and periodic check-ups performed in individual periods is derived from the cycles specified in the Maintenance System Documentation (DSU) of the rolling stock approved by the Office of Rail Transport and the quantum of rolling stock maintained as fit for operation as required for the provision of transportation services) and the acquisition and modernization of locomotives and wagons – for a total amount of PLN 1,027.7 million (i.e. 92.3% of the capital expenditures). Moreover, the Group incurred expenditures on computerization, i.e. purchases of computer hardware in the form of computers and ICT equipment as well as intangible assets (software) in the amount of PLN 14.1 million, for investment construction activity in the amount of PLN 39.5 million, chiefly to modernize container terminals and buildings, including workshop buildings and to build and modernize water supply, sewer and central heating grids, repair tracks and storage yards, and purchase and modernize machinery, plant and tools in container terminals and workshop buildings in the amount of PLN 26.7 million, to purchase office equipment and vehicles for PLN 4.8 million and right-of-use assets for PLN 237.6 million, including real estate for PLN 43.7 million, rolling stock for PLN 173.1 million and workshop equipment and cars for PLN 20.8 million.

Table 14 Capital expenditures in the PKP CARGO Group in 2014 – 2019 (PLN million)

Investment area	2019	2018	2017	2016	2015	2014	Change 2019-2018	Change 2019/2018 %
Investment construction activity	39.5	48.1	32.1	19.1	28.1	18.1	-8.6	-17.9%
Purchases of locomotives	65.3	43.8	53.0	200.2	0.0	0.0	21.5	49.1%
Modernization of locomotives	258.5	147.9	67.0	40.5	70.4	48.5	110.6	74.8%
Purchase of wagons	69.9	11.1	13.3	0.0	20.1	57.3	58.8	529.7%
Wagon upgrades	2.0	0.0	1.7	3.6	1.6	0.0	2.0	-
Workshop machinery and equipment	26.6	26.3	17.6	14.4	12.2	9.5	0.3	1.1%
ICT development	14.1	16.6	16.3	20.1	34.9	22.0	-2.5	-15.1%
Other	4.8	1.9	2.4	4.2	9.7	4.2	2.9	152.6%
Components in overhaul, including:	632.0	598.4	358.6	230.6	307.6	437.1	33.6	5.6%
Repairs and periodic inspections of locomotives	*167.1*	*171.7*	*77.3*	*72.1*	*150.7*	*126.0*	*-4.6*	*-2.7%*
Repairs and periodic inspections of wagons	*464.9*	*426.7*	*281.3*	*158.5*	*156.9*	*311.1*	*33.2*	*9.0%*
Total	**1,112.7**	**894.1**	**562.0**	**532.7**	**484.6**	**596.7**	**218.6**	**24.5%**
Right-of-use assets	237.6							
Total	**1,350.3**							

Source: Proprietary material

4.6.2 Assessment of the capacity to execute investment plans

The Group will finance capital expenditures using partly external financing sources (such as investment loans, leases, assistance funds or other sources) and using its own funds.

Additionally, a cash pooling system is in place in the PKP CARGO Group which comprises, as at 31 December 2019, 7 Group companies.

PKP CARGO S.A. has been efficiently managing the cash management cycle by matching the maturity of receivables and liabilities. To hedge the possible risk of a short-term cash shortage, PKP CARGO S.A. has in place two overdraft facilities with the total limit of PLN 200 million (as at 31 December 2019).

5. Analysis of the PKP CARGO Group's financial standing and assets

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

Table 15 Financial highlights of PKP CARGO S.A.

PKP CARGO S.A.	PLN million[106]					EUR million				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
Exchange rates (PLN/EUR)						**4.3018**	**4.2669**	**4.2447**	**4.3757**	**4.1848**
Operating revenue	3,601.4	3,939.2	3,588.0	3,250.5	3,514.2	837.2	923.2	845.3	742.8	839.7
Profit / loss on operating activities	40.2	318.2	149.7	-31.1	-115.2	9.3	74.6	35.3	-7.1	-27.5
Profit / loss before tax	19.2	320.7	125.5	-70.7	-139.1	4.5	75.2	29.6	-16.2	-33.2
Net profit / loss from continuing operations	-8.3	254.0	94.0	-68.6	-114.1	-1.9	59.5	22.1	-15.7	-27.3
Comprehensive income	-37.4	228.2	87.3	-53.9	-73.8	-8.7	53.5	20.6	-12.3	-17.6
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares used to calculate diluted profit / loss	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Earnings / loss per share (PLN/EUR)	-0.19	5.67	2.10	-1.53	-2.55	-0.04	1.33	0.49	-0.35	-0.61
Diluted earnings / loss per share (PLN/EUR)	-0.19	5.67	2.10	-1.53	-2.55	-0.04	1.33	0.49	-0.35	-0.61
Net cash flow from operating activities*	649.4	709.7	478.4	237.5	325.9	151.0	166.3	112.7	54.3	77.9
Net cash flow from investing activities	-693.4	-536.3	-780.2	-440.6	-584.9	-161.2	-125.7	-183.8	-100.7	-139.8
Net cash flow from financing activities	201.6	-246.9	-14.3	731.0	-38.3	46.9	-57.9	-3.4	167.1	-9.2
Movement in cash and cash equivalents	157.6	-73.5	-316.1	527.9	-297.3	36.6	-17.2	-74.5	120.6	-71.0
	31/12/2019	**31/12/2018**	**31/12/2017**	**31/12/2016**	**31/12/2015**	**31/12/2019**	**31/12/2018**	**31/12/2017**	**31/12/2016**	**31/12/2015**
Exchange rates (PLN/EUR)						**4.2585**	**4.3000**	**4.1709**	**4.4240**	**4.2615**
Non-current assets	6,030.5	4,902.5	4,562.6	4,445.2	4,458.1	1,416.1	1,140.1	1,093.9	1,004.8	1,046.1
Current assets	989.8	1,079.8	1,178.5	1,106.4	559.1	232.4	251.1	282.6	250.1	131.2
Non-current assets classified as held for sale	-	-	-	6.0	44.1	-	-	-	1.4	10.3
Share capital	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3	525.8	520.8	536.9	506.2	525.5
Equity	3,210.4	3,314.6	3,088.9	3,001.6	3,072.3	753.9	770.8	740.6	678.5	720.9
Non-current liabilities	2,659.0	1,652.6	1,748.7	1,713.9	1,150.2	624.4	384.3	419.3	387.4	269.9
Current liabilities	1,150.9	1,015.1	903.5	842.1	838.8	270.2	236.1	216.6	190.3	196.8

Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2019 prepared according to EU IFRS.

* including the performance of liabilities stemming from the implemented Voluntary Redundancy Program in the amount of PLN 273.7 million in 2015, including the performance of liabilities stemming from the implemented Voluntary Redundancy Program in the amount of PLN 47.4 million in 2016

[106] In this Management Board Report on the Activity of the PKP CARGO Group for the financial year 2019, to facilitate the reading, some figures were rounded off which may cause slight deviations in the presented data. In all cases of possible distortions, the data were presented with greater accuracy.

Table 16 Reconciliation of the differences between the reported and adjusted result on operating activities (EBIT) and the operating result without depreciation (EBITDA) of PKP CARGO S.A.

PKP CARGO S.A.	PLN million				
	2019	2018	2017	2016	2015
Profit / loss on operating activities	**40.2**	**318.2**	**149.7**	**-31.1**	**-115.2**
Adjustments:					
Operating expenses					
VRP					63.9
Revaluation of assets			-27.4		177.9
Adjusted profit / loss on operating activities	**40.2**	**318.2**	**122.3**	**-31.1**	**126.5**
Operating profit without depreciation (EBITDA)	**624.0**	**771.2**	**590.3**	**443.7**	**454.4**
Adjustments:					
Operating expenses					
VRP					63.9
Adjusted operating profit without depreciation (EBITDA)	**624.0**	**771.2**	**590.3**	**443.7**	**518.3**

Source: Proprietary material

Table 17 Financial highlights of the PKP CARGO Group

PKP CARGO Group	PLN million					EUR million				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
Exchange rates (PLN/EUR)						**4.3018**	**4.2669**	**4.2447**	**4.3757**	**4.1848**
Operating revenue	4,865.5	5,237.5	4,733.0	4,411.3	4,554.1	1,131.0	1,227.5	1,115.0	1,008.1	1,088.3
Profit / loss on operating activities	143.4	277.6	153.4	-132.1	55.9	33.3	65.1	36.1	-30.2	13.4
Profit / loss before tax	73.5	243.8	116.5	-150.9	10.5	17.1	57.1	27.4	-34.5	2.5
Net profit / loss	36.0	183.9	81.7	-133.8	30.1	8.4	43.1	19.2	-30.6	7.2
Total comprehensive income attributable to the owners of the parent company	4.2	170.7	73.8	-91.1	107.6	1.0	40.0	17.4	-20.8	25.7
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares used to calculate diluted profit / loss	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917	44,786,917
Earnings / loss per share (PLN/EUR)	0.80	4.11	1.82	-2.99	0.67	0.19	0.96	0.43	-0.68	0.16
Diluted earnings / loss per share (PLN/EUR)	0.80	4.11	1.82	-2.99	0.67	0.19	0.96	0.43	-0.68	0.16
Net cash flow from operating activities*	806.5	863.0	600.7	380.0	387.5	187.5	202.2	141.5	86.9	92.6
Net cash flow from investing activities	-814.8	-612.0	-740.0	-568.6	-515.2	-189.4	-143.4	-174.3	-129.9	-123.1
Net cash flow from financing activities	111.4	-322.9	-99.4	663.9	-29.4	25.9	-75.7	-23.4	151.7	-7.0
Movement in cash and cash equivalents	103.1	-71.9	-238.7	475.3	-157.1	24.0	-16.9	-56.2	108.6	-37.6
	31/12/2019	**31/12/2018**	**31/12/2017**	**31/12/2016**	**31/12/2015**	**31/12/2019**	**31/12/2018**	**31/12/2017**	**31/12/2016**	**31/12/2015**
Exchange rates (PLN/EUR)						**4.2585**	**4.3000**	**4.1709**	**4.4240**	**4.2615**
Non-current assets	6,503.8	5,187.2	4,951.5	4,964.2	4,996.9	1,527.3	1,206.3	1,187.2	1,122.1	1,172.6
Current assets	1,487.5	1,619.1	1,694.2	1,547.9	1,078.9	349.3	376.5	406.2	349.9	253.2
Non-current assets classified as held for sale	-	-	-	-	44.1	-	-	-	-	10.3
Share capital	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3	525.8	520.8	536.9	506.2	525.5
Equity attributable to the owners of the parent company	3,423.3	3,483.5	3,317.2	3,243.4	3,351.4	803.9	810.1	795.3	733.1	786.4
Equity attributable to non-controlling interests	-	-	-	-	-	-	-	-	-	-
Non-current liabilities	3,115.9	1,969.1	2,110.9	2,092.6	1,586.1	731.7	457.9	506.2	473.0	372.2
Current liabilities	1,452.1	1,353.7	1,217.6	1,176.1	1,182.4	341.0	314.8	291.9	265.8	277.5

Source: Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2019 prepared in accordance with EU IFRS.

* including the performance of liabilities stemming from the implemented Voluntary Redundancy Program in the amount of PLN 287.4 million in 2015, including the performance of liabilities stemming from the implemented Voluntary Redundancy Program in the amount of PLN 48.2 million in 2016

Table 18 Reconciliation of the differences between the reported and adjusted result on operating activities (EBIT) and the operating result without depreciation (EBITDA) of the PKP CARGO Group

PKP CARGO Group	PLN million				
	2019	2018	2017	2016	2015
Profit / loss on operating activities	**143.4**	**277.6**	**153.4**	**-132.1**	**55.9**
Adjustments:					
Operating revenue					
Bargain acquisition of PKP CARGO International (formerly AWT)					-137.8
Operating expenses					
VRP					70.2
Impairment loss on receivables from OKD				72.7	
Revaluation of assets*		69.0	-27.4	34.1	178.7
Adjusted profit / loss on operating activities	**143.4**	**346.6**	**126.0**	**-25.3**	**167.0**
Operating profit without depreciation (EBITDA)	**859.9**	**907.0**	**700.3**	**489.5**	**704.9**
Adjustments:					
Operating revenue					
Bargain acquisition of PKP CARGO International (formerly AWT)					-137.8
Operating expenses					
VRP					70.2
Impairment loss on receivables from OKD				72.7	
Adjusted operating profit without depreciation (EBITDA)	**859.9**	**907.0**	**700.3**	**562.2**	**637.3**

Source: Proprietary material

* in 2018, the impairment loss was related to PKP CARGO International (formerly AWT)

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 Standalone Financial Statements of PKP CARGO S.A. and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2019:

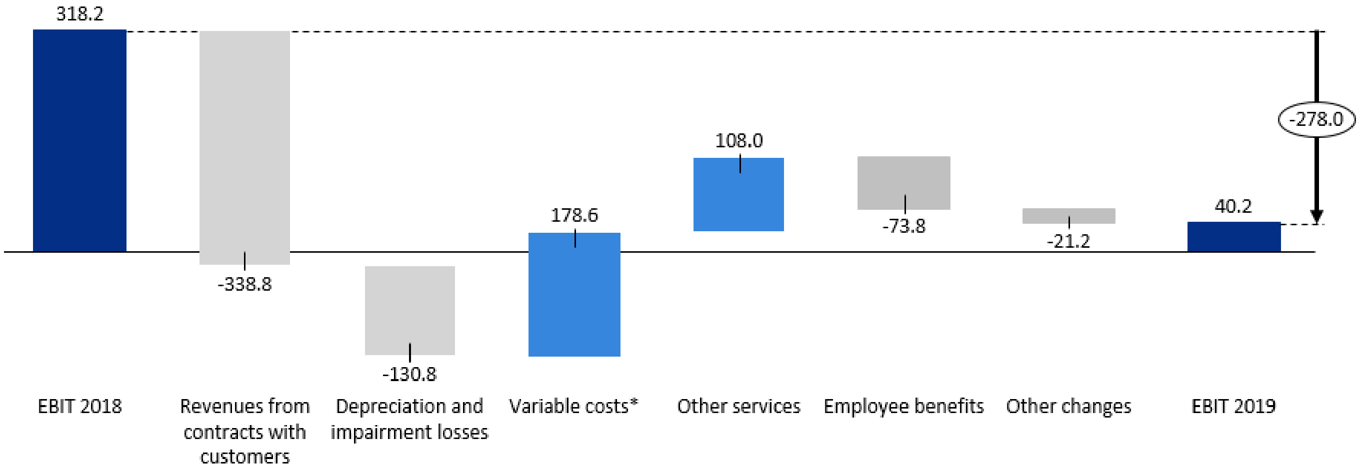
- exchange rate in force on the last day of the reporting period: 31 December 2019: EUR 1 = PLN 4.2585; 31 December 2018: EUR 1 = PLN 4.3000,
- average exchange rate in the period calculated as the arithmetic mean of the exchange rates prevailing on the last day of each month in the respective period: 1 January – 31 December 2019: EUR 1 = PLN 4.3018, 1 January – 31 December 2018: EUR 1 = PLN 4.2669.

5.2 PKP CARGO S.A.'s economic and financial highlights

5.2.1 PKP CARGO S.A.'s statement of comprehensive income

In 2019, EBIT reached PLN 40.2 million, having gone down by PLN 278.0 million compared to the corresponding period of the previous year (-87.4%).

Figure 22 EBIT in 2019 as compared to the corresponding period in 2018 (PLN million)



Source: Proprietary material

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

The implementation of IFRS 16 affected the structure of the statement of profit or loss. In 2019, due to the implementation of the new standard, depreciation increased by PLN 68.0 million, the operating result increased by PLN 17.5 million and the pre-tax result fell by PLN 4.2 million. Owing to the application of the new standard, EBITDA went up by approximately PLN 85.5 million **(Note 1.3 to the SFS[107]).**

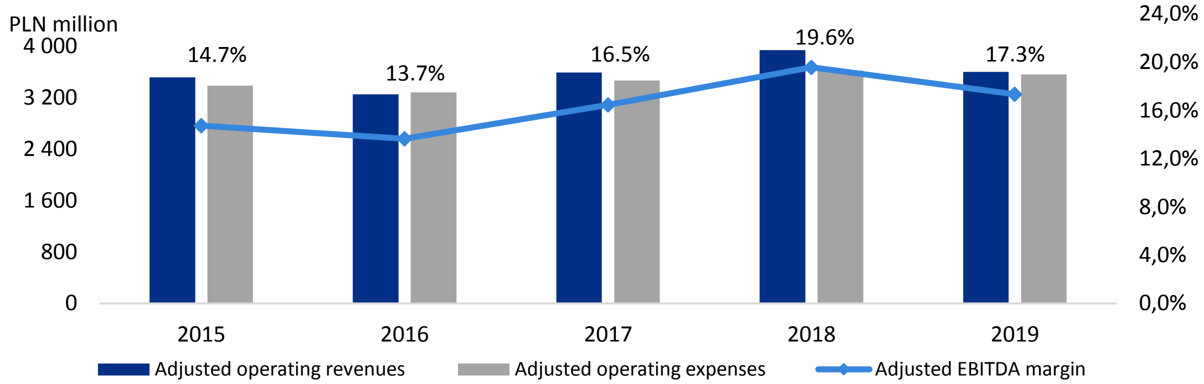
The following is the explanation of the most significant changes affecting EBIT in 2019 as compared to 2018:

- 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 12.5%) coupled with an increase in transport rates partially offsetting the decrease in revenues for transport and freight forwarding services.
- increase in depreciation and impairment losses, chiefly due to the introduction of IFRS 16 as of 1 January 2019 (for details, see **Note 1.3 to the SFS**). Without the standard application effect, depreciation and impairment losses increase by PLN 62.8 million as a result of an increase in capital expenditures related to investments in rolling stock;
- decrease in variable costs (energy consumption, traction fuel and infrastructure access services) by 13.9% as a result of a 14.8% decrease in freight turnover. Furthermore, in its June 2019 result, the Company recognized the effect of compensation for higher electricity prices. The final effect of the settlement was PLN 35.5 million;
- decrease in the costs of other services, chiefly in the line items 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 the freight volume of imports;
- increase in employee benefits resulting primarily from wage increases in PKP CARGO S.A. (the raise was granted as of 1 September 2018 and as of 1 August 2019). At the same time, PKP CARGO S.A. recorded an increase in the average headcount by 158 FTEs. Detailed information on the changes in headcount is presented in section **4.5 "Headcount"**.

The figure below presents the adjusted EBITDA margin compared to selected adjusted items in the Company's statement of profit or loss for 2015-2019. From the end of 2016 to the end of 2018, PKP CARGO S.A. was gradually rebuilding its EBITDA margin, chiefly by way of increases in transport prices and growing volumes of transported cargo. The year 2019 brought a halt to the favorable trend of the previous 3 years, chiefly as a result of diminishing freight volumes.

[107] Any reference to a Note in these Statements should be construed as a Note to the Standalone Financial Statements of PKP CARGO S.A. ("SFS") for the financial year ended 31 December 2019 prepared according to EU IFRS, if the reference is made to standalone data. In the case of consolidated data, it should be construed as a Note to the Consolidated Financial Statements of the PKP CARGO Group ("CFS") for the financial year ended 31 December 2019 prepared according to EU IFRS unless indicated otherwise.

Figure 23 Adjusted EBITDA margin compared to the Company's adjusted operating revenues and expenses in 2015-2019* (PLN million)



Source: Proprietary material

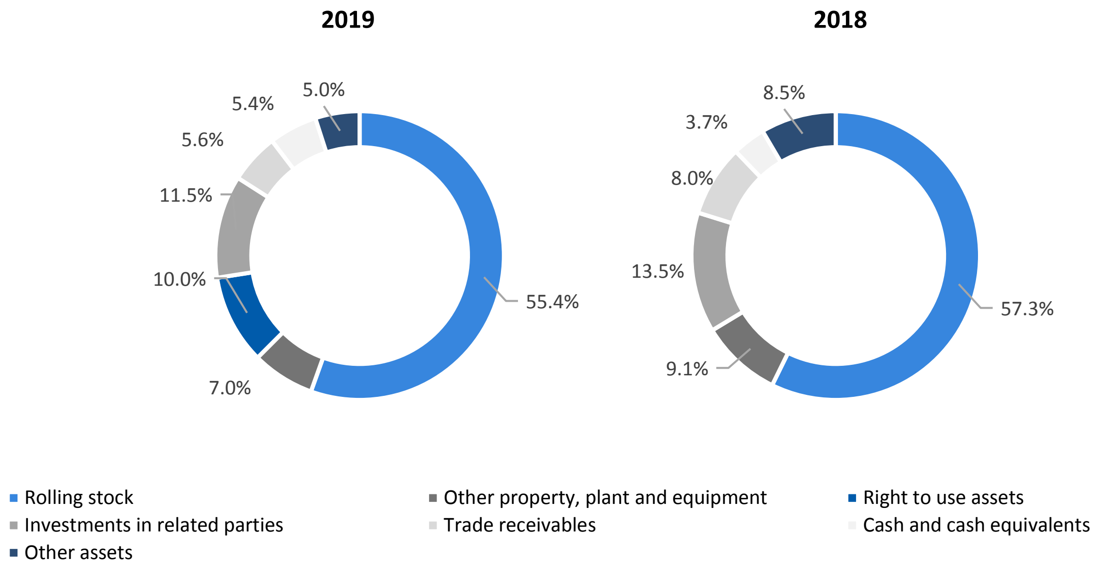
* the 2015 data were adjusted for presentation purposes for the costs following from the VRP implemented in the amount of PLN 63.9 million and impairment losses on non-current assets and assets classified as held for sale in the amount of PLN 177.9 million,
the 2017 data were adjusted for presentation purposes for revaluation of the residual value of rolling stock and reversal of part of the impairment loss on rolling stock components in the amount of PLN -27.4 million,
the 2018 data were not adjusted,
the 2019 data were not adjusted. Data for 2019 are presented in combination with the impact of IFRS 16

5.2.2 Description of the structure of assets and liabilities of PKP CARGO S.A.

ASSETS

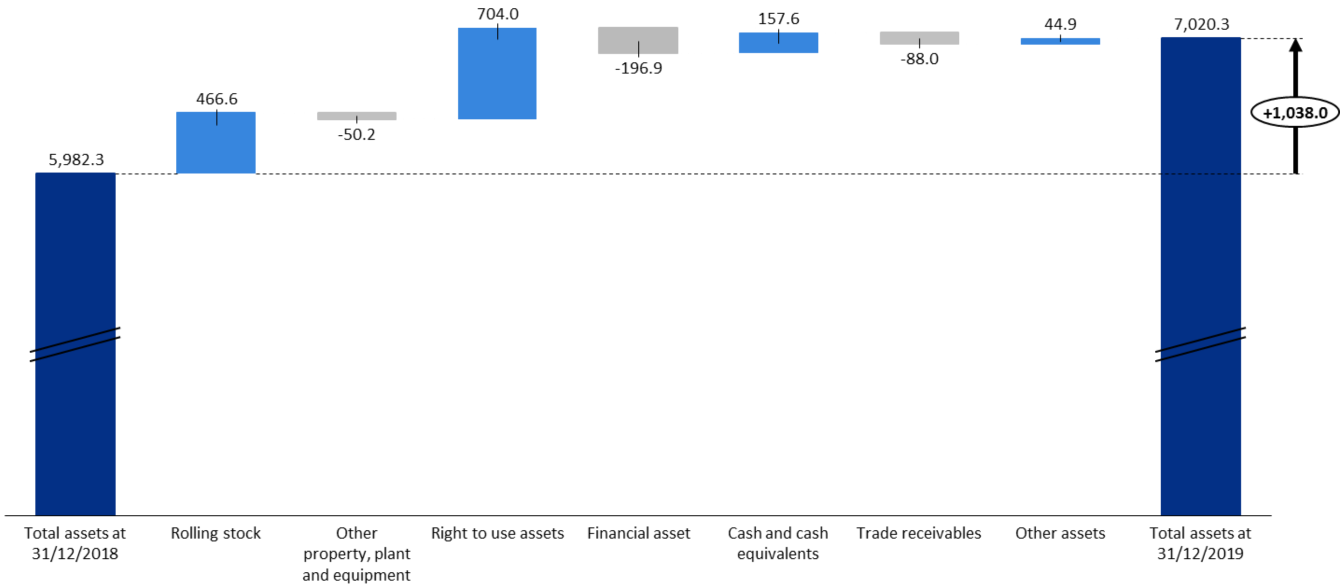
The biggest share in the asset structure as at 31 December 2019 was held by rolling stock, which accounted for 55.4% of total assets, compared to 57.3% as at 31 December 2018. A significant change resulting from the implementation of IFRS 16 compared to 31 December 2018 occurred in right-of-use assets, which as at 31 December 2019 accounted for 10.0% of total assets. The largest share in the structure of current assets as at 31 December 2019 in relation to total assets was attributable to trade receivables (5.6%).

Figure 24 Structure of PKP CARGO S.A.'s assets as at 31 December 2019 and 31 December 2018



Source: Proprietary material

Figure 25 Movement in PKP CARGO S.A.'s assets in 2019 (PLN million)



Source: Proprietary material

The implementation of IFRS 16 has affected the structure of the statement of financial position as at 31 December 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 20.9 million to right-of-use assets) and other property, plant and equipment (presentation shift by PLN 31.6 million to right-of-use assets). Furthermore, all assets resulting from the application of IFRS 16 are recognized in the right-of-use asset line item in the amount of PLN 616.0 million. As at 1 January 2019, the item of both short-term and long-term debt liabilities also increased, by PLN 595.2 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 SFS**.

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

- the value of rolling stock increased by PLN 466.6 million as a result of capital expenditures in rolling stock in the amount of PLN 1,004.3 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 2019 amounted to PLN 463.3 million and PLN 20.9 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 SFS**;
- The decrease in the value of other property, plant and equipment by PLN 50.2 million resulted predominantly from the implementation of IFRS 16 (the presentation change described above) and depreciation of other property, plant and equipment in 2019 in the amount of PLN 39.1 million. Details on movements pertaining to other property, plant and equipment resulting from the implementation of IFRS 16 are described in **Note 5.1. to the SFS**;
- The 'right-of-use assets' line item of PLN 704.0 million as at 31 December 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 SFS**;
- the increase in cash and cash equivalents by PLN 157.6 million resulted chiefly from the inflow of loan funds in the amount of PLN 549.1 million and cash generated from operating activity in the amount of PLN 649.4 million, with capital expenditures of PLN 693.4 million and repayment of loans, borrowings and leases with interest in the amount of PLN 333.5 million;
- decrease in trade receivables by PLN 88.0 million as a result of lower operating revenue.

Table 19 Inventory turnover ratio in 2015-2019 (in days)

Item	2019	2018	2017	2016	2015	Change 2019-2018	Rate of change 2019/2018
Inventory turnover ratio*	94.6	96.8	128.9	110.6	87.1	-2.2	-2.3%

* Inventory turnover ratio calculated for 360 days and depletion on a year-to-date basis since the beginning of the reporting year
Source: Proprietary material.

At the end of December 2019, inventory turnover ratio was 94.6, down 2.2 compared to 2018, with:

- inventory of materials in 2019 at PLN 79.2 million, compared to PLN 84.2 million in 2018;
- net value of materials sold in 2019 at PLN 23.9 million, compared to PLN 22.5 million in 2018;
- consumption of materials and employee benefits in 2019 at PLN 277.2 million, compared to PLN 290.3 million in 2018.

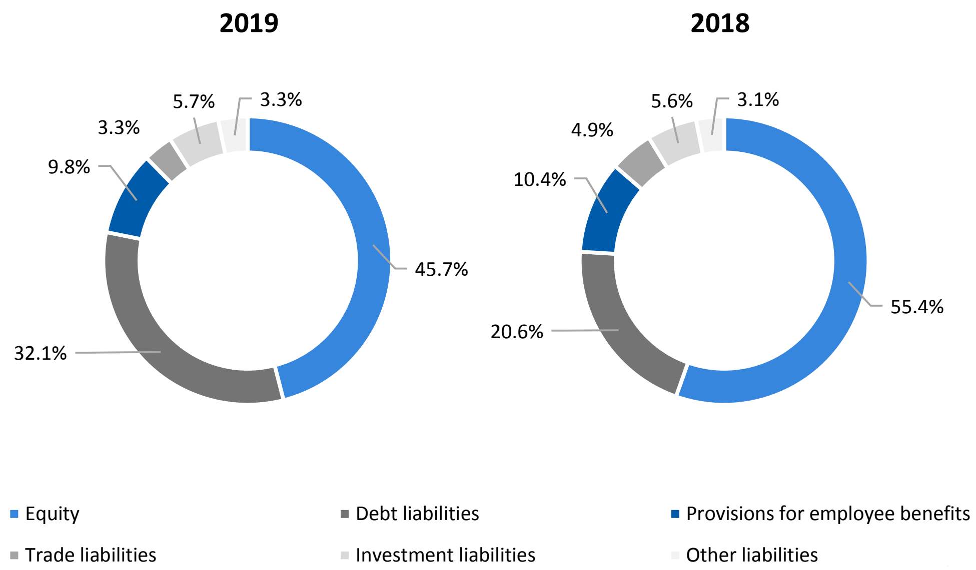
The indicator decreased due to a 5.9% drop in net inventories with a 4.5% decrease in the consumption of materials and a 6.2% increase in the net value of materials sold.

The level of inventories is adapted mainly to the level of the rolling stock maintenance and repair activity. Detailed information regarding the level of inventories is presented in **Note 5.4 to the SFS.**

EQUITY AND LIABILITIES

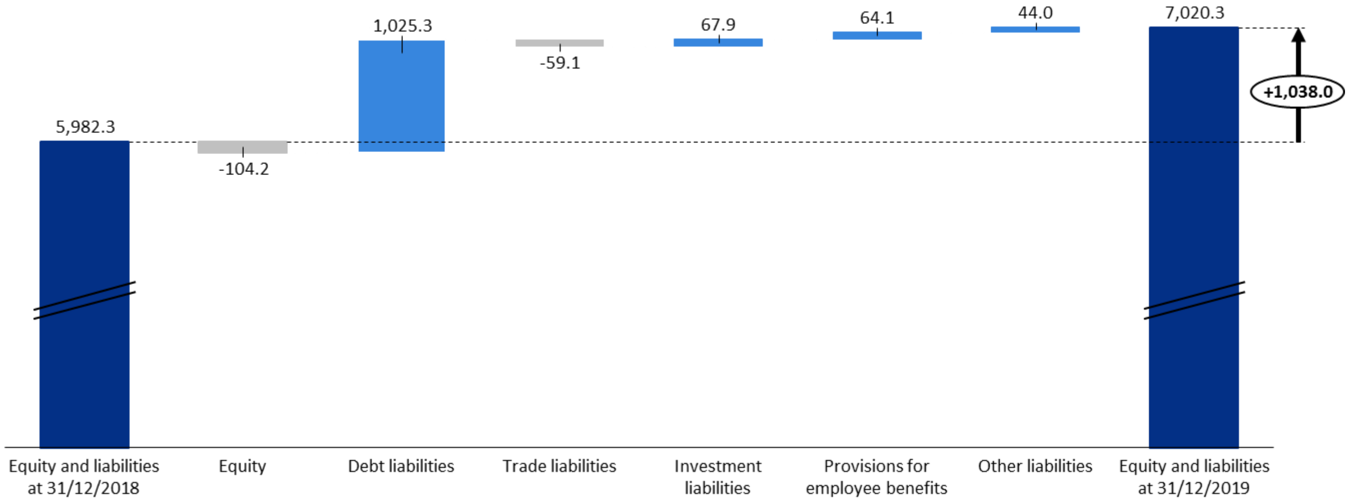
The largest share in the structure of PKP CARGO S.A.'s equity and liabilities as at 31 December 2019 was attributable to equity, which accounted for 45.7% of the sum of equity and liabilities, compared to 55.4% as at 31 December 2018. Debt liabilities accounted for 32.1% of total equity and liabilities, compared to 20.6% as at 31 December 2018, which is related to the introduction of IFRS 16 as of 1 January 2019.

Figure 26 Structure of PKP CARGO S.A.'s equity and liabilities as at 31 December 2019 and 31 December 2018



Source: Proprietary material

Figure 27 Movement in PKP CARGO S.A.'s equity and liabilities in 2019 (PLN million)



Source: Proprietary material

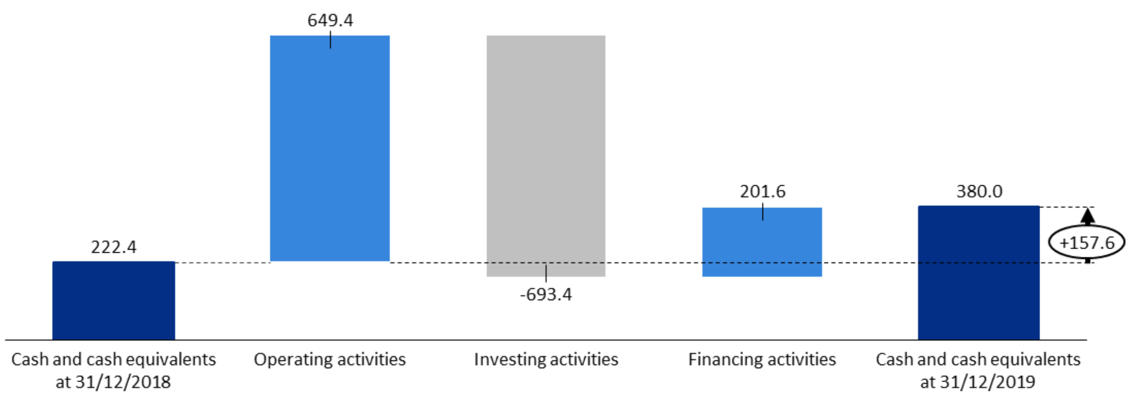
The following is the explanation of the most significant changes affecting the value of capital and liabilities assets as at 31 December 2019 as compared to 31 December 2018:

- decrease in equity resulting chiefly from the disbursement of the 2018 dividend of PLN 67.2 million in connection with the resolution adopted by the Parent Company's Shareholder Meeting on 26 June 2019 and posting a negative financial result for 2019 of PLN -8.3 million;
- increase in debt liabilities by PLN 1,025.3 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 595.2 million), while the debt was reduced through repayment of bank loans and borrowings and leases in the amount of PLN 333.5 million and bank loans of PLN 549.1 million were incurred. Details on movements resulting from the implementation of IFRS 16 are described in **Note 1.3 to the SFS**;
- decrease in trade liabilities by PLN 59.1 million caused mainly by a fall in the value of external services and costs of materials and energy consumption due to the lower freight turnover;
- increase in capital expenditure liabilities by PLN 67.9 million, chiefly due to an increase in liabilities related to rolling stock by PLN 75.9 million with a simultaneous decrease in capital expenditure liabilities related to real properties by PLN 7.2 million;
- increase in provisions for employee benefits by PLN 64.1 million, largely due to the increased provisions for retirement and disability severance pays and provisions for jubilee awards.

5.2.3 Cash flow statement of PKP CARGO S.A.

The value of cash and cash equivalents as at 31 December 2019 increased by PLN 157.6 million compared to 31 December 2018.

Figure 28 PKP CARGO S.A.'s cash flows in 2019 (PLN million)



Source: Proprietary material

- Net cash flow from operating activities were generated on the result before tax of PLN 19.2 million and depreciation and impairment losses of PLN 583.8 million. Moreover, the largest changes contributing to the decrease in cash flows from operating activities resulted from changes in the working capital amount, by PLN 127.1 million, and payment of income tax in the amount of PLN 40.1 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 951.0 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 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 333.5 million, offset by PLN 549.1 million of loan drawdowns. Moreover, in 2019, dividend distributed to shareholders amounted to PLN 67.2 million and 57.1 million in subsidies was received for the purchases of rolling stock.

5.2.4 Selected financial and operating ratios of PKP CARGO S.A.

The table below presents PKP CARGO S.A.'s key financial and operating ratios in the period of 2015-2019.

Table 20 Selected financial and operating ratios of PKP CARGO S.A. in 2015-2019

Item	2019	2018	2017	2016	2015	Change	Rate of change
						2019 - 2018	2019 - 2018
EBITDA margin[1]	17.3%	19.6%	16.5%	13.7%	12.9%	-2.3 p.p.	-11.5%
Net profit margin[2]	-0.2%	6.4%	2.6%	-2.1%	-3.2%	-6.6 p.p.	-
Net financial debt to EBITDA ratio[3]	2.4	1.0	1.5	2.0	1.4	1.4	140.0%
ROA[4]	-0.1%	4.2%	1.6%	-1.2%	-2.3%	-4.3 p.p.	-
ROE[5]	-0.3%	7.7%	3.0%	-2.3%	-3.7%	-8.0 p.p.	-
Average distance covered per locomotive (km/day)[6]	234.3	262.9	256.8	249.5	240.6	-28.6	-10.9%
Average gross train tonnage per operating locomotive (tons)[7]	1,469.0	1,489.0	1,485.0	1,502.0	1,523.0	-20.0	-1.3%
Average running time of train locomotives (hours per day)[8]	15.0	16.1	15.6	15.1	15.2	-1.1	-6.8%
Freight turnover per employee (thousands tkm/employee)[9]	1,459.2	1,728.8	1,702.5	1,516.3	1,553.8	-269.6	-15.6%

Source: Proprietary material

1. Calculated as the ratio of the operating result without amortization and depreciation (EBITDA) to total operating revenue.
2. Calculated as the ratio of net profit to total operating revenue.
3. Calculated as the ratio of net financial debt (constituting the sum of (i) bank loans and borrowings, (ii) leases; (iii) other financial liabilities, minus (i) cash and cash equivalents, (ii) deposits with a maturity above 3 months and EBITDA for the last 12 months (the result on operating activities plus amortization/depreciation and impairment losses). Details on the calculation of the net debt to EBITDA ratio are presented in **Note 4.1 to the SFS.**
4. Calculated as the ratio of net profit/loss for the last 12 months to total assets.
5. Calculated as the ratio of net profit for the last 12 months to equity.
6. Calculated as the quotient of vehicle-kilometers (i.e. distance covered by PKP CARGO S.A.'s vehicles in the given period) / vehicle-days (i.e. product of the number of active vehicles and number of calendar days in the given period).
7. Calculated as the quotient of gross ton-kilometers and train-kilometers in train work in relation to the locomotives driving the train (in dual traction or pushing the train in the given period).
8. Calculated as the quotient of vehicle-hours (i.e. number of hours of work of PKP CARGO S.A.'s vehicles in the given period) and vehicle-days (i.e. the product of the number of active vehicles and number of calendar days in the given period).
9. Calculated as the quotient of the Company's freight turnover to the average headcount (in FTEs) in PKP CARGO S.A. in the given period.

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

- The key profitability ratios, i.e. the EBITDA margin, the net profit/loss margin, ROA and ROE, were lower for the reasons described in section **5.2 "PKP CARGO S.A.'s economic and financial highlights".** The net financial debt to EBITDA ratio also deteriorated as a result of the weaker financial performance of PKP CARGO S.A. and an increase in net financial debt;
- the lower average daily haul of locomotives resulted from a decrease in freight volume and was caused by copious track closures and operational difficulties on the PKP PLK network;
- the lower average gross train tonnage per operating locomotive also resulted from the decrease in freight volume (especially in mass freight services) and was caused by copious track closures and operational difficulties on the PKP PLK network;
- the lower average daily operating time of locomotives was also caused by the decrease in freight volume and was caused by copious track closures and operational difficulties on the PKP PLK network;
- the decrease in the freight turnover ratio per employee was caused mainly by the decrease in freight turnover by 14.8% with the concurrent increase in the average headcount by 0.9%.

5.2.5 Time series of PKP CARGO S.A.'s financial data

The table below presents time series of the statement of profit or loss and other comprehensive income, statement of financial position and statement of cash flows.

Table 21 Time series of the statement of profit or loss and other comprehensive income of PKP CARGO S.A. in 2015-2019

	PLN million				
	2019	**2018**	**2017**	**2016**	**2015**
Revenues from contracts with customers	3,572.0	3,910.8	3,563.6	3,219.0	3,482.4
Consumption of electricity and traction fuel	-527.8	-549.7	-484.6	-456.8	-509.7
Services of access to infrastructure	-576.9	-733.6	-714.5	-658.1	-681.9
Other services	-322.0	-430.0	-450.7	-420.4	-433.1
Employee benefits	-1,339.0	-1,265.2	-1,150.7	-1,089.1	-1,229.9
Other expenses	-182.9	-170.2	-164.0	-153.9	-168.2
Other income and operating expenses	0.6	9.1	-8.8	3.1	-5.1
Operating profit without depreciation (EBITDA)	**624.0**	**771.2**	**590.3**	**443.7**	**454.4**
Depreciation and impairment losses	-583.8	-453.0	-440.6	-474.8	-569.6
Profit on operating activities (EBIT)	**40.2**	**318.2**	**149.7**	**-31.1**	**-115.2**
Financial income and expenses	-21.0	2.5	-24.2	-39.6	-23.9
Profit before tax	**19.2**	**320.7**	**125.5**	**-70.7**	**-139.1**
Income tax	-27.5	-66.7	-31.5	2.1	25.0
NET PROFIT	**-8.3**	**254.0**	**94.0**	**-68.6**	**-114.1**
OTHER COMPREHENSIVE INCOME					
Measurement of hedging instruments	9.4	-22.5	25.4	-4.7	-
Income tax	-1.8	4.3	-4.8	0.9	-
Other comprehensive income subject to reclassification to profit or loss, total	**7.6**	**-18.2**	**20.6**	**-3.8**	**-**
Actuarial profits/losses on employee benefits	-46.2	-9.4	-33.6	22.8	49.8
Income tax	8.8	1.8	6.3	-4.3	-9.5
Measurement of equity instruments at fair value	0.7	-	-	-	-
Other comprehensive income not subject to reclassification to profit or loss, total	**-36.7**	**-7.6**	**-27.3**	**18.5**	**40.3**
Total other comprehensive income	**-29.1**	**-25.8**	**-6.7**	**14.7**	**40.3**
TOTAL COMPREHENSIVE INCOME	**-37.4**	**228.2**	**87.3**	**-53.9**	**-73.8**
Earnings per share (PLN per share)					
Weighted average number of common shares	44,786,917	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	44,786,917
Basic earnings per share	-0.19	5.67	2.10	-1.53	-2.55
Diluted earnings per share	-0.19	5.67	2.10	-1.53	-2.55

Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2019 prepared according to EU IFRS.

Table 22 Time series of the statement of balance sheet situation of PKP CARGO S.A. in 2015-2019

	PLN million				
	31.12.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015
ASSETS					
Rolling stock	3,892.3	3,425.7	3,056.0	2,982.4	2,960.3
Other property, plant and equipment	492.9	543.1	555.2	579.6	602.4
Right-of-use assets	704.0	-	-	-	-
Investments in related parties	807.0	805.5	804.7	738.0	734.6
Lease receivables	19.7	-	-	-	-
Financial assets	7.4	5.7	8.6	6.3	6.0
Other assets	39.9	35.3	44.1	58.8	78.2
Deferred tax assets	67.3	87.2	94.0	80.1	76.6
Total non-current assets	**6,030.5**	**4,902.5**	**4,562.6**	**4,445.2**	**4,458.1**
Inventories	79.2	84.2	86.4	59.7	60.7
Trade receivables	391.4	479.4	461.0	407.9	377.3
Lease receivables	1.2	-	-	-	-
Income tax receivables	50.8	2.9	-	1.3	-
Financial assets	4.8	203.4	281.6	-	25.1
Other assets	82.4	87.5	53.6	26.8	11.9
Cash and cash equivalents	380.0	222.4	295.9	612.0	84.1
Total current assets	**989.8**	**1,079.8**	**1,178.5**	**1,106.4**	**559.1**
Non-current assets classified as held for sale		-	-	6.0	44.1
TOTAL ASSETS	**7,020.3**	**5,982.3**	**5,741.1**	**5,557.6**	**5,061.3**
EQUITY AND LIABILITIES					
Share capital	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3
Supplementary capital	744.7	596.7	589.2	589.2	589.2
Other items of equity	-61.8	-32.7	6.0	12.7	3.7
Retained earnings	288.2	511.3	254.4	160.4	240.1
Total equity	**3,210.4**	**3,314.6**	**3,088.9**	**3,001.6**	**3,072.3**
Debt liabilities	1,920.0	999.9	1,214.5	1,206.4	534.6
Investment liabilities	153.6	109.7	-	0.6	22.4
Provisions for employee benefits	585.4	528.8	520.0	490.5	549.3
Other financial liabilities	-	-	-	-	27.7
Other provisions	-	14.2	14.2	16.4	16.2
Total non-current liabilities	**2,659.0**	**1,652.6**	**1,748.7**	**1,713.9**	**1,150.2**
Debt liabilities	336.5	231.3	250.4	221.3	178.8
Trade payables	233.5	292.6	276.1	228.7	276.1
Investment liabilities	249.5	225.5	127.8	70.3	80.8
Provisions for employee benefits	100.1	92.6	85.9	84.8	81.6
Other financial liabilities	2.2	1.7	-	59.0	-
Other provisions	33.4	19.4	16.9	11.6	8.3
Other liabilities	195.7	152.0	146.4	166.4	213.2
Total current liabilities	**1,150.9**	**1,015.1**	**903.5**	**842.1**	**838.8**
Total liabilities	**3,809.9**	**2,667.7**	**2,652.2**	**2,556.0**	**1,989.0**
TOTAL EQUITY AND LIABILITIES	**7,020.3**	**5,982.3**	**5,741.1**	**5,557.6**	**5,061.3**

Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2019 prepared according to EU IFRS.

Table 23 Time series of the statement of cash flows of PKP CARGO S.A. in 2015-2019

	PLN million				
	2019	2018	2017	2016	2015
Net cash on operating activities	**649.4**	**709.7**	**478.4**	**237.5**	**325.9**
Net cash on investing activities	**-693.4**	**-536.3**	**-780.2**	**-440.6**	**-584.9**
Net cash from financing activities	**201.6**	**-246.9**	**-14.3**	**731.0**	**-38.3**
Net increase/decrease in cash and cash equivalents	157.6	-73.5	-316.1	527.9	-297.3
Cash and cash equivalents at the beginning of the reporting period	222.4	295.9	612.0	84.1	381.4
Cash and cash equivalents at the end of the reporting period	**380.0**	**222.4**	**295.9**	**612.0**	**84.1**

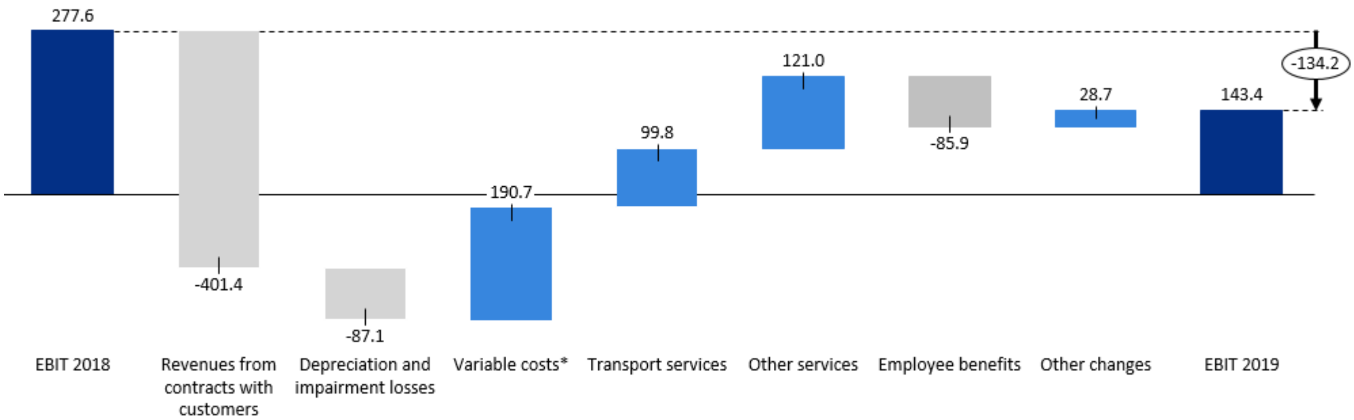
Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2019 prepared according to EU IFRS.

5.3 Key economic and financial figures of PKP CARGO Group

5.3.1 Statement of comprehensive income of the PKP CARGO Group

In 2019, EBIT reached PLN 143.4 million, having gone down by PLN 134.2 million compared to the corresponding period of the previous year (-48.3%).

Figure 29 EBIT in 2019 as compared to the corresponding period in 2018 (PLN million)



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

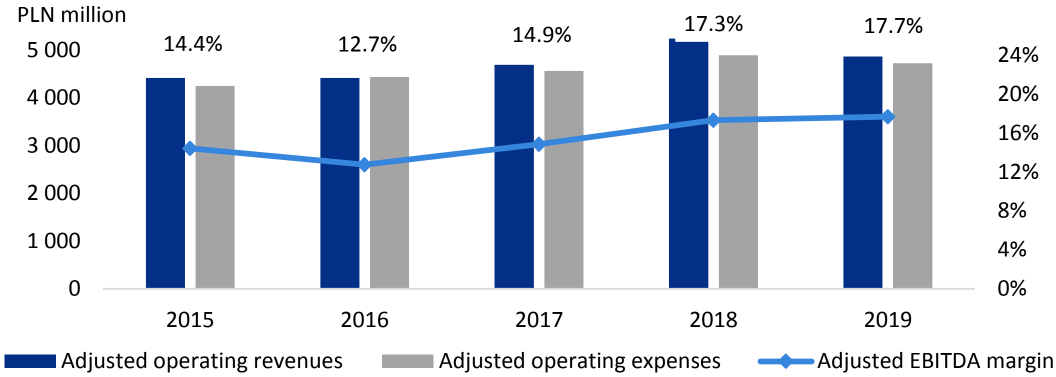
The implementation of IFRS 16 affected the structure of the statement of profit or loss. In 2019, due to the implementation of the new standard, depreciation increased by PLN 113.5 million, the operating result increased by PLN 23.2 million and the pre-tax result fell by PLN 6.5 million. Owing to the application of the new standard, EBITDA went up by approximately PLN 136.7 million **(Note 1.3 to the CFS).**

The following is the explanation of the most significant changes affecting EBIT in 2019 as compared to 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 10.9%) coupled with an increase in transport rates partially offsetting the decrease in revenues for transport and freight forwarding services. Detailed information about the PKP CARGO Group's transport services is described in section **4.2.5 "Rail transport business of the Company and the PKP CARGO Group"**;
- increase in depreciation and impairment losses, chiefly due to the introduction of IFRS 16 as of 1 January 2019 (for details on the entry into force of IFRS 16 on 1 January 2019, see **Note 1.3 to the CFS**). Without the standard application effect, depreciation and impairment losses decrease by PLN 26.4 million chiefly as a result of the posting in 2018 of an impairment loss on rolling stock in PKP CARGO International of PLN 69.0 million (overstatement of the 2018 base);
- decrease in variable costs (energy consumption, traction fuel and infrastructure access services) by 14.2% as a result of a 14.4% decrease in freight turnover. Furthermore, in its June 2019 result, the PKP CARGO Group 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 due to a greater use of own resources and a 14.4% 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 as a result of the entry into force of IFRS 16 on 1 January 2019 and the lower freight turnover;
- 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.). At the same time, the PKP CARGO Group recorded an increase in the average headcount by 272 FTEs. Detailed information on the changes in headcount is presented in section **4.5 "Headcount"**;

The figure below presents the adjusted EBITDA margin compared to the selected items of the Group's statement of profit or loss for 2015-2019. Since 2016, the PKP CARGO Group has been posting a gradual increase in EBITDA margin. However, in 2019, the high level of margin profitability resulted predominantly from the application of IFRS 16.

Figure 30 Adjusted EBITDA margin compared to the Group's adjusted operating revenues and expenses in 2015-2019* (PLN million)



Source: Proprietary material

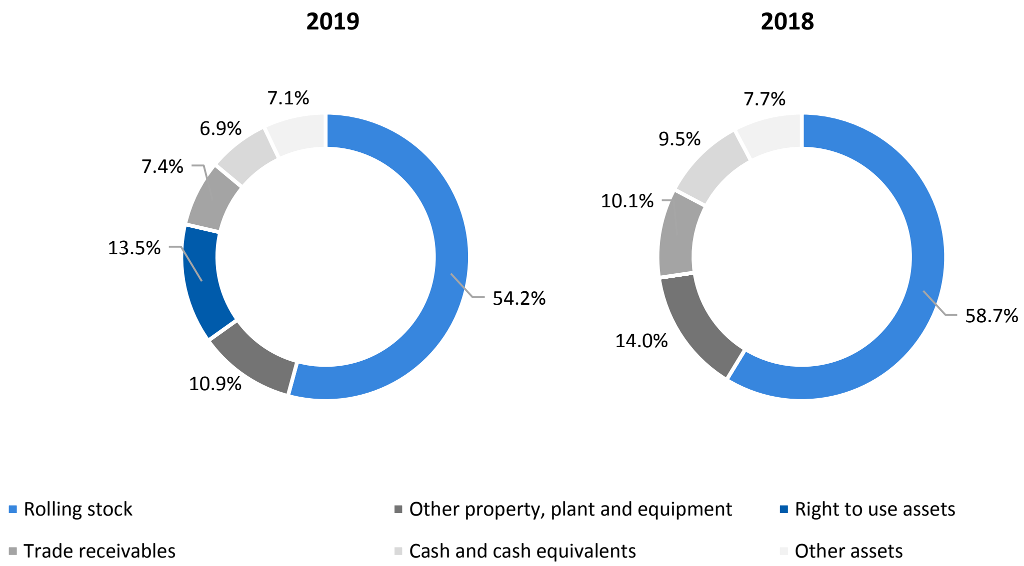
* presentation data for 2015 adjusted for the profit on the bargain acquisition of PKP CARGO International (formerly AWT) in the amount of PLN 137.8 million and the costs following from the implemented Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million, as well as the impairment of non-current assets and assets classified as held for sale in the amount of PLN 178.7 million;
the data for 2016 have been adjusted for presentation purposes for an impairment loss on assets in the amount of PLN 34.1 million and an impairment loss on receivables in the amount of PLN 72.7 million;
the 2017 data have been adjusted for presentation purposes for revaluation of the residual value of rolling stock and reversal of part of the impairment loss on rolling stock components in the amount of PLN -27.4 million;
the 2018 data have been adjusted for presentation purposes for an impairment loss on assets as a result of the impairment test and the optimization processes carried out in the PKP CARGO International Group (formerly, the AWT Group) in the amount of PLN 69.0 million;
the 2019 data were not adjusted. Data for 2019 are presented in combination with the impact of IFRS 16.

5.3.2 Description of the structure of assets and that of equity and liabilities of the PKP CARGO Group

ASSETS

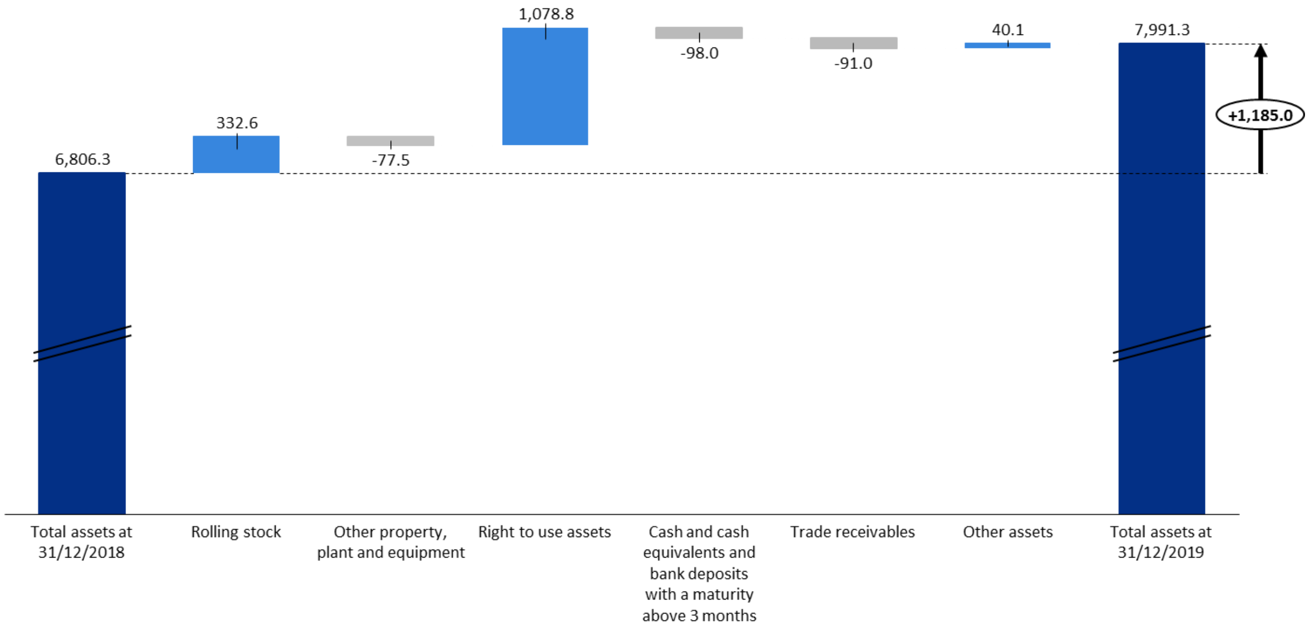
The biggest share in the asset structure as at 31 December 2019 was held by rolling stock, which accounted for 54.2% of total assets, compared to 58.7% as at 31 December 2018. A significant change resulting from the implementation of IFRS 16 compared to 31 December 2018 occurred in right-of-use assets, which as at 31 December 2019 accounted for 13.5% of total assets. The largest share in the structure of current assets as at 31 December 2019 in relation to total assets was attributable to trade receivables (7.4%).

Figure 31 Structure of the PKP CARGO Group's assets as at 31 December 2019 and 31 December 2018



Source: Proprietary material

Figure 32 Movement in the PKP CARGO Group's assets in 2019 (PLN million)



Source: Proprietary material

The implementation of IFRS 16 has affected the structure of the statement of financial position as at 31 December 2019. Compared to the published statement as at 31 December 2018, following the implementation of IFRS 16 with effect as of 1 January 2019 (for assets as at 31 December 2018), material changes were made to the following items, among others: rolling stock (presentation shift by PLN 160.9 million to right-of-use assets) and other property, plant and equipment (presentation shift by PLN 50.0 million to right-of-use assets). Furthermore, all assets resulting from the application of IFRS 16 are recognized in right-of-use assets in the amount of PLN 1,002.8 million. 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**.

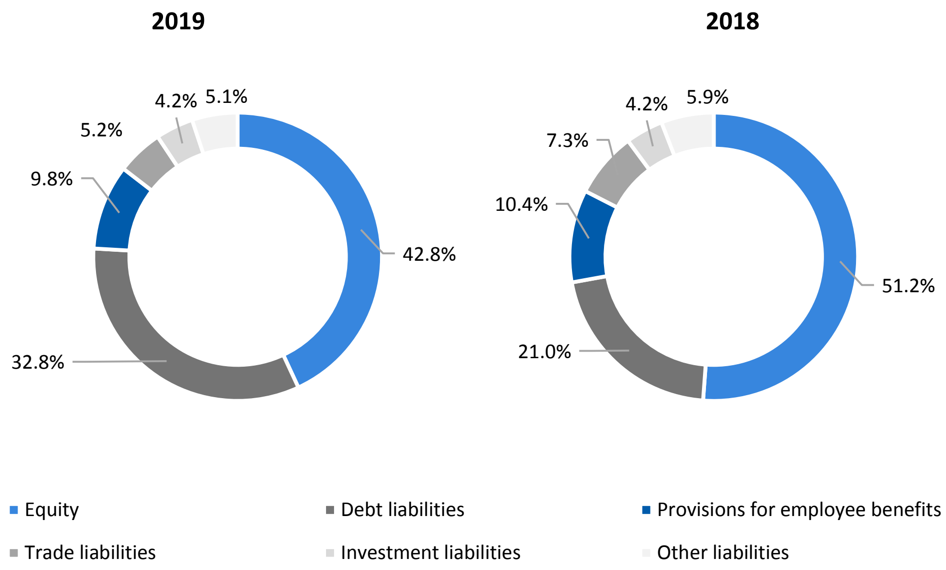
The following is the explanation of the most significant changes affecting the value of assets as at 31 December 2019 as compared to 31 December 2018:

- the value of rolling stock increased by PLN 332.6 million as a result of capital expenditures in rolling stock in the amount of PLN 1,027.7 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 2019 amounted to PLN 501.5 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 77.5 million was associated with depreciation of other property, plant and equipment in 2019 in the amount of PLN 78.0 million. Details on movements pertaining to other property, plant and equipment resulting from the implementation of IFRS 16 are described in **Note 5.1. to the CFS;**
- The 'right-of-use assets' line item of PLN 1,078.8 million as at 31 December 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 over 3 months was mainly attributable to expenditures on the acquisition of non-financial non-current assets for PLN 1,045.8 million, with PLN 806.5 million in cash generated on operating activities. Moreover, cash on financial activities increased to PLN 111.4 million;
- decrease in trade receivables by PLN 91.0 million as a result of lower operating revenue.

EQUITY AND LIABILITIES

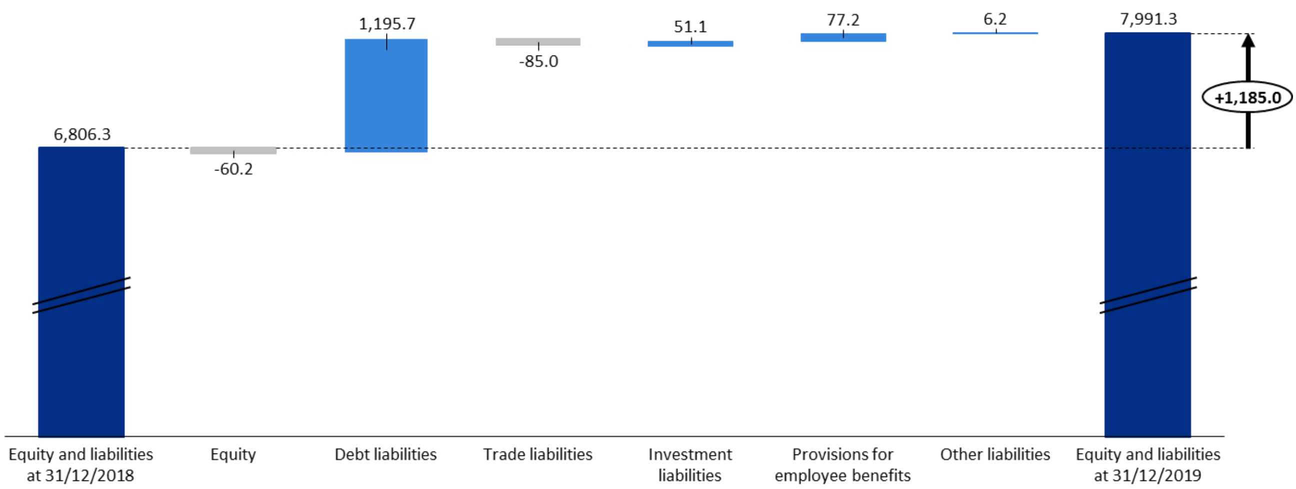
The largest share in the structure of the PKP CARGO Group's equity and liabilities as at 31 December 2019 was attributable to equity, which accounted for 42.8% of the sum of equity and liabilities, compared to 51.2% as at 31 December 2018. Debt liabilities accounted for 32.8% of total equity and liabilities, compared to 21.0% as at 31 December 2018, which is chiefly related to the introduction of IFRS 16 as of 1 January 2019 and the higher value of debt.

Figure 33 Structure of the PKP CARGO Group's equity and liabilities as at 31 December 2019 and 31 December 2018



Source: Proprietary material

Figure 34 Movement in the PKP CARGO Group's equity and liabilities in 2019 (PLN million)



Source: Proprietary material

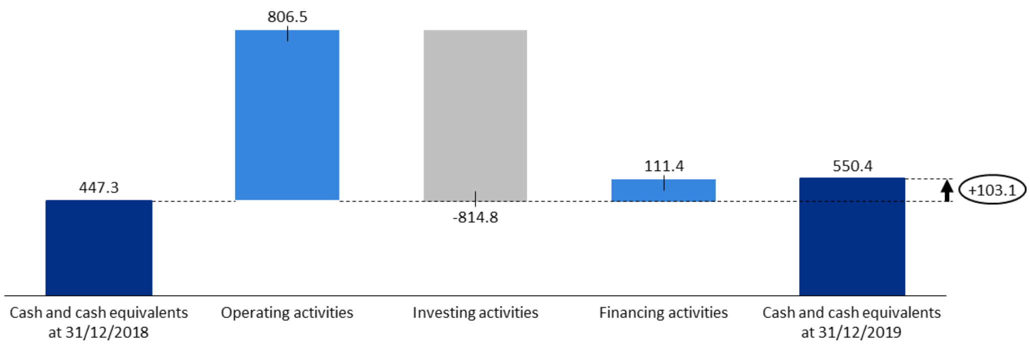
The following is the explanation of the most significant changes affecting the value of capital and liabilities assets as at 31 December 2019 as compared to 31 December 2018:

- decrease in equity by PLN 60.2 million resulting chiefly from the disbursement of the 2018 dividend of PLN 67.2 million in connection with the resolution adopted by the Parent Company's Shareholder Meeting on 26 June 2019 and posting a positive financial result for 2019 of PLN 36.0 million;
- increase in debt liabilities by PLN 1,195.7 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 bank loans of PLN 549.1 million were incurred and the debt was reduced through repayment of bank loans and borrowings and leases in the amount of PLN 375.6 million. Details on movements resulting from the implementation of IFRS 16 are described in **Note 1.3. to the CFS**;
- the decrease in trade liabilities by PLN 85.0 million was caused mainly by a fall in the value of key costs: variable costs and the costs of transport services and other services;
- increase in capital expenditure liabilities by PLN 51.1 million, chiefly due to an increase in liabilities related to rolling stock by PLN 69.7 million with a simultaneous decrease in liabilities related to the acquisition and modernization of real properties by PLN 5.2 million;
- increase in provisions for employee benefits by PLN 77.2 million, largely due to the increased provisions for retirement and disability severance pays and provisions for jubilee awards.

5.3.3 Statement of cash flows of the PKP CARGO Group

The value of cash and cash equivalents as at 31 December 2019 increased by PLN 103.1 million compared to 31 December 2018.

Figure 35 Cash flows in the PKP CARGO Group in 2019 (PLN million)



Source: Proprietary material

- Net cash flow from operating activities were generated on the result before tax of PLN 73.5 million and depreciation and impairment losses of PLN 716.5 million. Moreover, the largest changes contributing to the increase in cash flows from operating activities resulted from changes in the working capital amount, by PLN 70.8 million, and payment of income tax in the amount of PLN 53.1 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 1,045.8 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 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 428.8 million, offset by PLN 549.1 million of loan drawdowns. Moreover, in 2019, dividend distributed to shareholders amounted to PLN 67.2 million and 63.2 million in subsidies was received mainly for the purchases of rolling stock.

5.3.4 Selected financial and operating ratios of the PKP CARGO Group

The table below presents the key financial and operating ratios of the PKP CARGO Group in 2015-2019.

Table 24 Selected financial and operating ratios of the PKP CARGO Group in 2015-2019

Item	2019	2018	2017	2016	2015	Change	Rate of change
						2019 - 2018	2019 - 2018
EBITDA margin[1]	17.7%	17.3%	14.8%	11.1%	15.5%	0.4 p.p.	2.1%
Net profit margin[2]	0.7%	3.5%	1.7%	-3.0%	0.7%	-2.8 p.p.	-78.9%
Net financial debt to EBITDA ratio[3]	2.4	0.9	1.3	2.1	1.2	1.5	166.7%
ROA[4]	0.5%	2.7%	1.2%	-2.1%	0.5%	-2.3 p.p.	-83.3%
ROE[5]	1.1%	5.2%	2.5%	-4.1%	0.9%	-4.2 p.p.	-80.0%
Average distance covered per locomotive (km/day)[6]	222.3	250.1	244.7	238.4	233.3	-27.8	-11.1%
Average gross train tonnage per operating locomotive (tons)[7]	1,447.0	1,463.0	1,460.0	1,436.0	1,500.0	-16.0	-1.1%
Average running time of train locomotives (hours per day)[8]	14.6	15.8	15.2	14.8	14.9	-1.2	-7.6%
Freight turnover per employee (thousands tkm/employee)[9]	1,135.8	1,342.3	1,332.2	1,216.7	1,224.2	-206.5	-15.4%

Source: Proprietary material

1. Calculated as the ratio of the operating result without amortization and depreciation (EBITDA) to total operating revenue.
2. Calculated as the ratio of net profit to total operating revenue.
3. Calculated as the ratio of net financial debt (constituting the sum of (i) bank loans and borrowings, (ii) leases, minus (i) cash and cash equivalents, (ii) deposits with a maturity above 3 months and EBITDA for the last 12 months (the result on operating activities plus amortization/depreciation and impairment losses). Details on the calculation of the net debt to EBITDA ratio are presented in **Note 4.1 to the CFS.**
4. Calculated as the ratio of net profit/loss for the last 12 months to total assets.
5. Calculated as the ratio of net profit for the last 12 months to equity.
6. Calculated as the ratio of vehicle-kilometers (i.e. the distance covered by the Group's vehicles in the given period) to vehicle-days (i.e. the product of the number of active vehicles and number of calendar days in the given period).
7. Calculated as the quotient of gross ton-kilometers and train-kilometers in train work in relation to the locomotives driving the train (in dual traction or pushing the train in the given period).
8. Calculated as the quotient of vehicle-hours (i.e. the number of hours of work of the Group's vehicles in the given period) and vehicle-days (i.e. the product of the number of active vehicles and number of calendar days in the given period).
9. Calculated as the ratio of freight turnover to the average headcount (in FTEs) in the Group in the given period.

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

- The key profitability ratios, i.e. the net profit/loss margin, ROA and ROE, were lower on a yoy basis for the reasons described in section **5.3 "Key economic and financial figures of PKP CARGO Group",** while the EBITDA margin improved, although chiefly due to the implementation of IFRS 16. The net financial debt to EBITDA ratio also deteriorated as a result of the weaker financial performance of the Group and an increase in debt (also as a result of IFRS 16);
- the lower average daily haul of locomotives resulted from a decrease in freight volume and was caused by copious track closures and operational difficulties on the PKP PLK network;
- the lower average gross train tonnage per operating locomotive also resulted from the decrease in freight volume and was caused by copious track closures and operational difficulties on the PKP PLK network;
- decrease in the average daily operating time of locomotives for the reasons described above;
- the decrease in the freight turnover per employee ratio was caused predominantly by a fall in freight turnover by 14.4% yoy coupled with an increase in the headcount by 1.2% yoy.

5.3.5 Time series of the PKP CARGO Group's financial data

The table below presents time series of the statement of profit or loss and other comprehensive income, statement of financial position and statement of cash flows.

Table 25 Time series of the statement of profit or loss and other comprehensive income of the PKP CARGO Group in 2015-2019

	PLN million				
	2019	2018	2017	2016	2015
Revenues from contracts with customers	4,781.6	5,183.0	4,689.1	4,372.0	4,363.5
Consumption of electricity and traction fuel	-583.8	-615.1	-544.8	-514.5	-550.3
Services of access to infrastructure	-572.6	-732.0	-717.6	-668.6	-675.2
Transport services	-363.3	-463.1	-450.6	-431.7	-328.8
Other services	-408.6	-529.6	-450.6	-472.8	-497.2
Employee benefits	-1,737.3	-1,651.4	-1,510.3	-1,442.3	-1,484.8
Other expenses	-292.8	-298.9	-297.3	-274.3	-264.7
Other income and operating expenses	36.7	14.1	-17.6	-78.3	142.4
Operating profit without depreciation (EBITDA)	**859.9**	**907.0**	**700.3**	**489.5**	**704.9**
Depreciation and impairment losses	-716.5	-629.4	-546.9	-621.6	-649.0
Profit on operating activities (EBIT)	**143.4**	**277.6**	**153.4**	**-132.1**	**55.9**
Financial income and expenses	-71.6	-42.0	-37.7	-22.3	-51.7
Share in the profit / loss of entities accounted for under the equity method	1.7	3.7	0.8	3.5	4.4
Result on the sale of shares in entities accounted for under the equity method	-	4.5	-	-	1.9
Profit before tax	**73.5**	**243.8**	**116.5**	**-150.9**	**10.5**
Income tax	-37.5	-59.9	-34.8	17.1	19.6
NET PROFIT	**36.0**	**183.9**	**81.7**	**-133.8**	**30.1**
OTHER COMPREHENSIVE INCOME					
Measurement of hedging instruments	9.9	-23.4	27.9	-3.9	3.3
Income tax	-1.9	4.4	-5.3	0.7	-0.6
Exchange differences resulting from conversion of financial statements	1.7	16.5	-0.6	28.5	31.5
Other comprehensive income subject to reclassification to profit or loss, total	**9.7**	**-2.5**	**22.0**	**25.3**	**34.2**
Actuarial profits/losses on employee benefits	-52.2	-13.2	-36.9	21.5	53.2
Income tax	10.0	2.5	7.0	-4.1	-10.1
Measurement of equity instruments at fair value	0.7	-	-	-	-
Other comprehensive income not subject to reclassification to profit or loss, total	**-41.5**	**-10.7**	**-29.9**	**17.4**	**43.1**
Total other comprehensive income	**-31.8**	**-13.2**	**-7.9**	**42.7**	**77.3**
TOTAL COMPREHENSIVE INCOME	**4.2**	**170.7**	**73.8**	**-91.1**	**107.4**
Net profit attributable:					
Net profit attributable to the owners of the parent company	36.0	183.9	81.7	-133.8	30.3
Non-controlling interests		-	-	-	-0.2
Total other comprehensive income attributable:					
Total other comprehensive income attributable to shareholders of the parent company	4.2	170.7	73.8	-91.1	107.6
Non-controlling interests		-	-	-	-0.2
Earnings per share (PLN per share)					
Weighted average number of common shares	44,786,917	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	44,786,917
Basic and diluted earnings per share	0.80	4.11	1.82	-2.99	0.67

Source: Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2019 prepared in accordance with EU IFRS.

Table 26 Time series of the statement of balance sheet situation of the PKP CARGO Group in 2015-2019

	PLN million				
	31.12.2019	31.12.2018	31.12.2017	31.12.2016	31.12.2015
ASSETS					
Rolling stock	4,329.6	3,997.0	3,750.4	3,734.6	3,750.9
Other property, plant and equipment	872.4	949.9	937.6	966.0	968.8
Right-of-use assets	1,078.8	-	-	-	-
Investments in entities accounted for under the equity method	40.4	47.3	53.6	58.2	57.2
Trade receivables	3.0	0.7	1.8	2.2	5.1
Lease receivables	10.9	-	-	-	-
Other assets	55.0	56.7	70.4	91.7	110.3
Deferred tax assets	113.7	135.6	137.7	111.5	104.6
Total non-current assets	**6,503.8**	**5,187.2**	**4,951.5**	**4,964.2**	**4,996.9**
Inventories	161.0	161.7	148.5	121.2	128.5
Trade receivables	591.3	684.6	687.0	613.8	631.1
Lease receivables	0.7	-	-	-	-
Income tax receivables	51.4	3.0	0.1	2.8	2.7
Deposits above 3 months	-	201.1	253.8	-	1.3
Other assets	132.7	121.4	88.0	54.2	39.1
Cash and cash equivalents	550.4	447.3	516.8	755.9	276.2
Total current assets	**1,487.5**	**1,619.1**	**1,694.2**	**1,547.9**	**1,078.9**
Non-current assets classified as held for sale	**-**	**-**	**-**	**-**	**44.1**
TOTAL ASSETS	**7,991.3**	**6,806.3**	**6,645.7**	**6,512.1**	**6,119.9**
EQUITY AND LIABILITIES					
Share capital	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3
Supplementary capital	781.4	628.2	619.3	618.7	619.5
Other items of equity	-77.7	-44.2	-1.6	5.7	-2.8
Exchange differences resulting from conversion of financial statements of foreign operations	77.5	75.8	59.9	60.5	32.0
Retained earnings	402.8	584.4	400.3	319.2	463.4
Total equity	**3,423.3**	**3,483.5**	**3,317.2**	**3,243.4**	**3,351.4**
Debt liabilities	2,201.4	1,156.5	1,403.7	1,414.5	809.3
Trade payables	2.7	0.5	1.3	1.3	3.1
Investment liabilities	157.0	109.8	-	0.6	22.4
Provisions for employee benefits	657.1	591.5	575.7	542.1	603.6
Other provisions	5.4	20.5	22.5	26.4	29.4
Deferred tax liability	92.3	88.5	107.4	106.7	118.3
Other liabilities	-	1.8	0.3	1.0	-
Total non-current liabilities	**3,115.9**	**1,969.1**	**2,110.9**	**2,092.6**	**1,586.1**
Debt liabilities	421.3	270.5	297.7	376.0	319.0
Trade payables	412.2	499.4	445.9	376.0	380.7
Investment liabilities	181.5	177.6	79.1	45.8	91.3
Provisions for employee benefits	127.1	115.5	108.5	103.5	100.4
Other provisions	45.6	56.9	59.7	25.0	17.9
Other liabilities	264.4	233.8	226.7	249.8	273.1
Total current liabilities	**1,452.1**	**1,353.7**	**1,217.6**	**1,176.1**	**1,182.4**
Total liabilities	**4,568.0**	**3,322.8**	**3,328.5**	**3,268.7**	**2,768.5**
TOTAL EQUITY AND LIABILITIES	**7,991.3**	**6,806.3**	**6,645.7**	**6,512.1**	**6,119.9**

Source: Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2019 prepared in accordance with EU IFRS.

Table 27 Time series of the statement of cash flows of the PKP CARGO Group in 2015-2019

	PLN million				
	2019	2018	2017	2016	2015
Net cash on operating activities	**806.5**	**863.0**	**600.7**	**380.0**	**387.5**
Net cash on investing activities	**-814.8**	**-612.0**	**-740.0**	**-568.6**	**-515.2**
Net cash from financing activities	**111.4**	**-322.9**	**-99.4**	**663.9**	**-29.4**
Net increase/decrease in cash and cash equivalents	103.1	-71.9	-238.7	475.3	-157.1
Cash and cash equivalents at the beginning of the reporting period	447.3	516.8	755.9	276.2	429.2
Impact exerted by FX rate movements on the cash balance in foreign currencies	-	2.4	-0.4	4.4	4.2
Cash and cash equivalents at the end of the reporting period	**550.4**	**447.3**	**516.8**	**755.9**	**276.2**

Source: Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2019 prepared in accordance with EU IFRS.

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[108] and to repair diesel locomotives at maintenance levels from P1 to P4. In addition to the rolling stock owned by the PKP CARGO Group, this organization belonging to the Group also repairs rolling stock and sub-assemblies for other owners.

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

In 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 – in 2019, 20 overhauls were performed with modernization of series ET41 locomotives and 20 overhauls of series SM48/ST48 locomotives.

In Q4 2019, 7 electric locomotives with Dragon 2 combustion modules were purchased. At present, the PKP CARO Group owns 2,124 locomotives.

In Q1 2020, 54 locomotives will be sold.

The tables below present the structure of the locomotives and wagons used in 2014-2019.

Table 28 Structure of the locomotives used by the Group and PKP CARGO S.A., by traction type

Item	31/12/2019	31/12/2018	31/12/2017	31/12/2016	31/12/2015	31/12/2014	Change 2019-2018
diesel locomotives	1,261	1,286	1,272	1,398	1,429	1,300	-25
of which in PKP CARGO S.A.	*1,065*	*1,077*	*1,076*	*1,200*	*1,231*	*1,256*	*-12*
electric locomotives	1,079	1,066	1,062	1,173	1,173	1,162	13
of which in PKP CARGO S.A.	*1,059*	*1,049*	*1,048*	*1,161*	*1,158*	*1,162*	*10*
Total	**2,340**	**2,352**	**2,334**	**2,571**	**2,602**	**2,462**	**-12**
of which in PKP CARGO S.A.	***2,124***	***2,126***	***2,124***	***2,361***	***2,389***	***2,418***	***-2***

Source: Proprietary material

Table 29 Structure of the wagons used by the PKP CARGO Group and PKP CARGO S.A.

Item	31/12/2019	31/12/2018	31/12/2017	31/12/2016	31/12/2015	31/12/2014	Change 2019-2018
Wagons owned and leased	62,330	64,151	64,760	65,686	66,775	62,086	-1,821
of which in PKP CARGO S.A.	*57,272*	*59,127*	*60,268*	*60,954*	*61,324*	*61,593*	*-1,855*

Source: Proprietary material

[108] P1 – scheduled inspection operations performed before the vehicle's admission to the line, when the vehicle is in motion or after the completion of the ride, provision of consumables, assessment of the main components and vehicle systems
P2 – scheduled inspection operations performed without disassembling any components during breaks in the operation of the vehicle
P3 – maintenance operations performed on specialist control posts, when the vehicle is withdrawn from service, with partial dismantling of sub-assemblies
P4 – maintenance operations performed in plants fitted with technical facilities and measurements stations, encompassing planned replacement or repairs of sub-assemblies
P5 – renovation of the vehicle, encompassing dismantling of sub-assemblies and their replacement with new or regenerated ones

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 the change of the balance of real estate owned and used by the PKP CARGO Group and PKP CARGO S.A. in 2014-2019.

Table 30 Real estate owned and used by the PKP CARGO Group and PKP CARGO S.A. in 2014-2019

Item	31/12/2019	31/12/2018	31/12/2017	31/12/2016	31/12/2015	31/12/2014	Change 2019-2018
Land - owned, in perpetual usufruct and leased from other entities [ha]	1,449	1,479	1,573	1,584	1,560	1,006	-30
of which in PKP CARGO S.A.	*517*	*536*	*566*	*578*	*585*	*583*	*-19*
Buildings - owned, leased and rented from other entities [sqm]	723,962	738,392	749,492	781,998	794,303	684,945	-14,430
of which in PKP CARGO S.A.	*539,554*	*542,337*	*564,091*	*585,690*	*592,893*	*601,269*	*-2,783*

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 sqm) and demolition by PKP CARGO International (formerly AWT) of one of its buildings with the area of 5,235 sqm.

5.5 Key information about the financial standing of the Company and the PKP CARGO Group

5.5.1 Information on loan and borrowing agreements executed and terminated

In 2019, no loan agreement with the Company was terminated.

On 14 May 2019, PKP CARGO S.A. entered into agreements with Bank Polska Kasa Opieki S.A. for an investment loan up to the amount of PLN 250 million. The loans bear interest at a variable rate of WIBOR 1M plus a margin. The loans were incurred/disbursed in full (PLN 250 million).

On 20 May 2019, PKP CARGO S.A. entered into agreements with Bank Gospodarstwa Krajowego for an investment loan up to the amount of PLN 250 million. The loans bear interest at a variable rate of WIBOR 1M plus a margin. The loans were incurred/disbursed in full (PLN 250 million).

On 19 December 2019, PKP CARGO S.A. entered into an agreement with Powszechna Kasa Oszczędności Bank Polski S.A. for current account overdraft up to the amount of PLN 100 million (WIBOR O/N + margin). The facility is available for the term of 12 months with a 12-month extension option.

Details of the bank loans and borrowings are presented in **Note 4 to the SFS** and in **Note 4 to the CFS** for 2019.

5.5.2 Information about granted loans

In 2019, the Parent Company did not grant any loans.

On 18 September 2019, a subsidiary granted a loan of EUR 7,500. The repayment date for the loans is 30 September 2020.

5.5.3 Information about granted and received sureties and guarantees

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.

5.5.4 Issues, redemptions and repayments of debt securities and equity securities

In the analyzed period, in PKP CARGO S.A. there were no issues, redemptions and repayments of debt securities and equity securities.

5.5.5 Assessment of management of financial resources

PKP CARGO S.A. and the Group have been efficiently managing the cash management cycle by matching the maturity of its receivables and payables. To hedge the risk of a possible shortage of cash in the short run, in 2019 PKP CARGO S.A. had two current account overdraft agreements with the total limit of PLN 200 million.

Internal financial risk management policy, allowing for optimization of the maturities and types of investment instruments and the liquidity reserve level, is an element supporting efficient management of the Company's and the Group's finances. Excess cash generated by the Company and the Group was invested in fixed rate bank deposits with maturities depending on the Group's liquidity needs. Decisions made with regard to bank deposits are based on maximizing the rate of return and current assessment of the financial standing of the banks. The structure of assets, including cash and short-term investments, secured the Company's and the Group's ability to settle their liabilities in a timely manner.

The finance management system in PKP CARGO Group companies is efficiently supplemented by the cash pooling mechanism, which makes it possible to reduce the costs incurred in connection with the use of short-term external financing sources and maximize the financial revenues in connection with available cash surpluses.

In 2019, the Company entered into bank guarantee limit agreements on the basis of which it is possible to issue guarantees on the order of any company from the PKP CARGO Group, which made it possible to reduce the costs incurred in connection with obtained guarantees.

In 2019, the Group companies had the capacity to settle their liabilities at maturity.

5.5.6 Description of the structure of key equity investments or key investments made within the Company and the PKP CARGO Group

Most financial investments made by the Company and the Group in 2019 were bank deposits, which were executed for a period from a few days up to 3 months, depending on the liquidity needs.

5.5.7 Current and forecasted financial standing of the Company and the PKP CARGO Group

In terms of the financial standing of the Group, no events occurred in 2019 that posed a threat to the company continuing as a going concern.

The potential reduction in revenues following from the materialization of risks related to the market condition (discussed in chapter 5.6 1) may have a significant effect on the profitability of the PKP CARGO Group. The activity of the Group is asset and labor-intensive and is characterized by a significant operating leverage. This means that fixed costs such as depreciation of rolling stock or salaries represent a significant percentage of operating expenses. Therefore a decline in revenues may cause a disproportionately higher decline in operating profit and lower profitability.

With regard to the situation after the balance sheet date related to the spread of the COVID-19 virus, the Management Board of PKP CARGO has taken measures on an ongoing basis to minimize the adverse impact of the pandemic on the Group's operations. The activity of the PKP CARGO Group is based on a broad range of services allowing for a diversification of revenues, as a result of which continuation of the Group's business is not in any danger.

Due to the rapidly changing environment, the Management Board is unable to precisely quantify the impact of the spreading COVID-19 coronavirus on the operations, financial performance or business prospects of PKP CARGO S.A. Should the occurrence of any specific events exert a significant impact on the financial performance or operations of the Company, the Management Board will report on their estimated impact.

5.6 Key risk factors and threats

5.6.1 Description of the key threats and risks

Risks related to the economic and market environment

Risk resulting from the macroeconomic situation – Poland and the Czech Republic are important links in the European supply chain. The economic situation in the macroeconomic environment (in particular, in the euro area which is connected with Poland by the strongest economic ties) has a perceptible impact on the GDP growth rate in these countries, in particular on the growth rate of export industries. This, in turn, is directly correlated with the freight volumes ordered for transport and thus has a strong impact on the PKP CARGO Group's operating performance and revenues.

In 2019, the global GDP growth rate declined to its lowest level since the financial crisis of 2008 and stood at 2.4% yoy.[109] According to the forecasts presented by World Bank economists, in the coming years a slight increase in global GDP growth rate may be expected, to 2.5% yoy in 2020, 2.6% yoy in 2021 and 2.7% yoy in 2022. In their opinion, the slight acceleration of the global GDP growth rate will be driven chiefly by the economies of developing countries, while the GDP growth rate of developed economies will stabilize at relatively low levels (for the euro area, it will be 1.0% yoy in 2020, 1.3% yoy in 2021 and 1.3% yoy in 2022, compared to 1.1% yoy in 2019).[110]

At the same time, in Q4 2019, short-term risk factors for the global economy subsided, partly due to the following factors:

- announcement of signing, in January 2020, of the first stage of the US-China trade agreement (suspension of the imposition of new tariffs on Chinese imports, reduced rates for some of the tariffs already imposed, promise to increase China's imports from the USA);[111]
- reduced uncertainty about Brexit (after the results of parliamentary elections in the United Kingdom and the decisive victory of the current Prime Minister Boris Johnson, the new government obtained a strong mandate to conduct final negotiations with EU representatives);
- stabilization (at lower levels) or even slight rebound of global forward-looking indicators, including for the Chinese economy;[112]

Still, however, the balance of risks for the global economy remains unfavorable. Currently, key threats include:

- uncertain outlook for the development of global trade (tariff reductions of a scale that was smaller than expected, uncertainty surrounding subsequent stages of negotiations between the United States and China, the regularly recurring topic of a possible imposition of tariffs on imports of cars and car parts from the European Union to the United States, which would pose a serious risk to GDP forecasts for the euro area);[113]
- Important curtailment of trade and significant decline in demand for consumer goods and capital goods as a result of the dissemination of virus SARS-CoV-2 in Asia and Europe;
- heightened geopolitical tensions across the world (including in the Strait of Hormuz region, which is a key oil transportation route);[114]
- deteriorated sentiments on financial markets, heightened risk aversion and, as a consequence, capital outflow from emerging markets;[115]
- gradual increase in debt with a simultaneous decrease in productivity (noticeable especially in the economies of developing countries);
- possible redefinition of trade relations within the EU zone due to Brexit;
- factors related to the nature (catastrophes), environment, climate and health (epidemics);[116]

[109] The World Bank
[110] The World Bank
[111] Dziennik Gazeta Prawna
[112] Markit PMI
[113] The World Bank
[114] The World Bank
[115] The World Bank
[116] The World Bank

At the same time, in the coming few quarters the rate of GDP growth in Poland and the Czech Republic (key markets for the provision of transport services by the PKP CARGO Group) is expected to remain at a relatively high level, although, at the same time, its reduction relative to 2019 is anticipated. Another risk factor, in addition to the global threats listed above, for Poland and the Czech Republic is growing shortage of labor, which, in light of the observed moderate increase in productivity, significantly restrains the room for a possible stronger improvement in output.[117]

The possible slowdown of the GDP growth rate or its decline caused by the above factors if they persist in the long run, individually or together with one another, may have a negative effect on the financial performance of PKP CARGO S.A. and Group companies. The PKP CARGO Group, which provides services mainly to businesses from various industrial sectors, is highly sensitive to changes in business conditions, similarly as other business entities operating in the freight transport and logistics segment.

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

The lion's share of the PKP CARGO Group's freight volume consists of bulk cargo, including hard coal, aggregates and other construction materials, coke, ores and metals, chemicals and liquid fuels.[118] As a result, any shift in the economic situation and demand in industries using these commodities as inputs translates directly into the volume of cargo available for transportation and thus into the operating and financial performance of the PKP CARGO Group.

Key medium-term risk factors affecting the rate of growth in transport volumes of the PKP CARGO Group include:

- expected gradual decline in the consumption of hard coal as a source of energy in Poland and the Czech Republic in the coming years, both in relative terms (shrinking share in the energy mix) and in absolute terms. This is due, on the one hand, to problems with the supply of the commodity caused by underinvestment of the sector (in Poland) or the planned shutdown of production (in the Czech Republic) and, on the other hand, to the assumed gradual implementation of the EU's more restrictive climate policy calling for an increase in the share of renewable energy in electricity output, a decrease in CO_2 emissions and an overall increase in energy efficiency;[119]
- delays in the execution of large infrastructural investments implemented under the "National Railway Program" and "National Road and Motorway Construction Program", partly due to attempts by enterprises to renegotiate contracts entered into in previous years (as a result of a sharp increase in the cost of labor and construction materials) as well as difficulties in completing new tenders. According to GDDKiA data, the time between the opening of the tender bids and the selection of the contractor is gradually increasing and has reached approximately 240 days on average, which is twice as long as at the beginning of the current financial perspective in 2014.[120] These factors may adversely affect the short-term growth rate in the sector and the scale of conducted construction projects, increase expenditures and cause instability of the market environment, thereby suppressing the freight volume of aggregates and construction materials ordered for transportation;
- projected moderate increase in demand for steel[121] which, combined with global oversupply and decreasing competitiveness of domestic producers (caused partly by soaring energy costs), may contribute to a lower output of the steel and coke sectors;[122]
- possible reduction in the volume of liquid fuels available for transportation in subsequent years, due to a slower rate of economic growth and the planned opening of new pipeline sections (Boronów-Trzebinia and the second thread of Gdańsk-Płock);[123]
- possible decline or significant reduction of growth of the intermodal transport market associated with lower international trading operations and lower industrial production. The above factors are related mainly to the incidence of COVID-19 and the preventive measures undertaken, which cause, among others, a reduction of production in industrial plants, change of their work organization or stoppages for disinfection. Negative trends may be observed for example in the automotive sector, driven also by the observed declining demand for cars.

With a view to counteracting these risks, the PKP CARGO Group makes efforts aimed at responding in a comprehensive manner to the changing situation on the transportation market and the prevailing trends. The initiatives taken by the PKP CARGO Group aim at a gradual diversification of transport services (including investments in multi-system locomotives or rolling stock for intermodal transport, namely flat wagons), removal of bottlenecks and improvement of the whole transportation process. It is also important for the Group to make its services more comprehensive, among others by handling the last mile transport, especially in the coal, aggregate and intermodal transport segment.

[117] National Bank of Poland, Ministry of Finance of the Czech Republic
[118] own statistics prepared by the PKP CARGO Group
[119] Poland's Energy Policy until 2040, BiznesAlert.pl
[120] Infrastructure Market
[121] World Steel
[122] Wnp.pl website
[123] WNP.pl, Money.pl

Risk associated with the rail freight sector

According to UTK data, in 2019, 83 carriers operated on the country's rail freight market under a license issued by the President of UTK, including PKP CARGO S.A. and PKP CARGO SERVICE Sp. z o.o.[124] Moreover, some companies operated on the market under an international license (including a PKP CARGO Group company: PKP CARGO International). In the last several years, the rail freight market in Poland has become increasingly more competitive (a gradual increase in the number of carriers from 53 in 2012 to 83 in 2019) and less concentrated.[125]

In recent quarters, the market significance of small carriers (with a unit market share of up to 2%) has increased considerably. In 2019, they already accounted for approx. 20% of the market, both in terms of freight volume and freight turnover.[126] These are often companies focused on a selected market segment, which is particularly noticeable in the intermodal transport sector. Also, in recent quarters, intensified activities or the appearance on the market of subsidiaries of large corporate groups providing transport services to their parent companies has been observed (including in the fuel, metallurgy, chemical and, recently, construction sectors).

The PKP CARGO Group's competitors offer a broad range of transport services, including whole-train transport of coal, aggregates and other dry bulk cargoes, liquid fuels and chemicals. Some companies also offer dispersed transport services (single wagons) and the carriage of special materials (including long rails). Due to the relatively low barriers to entry (in particular for carriers operating under an international license) and good prospects for, among others, the segment of intermodal transport, a further increase in the number of PKP CARGO Group's competitors on the domestic market cannot be ruled out in the coming quarters, along with a subsequent expansion of the extent of business by existing players.

The main competitors for PKP CARGO Group companies (PKP CARGO International and PKP CARGO S.A.) in the Czech Republic are ČD CARGO (the national carrier and a strong leader on the transport market), Metrans Rail (an international intermodal operator), Unipetrol Doprava and IDS Cargo..[127] As is the case in Poland, transport services provided by competing rail operators include such transport market segments as: hard coal, aggregates, liquid fuels, chemicals and containers (intermodal transport). Also in the Czech Republic, a gradual decentralization of the rail transport market is underway (the total market share of small carriers is gradually increasing).[128]

In the face of the gradually increasing competition on the rail market in Poland and the Czech Republic, the PKP CARGO Group has undertaken initiatives aimed at continuous improvement of the quality of transport services and their development and effectiveness (such as by investing in specialized rolling stock to enable operation on international markets and signing cross-border cooperation agreements with local rail operators). The Group responds dynamically to the changing market situation among its competitors, especially in terms of pricing. The PKP CARGO Group is increasing efficiency of its internal processes to provide comprehensive logistics services to its clients in various economic sectors.

Risks in the operations conducted

Risk associated with the rail infrastructure – The executed contracts describe the principles of cooperation when monitoring the effectiveness of the existing arrangements and the procedure to be applied in the case of shared risk for the purpose of adopting and introducing the necessary changes, including the tasks and responsibilities of the individual participants in the process (e.g. contracts on using the allocated train routes between PKP CARGO S.A. and the infrastructure administrators for which the part "B" certificate has been issued to PKP CARGO S.A.). Any and all irregularities related to the infrastructure found by employees are communicated to administrators on an ongoing basis. Moreover, periodic meetings and conferences are organized to discuss the irregularities and measures aimed to both eliminate them and prevent the occurrence of similar situations in the future.

Security of transport

From the viewpoint of rail traffic safety, PKP CARGO S.A. operates based on relevant part A and part B safety certificates issued by the President of the Office of Rail Transport. The basic requirement for obtaining the certificates necessary to pursue an independent business activity was to implement the Safety Management System (SMS), and it was satisfied in 2009. In 2019, the Company obtained an extension of part A of the safety certificate for the period from 25 June 2019 to 25 June 2024.

[124] Office of Rail Transport
[125] Office of Rail Transport
[126] Proprietary material based on the Office of Rail Transport's data
[127] SŽDC
[128] SŽDC

The SMS covers risks related to the pursued activity and provides for appropriate supervision and control measures in order to reduce them and ensure the appropriate safety level:

- the risk arisen from a direct activity, including occupational risk (related to the performed work) and technical risk (related to the rolling stock and technical resources used),
- the shared risk, which is a risk arisen from an interaction between the entities being part of the railway system (e.g. infrastructure administrators, other rail operators, entities in charge of maintenance),
- a risk of third parties, which are not directly involved in the operation of the railway system.

Moreover, the processes and procedures serving the purpose of monitoring the effectiveness of the measures taken in the area of risk supervision and introducing the necessary changes are applied within the SMS: The changes concern:

- technology and methods,
- operating procedures, rules and standards,
- organizational structure.

Risk associated with changes of legal regulations

Technical specifications for interoperability Noise (NOI TSI)

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

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

Service Infrastructure Facilities

The Company monitors the introduction of draft amendments to the Rail Transport Act on issues related to the implementation of Directive (EU) 2016/2370 of the European Parliament and of the Council of 14 December 2016 amending Directive 2012/34/EU as regards the opening of the market for domestic passenger transport services by rail and the governance of the rail infrastructure, i.e. resolution of a matter related to the disbursement of dividends by a subsidiary acting as an infrastructure manager. There is a risk that the bill adopted for legislative work with a view to amending the Rail Transport Act will prevent CARGOTOR Sp. o.o. (the infrastructure manager) from using income generated from the management, operation, maintenance and development of the managed rail infrastructure or public aid allocated for this purpose to the disbursement of dividends to an entity which is a member of a vertically integrated enterprise and exercises control over this infrastructure manager and rail carrier. PKP CARGO S.A. may be considered an entity exercising control over the rail carrier and infrastructure manager if both these companies are considered members of a vertically integrated enterprise.

Conditions for the conduct of rail traffic and signaling

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

Driver's certificates

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

Road and rail freight monitoring system

On 1 September 2019, the amendment to the Act of 9 March 2017 on the Monitoring System for the Carriage of Goods by Road and Rail entered into force (Journal of Laws of 2018 Item 2332, as amended), introduced by the Act of 19 July 2019 amending the Act on the Monitoring System for the Carriage of Goods by Road and Rail and Certain Other Acts (Journal of Laws of 2019, Item 1556). The amended statute introduced regulations in the area of supervision over trade in heating fuels, which put additional obligations on the rail carrier, including the obligation to refuse to accept heating fuels subject to notification to the SENT register if:

1. the address details of the place of delivery of the cargo are different from those specified in the confirmation of acceptance of the simplified registration form,
2. no identification number of non-stationary heating devices has been provided.

Failure to comply with this requirement and delivery of the notified heating fuel to a different place of delivery of the cargo will result in the imposition of a fine of PLN 100,000 on the carrier unless the buyer or owner of such fuel has been identified (Article 22(1a)).

Accordingly, the Company introduced, effective as of 1 September 2019, pertinent changes to the following of its internal regulations: Instructions for the execution of commercial contracts for the provision of freight services by PKP CARGO S.A., Detailed rules for shaping and establishing commercial terms and accounting for the performance of commercial contracts, Rules and regulations for the carriage of goods by PKP CARGO S.A.

Other changes in the regulatory environment

- On 1 January 2019, the provisions of the Tax Code governing the mandatory reporting of tax schemes came into force. These provisions, adopted in the implementation of Directive 2016/1164, introduced a number of new obligations to the Polish legal system. These newly adopted legal regulations distinguish between the following three categories of entity that may be required to report tax schemes: promoter, beneficiary and supporter. Depending on the function discharged by the entity in question, it may have different obligations in the area of information subject to reporting or the time limit for its submission. In connection with the obligations that may potentially be imposed on PKP CARGO S.A. and other members of its Tax Group, the Company has prepared a "Procedure for preventing non-compliance with the obligation to provide information on tax schemes in PKP CARGO S.A.", which permits identification of tax schemes in each area of the Company's operations and thus ensures the proper fulfillment of obligations resulting from the said provisions, if necessary. Also, employees were trained in the application of the legal regulations introduced for tax schemes and in the conduct of the said internal procedure.
- On 1 November 2019, the Act amending the VAT Act and Certain Other Acts came into force (Journal of Laws of 2019, Item 1751) and introduced the obligatory Split Payment Mechanism. On invoices subject to the obligation to apply the Split Payment Mechanism, the taxpayer is required to include a note reading "split payment mechanism". If an invoice is issued without this note, a penalty of 30% of the VAT amount on the supply of goods or services listed in Annex 15 to the VAT Act shown on the invoice will be applied. Similar penalties may also be imposed on the buyer of a good or service who, despite this obligation, fails to make a payment in accordance with the Split Payment Mechanism.

Road transport constitutes increasing competition for the Group

Road transport plays a dominant role on the Polish and Czech freight markets, which in recent years has also been capturing the majority of the market's freight volume available for transportation. In 2018, the share of road transport in the total freight market in terms of freight volume exceeded 85% in Poland and 80% in the Czech Republic, which increase in the market share was chiefly at the expense of rail transport.[129] Currently available data for a portion of 2019 indicate a likely further deepening of the downward trend in the market share of rail transport, both in Poland and the Czech Republic.

The reason for the gradual increase in the market significance of road transport is, to a large extent, its existing competitive advantages in relation to other branches of the freight sector. These include, without limitation:

- relatively low barriers to entry and fixed costs incurred in the initial phase of the business;
- oil prices that have remained at historically moderate levels in recent years (the price of fuel is the largest single cost for transport operators);
- universal access to infrastructure and gradual improvement of the high-category road network (motorways and expressways) in Poland and the Czech Republic. According to GDDKiA data, in 2019, within the framework of the "National Road and Motorway Construction Program", 460 km of new sections of motorways and expressways were opened, bringing the total length of high-quality roads to nearly 4,150 km.[130] Ultimately, this network is scheduled to reach 7,650 km (2,000 km of motorways and 5,650 km of expressways), of which approximately 120 km should be opened in 2020

[129] Central Statistical Office of Poland, Czech Statistical Office
[130] General Directorate for National Roads and Motorways

alone.[131] Also in the Czech Republic, a gradual expansion of the expressway and motorway network is underway, with a significant share of financing originating from EU structural funds;[132]

- low costs of access to road infrastructure (the total road network covered by the ViaToll and Czech Toll systems is relatively small in relation to the size of the whole road network);
- high flexibility with respect to the volume of cargo and at the same time the possibility to provide both short- and long-distance economically justified transport services (car transport is profitable even with relatively low volumes of the transported cargo due to low fixed costs);
- significantly greater speed of rail transport relative to other branches coupled with the possibility to provide door-to-door transport services (without the need for transshipment);

The mitigation measures taken by the PKP CARGO Group are intended for rail transport to achieve a complementary position to road transport (including in the freight of large volumes of bulk cargo over long distances, ensuring road transport for the "last mile", development of container exchange with the Far East). Moreover, after the modernization works that are currently carried out by PKP PLK within the framework of the "National Railway Program", the average commercial speed of the railway should increase and the operational transport routes will be shortened (no need to use detours). As a consequence, these factors should translate into improvement of the competitive position of rail transport in Poland's overall transport market and in international trade.

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

A large percentage of the commercial contracts entered into between the PKP CARGO Group and its clients are of a long-term nature. As a result, the scale of business uncertainty is reduced as these arrangements enable the contracting of large volumes of cargo, including hard coal, coke, aggregates, ores and metals, reasonably in advance.

The contracts strictly define the freight volume declared for their term of validity. However, in justified cases, its subsequent modifications are possible – both increases and decreases. As a consequence, this may cause the need to obtain additional resources in order to transport extra cargo, but in an opposite situation this may exert an unfavorable impact on the freight volume actually carried by the PKP CARGO Group. The PKP CARGO Group provides transportation services mainly to entities operating in several branches of industry: energy, mining, steel, and construction sectors. At the same time, these sectors are usually highly concentrated in terms of production and confined to several players. As a result, if the scale of output diminishes (and competition on the intra-industry rail transport market in Poland continues to grow), it will be increasingly more difficult to find new clients that might help close the gap resulting from the transport services agreed upon yet not provided.

Structural changes in the business of key clients may be manifested in its diversification or complete change of form. Also, it is possible that clients will establish subsidiaries whose business will consist of the provision of comprehensive transportation services for the merchandise produced by the parent company. Currently, a dozen or so subsidiaries operate on the rail freight market in Poland, some of which started their business in 2019. Although during periods of peak demand for transport services specialized rail carriers usually lack sufficient operational resources to handle the whole volume ordered for freight by their parent companies, yet in times of slowdown in the market their rolling stock potential is often sufficient, which in turn affects the volume of cargo available for acquisition on the competitive market (including for the PKP CARGO Group).

At the same time, it cannot be ruled out that specialized carriers will continue to expand their rolling stock resources and decide to start or expand the scale of their operations to a competitive market (for instance by providing services to companies in the same industry, benefiting from their matching rolling stock and sectoral know-how). As a result, all of these factors may have an adverse impact on the cargo volumes available for transport by the PKP CARGO Group.

The PKP CARGO Group's long-term strategy assumes a gradual improvement of efficiency, competitiveness and quality of the transport and logistics services offered. The initiatives that it undertook offer the opportunity of diversifying the PKP CARGO Group client base, among others by offering transport services under short-term trading agreements. The measures taken reduce the risk of potential diversification of freight services ordered by key clients.

Risk associated with a shortage of trained personnel

The risk associated with a shortage of trained personnel has been properly managed. Actions are taken with a view to ensuring appropriate number of employees with required skills so as to support the proper pursuit of business objectives. A carefully selected professional training program is supposed to ensure that new employees are integrated into the organization and familiarized with their duties as soon as possible and to help them adapt to the working environment, which influenced the effectiveness of the performed works and minimized the risk of employee fluctuation.

[131] General Directorate for National Roads and Motorways
[132] motorway.cz

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

Also, the Company continued training held in the form of e-learning and a series of courses aimed at developing soft skills in building relationships and communication. The development of employees' language skills was continued as part of the "language school".

Risk related to the impossibility to attract the appropriate staff

As a result of identification of the risk of difficulties in attracting appropriate personnel to perform the Company's operating tasks, the activities supporting the recruitment of new staff were intensified in 2019. In this respect, they were carried out under three following three main programs: professional internship program, scholarship program, summer internship program. As regards professional activation, the Company continued its cooperation with local organizations supporting employment promotion by taking part in labor fairs organized by the County Employment Offices and the Career Day organized as part of the TRAKO 2019 industry fair.

Risk of increase in fuel prices

In the early months of 2020, there was a noticeable downward trend in wholesale fuel prices and prices charged by individual distributors, such as PKN ORLEN, Grupa LOTOS and BP Europa SE. However, if these prices increase, in respect of traction rolling stock this may translate into higher operating costs of locomotives, prices of traction services performed for external counterparties where the costs of locomotive operation include fuel costs and into an increase in the prices of spare parts and all other materials and services that will translate into an increase in the cost of maintaining traction rolling stock, which in turn will increase in the cost of rail transport services sold by PKP CARGO S.A.

Risk of collective disputes and strike

Owing to the dialog carried out by the PKP CARGO S.A. Management Board with the Trade Unions, the Trade Unions did not initiate any collective dispute or strike in the Company in 2019. This made it possible to perform the expected tasks in a spirit of social peace. In June 2019, as a result of arrangements between the Management Board and Trade Unions, a pay rise was introduced for the Company employees as of 1 August 2019.

Epidemiological risks associated with COVID-19

In connection with the coronavirus threat, the PKP CARGO Group has taken measures to reduce the risk of contracting COVID-19. A Crisis Management Team has been established to make decisions on procedures to be followed by the Group in order to minimize the risk of coronavirus infection of employees and to ensure the proper functioning of transport operations. Safety procedures have been developed, special sanitary restrictions have been introduced for dispatch center employees and train crews and other employees responsible for the transport process. In order to minimize the threat of infection, employees of PKP CARGO and subsidiaries were allowed to work remotely; employees are also to limit business trips to the bare minimum; in particular it is recommended that foreign trips are cancelled. Special actions have also been taken to manage the traffic of people in PKP CARGO buildings and occupational safety and health measures have been intensified. Based on information from the Ministry of Health, educational materials are updated in respect to prevention and the required conduct when a coronavirus infection is suspected.

Financial risks

Liquidity risk

The Group is exposed to liquidity risk following from the ratio of current assets to net current liabilities (current liabilities without short-term provisions). In 2019, the Group's liquidity remained at the level that ensured timely payment of all due and payable liabilities. To ensure an additional source of funds required to secure its financial liquidity, the Group used external financing sources, such as a current account overdraft facility.

Information on credit facilities undrawn as at 31 December 2019 is presented in **Note 4.1 to the SFS** and **Note 4.1 to the CFS** for 2019.

The significant initiatives that were undertaken in 2019 in order to minimize the financial liquidity risk, include optimization of operating expenses and boosting of revenue efficiency. Additionally, in order to optimize financial expenses in the PKP CARGO Group, a cash pooling system is in place which comprises, as at 31 December 2019, 7 Group companies.

Market risk

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

The principles of market risk management are implemented through assigned organizational units under the supervision of the Parent Company's Management Board. Market risk management is executed based on developed strategies, with partial utilization of derivative instruments. Derivatives are used only to limit the risk of a change in the carrying amount and the risk of cash flow changes. Transactions on derivatives are entered into only with reliable partners, admitted to participation as a result of application of internal procedures.

Currency risk

In 2019, the Group was exposed to FX risk resulting from the receivables, payables and cash denominated in foreign currencies. The Group's receivables expressed in foreign currencies are short-term receivables with the maturity up to 1 month and payables expressed in foreign currencies are mostly short- and long-term liabilities on account of investment loan agreements with maturities of more than 5 years.

The balance sheet valuation of receivables and some current and non-current liabilities long-term liabilities expressed in foreign currencies, settlements in foreign currencies both on the side of receivables and liabilities, lead to financial revenues (positive FX differences) and financial expenses (negative FX differences). The level of financial revenues and financial expenses fluctuates during the year, which is caused by changes in the exchange rates.

Cash in foreign currencies deposited on bank accounts follow from timing mismatch of receipts and expenditures and the surplus of receipts over expenditures. In the long run, the valuation risk matches the risk of change of cash flows, therefore it is the cash flows, not balance sheet items, that are subject to hedging transactions.

For the EUR/PLN exchange rate, there is partial natural hedging due to the fact that proceeds in EUR are partly balanced out by expenditures in the same currency. The FX risk management transactions used by the Group are aimed at hedging the net free position (understood as the difference between FX proceeds and expenditures) exposed to change of the value in PLN.

In accordance with the Financial Risk Management Policy adopted by the Company, in 2019 forward transactions were used to hedge the currency risk for the EUR/PLN currency pair.

In 2019, the Group hedged the surplus in EUR through forward transactions on the EUR/PLN pair at the levels and with transaction maturities determined in accordance with the procedures of the Financial Risk Management Policy.

The Parent Company used hedge accounting for all EUR loans and Forward transactions. At the same time, PKP CARGO CONNECT Sp. z o.o. applied hedge accounting for forward transactions.

These transactions were effected by the Parent Company and PKP CARGO CONNECT sp. z o.o.

Interest rate risk

The Group is exposed to the risk of volatility of interest rate cash flows following from bank loans, leasing based on variable interest rates. In 2019, interest on lease agreements was accrued according to the reference rates increased by the financing party's margin. The reference rate for lease contracts denominated in PLN was WIBOR 1M and for lease contracts denominated in EUR the reference rate was EURIBOR 6M. The interest rate risk in lease contracts is executed through revaluation of lease installments in one-month periods.

In 2019, interest on loan agreements were accrued according to the WIBOR 1M, WIBOR 3M, EURIBOR 3M and PRIBOR 3M reference rates plus the banks' margins. The interest rate risk in loan agreements were executed through revaluation of loan installments in monthly, quarterly and semi-annual periods.

Credit risk

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

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

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

The credit risk associated with cash and bank deposits is perceived as low. All entities in which the Group invests free cash operate in the financial sector.

The maximum exposure to credit risk is presented by balance sheet balances of trade and other receivables, cash and other financial assets. This exposure is limited through securities established in favor of the Group (in the form of, inter alia, bank/insurance guarantees, guarantee deposits).

5.6.2 Information on financial instruments with respect to the risk and financial risk management objectives and methods adopted by the Company and the PKP CARGO Group

The principles of market risk management are implemented through assigned organizational units under the supervision of the Parent Company's Management Board. Financial risk in the PKP CARGO Group is managed using specially developed strategies, with partial use of derivative instruments (spot FX transactions and forward FX transactions), which are used only to limit the risk of a change of the balance sheet values and the risk of cash flow changes.

In 2019, the Parent Company applied cash flow hedge accounting using financial instruments such as forward currency sales transactions and an investment loan. The purpose of the hedging activity is to mitigate the impact of the FX risk within the EUR/PLN currency pair on the future cash flows. The hedged item is a highly probable cash flow denominated in EUR.

Hedge accounting was used by a PKP CARGO Group company: PKP CARGO CONNECT Sp. z o.o. To manage its currency risk, this company used financial instruments, primarily forward currency sale transactions.

6. Key events and information about the activity of the Company and the PKP CARGO Group

6.1 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 taking into account the tax effect).
- Publication of the Management Board's recommendation on the distribution of the 2018 profit.
- Consent to draw down an obligation to purchase of 936 flat wagons for the provision of intermodal transport services.
- Signing of a contract with Tatravagónka a.s. for the delivery of 936 new flat wagons for the provision of intermodal transport services. The purchase is co-financed with EU funds under the Infrastructure and Environment Operational Program for 2014-2020, Action 3.2.
- Registration of the Collective Bargaining Agreement for Employees of PKP CARGO SERVICE sp. z o.o.

April

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

May

- Receipt of a notification on the sale of a stake in PKP CARGO by the MetLife OPF and a change in its shareholding to a level below 5%.
- Publication of estimated selected financial and operating data of the PKP CARGO Group for Q1 2019.
- Signing of agreements with Pekao S.A. and BGK for investment loans of up to PLN 500 million.
- Following a recruitment procedure, on 27 May 2019, the Company's Supervisory Board adopted a resolution to appoint the following persons to the PKP CARGO Management Board for the joint 7th term of office: Mr. Czesław 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 persons 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.
- Signing of 2 contracts with PGNiG Termika S.A. for the transport of coal to the client's plants and for the provision of rail siding services. Under these contracts, the Company will transport approx. 1.97 million tons of steam coal in the period from 1 January 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 the second half of 2019.

August

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

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 New Silk Road.

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 the 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 mentioned above operate in the area of 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.
- Change of the company name of AWT a.s. (in which PKP CARGO holds a 100% stake) to PKP CARGO INTERNATIONAL a.s.
- 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
- Liquidation of Trade Trans Karya sp. z o.o. (in which PKP CARGO CONNECT held a 100% stake in the share capital).

December

- Consent of the Supervisory Board to change the terms of the liability incurred by the Company with regard to the delivery of 31 locomotives, towards NEWAG SA and NEWAG LEASE Sp. z o.o. s. k-a (“NEWAG Consortium”) through introduction of third party into the agreement – Millennium Leasing Sp. z o.o., as an entity obligated to purchase 6 electric locomotives. This change results in reduction of the Company’s total liability towards the Newag Consortium from PLN 518.9 million net to PLN 424.1 million net and establishing a liability of Millennium Leasing Sp. z o.o. towards the Newag Consortium in the net amount of PLN 94.8 million in connection with the obligation to purchase 6 electric locomotives.
- Consent of the Supervisory Board for the Company to incur a liability through concluding with Millennium Leasing Sp. z o.o. a master lease agreement up to the total net amount of PLN 150 million plus interest, for PKP CARGO S.A. and, subject to entering into a pertinent annex, for PKP CARGO Group companies.
- Signing of a contract with Enea Elektrownia Połaniec S.A. for rail transport of steam coal. The carriage of approx. 1.3 million tons of steam coal will be performed from Lubelski Węgiel Bogdanka S.A. to the Połaniec Power Plant from 20 December 2019 to 19 March 2021. The estimated gross value of the contract is almost PLN 45.46 million.
- Execution of the “Agreement to use throughput capacity for cargo transport in accordance with the 2019/2020 timetable” between PKP CARGO S.A. and PKP PLK. The Agreement is in effect from 15 Dec 2019 to 12 Dec 2020 and provides the Company with access to rail infrastructure to utilize the throughput capacity for cargo transport in accordance with the 2019/2020 timetable. The expected net value of the Agreement during its term of validity is PLN 608.9 million (PLN 749.1 million gross).
- Change of the name of ONECARGO sp. z o.o. to Centralny Terminal Multimedialny sp. z o.o. with its registered office in Warsaw.
- Takeover of a spun-off part of business (rolling stock management) of AWT ROSCO by PKP CARGO INTERNATIONAL a.s.

January 2020

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

February 2020

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

March 2020

- Tendering of a resignation by Mr. Grzegorz Fingas, Management Board Member in charge of Commerce, effective as of 23 March 2020.

6.2 Evaluation of factors and unusual events affecting the result recorded by the Company and the PKP CARGO Group

Situation on the rail transport market in the main cargo categories

The rail freight market is closely dependent on the business conditions on the market for coal, aggregates, coke, iron ore, metals, petroleum oil refinery products, chemical products and situation in the container transport market. The growth rate of the freight volumes transported by cargo carrier companies in the PKP CARGO Group is strongly linked to changes in the transport in the aforementioned cargo categories.

In 2019, the carriage of aggregates suffered from the turmoil in the infrastructural investments market associated with delays in the revaluation of contracts. In respect of coal, the inventories gathered by power plants in 2018 limited demand. In turn, the steel industry reduced its output due to the weaker economic situation.

Infrastructure access costs

The performance of both PKP CARGO S.A. and the PKP CARGO Group largely depend on the amount of rail infrastructure access charges. The cost of access to infrastructure in 2019 accounted for approx. 16.3% of PKP CARGO S.A.'s operating expenses and about 12.2% of PKP CARGO Group's operating expenses.

Social dialog

A social dialog is conducted in PKP CARGO S.A. based on commonly developed principles written down in the form of agreements specifying the relationships between representatives of the employer and representatives of the trade union. Observing and improving the agreed procedures and fulfilling the assumed obligations permit the highest standards to be maintained when cooperating with representatives of the community and a long-term constructive dialog to be ensured. Management Board respects and develops the idea of partnership in the relations with trade unions, which facilitates the implementation of solutions promoting the development as well as competitiveness and efficiency of the Company in the circumstances of social peace.

Conducting a social dialog based on partnership stabilized the social situation in the Company in 2019, and thus allowed it to conduct its statutory tasks in a peaceful atmosphere.

Situation in the Czech coal sector – situation of OKD a.s.

The approved OKD restructuring plan remains in effect although an extension of the mining phase-out period can be expected. The Lazy Mine terminated its coal mining operations at the end of 2019. In accordance with the restructuring plan, the entire coal mining by OKD, 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.

OKD's interest in the provision of siding services until 2025 may indicate that coal mining operations in OKD's mines will be extended by several years compared to the assumptions of the restructuring plan. This will impact the situation of PKP CARGO INTERNATIONAL a.s.'s sidings.

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. The investments in this area depend directly on the current technical condition of the rolling stock owned and the resulting mandatory periodic repairs. They may also depend on the requirements imposed by EU regulations.

6.3 Information on contracts of significance for the Company and the PKP CARGO Group

Contracts with vendors

Signing of an agreement with PKP PLK S.A.

On 2 December 2019, PKP CARGO S.A. and PKP Polskie Linie Kolejowe S.A. ("PKP PLK") executed the "Agreement to use throughput capacity for cargo transport in accordance with the 2019/2020 timetable". The Agreement is in effect from 15 December 2019 to 12 December 2020 and provides the Company with access to rail infrastructure to utilize the throughput capacity for cargo transport in accordance with the 2019/2020 timetable. The expected net value of the Agreement during its term of validity is PLN 608.9 million (PLN 749.1 million gross).

The Agreement is of key importance for the pursuit of PKP CARGO S.A.'s core business. This is a regular agreement concluded by the Company on an annual basis.

Signing of contracts with companies from the Siemens Consortium

PKP CARGO S.A. decided to take advantage of the opportunity to purchase 5 multi-system Vectron locomotives and signed an annex to the Agreement of 23 September 2015 with a consortium of Siemens Mobility Sp. z o.o. and Siemens Mobility GmbH. The net value of the signed contract, including maintenance, is approx. EUR 26 million. The locomotives will be used on international routes in the north-south corridor.

Signing of contracts with the NEWAG Consortium

The company signed a contract with a consortium formed by NEWAG S.A. and NEWAG LEASE Sp. z o.o. s.k.a. for the purchase of 31 new six-axle electric locomotives. The contract schedule provides for the delivery of 7 locomotives equipped with a diesel combustion module in Q4 2019. In 2021, NEWAG will deliver 12 dual-voltage vehicles, followed by another 12 such vehicles in 2022. Under the contract, the NEWAG Consortium undertook to provide software and licenses necessary to use the locomotives and to deliver a set of brand new spare parts and components for the so-called emergency kit. The consortium will train and authorize PKP CARGO personnel in maintenance and operation of these locomotives.

The net value of the agreement will not exceed PLN 518.9 million.

Signing of a contract with Tatravagónka a.s.

PKP CARGO S.A. signed a contract for the delivery of 936 new flat wagons for intermodal transport. The gross value of the contract will not exceed PLN 368.4 million, and the purchase will be co-financed with EU funds. The manufacturer was selected in a tender procedure. The wagons will be delivered until 2022.

Signing of a contract with a consortium formed by Wagony Świdnica and Astra Rail Industries

The company executed a contract with the consortium of Wagony Świdnica and Astra Rail Industries for the delivery of 220 wagons for intermodal transport. The net value of the contract is PLN 102.5 million (the gross value is PLN 126 million). The wagons are scheduled to be delivered by 30 November 2022. In 2021, 130 wagons will be delivered in accordance with tender requirements, and the remaining 90 will be delivered in 2022.

Contracts with buyers

Signing of contracts with PGE Group companies

PKP CARGO S.A. has won a tender for transportation of coal and limestone sorbents to PGE Group companies. The contract consists of five transport agreements signed with: PGE Górnictwo i Energetyka Konwencjonalna S.A. in Bełchatów, PGE Energia Ciepła S.A. in Warsaw, Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. in Wroclaw. The main destinations of the transports are: the Dolna Odra Power Plant and the Opole Power Plant.

Under the agreements, from 2019 to 2021, PKP CARGO S.A. will deliver about 15.2 million tons of coal and 1.5 million tons of limestone. The estimated maximum net value of the agreements during their terms is PLN 541.2 million (gross value of PLN 665.7 million).

Execution of a contract with ENEA Wytwarzanie

PKP CARGO S.A. signed a contract with ENEA Wytwarzanie for rail transport of steam coal in 2019/2020. Under the contract, the Company will transport approximately 5.9 million tons of steam coal over a period of 15 months. The estimated gross value of the contract is nearly PLN 143.5 million. The freight will be transported from LW Bogdanka (Jaszczów) to ENEA Wytwarzanie (Świerże Górne).

Execution of contracts with PGNiG TERMIKA

The Company signed two contracts with PGNiG TERMIKA S.A. under which it will transport approx. 1.97 million tons of steam coal in the period from 1 January 2020 to 31 December 2020. The freight will be transported to PGNiG TERMIKA S.A. units, specifically: the Siekierki Cogeneration Plant, the Żerań Cogeneration Plant, the Kawęczyn Heating Pland and the Pruszków Cogeneration Plant, with siding services.

Execution of a contract with ENEA Połaniec

PKP CARGO S.A and Enea Elektrownia Połaniec S.A. executed a contract for rail transport of steam coal. The commodity will be transported from Lubelski Węgiel Bogdanka S.A. to the Połaniec Power Plant from 20 December 2019 to 19 March 2021.

Under the contract, PKP CARGO S.A. will transport approximately 1.3 million tons of steam coal over a period of 15 months. The estimated gross value of the contract is nearly PLN 45.46 million. The freight will be transported from LW Bogdanka S.A. (Jaszczów) to Enea Połaniec S.A. (Połaniec).

6.4 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 this report, the actual performance of the revised forecast disclosed to the public in Current Report No. 52/2019 of 6 November 2019 is as follows:

the revised EBITDA forecast of the PKP CARGO Group for 2019 was approx. PLN 925 million, the actual performance was PLN 859.9 million, which means a deviation of approx. 7.0%. The drop in EBITDA was caused by the deteriorated situation on the transportation market.

7. Company’s and PKP CARGO Group's development policy

7.1 Description of external and internal factors of relevance for the development of the Company and the PKP CARGO Group

Economic situation

The macroeconomic environment is directly reflected in the Company’s and Group’s business activities. 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.

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. The overall economic situation in the sector will continue to affect the ’s freight volumes and the freight transport market. Coal transport will continue to be the basic cargo categories in transport carried by the PKP CARGO Group and the situation in this market will have an effect on the results and market shares obtained by the Company and Group.

Situation on the aggregates market

In 2019, the carriage of aggregates suffered from the turmoil in the infrastructural investments market associated with delays in the revaluation of contracts.

Experts expect the situation on the mass transportation market to improve in 2020. Infrastructural investments will accelerate from month to month, which should result in a significant increase in the aggregates segment. Thus, transportation of aggregates and construction materials remains a significant market for the PKP CARGO Group, strongly affecting freight turnover and market shares.

Situation on the intermodal transport market

An especially rapid growth is expected in the coming years in the intermodal transport market. The Group remains actively involved in the handling of transports over the NJS line. The primary objective of the project is to increase the volumes of overland intermodal transport between China and Western Europe through Małaszewicze and back to Asia. The development of trade cooperation between Poland and the People’s Republic of China is an important stimulus increasing the level of intermodal transport carried out by the Group.

Condition of rail infrastructure

Infrastructural investments related to the modernization of the rail infrastructure carried out by the infrastructure manager PKP PLK caused 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

The performance of both the Company and the Group largely depends on the amount of rail infrastructure access charges. The cost of access to infrastructure in 2019 accounted for approx. 16.3% of PKP CARGO S.A.’s operating expenses and about 12.2% of PKP CARGO Group’s operating expenses.

On 2 December 2019, a contract was signed with PKP PLK S.A., effective from 15 December 2019 to 12 December 2020. The estimated net value of the contract is PLN 608.9 million (gross value of PLN 749.1 million).

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. The investments in this area depend directly on the current technical condition of the rolling stock owned and the resulting mandatory periodic repairs. The number of periodical repairs and periodical overhauls performer in individual periods results from the cycles defined in DSU for the rolling stock approved by the Office of Rail Transport.

Risk of changes to legal regulations

The business activity pursued by both PKP CARGO S.A. and PKP CARGO Group companies is subject to specific legal regulations. They include, for instance, the Technical Specifications for Interoperability Noise (NOI TSI), regulations on access to Service Infrastructure Facilities and the Road and Rail Freight Monitoring System. The specific influence of these regulations is described in section 5.6.1.

Capital expenditure financing

The Group will finance capital expenditures with investment loans, its own funds and from other sources. An increase in loan liabilities will result in an increased level of liabilities (short- and long-term) and of financial expenses.

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.

7.2 Description of the growth prospects and development policy of the Company and the PKP CARGO Group at least in the next financial year

PKP CARGO Group's Strategy for 2019-2023

The PKP CARGO Group's strategy was adopted in November 2018. The document lays down the vision and mission of the PKP CARGO Group for 2019-2023 and indicates the Group's long-term and short-term strategic objectives. It is the Group's key document setting forth the directions for its development and forms an element of its integration.

PKP CARGO Group's VISION:

Become the Central European leader in rail freight transport by taking the dominant position in the area of the 'Three Seas Initiative' and on the 'New Silk Road'.

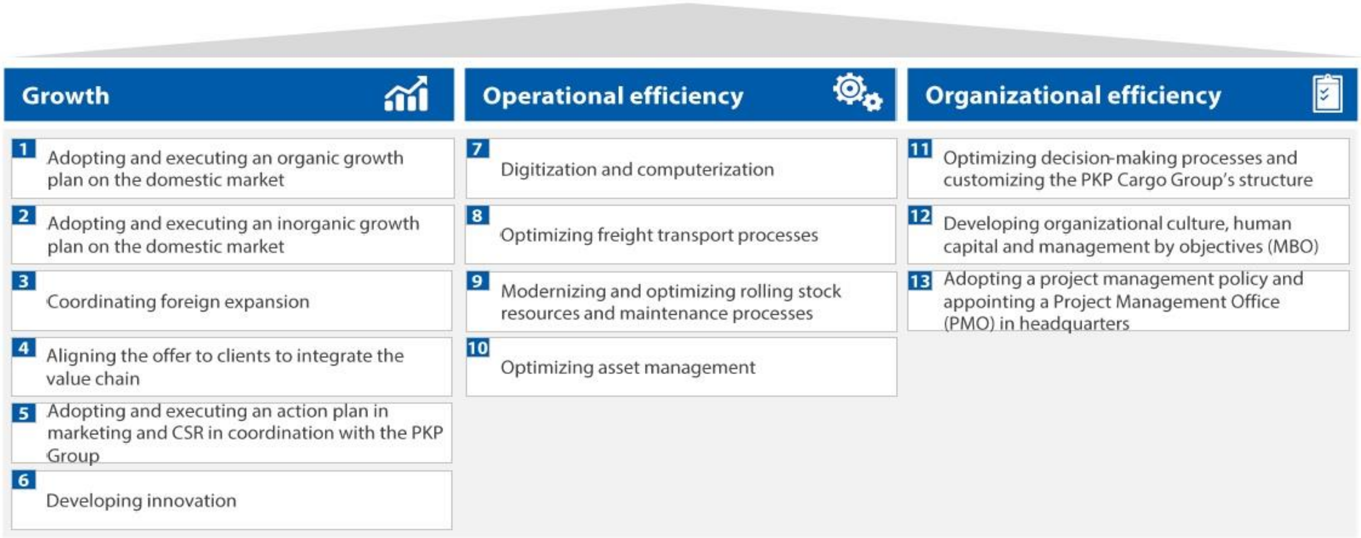
PKP CARGO Group's MISSION STATEMENT:

Offering comprehensive logistics services on the rail freight and intermodal services market in a way to make it the supplier of first choice.

To this end, PKP CARGO strives to devise the most competitive offer for business partners on the New Silk Road in the European Union and in the area of the Three Seas Initiative The Group wants to use the natural advantages of Poland, that is quick economic development and the resulting improving international position. The advantage that many experts believe is key is Poland's location at the crossroads of critical trade routes.

Attaining the objectives is based on executing 13 strategic initiatives arranged under three pillars:

Figure 36 Strategic initiatives



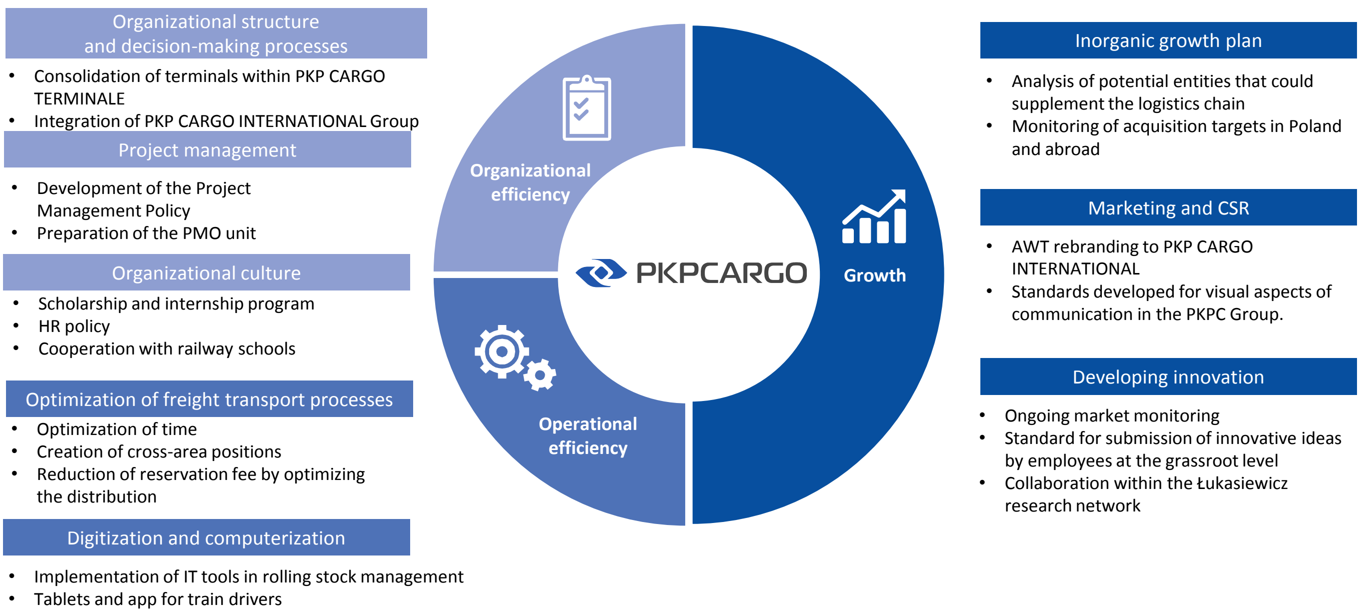
Source: Proprietary material

During the first year of pursuit of the Strategy, the Group's efforts were focused on the consistent implementation of initiatives in all three areas: growth, operational efficiency and organizational efficiency. Digitization and computerization as well as optimization of transportation processes are conducive to increasing operational efficiency. The PKP CARGO Group also increases the efficiency of rolling stock utilization and modernization processes and improves management of assets in all its companies.

Equally important is the improvement in organizational efficiency. The consistent adaptation of the Group structure to its activities takes place by the creation of specialized divisions (rolling stock, intermodal, terminals, repair and maintenance, development of foreign operations). Also, the Group keeps optimizing its decision-making processes, a project management policy has been developed.

The activities carried out during the first year of pursuit of the Strategy are depicted in the following chart:

Figure 37 Depiction of activities carried out during the first year of pursuit of the Strategy



Source: Proprietary material

8. Other key information and events

8.1 Information on PKP CARGO S.A. shares

8.1.1 Issue of securities and use of proceeds from the issue

In the reporting period, in PKP CARGO S.A. there were no issues, redemptions or repayments of debt securities or equity securities.

8.1.2 Information about agreements which may in the future cause changes to the proportions of shares held by the current shareholders

PKP CARGO S.A. is unaware of any agreements entered into by its existing shareholders which may result in future changes to the proportions of their shareholdings.

8.1.3 Acquisition of treasury stock

In 2019, PKP CARGO S.A. did not effect any purchase or sale of its treasury stock.

8.1.4 Information on the employee share plan control system

Shares taken up by entitled employees in connection with the right granted under the Employee Guarantee Package („EGP"), were subject to contractual limitation of their disposal. Each eligible employee submitting a subscription for shares was required to sign an agreement providing for restrictions on the transferability of shares for a period of 2 years from the Company's first day of trading on the Warsaw Stock Exchange, i.e. until 30 October 2015. Any submitted subscription without signing the said agreement would have been considered invalid and the eligible employee would have lost his/her right to the privatization bonus, hence also to the shares. A sale of or encumbrance on any shares or rights to shares prior to 30 October 2015 was ineffective against the Company and may have exposed the employee to liability for damages.

On the date of expiration of the above lock-up period, i.e. on 30 October 2015, series C shares were converted into bearer shares.

8.1.5 Shares held by management board and supervisory board members

The holdings of Company's shares or rights to such shares by members of the Company's Management Board from 21 November 2019, i.e. the delivery date of the Q3 2019 report to the delivery date of this report, was as follows:

Table 31 PKP CARGO S.A. shares held by Management Board members as at the report delivery date

Name	Number of PKP CARGO S.A. shares held by Management Board members		Par value of shares	
	as at the delivery date of this report	as at 21 November 2019	as at the delivery date of this report [PLN]	as at 21 November 2019 [PLN]
Czesław Warsewicz	2,500	2,500	125,000	0
Leszek Borowiec	0	0	0	0
Grzegorz Fingas	0	0	0	0
Witold Bawor	46	46	2,300	2,300
Zenon Kozendra	46	46	2,300	2,300

Source: Proprietary material

The holdings of Company's shares or rights to such shares by members of the Company's Supervisory Board from 21 November 2019, i.e. the delivery date of the Q3 2019 report to the delivery date of this report, was as follows:

Table 32 PKP CARGO S.A. shares held by Supervisory Board members

Name	Number of PKP CARGO S.A. shares held by Supervisory Board members		Par value of shares	
	as at the delivery date of this report	as at 21 November 2019	as at the delivery date of this report [PLN]	as at 21 November 2019 [PLN]
Krzysztof Mamiński	0	0	0	0
Mirosław Antonowicz	0	0	0	0
Krzysztof Czarnota	70	70	3,500	3,500
Zofia Dzik	0	0	0	0
Dariusz Górski	0	0	0	0
Małgorzata Kryszkiewicz	0	0	0	0
Tadeusz Stachaczyński	0	0	0	0
Władysław Szczepkowski	0	0	0	0
Jerzy Sośnierz	70	70	3,500	3,500
Paweł Sosnowski	0	0	0	0

Source: Proprietary material

No members of the issuer's Management Board or Supervisory Board, as at 31 December 2019 or as at the delivery date of this report, hold any shares or ownership interests in PKP CARGO S.A.'s related parties.

8.1.6 Dividends paid or declared

On 20 March 2019, the PKP CARGO S.A. Management Board adopted a resolution to submit a motion to the Company's Ordinary Shareholder Meeting ("OSM") to distribute the net profit carried in the Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2018 prepared in accordance with EU IFRS. On 20 March 2019, the PKP CARGO S.A. Supervisory Board adopted a resolution containing a positive opinion on the Management Board's motion.

On 26 June 2019, the Ordinary Shareholder Meeting adopted a resolution to distribute the net profit presented in the Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2018 prepared in accordance with EU IFRS. Out of the net profit generated in 2018 of PLN 253,945,476.86, the amount of PLN 67,180,375.50 was earmarked for a dividend. The Ordinary Shareholder Meeting also adopted a resolution on the dividend record date and the dividend payment date, setting 3 July 2019 as the dividend record date and 10 July 2019 as the dividend payment date. The amount of dividend per share was set at PLN 1.50.

8.2 Information on transactions with related parties

No entity from the PKP CARGO Group entered in any transactions with related parties on non-market terms in 2019. 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 SFS** and **Note 7.1 to the CFS**.

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

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

8.4 Major achievements in research and development

An autonomous dual-mode locomotive

PKP CARGO S.A. cooperates with Pesa Bydgoszcz S.A. and Instytut Pojazdów Szynowych "TABOR" in Poznań to conduct research and development works on constructing an autonomous dual-mode locomotive. The relevant contract was signed at the InnoTrans trade fairs in Berlin in 2018. It provides that during the first stage PKP CARGO and Pesa will prepare the technical assumptions and configuration for the locomotive being designed, which will then be reviewed by scientists working for IPS "TABOR". The second stage will involve design and research works followed by the commencement of the construction of an autonomous dual-mode, electro-diesel, locomotive by Pesa. The first vehicle will be tested by PKP CARGO, which will enable the operation of the locomotive to be checked in the conditions of a normal operation on tracks as well as corrections and improvements to be introduced to its design.

A hydrogen project

Representatives of the Management Boards of Jastrzębska Spółka Węglowa and PKP CARGO signed a letter of intent for joint innovative investment projects focused on the commercial use of hydrogen fuel at the IMPACT'18 conference held in Kraków in June. The document provides, among others, for cooperation in research, analyses, and the future manufacturing of new types of rail cars and shunting locomotives with a hydrogen drive and their later maintenance and operation. JSW and PKP CARGO identified the possibility to pursue joint ventures the key objective of which would be the development of innovative solutions for reduced energy and fuel consumption and exhaust emissions involved in the commercial use of rail cars and locomotives powered by hydrogen. The agreement was joined by H. Cegielski – Fabryka Pojazdów Szynowych in November. The companies are looking for a business partner with appropriate manufacturing capacity and experience in the application of hydrogen propulsion in rail vehicles.

8.5 Information on natural environment issues

Implementation of the Company's strategy is based on adapting its resources and organization to the requirements of the contemporary transportation market, taking into account the principles of sustainable development, in accordance with the adopted policy of the Integrated Management System (IMS): quality, occupational health and safety, environmental protection.

The Company's environmental policy forms an integral part of its overall corporate management system. The strategic objective for responsible actions taken by PKP CARGO S.A. in the field of environmental protection is to ensure a safe carriage of merchandise using rolling stock that meets the applicable environmental requirements. The Company invests both in the purchases of new rolling stock and in the modernization of its existing rolling stock as well as in maintenance and repair facilities and devices for diagnostics of the Company's rolling stock. These efforts are aimed at achieving high standards of rolling stock maintenance and protecting the natural environment against the possible consequences of breakdowns and accidents involving the Company's rolling stock.

In the process of environmental review (conducted on an annual basis), the effects of the Company's environmental initiatives are evaluated and specific environmental targets and tasks are formulated for subsequent years according to criteria selected based on:

The environmental review process

The Company diligently monitors all environmental aspects considered to be significant. The objective of the monitoring of significant aspects is not only to gain knowledge of the magnitude of impacts on the natural environment by tracking certain assumed indicators but also to implement the environmental protection program in order to improve the emission indicators (energy intensity). Year by year, through the introduction of objectives and tasks in significant areas in relation to the adopted classification criteria, the Company keeps minimizing its environmental impact in relation to the activities performed.

The significant environmental aspects are related to the Company's core business of the carriage of cargo and the maintenance and repairs of rolling stock. The most relevant of these deliverables are:

1) Carriage of hazardous cargo

First of all, the Company is a rail freight carrier, hence the carriage of hazardous materials is subject to monitoring. In 2019, the Company did not record any events resulting in environmental damage, and because the Company is aware of the costs involved in restoring the environment to the required standards, it continuously monitors the quality of the safety of our transport. This process is supported by improvements in diagnostics and inspections of the rolling stock through earmarking considerable funds for that purpose, including purchases of diagnostic equipment, repair equipment, garage equipment for diagnostics and repairs of locomotives and rail cars and on purchases of new rolling stock and modernizations of the rail cars.

2) Emissions into the air

Rail transport is crucial for the achievement of the European objectives related to the reduction of greenhouse gas emissions. Rail transport of goods is almost 9 times lower CO2 emission than road freight transport. Railway is the most decarbonized motorized way of travelling: CO_2 emissions, in turn, are less than 3% of the emissions from the entire transport although it accounts for 17% of the land transport (acc. to CER Factsheet Climate 2018). All activities leading to the development and growth of the rail market, resulting in an increased share of this type of transport in the overall transport, always translate into the ecological effect in the form of improved air quality and mitigated climate changes. For this reason, the tasks pursued by the Company focus on gradual modernization and obtainment of an increasing number of new diesel and electric locomotives, leading to a reduction in harmful gas and particulate matter emissions to the environment and enabling savings of fuel and energy and a lower level of noise emitted to the environment.

3) Emissions into waters

PKP CARGO S.A. is going to invest in straightening out the water and sewage management, which will enable the legal situation regarding environmental protection to be fully regulated, fees and charges for using water services to be reduced, and the risk of sewage with parameters inconsistent with the laws being discharged to the sewerage to be minimized. Activities planned for the following years in a number of locations include network modernization, connection to municipal water and sewage networks, etc. Moreover, inspections of the water and sewage network are carried out on an ongoing basis, involving the cleaning of oil-derived substance separators and the required tests of sewage parameters.

4) Protection of the earth's surface

The Company's operations exert an impact on the ground water environment. This fact prompted the implementation of the Company's program of the construction of container fuel stations which has led to the decommissioning of all fuel stations with single-shell tanks leased from PKP S.A. Old single-shell tanks for used oil were also withdrawn from service. They were replaced with modern equipment that forces the removal of used oil. The new double-jacket tanks are equipped with an internal tank monitoring system using the "dry" method. A leak detector is installed in the system. When a leak occurs, an acoustic alarm signal is set off, enabling a quick response, inspection of the tank and repair of any leakage.

5) Organizational actions

The PKP CARGO Group runs its business throughout the country and beyond its borders. The consumption of materials, fuels and electricity during the conduct of business operations causes an extensive impact on the environment. In order to avoid any breaches of environmental protection laws and minimize the risk of sanctions against the Group's member companies, continuous monitoring and inspection of the conduct of their operations are required. Aware of their impact on the environment, the companies take actions aimed at preventing environmental pollutions. Moreover, they make efforts aimed at ensuring the constant raising of environmental awareness among their personnel by training all staff responsible for performing tasks associated with the transport of cargo, supervision and maintenance of installations causing emissions into the environment and waste management.

Decisions related to the protection of the natural environment, including air, have been noticed not only by the Company's counterparties in business transactions. PKP CARGO S.A.'s best practices in the area environmental protection are described in the FOB Report entitled "Responsible business in Poland. Best practices".

The Group is involved in achieving compliance of its actions with the applicable laws and regulations, has in place a program of environmental measures and achieves measurable results of these activities, has qualified personnel conducting environmental matters with the use of instruments in the form of software which constitutes an up-to-date database on the extent of the use of the environment. The employees have access to up-to-date regulations and instructions, and their environmental awareness is growing every year due to training and information processes conducted. All this means that serious sanctions for the use of the environment are rather unlikely to be imposed against members of the PKP CARGO Group.

8.6 Description of the Company's and the PKP CARGO Group's sponsoring, charitable or other similar activities

PKP CARGO S.A. and members of the PKP CARGO Group focus on pro-social activities consistent with the Group's mission and growth strategy and the values represented by the Company. The conduct of long-term social programs is a priority activity undertaken by these entities. Based on an analysis of initiatives and programs executed to date and a diagnosis of the needs of the PKP CARGO Group's business and social environment, the following sponsorship activities were devised:

- Innovative initiatives for development of the TSL industry,
- Science and education, including cooperation with institutions of higher education and scientific centers,
- Culture and art
- Safety and security,
- Sports, with particular focus on development of youths through sports and care for healthy lifestyle.

Charitable support activities are focused on environmental protection and ecology (including supporting the initiatives related to ecology of transport), science and education, culture and art, safety and equalization of social differences.

Science and education

PKP CARGO S.A. was a partner of the conference "Polish transport today and tomorrow" organized as part of the International Transport, Forwarding and Logistics Fair in Nadarzyn.

The company was also a partner of the 3rd Intermodal Transport Fair in Szczecin and of the conference "Intermodal transport – integration of global freight carriage" organized within its framework.

Safety

PKP CARGO provided support to the seminar entitled "Safety – live is good" organized by the National Center for Road Traffic in Warsaw.

Arts and culture, sports and physical education

PKP CARGO S.A. was a sponsor of the 30th cycling race of Solidarity and Olympians, a soccer tournament of the Train Drivers' Trade Union in Iława and the Polish championship of railway workers in hand draisine races.

The Company was a sponsor of the 27. Solidarity Run "Lublin July 1980" and the sporting contest of the PKP Train Dispatchers' Trade Union in Boszków. Also, the Company supported the international badminton tournament for railway workers and the youth football team KS Kolejarz Miłkowice. It also sponsored concerts of the Rail Tradition City Brass Band in Zduńska Wola-Karsznice.

PKP CARGOTABOR and PKP CARGO CONNECT supported the organization of the Polish championship of railway workers in hand draisine races. PKP CARGO SERVICE and CARGOTOR sponsored the international sporting contest of train dispatchers in Boszków. Moreover, PKP CARGO SERVICE supported the 13th Miedźniański Family Bicycle Rally. PKP CARGO International (formerly AWT) sponsored the organization of a soccer tournament for railway workers in the Czech Republic.

Social activity

PKP CARGO S.A. was a sponsor of the delivery of a historic steam locomotive to the Steam Days in Gniezno and the delivery of historic rolling stock to the railway museum in Czeremsza and two rail model exhibitions. The Company also supported the organization of a convalescence camp for disabled children in Ustka.

PKP CARGO SERVICE Sp. z o.o. granted financial support to the Municipal Cultural Center in Gorzyce. The company also made a donation to the Małopolska Regional Branch of the Polish Red Cross, which promotes the concept of blood donation.

8.7 Information about existing Compensation Policy

8.7.1 General information about the compensation system accepted in the Parent Company

In PKP CARGO S.A., the compensation rules are established in accordance with the generally applicable laws and internal regulations in force in the Company.

The compensation system is comprised of the following:

- Company Collective Bargaining Agreement for Employees of the Establishments of PKP CARGO S.A.,
- Regulations for paying bonuses to employees,
- Resolutions of corporate bodies of PKP CARGO S.A. to establish and introduce the rules for compensating key staff, employees of the Company's Headquarters and employees in managerial and independent positions in the Company's units.

A major portion of the Company's employees, nearly 84%, is remunerated in accordance with the provisions of the Company Collective Bargaining Agreement under which these employees are eligible for compensation elements, benefits and perquisites as well as other rights which are not contemplated in the commonly applicable regulations or are regulated in a less favorable manner.

These employees' compensation consists of fixed and variable elements, and their type and level varies depending on the position held, competences of the employee and the nature of the tasks performed.

In addition, the employees who receive compensation under the Company Collective Bargaining Agreement are eligible for monthly bonus paid according to the company bonus payment rules. The bonus fund includes a pool of funds earmarked for payment of bonuses for ongoing performance of tasks and for payment of bonuses to the employees for individual achievements.

Pursuant to the delegation contained in the Company Collective Bargaining Agreement, the employees of the Company's Headquarters and the employees on management and independent positions in the Company's work establishments, who in 2019 represented approx. 16% of total number of employees, receive their compensation based on the principles defined in the Resolution adopted by the PKP CARGO S.A. Management Board based on the individual wage coefficient appropriate for the job and the average monthly wage in the enterprise sector published by the Central Statistical Office (GUS).

The employees receiving compensation under the Resolution adopted by the PKP CARGO S.A. Management Board may be paid, depending on their position, the quarterly discretionary bonus, which is disbursed if the Company's business goals are achieved to a specified degree, or annual bonus based on the Management Through Objectives Program in place in PKP CARGO S.A. if the Program is launched in the given year.

In addition, the compensation system includes, among others, the following benefits and perks: jubilee award, disability severance pay, retirement severance pay, coal allowance in the form of cash equivalent, benefits in the form of passenger train tickets, a benefit paid on the occasion of the Railway Employee Day, additional holidays for which employees on certain positions are eligible.

In connection with the IPO of PKP CARGO S.A.'s shares on the Warsaw Stock Exchange, on 2 September 2013 the Employee Guarantee Package ("Package") was adopted by the signatories of the Company Collective Bargaining Agreement, which has a significant impact on the performance of the Company's HR policy.

The Package introduced several solutions that were beneficial to PKP CARGO S.A. employees, including, among others, the following:

- guaranteed employment, compensation and place of work on the conditions stipulated in the Package, excluding management positions,
- one-off benefit in the form of employee shares,
- participation of crew representatives in the Supervisory Board and the Management Board of the Company,
- participation of crew representatives in negotiations on annual compensation raises depending on the Company's performance and financial standing.

In 2019, PKP CARGO S.A.'s HR Policy was adopted that includes a set of standards and best practices in human resource management. In addition to activities aimed at applying and improving practices in the area of recruitment, adaptation and development of employees' competences, this Policy has highlighted the significance of an extensive employee compensation system based on stable internal regulations, ensuring additional rights and benefits specific to the rail sector, which has a favorable impact on the employees' sense of belonging in the Company and thus their motivation to work.

In pursuit of the objectives formulated in the Company's strategy and taking into account the rapidly changing market environment, actions have been taken to implement legal and organizational solutions related to the employee compensation system.

The extensive project aimed at reconstruction of the employee compensation system will be executed with the participation of the social party with a view to increasing the Company's competitiveness in the cargo transport sector and ensuring the satisfaction of employees with their work in PKP CARGO S.A.

As part of the non-compensation incentive system for employees, the program of additional fringe benefits in the form of discounts on cultural events, goods or services for all employees of PKP CARGO S.A. (launched in 2018) was continued. The Company's offer of discounts and rebates on products and services is more attractive than what is available on the open market. The Company makes efforts to make its offer available to the largest possible number of employees. Employees are informed about the offer through such communication channels as the Intranet, e-mail, local messages and newsletter distributed in electronic and paper form.

The broadly construed employee compensation system also covers the rules for compensating key management, i.e. PKP CARGO S.A. Supervisory Board Members, Management Board Members, directors of the Head Office departments and directors of the Company's Units. These rules constitute an internal element of the corporate governance principles in effect in PKP CARGO S.A. established in accordance with the generally applicable laws and internal regulations in force in the Company, including in particular the provisions of the Articles of Association, the Bylaws of the Shareholder Meeting, the Bylaws and Resolutions of the Supervisory Board and the Bylaws of the Management Board.

This document contains a collection of general compensation rules, incentive tools and additional benefits that may be granted to top management and constitutes an important element of the development and safety of PKP CARGO S.A., and its main objective is to support the achievement of the Company's strategic objectives.

In 2019, the terms and value of compensation and fringe benefits of Management Board and Supervisory Board members and other key managers did not change.

8.7.2 Terms and value of compensation and fringe benefits of Management Board and Supervisory Board members

Management Board

In accordance with the "Rules for compensating key management at PKP CARGO S.A.", all Management Board members were employed under management services contracts. The terms and conditions of contracts with Management Board Members and the amount of compensation are determined by the Supervisory Board. Management Board members are entitled to a monthly base salary calculated on the basis of an objective and measurable indicator. The minimum and maximum amount of which must correspond to the size of the enterprise and must remain in a reasonable relation to the Company's economic performance.

Management Board Members are entitled to a bonus for the achievement of management objectives specified by the Supervisory Board. Such objectives should be determined no later than by the end of April of the financial year in which they are expected to be achieved. Moreover, Management Board Members, in accordance with the terms specified in their contracts, may be granted the right to use technical tools and equipment owned by PKP CARGO S.A. to assist them in the proper performance of their duties.

During the period of their membership in the Management Board and thereafter (extended competition ban), the Company's Management Board Members are required to refrain from the conduct of any business competitive to that of the Company or of any member of the PKP CARGO Group.

The discharge of a function in the Management Board is the main area of professional activity of a Management Board Member. It may be permitted for a Management Board Member to be additionally involved in the activities of the management or supervisory bodies of other members of the PKP CARGO Group, however without the right to collect any additional remuneration on this account. The Company's Management Board members may sit on the management boards or supervisory boards of companies other than members of the PKP CARGO Group only with the consent of the Supervisory Board.

The table below presents total compensation and fringe benefits for PKP CARGO S.A. Management Board members in 2019.

Table 33 Salaries and fringe benefits for PKP CARGO S.A. Management Board members in 2019 (PLN)*

Name	Compensation, annual leave equivalent (incl. VAT)	Bonuses, occasional awards, jubilee awards	Severance pays indemnities, non-competition (incl. VAT)	Other revenue taxed and subject to social security contributions	Subsidiaries	Total
Current Management Board members						
Czesław Warsewicz	708,480	0	0	1,335	0	**709,815**
Leszek Borowiec	634,680	0	0	0	0	**634,680**
Grzegorz Fingas	634,680	0	0	1,534	0	**636,214**
Witold Bawor	634,680	0	0	1,534	0	**636,214**
Zenon Kozendra	634,680	0	0	1,534	0	**636,214**
Former Management Board members						
Arkadiusz Olewnik					125,043	**125,043**

* Taxed and subject to social security contributions
Source: Proprietary material

Supervisory Board

In accordance with the "Rules for compensating key management at PKP CARGO S.A.", Supervisory Board Members were not employed by the Company (this applies to the form of appointing a Supervisory Board member; Supervisory Board members – employee representatives may be Company employees, and they suspend their employment relationship for the duration of their service on the Supervisory Board).

The amounts of compensation of the Supervisory Board Members are set by the Company's Shareholder Meeting. The monthly base salary of a Supervisory Board Member may not exceed a clearly defined multiple of the average monthly wage in the enterprise sector without profit-sharing in the fourth quarter of the previous year, as announced by the President of the Central Statistical Office.

Compensations of the Supervisory Board Members are not contingent on the Company's financial performance, options, other financial instruments or any variable component. The rule is that compensations of Supervisory Board Members should be commensurate with the entrusted scope of activities and discharged functions, e.g. work in Supervisory Board's committees. Moreover, Supervisory Board Members may be granted the right to use, in accordance with the rules in force in the Company, any tools and technical equipment necessary to discharge the duties of a Supervisory Board Member.

Compensations of the Supervisory Board Members do not constitute a significant item in the costs of the Company's operations and do not significantly affect its financial performance.

The table below presents total compensation and fringe benefits of the Company's Supervisory Board members in 2019.

Table 34 Salaries and fringe benefits for PKP CARGO S.A. Supervisory Board members in 2019 (PLN)

Name	Position	Compensation for discharging a function in the SB PKP CARGO S.A.	Other compensation (PKP CARGO S.A.)	Subsidiaries
Krzysztof Mamiński	Supervisory Board Chairman	0	0	0
Mirosław Antonowicz	Deputy Chairman of the Supervisory Board	0	0	0
Krzysztof Czarnota	Supervisory Board Member	152,247	152,182	0
Zofia Dzik	Supervisory Board Member	144,407	0	0
Raimondo Eggink	Supervisory Board Member	72,113	0	0
Dariusz Górski	Supervisory Board Member	74,297	0	0
Małgorzata Kryszkiewicz	Supervisory Board Member	144,407	0	0
Tadeusz Stachaczyński	Supervisory Board Member	149,902	115,851	0
Władysław Szczepkowski	Supervisory Board Member	145,295	0	0
Jerzy Sośnierz	Supervisory Board Member	152,206	135,635	0
Paweł Sosnowski	Supervisory Board Member	144,407	0	0

Source: Proprietary material

Terms of non-financial components of compensation for other key managers

Department Directors and Unit Directors

In accordance with the "Rules for compensating key management at PKP CARGO S.A.", the Company's key managers may be granted, in accordance with the rules in force in the Company, the right to obtain co-financing of the rent for an apartment, a company car, a company payment card, tools and technical equipment necessary to discharge the duties of a given position, and the right to medical care.

The Company's key managers may subject to a ban on conducting any business competitive to that of PKP CARGO S.A. after the termination of their employment relationship, in accordance with the terms defined by a Management Board Resolution, and on this account are entitled to receive compensation for observing the ban on conducting any business competitive to that of PKP CARGO S.A. and other members of the PKP CARGO Group.

8.7.3 Indication of material changes introduced in the compensation policy in the last financial year or information on absence of such changes

No material changes in the Company's compensation policies were introduced in 2019.

8.7.4 Evaluation of the practical application of the compensation policy in the context of its goals, in particular the long-term increase of the company's value for shareholders and stability of its operations

The "Rules for compensating key management in PKP CARGO S.A." which entered into effect in 2017 have enabled the Company to generate value for its shareholders in the following aspects:

- the implementation of an internal regulation describing the rules for compensating the Company's key management personnel ensures compliance with the standards generally applicable to companies listed on the Warsaw Stock Exchange,
- the adoption of the regulation means that the compensation rules defined therein are not set on an ad hoc basis under the influence of any current events or in response to the current financial performance but are a set of permanent, transparent and independent compensation rules contributing to the stability of the enterprise,
- it enables the selection of groups of employees who, through the functions they discharge, exert a significant impact on the efficient management of the organization and on the implementation of the Company's strategic objectives,
- in particular, the regulation adopted by the Company defines a transparent form, structure and manner for determining the compensations and other benefits for key managers, which helps reduce the risks that would arise from unstable compensation rules applicable to the Company's key personnel.

8.7.5 Agreements entered into between PKP CARGO S.A. and managers which provide for compensation in specific cases

In connection with the expiration of the term of office of the PKP CARGO S.A. Management Board, in 2019, pursuant to the Bylaws for Appointing Management Board Members in PKP CARGO Spółka Akcyjna (adopted by Resolution No. 1803/VI/2019 of the PKP CARGO S.A. Supervisory Board of 21 January 2019) and the Bylaws for Electing 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 (adopted by Resolution No. 1804/VI/2019 of the PKP CARGO S.A. Supervisory Board of 21 January 2019), a recruitment procedure was carried out to fill the position of President of the Management Board, Management Board Member in charge of Finance, Management Board Member in charge of Commerce, Management Board Member in charge of Operations and Management Board Member – Employee Representative.

As a result of these proceedings, the PKP CARGO S.A. Supervisory Board appointed:

- by Resolution No. 1864/VI/2019 of the PKP CARGO S.A. Supervisory Board of 27 May 2019, Mr. Czesław Warsewicz to the position of President of the PKP CARGO S.A. Management Board;
- by Resolution No. 1865/VI/2019 of the PKP CARGO S.A. Supervisory Board of 27 May 2019, Mr. Leszek Borowiec to the position of Member of Management Board Member in charge of Finance;
- by Resolution No. 1866/VI/2019 of the PKP CARGO S.A. Supervisory Board of 27 May 2019, Mr. Grzegorz Fingas to the position of Member of Management Board Member in charge of Commerce;
- by Resolution No. 1867/VI/2019 of the PKP CARGO S.A. Supervisory Board of 27 May 2019, Mr. Witold Bawor to the position of Management Board Member in charge of Operations;
- by Resolution No. 1868/VI/2019 of the PKP CARGO S.A. Supervisory Board of 27 May 2019, Mr. Zenon Kozendra to the position of Management Board Member – Employee Representative.

The basic terms and conditions of the newly executed management contracts and non-competition agreements are as follows:

- Management Board Members provide management services consisting in personal management of the entrusted areas of the Company's operations;
- the agreement is concluded for the duration of discharging the function in the company's Management Board; the agreement is terminated upon the elapse of that period;
- Management Board members are vested with the right to receive the remuneration consisting of a fixed part, constituting the monthly basic remuneration, and the variable part ("Bonus"), constituting the supplementary remuneration for the financial year in connection with the Manager's achievement of the management objectives of particular importance to the Company and the Group;
- Management Board members undertake that during the term of validity of their contract they will not conduct any business competitive to that of the Company or of any member of the PKP CARGO Group;
- the non-compete clause will continue to be binding for a period of six months after the termination of the contract and the expiration of the term of office of the Management Board member. Due to the obligation to adhere to the extended non-compete clause by Management Board members, the Company will pay them a base compensation for each month of validity of the extended non-compete clause applicable to the pertinent Management Board member;

- at the written request of a Management Board member, the Supervisory Board may, by way of a resolution, release the Manager from the non-compete clause or extended non-compete clause, respectively. The Supervisory Board will specify in its resolution the scope of the waiver, indicating the applicable activities, entities or functions.
- Management Board members are entitled to a break in the provision of their services – based on their own decision, including as a result of an illness, which will not result in a reduction of the Management Board member's base salary, provided that the break is no longer than 24 calendar days in a given financial year of the Company. If a Management Board member has provided his/her management services for a period shorter than one fiscal year, the break will be calculated pro rata to the service provision period. If a Management Board member does not exercise all or part of the right referred to in the previous sentences in a given financial year of the Company, such a Management Board member will lose this right and will not be entitled to claim any cash benefit, compensation or other similar benefit from the Company in return. The register of breaks in the performance of management contracts is kept by the department in charge of serving the Company's Supervisory Board/Management Board.

8.8 Information about the financial statements

8.8.1 Information about the agreement entered into with the audit firm

By Resolution No. 48/2019 of the Ordinary Shareholder Meeting of PKP CARGO S.A. of 26 June 2019, BDO Spółka z ograniczoną odpowiedzialnością sp.k. ("BDO") with its registered office in Warsaw at ul. Postępu 12, entered in the register of entities authorized to audit financial statements under the file number 3355, was selected as the Company's auditor.

The agreement with BDO was entered into on 22 July 2019 to perform the following activities:

- audit of the standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group for 2019-2020,
- review of the semi-annual standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group for 2019-2020,
- verification of the reporting package prepared for the purposes of consolidation with PKP S.A.,
- conduct of agreed procedures aimed at confirming the correct calculation of the annual ratios defined in the loan agreements.

BDO Spółka z ograniczoną odpowiedzialnością sp. k. also audited the financial statements of other members of the Group, specifically PKP CARGOTABOR Sp. z o.o., PKP CARGO CONNECT Sp. z o.o. and PKP CARGO SERVICE sp. z o.o.

Table 35 Fee charged by the audit firm (PLN net)

Item	Year ended 31/12/2019	Year ended 31/12/2018
Audit of the standalone and consolidated financial statements	200,350	120,427
Audit of the financial statements of the subsidiaries	138,500	86,408
Other attestation services, including a review of the financial statements	131,650	105,520
Other services	0	4,420
Total	**470,500**	**316,775**

Source: Proprietary material

Additionally, BDO Group companies audited subsidiaries of the PKP CARGO INTERNATIONAL Group. Their net fee for 2019 amounted to PLN 354,307, compared to the 2018 net fee of PLN 710,498.

8.8.2 Rules for preparing annual financial statements

The Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2019 and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2019 have been prepared in accordance with International Financial Reporting Standards and related interpretations adopted by the European Union ("EU IFRS"), published and in effect at the time of preparation of the standalone and consolidated financial statements and in accordance with the Finance Minister's Regulation of 19 February 2009 on the current and periodic information transmitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent (Journal of Laws of 2018 Item 757, as amended) ("Regulation").

The Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2019 and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2019 have been prepared based on the assumption that both PKP CARGO S.A. and the Group will continue to be a going concern in the foreseeable future. As at the preparation date of these financial statements, there are no circumstances indicating any substantial threat to PKP CARGO S.A.'s and the Group's ability to continue to run their business as a going concern for a period of at least 12 months from the date of these financial statements.

The Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2019 and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2019 have been prepared in accordance with the historic cost principle except for derivative financial instruments and investments in equity instruments carried at fair value.

8.8.3 Description of unusual items in the standalone financial statements of PKP CARGO S.A. and the consolidated financial statements of the PKP CARGO Group

No unusual items in the Standalone Financial Statements of PKP CARGO S.A. have been found.

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

8.8.4 Description of significant off-balance sheet items

Significant off-balance sheet items are described in **Notes 7.2** and **7.3 to the SFS** and **Notes 7.2** and **7.3 to the CFS** for the financial year ended 31 December 2019.

9. Representation on the application of corporate governance

9.1 Indication of a set of corporate governance rules applicable to PKP CARGO S.A. and of the place where the wording of such rules is publicly available

In the period from the date of admission of the Company's shares to public trading, i.e. from 28 October 2013 to 31 December 2019, the Company was subject to the corporate governance rules described in the Code of Best Practice for WSE-Listed Companies ("Code of Best Practice") forming an attachment to Resolution No. 12/1170/2007 of 4 July 2007 adopted by the Supervisory Board of the Warsaw Stock Exchange, as amended.

On 13 October 2015, the Supervisory Board of the Warsaw Stock Exchange adopted a resolution on the adoption of a new set of corporate governance rules entitled the "Code of Best Practice for WSE-Listed Companies 2016" (hereinafter referred to as the "Code of Best Practice 2016") which entered into force on 1 January 2016 and replaced the previous set of corporate governance rules. The wording of the "Code of Best Practice 2016" to which the Company has been subject since 1 January 2016 is available on the website of the Warsaw Stock Exchange at (https://www.gpw.pl/pub/GPW/files/PDF/GPW_1015_17_DOBRE_PRAKTYKI_v2.pdf.)

In connection with the entry into force on 1 January 2016 of the "Code of Best Practice 2016", on 4 January 2016 the Management Board published a current report in Electronic Information Base format containing "Information on the progress of the Company's application of recommendations and rules laid down in the Code of Best Practice for WSE-Listed Companies 2016. The report has been updated and is available on the Company's website in the Investor Relations/Corporate Governance/Good Practice Principles tab.

9.2 Extent to which PKP CARGO S.A. failed to observe the provisions of the set of corporate governance rules, indication of such provisions and explanation of the reasons for the failure

The Company complies with the recommendations and rules laid down in the Code of Best Practice for WSE-Listed Companies 2016, except for the following 4 detailed rules: I.Z.1.15., I.Z.16., I.Z.1.20., IV.Z.2.

Chapter I Rule 1.15 concerning the posting on the corporate website of information containing a description of the diversity policy applied by the company to its authorities and key managers

No formal diversity policy has been drawn up with regard to the Company's corporate bodies; nevertheless, the policies applied by the Company in all processes, especially recruitment, take into consideration such diversity aspects as gender, education, age and professional experience, recognizing diversity and equal opportunities as significant competitive advantages.

Chapter I Rule 1.16 concerning the posting on the corporate website of information on the planned broadcasting of shareholder meetings

The Company does not publish such information because the principles governing participation in shareholder meetings currently in place in the Company allow shareholders to effectively exercise all rights arising from their shares and secure the interests of all shareholders. Additionally, none of the shareholders has notified the Company of being interested in such manner of participation in shareholder meetings.

Chapter I Rule 1.20 concerning the posting on the corporate website of information on the recording of the course of shareholder meetings in audio or video form

The Company believes that non-application of this principle does not affect the reliability of the Company's information policy or the completeness of the material information provided by the Company to its shareholders.

Chapter IV Rule 2 concerning the provision of publicly available broadcasts of shareholder meetings in real time.

The Company decides not to apply this principle because of the legal, organizational and technical risks, which may pose a threat to the correct course of the general shareholder meeting if means of remote communication are provided to the shareholders. Additionally, none of the shareholders has notified the Company of being interested in such manner of participation in shareholder meetings.

9.3 Description of the primary attributes of the internal control and risk management systems used in PKP CARGO S.A. in respect of the process of preparing standalone and consolidated financial statements

Uniform accounting policy

Uniform accounting policy: PKP CARGO S.A.'s parent company has developed and implemented the Accounting Policy designed in accordance with EU IFRS. The document is updated on an ongoing basis as statutory amendments are introduced. The principles contained in the document are applied to standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group. Companies subject to consolidation are required to apply the Accounting Policy of PKP CARGO S.A. in their preparation of reporting consolidation packages which form the basis for preparation of the PKP CARGO Group's consolidated financial statements.

Uniform consolidation packages of subsidiaries

Uniform consolidation packages of subsidiaries: For the purposes of preparation of the consolidated financial statements of the PKP CARGO Group, a uniform pattern of reporting packages based on EU IFRS to be prepared by the subsidiaries has been adopted. The subsidiaries prepare their reporting packages in accordance with EU IFRS taking into account the differences between Polish Accounting Standards and EU IFRS.

Bookkeeping

Bookkeeping: The reliability of financial statements is ensured by using data derived directly from the accounting ledgers. The Parent Company keeps a set of accounting ledgers forming the basis for preparation of financial statements in its computerized financial and accounting system SAP. The Company updates its financial and accounting system on an ongoing basis in line with the changing legislation and reporting requirements, both internal and external. Access to the IT systems is restricted by appropriate permissions granted to authorized employees. The IT and organizational solutions used by the Company secure control of access to the financial and accounting system and ensure appropriate protection and archiving of accounting ledgers.

Procedures for the closing of ledgers and authorization of financial statements

Procedures for the closing of ledgers and authorization of financial statements: PKP CARGO S.A. and the subsidiaries have implemented internal procedures for closing the reporting periods, setting the dates and defining the responsibilities of internal departments for each reporting area. Financial statements are subjected to internal procedures aimed at verifying their completeness and compliance. EU IFRS-compliant reporting packages are signed by the management boards of the subsidiaries and EU IFRS-compliant consolidated financial statements are properly authorized and signed by the Company's Management Board.

Supervision by the Audit Committee

Supervision by the Audit Committee: Within the structure of the PKP CARGO S.A. Supervisory Board, the Audit Committee has been established which, in accordance with the applicable regulations, exercises supervision over the process of preparation of consolidated financial statements and the process of financial audit and which analyzes and monitors interim and annual financial data of both the Company and the PKP CARGO Group.

Audit and review of financial statements

Audit and review of financial statements: Annual standalone and consolidated financial statements are audited by a statutory auditor, semi-annual standalone and consolidated financial statements are reviewed by a statutory auditor. Reports on the auditor's activities are appended to all approved and published financial statements.

9.4 Shareholders holding directly or indirectly significant blocks of shares

Table 36 Shareholder structure of PKP CARGO S.A. as at 1 January 2019

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%
MetLife OPF (3)	2,494,938	5.57%	2,494,938	5.57%
Aviva OFE (4)	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	17,418,227	38.89%	17,418,227	38.89%
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 18 August 2016.
(4) According to a notice sent by the shareholder on 13 August 2014.

Source: Proprietary material

Table 37 Shareholder structure of PKP CARGO S.A. as at 31 December 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

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 38 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

PKP CARGO S.A. is unaware of any agreements entered into by its existing shareholders which may result in future changes to the proportions of their shareholdings.

9.5 Holders of securities giving special controlling rights

No PKP CARGO S.A. securities give any of the shareholders of any special control rights.

9.6 Restrictions regarding the exercise of voting rights

Right to participate in the Shareholder Meeting and voting rights

Shareholders exercise their right to vote at Shareholder Meetings in accordance with the provisions of the Commercial Company Code. The Company's shareholders may participate in the Shareholder Meeting and exercise their voting right in person or by proxy. A shareholder wishing to participate in a Shareholder Meeting by proxy must grant the proxy powers in writing or in electronic form. The Company provides a form of proxy document in the notice on convening the Shareholder Meeting. Moreover, the Company should be notified about granting proxy powers in electronic form using the means of electronic communication specified in the announcement on convening the Shareholder Meeting. The Company takes proper action to identify the shareholder and his/her/its proxy to verify the validity of the proxy powers granted in electronic form. A detailed description of the manner of verification of the validity of proxy powers granted in electronic form must be included in the contents of the notice on convening the Shareholder Meeting.

A shareholder holding shares registered in more than one securities account may appoint separate proxies to exercise the rights attached to shares registered in each of his/her/its accounts.

If a member of the Management Board, a member of the Supervisory Board, the liquidator, an employee of the Company, or a member of a corporate body or an employee of the Company's subsidiary or cooperative acts as a proxy, then the proxy document may authorize such a person to represent the shareholder at a single Shareholder Meeting only. The proxy is obligated to disclose to the shareholder any circumstances indicating the existence or possibility of a conflict of interest. In such a situation, it is not permitted for the proxy to grant the proxy powers to others. The proxy will vote in accordance with the instructions given by the Company's shareholder.

Pursuant to § 11 Section 2 of the Articles of Association, each share entitles its holder to one vote at the Shareholder Meeting. Pursuant to § 13 Section 1 of the Company's Articles of Association, voting rights of the shareholders holding more than 10% of all the votes in the Company are restricted in such a manner that no such shareholder may exercise more than 10% of all the votes in the Company existing on the date of the Shareholder Meeting. This restriction does not apply for the purposes of determining the obligations of buyers of significant blocks of shares, which are prescribed by the Act on Public Offering. The above restriction of the voting rights does not apply to shareholders who, on the date of adoption of the Shareholder Meeting resolution introducing the restriction, were entitled to exercise voting rights, also as users, attached to shares representing more than 10% of the total number of votes existing in the Company or any other entity that acquires the Company's shares held by the shareholders referred to above in connection with their liquidation.

In accordance with the provisions of the Articles of Association, the limitation of voting rights of shareholders representing more than 10% of the total number of votes in the Company will not cease after a sale of all shares held by PKP S.A. to which the said limitation does not apply. As a consequence, the limitation of voting rights makes it potentially difficult for a single investor to gain control of the Company even if the stake held by PKP S.A. in the Company's share capital drops to zero.

A Company's shareholder may not, either personally or by proxy or while acting in the capacity of a proxy of any other person, vote on resolutions concerning his/her/its liability towards the Company on whatever account, including exonerating on the performance of his/her/its duties, being released from any of his/her/its liabilities towards the Company or any dispute between him/her/it and the Company. The above restriction does not apply to voting by a shareholder acting in the capacity of a proxy for another shareholder on any of the said resolutions concerning the voting shareholder.

Moreover, pursuant to § 13 Section 3 of the Company's Articles of Association, for the purposes of restricting the voting rights, the votes of the shareholders connected by a parent or subsidiary relationship are added up according to the principles described below.

The shareholders whose votes are accumulated and reduced are jointly referred to as a "Grouping". Vote accumulation involves adding up the votes held by individual shareholders from a Grouping. Reduction of votes involves reduction of the total number of votes in the Company at the Shareholder Meeting vested in the shareholders from a Grouping. A reduction in votes is effected in accordance with the following principles:

- for each shareholder associated with a Grouping, a percentage of votes vested in the shareholder in the cumulative number of votes vested in the entire Grouping is calculated;
- the number of votes corresponding to 10% of all the votes in the Company is calculated on the date of holding the Shareholder Meeting;
- for each shareholder, the product of the percentage mentioned in item 1) and the number of votes mentioned in item 2) is calculated;
- the number of votes vested in each shareholder forming part of the Grouping after the reduction is the number obtained in item 3) rounded up to a full vote;
- the reduction of the voting rights pertains also to shareholders who are not present at the Shareholder Meeting.

Pursuant to § 13 Section 7 of the Company's Articles of Association, in order to determine the basis for vote accumulation and reduction, each Company shareholder, the Management Board, Supervisory Board and individual members of these bodies, as well as the Chairperson of the Shareholder Meeting may demand that a Company shareholder whose votes are reduced provide information as to whether he/she/it is a person having the status of a controlling entity or subsidiary of another shareholder.

9.7 Restrictions on the transfer of ownership title to PKP CARGO S.A. securities

Statutory restrictions on the transferability of shares

The Public Offering Act, the Act on Trading in Financial Instruments and the Commercial Company Code provide, among others, for the following restrictions on the unconstrained transferability of shares:

- the obligation to notify the Polish Financial Supervision Authority and the Company applies to anyone who: (i) has reached or exceeded 5%, 10%, 15%, 20%, 25%, 33%, $33^{1}/_{3}\%$, 50%, 75% or 90% of the total number of votes in a public company; (ii) holds at least 5%, 10%, 15%, 20%, 25%, 33%, $33^{1}/_{3}\%$, 50%, 75% or 90% of the total number of votes in a company and, as a result of a reduction in this shareholding, reached 5%, 10%, 15%, 20%, 25%, 33%, $33^{1}/_{3}\%$, 50%, 75% or 90%, respectively, or less of the total number of votes; (iii) has changed his/her/its previously held share greater than 10% of the total number of votes by at least 2% of the total number of votes in a public company whose shares are admitted to trading on an official stock market (as at the Prospectus Date, the market in question was the main market of the Warsaw Stock Exchange); (iv) has changed his/her/its previously held share greater than 33% of the total number of votes in a public company by at least 1% of the total number of votes;
- the obligation to announce a call to subscribe for the sale or conversion of shares in the event of: (i) the acquisition of shares entitling the holder to exercise more than 10% or 5% of the total number of votes at the Shareholder Meeting, (ii) exceeding the threshold of 33% of the total number of votes at the Shareholder Meeting, (iii) exceeding the threshold of 66% of the total number of votes at the Shareholder Meeting;
- the prohibition of the acquisition or sale, for one's own account or for a third party, of any financial instruments, based on confidential information;
- the prohibition of the acquisition or sale of financial instruments during the lock-up period by the persons referred to in the Act on Trading in Financial Instruments;
- the parent company, within the meaning of Article 4 Section 1 Item 4 of the Commercial Company Code, is required to inform a subsidiary of the establishment or termination of a relationship of dominance within two weeks of the date of establishment of such a relationship, otherwise its voting rights attached to the shares held by the parent company representing more than 33% of the share capital of the subsidiary will be suspended.

Apart from the foregoing, there are no other statutory restrictions on the transferability of shares in the Company.

Contractual restrictions on the transferability of shares

Contractual restrictions of the transferability of shares applied to shares subscribed for by eligible employees in connection with the right granted to them as part of the Employee Guarantee Package. Each eligible employee submitting a subscription for shares was required to sign an agreement providing for restrictions on the transferability of shares for a period of 2 years from the Company's first day of trading on the Warsaw Stock Exchange, i.e. until 30 October 2015. Any submitted subscription without signing the said agreement would have been considered invalid and the eligible employee would have lost his/her right to the privatization bonus, hence also to the shares. A sale of or encumbrance on any shares or rights to shares prior to 30 October 2015 was ineffective against the Company and may have exposed the employee to compensatory liability.

On the date of expiration of the above lock-up period, i.e. on 30 October 2015, series C shares were converted into bearer shares.

Pursuant to the Conditional Agreement for Underwriting the Subscriptions of Institutional Investors on the Principles of Underwriting the Initial Public Offering of PKP CARGO S.A. Shares (hereinafter referred to as the "Underwriting Agreement") entered into on 8 October 2013 by and between PKP S.A. and PKP CARGO S.A. on the one side and the following entities: Goldman Sachs International, Morgan Stanley & Co. International plc, Powszechna Kasa Oszczędności Bank Polski S.A. (also acting through its branch: Powszechna Kasa Oszczędności Bank Polski S.A. Oddział – Dom Maklerski PKO Banku Polskiego w Warszawie), Dom Inwestycyjny Investors S.A., IPOPEMA Securities S.A., Mercurius Dom Maklerski Sp. z o.o., Raiffeisen Centrobank AG, UniCredit Bank AG, London Branch, UniCredit Bank Austria AG, UniCredit CAIB Poland S.A., collectively referred to as the "IPO Managers", the Company and PKP S.A. were subject to the following contractual restriction on the transferability of shares and the issue of shares:

PKP S.A. made a commitment to the IPO Managers that from the date of execution of the Underwriting Agreement to the end of the period of 180 days from the first listing of the Company's shares on the Warsaw Stock Exchange it will not execute, without the written consent of the Global Coordinators, i.e. Dom Maklerski PKO Banku Polskiego, Goldman Sachs International, Morgan Stanley (which consent will not be unreasonably withheld or delayed), any other transaction that might result in the issue, offer of a sale or issue, sale or disposal of Company securities similar to securities forming the subject matter of the IPO. The restriction referred to above does not apply to the disposal of shares by PKP S.A. in response to a call to subscribe for a conversion or sale of Company shares to a strategic investor for a price not lower than that provided for in the IPO.

The Company made a commitment to the IPO Managers that from the date of execution of the Underwriting Agreement to the end of the period of 180 days from the first listing of the Company's shares on the Warsaw Stock Exchange it will not execute, without the written consent of the Global Coordinators (which consent will not be unreasonably withheld or delayed), any other transaction that might result in the issue, offer of a sale or issue, sale or disposal of Company securities similar to securities forming the subject matter of the IPO.

9.8 Rules for appointment and dismissal of managers and their rights

The PKP CARGO S.A. Management Board consists of between one and five members, including the President of the Management Board. Management Board members are appointed for a joint 3-year term of office. The President and other Members of the Management Board are appointed by the Supervisory Board pursuant to the Articles of Association and the Bylaws for Appointing Management Board Members in PKP CARGO S.A. and the Bylaws for Electing 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. The Supervisory Board sets the number of Management Board members.

Management Board Members are appointed following the conduct of a recruitment procedure only from among candidates participating in the qualification procedure. Unless the Supervisory Board decides otherwise, the recruitment procedure for the position of Management Board Member is prepared and organized by a professional personnel consultancy company selected by a resolution adopted by the PKP CARGO S.A. Supervisory Board unless the Supervisory Board decides otherwise. A participant in the procedure for appointment of Management Board Members is the Nomination Committee which exercises ongoing supervision over the process of selection of a Management Board Member and the process of evaluation and appointment of Management Board Members.

The Supervisory Board also selects one Management Board Member from among candidates nominated by the Company's employees. Such a candidate should have higher education, at least 5 years of professional experience in the PKP Group and have no criminal record. A Management Board Member must satisfy the requirements set forth in Article 22 of the Act on the Rules for Managing State Property. The bylaws for electing candidates for a representative of employees in the Management Board are adopted by the Supervisory Board. Failure to appoint a representative of employees to the Management Board does not preclude the appointment of the Management Board or the effective adoption of its resolutions. The power referred to in the first sentence above was granted to the Company's employees in connection with Article 4 section 4 of the Act on Commercialization and Restructuring of PKP and the provisions of the Employee Guarantee Package.

As long as the State Treasury, PKP S.A. or other state legal persons hold less than 100% of the Company's shares, the President of the Management Board and other Management Board members are appointed and dismissed by the Supervisory Board.

In the event that PKP S.A.'s share in the Company's share capital is 50% or less, PKP S.A. will have the personal power to select candidates for the President of the Management Board on its own. The personal rights referred to in the preceding sentence are exercised by way of delivering a written statement to the Supervisory Board Chairperson.

Pursuant to § 18 and § 25 Section 3 Item 2 of the Articles of Association, the PKP CARGO S.A. Management Board is authorized, with the consent of the Supervisory Board, in accordance with the rules laid down in the provisions of the Commercial Company Code, to pay shareholders an interim dividend towards the dividend expected at the end of the financial year.

The Company's executives are not authorized to make any decisions on the issue or redemption of shares.

9.9 Rules for amending the Articles of Association of PKP CARGO S.A.

The rules for amending the Company's Articles of Association are based on Article 430 and Article 402 § 2 of the Commercial Company Code.

Any amendment to the Articles of Association requires a resolution of the Shareholder Meeting. Moreover, the adoption of a resolution on amendments to § 26 Section 3 or 4 or § 27 Section 7 of the Articles of Association requires a resolution of the Shareholder Meeting adopted by a majority of four-fifths of the votes in the presence of shareholders representing 50% of the total number of votes in the Company plus one vote.

Any amendments to the Articles of Association are subject to their registration by the appropriate court. Pursuant to § 25 Section 3 Item 11, the Supervisory Board is entitled to adopt the consolidated text of the Company's Articles of Association.

An amendment to the Company's Articles of Association which involves a material change in the line of business does not require a buyout of the shares held by the shareholders objecting to such an amendment if the relevant resolution of the Shareholder Meeting in this matter is adopted by a majority of two thirds of the votes in the presence of shareholders representing at least one half of the share capital.

9.10 Manner of operation and key powers of the Shareholder Meeting, description of shareholders' rights and the manner of their exercise

The Company's Shareholder Meeting operates pursuant to the provisions of the Commercial Company Code, the Company's Articles of Association (in particular, §10-§13) and the Bylaws of the Shareholder Meeting. Shareholders are entitled to participate in and exercise their voting rights at the Shareholder Meeting in person or by proxy.

The Shareholder Meeting is valid irrespective of the number of shares represented thereat.

Resolutions of the Shareholder Meeting are adopted by an absolute majority of votes except for resolutions the adoption of which is subject to more stringent requirements provided for by the Commercial Company Code or the Articles of Association. Moreover, the adoption of a resolution on amendments to § 26 Section 3 or 4 or § 27 Section 7 of the Articles of Association requires a resolution of the Shareholder Meeting adopted by a majority of four-fifths of the votes in the presence of shareholders representing 50% of the total number of votes in the Company plus one vote.

Votes at the Shareholder Meeting are cast in an open ballot. A secret ballot is ordered for elections and motions for the dismissal of members of the Company's corporate bodies or the Company's liquidators, or for holding them accountable, or in other personal matters. Moreover, a secret ballot must be ordered at the request of at least one shareholder attending or represented at the Shareholder Meeting.

The Shareholder Meeting may adopt a resolution on waiving the secrecy of voting in matters concerning the selection of a committee appointed by the Shareholder Meeting.

The Shareholder Meeting is presided over by its Chairman who oversees its efficient conduct in accordance with the adopted agenda. The Chairman may make decisions concerning procedural matters. Without the consent of the Shareholder Meeting, the Chairman may not remove or change the order of business entered in the adopted agenda.

The Shareholder Meeting of PKP CARGO S.A. is opened by the Chairperson of the Shareholder Meeting appointed by the President of the Management Board. If the President of the Management Board fails to appoint the Chairperson of the Shareholder Meeting prior to the designated start time of the meeting, the provisions of Article 409 § 1 of the Commercial Company Code are applied and then the Chairperson of the Shareholder Meeting is elected from among the persons entitled to participate in the Shareholder Meeting. The Chairperson of the Shareholder Meeting is elected by an absolute majority of votes cast in a secret ballot.

The Extraordinary Shareholder Meeting may be convened by a shareholder whose stake in the total number of votes in the Company is greater than 33%. In such a case, the shareholder convening the Extraordinary Shareholder Meeting appoints the Chairperson of the Shareholder Meeting.

The Shareholder Meeting adopted the Bylaws of the PKP CARGO Spółka Akcyjna Shareholder Meeting laying down a detailed procedure of conduct for its meetings (Resolution No. 64/2013 of 25 October 2013). Draft Bylaws of the Shareholder Meeting are presented by the Management Board. It is permitted to participate in the Shareholder Meeting by means of electronic communication, provided that the notice of convocation of the Shareholder Meeting contains information about such a possibility.

9.11 Personnel composition and changes to it during the most recent financial year, description of the activity of PKP CARGO S.A.'s managing, supervising or administering authorities and their committees

MANAGEMENT BOARD

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

1. Act of 15 September 2000 entitled Commercial Company Code (Journal of Laws No. 94 Item 1037, as amended);
2. Act of 8 September 2000 on the Commercialization and Restructuring of the State-Owned Enterprise "Polskie Koleje Państwowe" (Journal of Laws No. 84 Item 948, as amended);

3. Articles of Association of PKP CARGO S.A. (consolidated text adopted by Resolution No. 1888/VI/2019 of the PKP CARGO S.A. Supervisory Board dated 5 July 2019);
4. Bylaws of the PKP CARGO S.A. Management Board adopted by Resolution No. 47/2018 of the PKP CARGO S.A. Management Board dated 7 February 2018 and Resolution No. 1722/VI/2018 of the PKP CARGO S.A. Supervisory Board dated 26 February 2018;
5. other internal and external regulations.

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. Two Management Board Members acting jointly or a Management Board Member acting with a commercial proxy are authorized to make statements of will on behalf of the Company.

Operation of the Management Board

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

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

Diversity policy

In the Company, no formal diversity policy has been prepared with regard to the Company's corporate bodies; nevertheless, the policy carried out by the Company in all the processes, especially recruitment, takes into consideration such diversity aspects as sex, education, age and professional experience, accepting diversity and equal opportunities as significant competitive advantages, which make it possible to win and retain talented employees and benefit from their professional capacity, especially with regard to the Company's corporate bodies.

The Company applies transparent rules to elect members of its Management Board and Supervisory Board. The Company's Articles of Association define the rules of appointing the Management Board and electing Management Board members by employees. Pursuant to § 14 Section 10 of the Company's Articles of Association, a Management Board member is obligated to satisfy the requirements specified in Article 22 of the Act on Rules for Managing State Property (Journal of Laws 2016 Item 2259, as amended).

The recruitment procedure for the position of Management Board member is conducted on the basis of:

- PKP CARGO S.A. Articles of Association;
- Bylaws for Appointing Management Board Members in PKP CARGO S.A.;
- Bylaws for Electing 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;

subject to the provisions of the Regulation issued by the Council of Ministers on 18 March 2003 on the Conduct of the Recruitment Procedure for the Position of Management Board Member in Certain Commercial Companies (Journal of Laws of 2003 No. 55, Item 476, as amended). The Bylaws for Appointing Management Board Members in PKP CARGO S.A. define in particular the qualifications that will be evaluated when selecting candidates for respective positions in the Management Board.

Amendments to the Bylaws for Appointing Management Board Members require consent of all Supervisory Board members who meet the independence criteria and are appointed following the rules set forth in § 20 and 21 of the Articles of Association of PKP CARGO S.A.

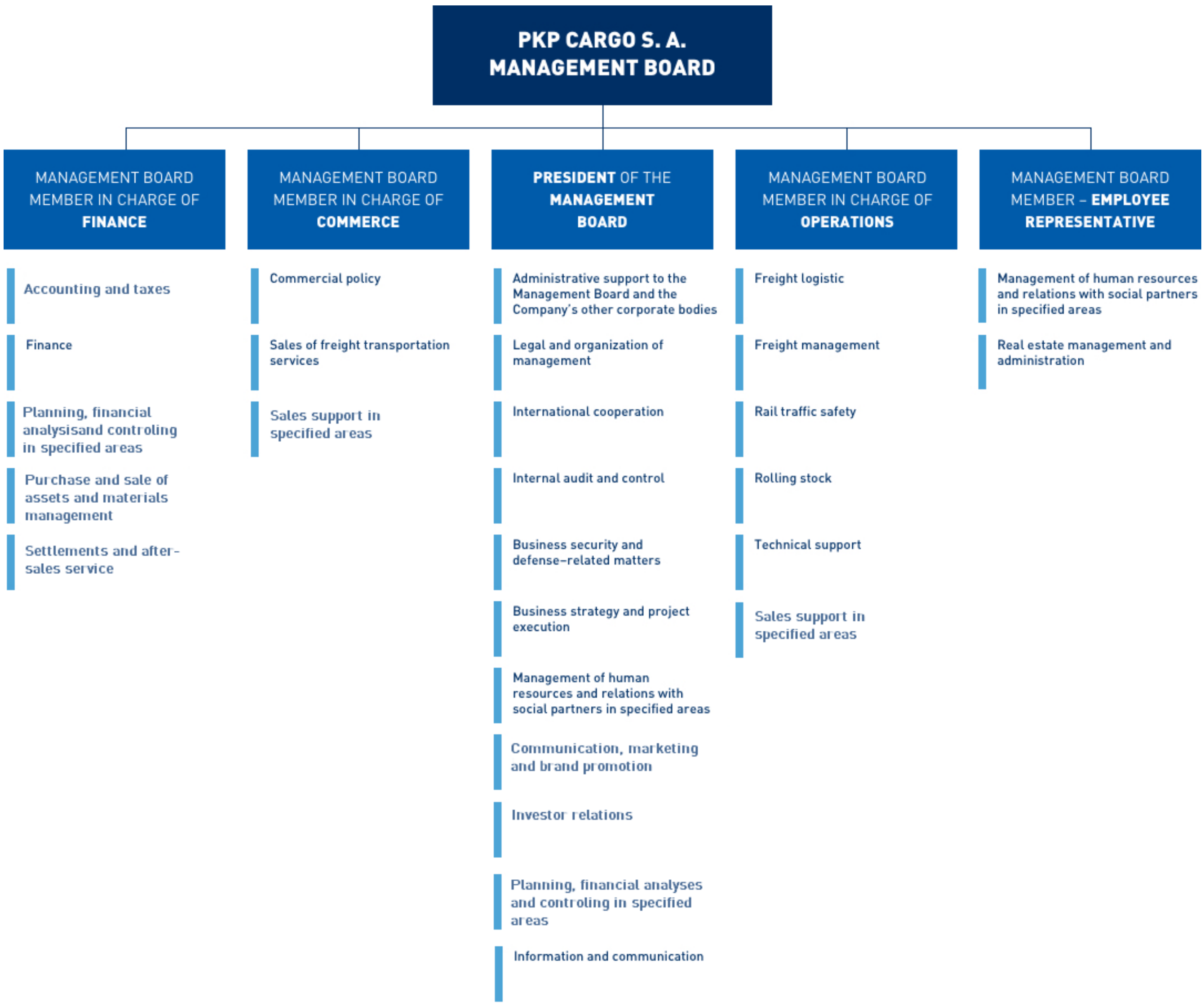
Table 39 Composition of the PKP CARGO S.A. Management Board from 1 January 2019 to the date of submission of this report

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	23 March 2020
Zenon Kozendra	Management Board Member – Employee Representative	14 July 2016	to date*

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

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

Figure 38 Duties and responsibilities of the Parent Company's Management Board Members as at 31 December 2019.



Source: Proprietary material

Czesław Warsewicz – President of the Management Board

Mr. Czesław Warsewicz is an economist by education. He graduated from the Management and Marketing Faculty of the Warsaw School of Economics (SGH) and subsequently conducted research at the Postgraduate Doctoral Course of the SGH Strategic Management Faculty in the areas of venture capital and private equity.

He participated in the first Polish edition of AMP – Advanced Management Program organized by the IESE Business School in Barcelona. A specialist in transportation and management. From 1994 to 1999, he worked for the private sector, including Raab Karcher Energieservice Sp. z o.o. and EVIP International Sp. z o.o. In 1997, he joined the stock-exchange listed Rolimpex Group where he worked for 9 years, including in the positions of Chief Financial Officer and Management Board Member. In 2006-2009, he served as the President of the PKP Intercity S.A. Management Board. In 2009-2013, he was a Department Director at Patentes TALGO, a leading European manufacturer of rolling stock. Since 2013, he has served as an Executive Director, member of the Board of Directors of Miller Graphics AB. From 2015 to 2018, he was a member of the PKP CARGO S.A. Supervisory Board.

Leszek Borowiec – Management Board Member in charge of Finance

Mr. Leszek Borowiec has a degree of higher education. He graduated from the Częstochowa University of Technology, majoring in corporate finance management, and then completed post-graduate studies in accounting.

He holds a Ph.D. in economics, specializing in finance and accounting, a title he obtained from the Wrocław University of Economics. Moreover, Mr. Leszek Borowiec completed Executive MBA studies at the Institute of Economics of the Polish Academy of Sciences. Since 2001, he has served as an Assistant Professor and Lecturer at the University of Warsaw and the Head of the Accounting Faculty at the University of Finance and Management in Warsaw. From 2001 to 2010, he worked for Zakład Produkcji Cystern LDS Sp. z o.o., where he held the position of Chief Financial Officer, among his other functions. In 2010-2011, he was an Expert at Ernst & Young Business Advisory in the area of management accounting for entities operating in the public and/or regulated sectors. From 2011 to 2013, he served as a Management Board Member and Director for Economic and Financial Matters at Solino S.A., a member of the ORLEN Group. In 2014-2018, he worked for the Poczta Polska Group, where he held the position of Managing Director of the Finance Division and most recently President of the Pocztowe Usługi Finansowe Sp. z o.o. Management Board.

Witold Bawor – Management Board Member in charge of Operations

Mr. Witold Bawor has a degree of higher education. He is a graduate of the Częstochowa University of Technology, having majored in electrical engineering.

He has been associated with the railway sector, including the PKP CARGO Group, for many years. In 2006-2012, he was the PKP CARGO Management Board Member in charge of Maintenance. In 2012-2014, he was the Managing Director – Management Board Representative for Maintenance. Since 2015, Mr. Witold Bawor has been a PKP CARGOTABOR Sp. z o.o. Management Board Member and then the President of the PKP CARGOTABOR Sp. z o.o. Management Board.

Grzegorz Fingas – Management Board Member in charge of Commerce

Mr. Grzegorz Fingas is a manager with many years of experience in building trade strategy and managing sales teams, associated with the PKP CARGO Group since 2008.

From May 2008, he discharged the function of Director of the PKP CARGO S.A. Trade Department and in the period 2010–2013, he was a Member of the Management Board of PKP CARGO International a.s. with its registered office in Bratislava. From the beginning of his professional career in 1988, Mr. Grzegorz Fingas discharged, among others, the following functions: Director of the Marketing Department of BOT Górnictwo i Energetyka S.A. in Łódź (2005-2008) and sub-department manager in the Statistical Office in Katowice (2002-2006). In 2003, Mr. Grzegorz Fingas graduated from MA studies at the Economics and Philology Faculty of the School of Marketing Management and Foreign Languages in Katowice, specializing in Marketing Management and, in 2012, MBA studies at the Gdańsk Foundation for Management Development. In 2010–2014, he discharged the function of Member of the Supervisory Board of Zakład Przewozu i Spedycji "Spedkoks" Sp. z o.o. with its registered office in Dąbrowa Górnicza.

Zenon Kozendra – Management Board Member – Employee Representative

Mr. Zenon Kozendra is a graduate of the Higher School of Public Administration in Kielce. He completed postgraduate studies in the organization of management at the Kozminski Academy. He has been associated with PKP since 1985.

From 2005 to 2008, Zenon Kozendra was the Management Board Member responsible for Employee and Administrative Affairs and from 2008 he was the Management Board's Plenipotentiary responsible for Personnel Strategy. Zenon Kozendra was a member of the PKP CARGO Supervisory Board from 2001 to 2005 and a Management Board Member of the Trade Union of Rail Employers from 2006 to 2008. Moreover, Zenon Kozendra sat on the supervisory boards of the following companies: - PKP CARGO SERVICE – as Chairman of the Supervisory Board in 2006-2007, - PKP CARGO WAGON Kraków – as Chairman of the Supervisory Board in 2007-2008, - PKP CARGO TABOR Karsznice – as Member of the Supervisory Board in 2010-2014, - PKP S.A. – as Member of the Supervisory Board in 2014-2016.

SUPERVISORY BOARD

The Supervisory Board consists of 11 to 13 members (including the Supervisory Board Chairperson and Deputy Chairperson) appointed for a joint 3-year term of office. The number of Supervisory Board members in a specific term of office is set by PKP S.A. (in the 7th term: 11 members). Supervisory Board members are 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, include granting consent for the payment of an interim dividend by the Management Board towards the anticipated end-of-the-year dividend, appointing and dismissing the President and other Members of the Management Board, setting the number of Management Board Members, granting consent for the establishment or liquidation of the Company's branch, issuing opinions on proposals submitted by the Management Board to the Shareholder Meeting.

Operation of the Supervisory Board

The Supervisory Board makes decisions in the form of resolutions. Until 26 July 2019, for Supervisory Board resolutions to be valid, all Supervisory Board members must have been invited and at least half of them must have been present, including the Supervisory Board Chairperson. Resolutions of the Supervisory Board were adopted by an absolute majority of votes.

As of 26 July 2019, for Supervisory Board resolutions to be valid, all Supervisory Board members must be invited and at least half of them must be present, including the Supervisory Board Chairperson or Deputy Chairperson. Resolutions of the Supervisory Board are adopted by a simple majority of votes.

If an equal number of votes is cast "for" and "against", the latter including abstentions, the Supervisory Board Chairperson has the casting vote. Supervisory Board resolutions in the matter of suspension of Management Board members or Management Board require the consent of the Supervisory Board Chairperson. Supervisory Board resolutions may also be adopted without holding a meeting, except for resolutions pertaining to the election of the Supervisory Board Chairperson or Deputy Chairperson, the appointment of a Management Board member and the dismissal or suspension of these persons in their duties. The Supervisory Board holds its meetings no less frequently than once every two months.

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

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

Diversity policy

PKP S.A. is be entitled to appoint and dismiss PKP CARGO S.A. Supervisory Board members in a number equal to half the composition of the Supervisory Board determined in accordance with section 8 (if such number is not an integer, it shall be rounded down to the nearest integer) plus one.

The Company's employees are entitled to appoint and dismiss three employee representatives to the Supervisory Board. 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 were adopted by the Supervisory Board with Resolution No. 1804/VI/2019 on 21 January 2019. A failure to elect the Supervisory Board members representing the employees does not prevent the Supervisory Board from being appointed or from adopting effective resolutions.

Independent PKP CARGO S.A. Supervisory Board Members satisfy the independence criteria for Supervisory Board Members defined by the European Commission in Annex II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (EU OJ L 05.52.51) and additional requirements specified in the "Best Practice of GPW Listed Companies 2016" constituting an attachment to Resolution No. 26/1413/2015 of the WSE Supervisory Board of 13 October 2015, §21 of the Company's Articles of Association and the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2017, Item 1089, as amended).

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

Table 40 Composition 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
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

** the 7h term of office of the PKP CARGO S.A. Supervisory Board began on 26 June 2019, the date of holding the Ordinary Shareholder Meeting of PKP CARGO S.A.*
Source: Proprietary material

Krzysztof Mamiński – Supervisory Board Chairman

Mr. Krzysztof Mamiński has been associated with railways for over 40 years. He is a graduate of the University of Szczecin, where he obtained the degree of Master of Economics. He also completed post-graduate studies in the field of European Management Model in the Kozminski University in Warsaw.

He started working on the railways in 1980, in the IT Center at the Central Regional Directorate of the State Railways (CDOKP) in Warsaw. From 1990, he was a member of the National Committee of the "Solidarity" Trade Union, discharging, among others, the functions of the head of the National Section of Railway Employees of the "Solidarity" Trade Union and the head of the Office of Transport Employees in the union. In 1998-2002 he sat on the Management Board of Polskie Koleje Państwowe, in charge of restructuring and employee relations. From 2001 to 2012, he was President of the Union of Railway Employers, and from 2002 to 2012, he was President of the Management Board of Natura Tour Sp. z o.o., PKP's subsidiary. From 2012 to 2013, he acted as the PKP S.A. Management Board Representative for Social Dialog in the PKP Group and for the following three years he served as President of the Management Board of CS Szkolenie i Doradztwo Sp. z o.o., a PKP Group company. Additionally, in 2006 he served as a member of the Supervisory Board of PKP Linia Hutnicza Szerokotorowa Sp. z o.o., and from 2006 to 2013 he was a member of the Supervisory Board of WARS S.A. From April 2016, he was President of the Management Board of Przewozy Regionalne Sp. z o.o., and from March 2017, President of the Management Board of PKP S.A. From 26 October 2017 to 25 March 2018 he served as President of the PKP CARGO S.A. Management Board.

Mirosław Antonowicz – Supervisory Board Deputy Chairman

Mr. Mirosław Antonowicz has a PhD in economics, specializing in management; he has been associated with the railway sector, including the PKP Group, for many years. Among others, he was a member of the PKP CARGO S.A. Management Board. He also sat on the supervisory boards of several railway companies. From 2006 to 2010, he was the Vice-President of the Office of Rail Transport responsible for market regulation. He is also an academic staff member of the Kozminski University. He was also a Presidium member and expert of the Transport Process and Logistics Team of the Committee on Transport of the Polish Academy of Sciences. He has also completed many post-graduate courses, including Management of Transport Companies at the Warsaw University of Technology and the Post-Graduate Course of European Financial, Economic and Legal Relations at the Warsaw School of Economics. He is an author of numerous publications and papers on management, transport and logistics.

Krzysztof Czarnota – Supervisory Board Member

Mr. Krzysztof Czarnota completed the Railway Technical School in Skarżysko-Kamienna as a Transportation Technician. Since 1977, he has worked for PKP, including in the Locomotive Depot in Skarżysko-Kamienna, in the Unclassified Station in Skarżysko, in the District Station in Skarżysko, in the Freight Transport Unit in Skarżysko and currently in the Company's Eastern Unit in Lublin as a dispatcher in charge of the shift.

Since 1992, Mr. Krzysztof Czarnota has served as Chairman of the Independent Trade Union of Railway Workers of PKP Cargo S.A. in Skarżysko-Kamienna. Since the establishment of the Freight and Transshipment Industry Board at the Federation of Trade Unions of Railway Workers, he had served as its Chairman and currently is Vice Chairman of the Cargo Industry Board at the Federation of Trade Unions of Railway Workers. He is a member of the Bureau, the Board and the National Council of the Federation of Trade Unions of Railway Workers.

From the incorporation of the Company, i.e. from 2001 until 29 September 2015, he was a member of the PKP CARGO S.A. Supervisory Board and a representative of all employees of PKP CARGO S.A. as a delegate of the Federation of Trade Unions of Railway Workers.

Zofia Dzik – Supervisory Board Member – independent member

Ms. Zofia Dzik is a graduate of the Kraków University of Economics, University of Illinois in Chicago, University of Social Sciences and Humanities in Warsaw and of the Executive Programs at INSEAD Business School. She holds an MBA title from Manchester Business School and is a certified member of the Association for Project Management (APMP) and a certified member of The John Maxwell Team, a top international organization associating eminent leadership coaches, trainers and speakers.

In the years 1995-2003, she worked for Andersen Business Consulting as a consultant responsible for the insurance sector (Insurance Division Director). From 2003 she was associated with Intouch Insurance Group (RSA Group), where in the years 2004-2007 she performed the function of the President of Towarzystwo Ubezpieczeń LINK4 S.A., whereas in the years 2007–2009 a function of a management board member of Intouch Insurance B.V. in the Netherlands and the CEO for East-Central Europe of Intouch Insurance Group. In that capacity, she was responsible for developing new markets; she was also the chairwoman of the supervisory boards of: TU Link4 S.A. and Direct Insurance Shared Services Center in Poland, Intouch Strachowanie in Russia and Direct Pojistovna in the Czech Republic, as well as the deputy chairwoman of the supervisory board of TU na Życie Link4 Life S.A.

In 2006-2008, she served as a management board member of the Polish Insurance Association. In the years 2007–2010 a supervisory board member of the Insurance Guarantee Fund. She also sat on the supervisory boards of: KOPEX S.A. and Polish Energy Partners S.A (PEP S.A.)

Currently, she is the President of the Humanites – mentor, author of the "Consistent Leadership" model, director of the Academy for Leaders in Education as well as member of the supervisory boards of CCC S.A., BRW S.A., and other companies, and in the past she also sat on the supervisory boards of PKO BP S.A., AmRest SE, ERBUD S.A. and PEP S.A., among others.

Dariusz Górski – Supervisory Board Member – independent member

Mr. Dariusz Górski is a graduate of the Warsaw School of Economics (SGH). During his professional career, he underwent extensive training in finance, financial analysis and management, including a course for an investment adviser and corporate finance (scholarship at the Erasmus University in Rotterdam).

He began his professional career in 1992 as a financial analyst at Caresbac Polska S.A., one of the first venture capital companies on the Polish market. In 1993-1996, he worked at Business Management & Finance S.A. as a financial analyst, and from 1995 as the head of projects in the areas of strategic consulting, mergers and acquisitions, privatization and restructuring. In 1996, he joined Robert Fleming & Co (acquired in 2000 by Chase Manhattan Bank) as a stock analyst, initially specializing in the food, industrial and IT sectors. From 1998, he was an analyst of the banking sector in Central Europe. In 2001, he joined ING Securities as a stock analyst covering the whole Polish market with a particular focus on banks, commodity companies and the fuel sector. In 2004, he was hired by Deutsche Bank Securities as the head of stock market analysis for the Central Europe region, responsible for the overall product and the banking sector. In 2008, he became a stock portfolio strategist at Opera TFI. In 2009-2011, he headed the department of analysis of the Polish stock market at Wood & Co where he was responsible for the financial sector, the media and the stock market strategy. From 2011, he was employed at the BZ WBK Brokerage House (currently the Santander Brokerage House), initially as a senior analyst, Deputy Head of the Analysis Team, and from 2015 as the Director of the Stock Exchange Analysis Department responsible for supervision and team products, financial sector analysis and strategy for the stock market. Currently, he serves as the Investor Relations Director in Bank Millennium.

Mr. Dariusz Górski's professional achievements include a host of high positions in international and national investor rankings. In 2004, the team of ING Securities analysts in Warsaw came third in the Institutional Investor Magazine ranking and in 2003 it won the top place in the same ranking. In 2007, the DB Securities team was #1 in the Thomson Extel ranking in the Hungarian/Czech market category and #2 in the Polish market category, while the banking team was #1 in the EMEA Financials category. In 2006, the Polish DB Securities team was #3 in the Institutional Investor Magazine ranking (2005: #4), while the team of DB banking analysts was #2 (2005: #3). In rankings compiled by GG Parkiet analyst, it was at the top of the list – the banking team was #2/3/3 in 2017/16/15, respectively, and the market strategy team was #5/2 in 2017/16, respectively.

Małgorzata Kryszkiewicz – Supervisory Board Member

Ms. Małgorzata Kryszkiewicz is a graduate of the Finance and Banking Faculty of the Warsaw School of Economics (SGH). She holds a Master of Business Administration (MBA) degree.

She started her professional career in 1995. In subsequent years, she worked in various positions associated with accounting, tax and financial management, managing teams from a dozen up to 180 people. She has broad experience with the implementation of integrated financial and workflow systems, securities issues, including securities listed on foreign markets, financial restructuring and organization of the so-called shared services centers. From 2002 to 2014, she headed the Accounting Department and the Finance and Accounting Department at PKP S.A. A statutory auditor since 2009. In 2018-2019, she was an inspector of the National Audit Oversight Committee. Currently she runs a statutory auditor office and is a member of a management board of an audit firm. For more than ten years, she has been a member of supervisory boards of commercial companies.

Tadeusz Stachaczyński – Supervisory Board Member

In 1980, Mr. Tadeusz Stachaczyński completed a Railway Technical School specializing in the operation and repair of traction vehicles. In 2010, he graduated in engineering from the Subcarpathian School of Higher Education in Jasło, majoring in transportation and freight forwarding. In 2011, Mr. Stachaczyński completed postgraduate studies in marketing and market research.

Since 1974, Mr. Tadeusz Stachaczyński has been employed by PKP CARGO S.A.'s Southern Unit (formerly, PKP's Locomotive Depot in Jasło). In 1995-2014, Mr. Stachaczyński was a councilor of the Town Council of Jasło where he served in the budget, development and audit committees.

Since 2009, Mr. Tadeusz Stachaczyński has served as Chairman of the Company Council of the Trade Union of Train Drivers at PKP CARGO S.A.'s Southern Division, and since 2013 has been Chairman of the Freight Sector of the Trade Union of Train Drivers.

Mr. Tadeusz Stachaczyński was a member of the Supervisory Board of PKP CARGO S.A. Centrum Logistyczne Medyka-Żurawica Sp. z o.o. in 2011-2013.

Władysław Szczepkowski - Supervisory Board Member

Mr. Władysław Szczepkowski graduated in law from the Faculty of Law and Administration in the Department of Theory of the State and Law of the Nicolaus Copernicus University in Toruń in 1992. From 1992 to 2005, he pursued his career in banking where he was involved in financial analysis and corporate restructuring projects; he also worked for legal departments. From 2005 to 2007, he was the President of the PKP CARGO S.A. Management Board. From 2010 to 2016, he worked for companies of the PGNiG Group. From September 2016 to March 2017, he was employed by Przewozy Regionalne sp. z o.o. Since the beginning of March 2017, he has been working for PKP S.A., currently as the Director – PKP S.A. Management Board Representative for Corporate Affairs. Since 2000, he has been entered in the list of legal counsels.

Jerzy Sośnierz

In 1978 Mr. Jerzy Sośnierz graduated from the Technical School of Metallurgy in Dąbrowa Górnicza in the field of mining machinery construction. He took a train traffic controller course in 1979. In 2010 he received a master's degree from the Administration and Management Faculty of the Humanitas University in Sosnowiec, majoring in public administration.

Mr. Sośnierz has 40 years of experience in the railway industry. His career began in 1978 when he became a train traffic controller in Bukowno, later becoming a dispatcher in Jaworzno-Szczakowa and after the restructuring of PKP CARGO S.A. he became a shift dispatcher in Katowice. He co-founded the Bukowno Chapter of the NSZZ Solidarność trade union. He has been connected to NSZZ Solidarność ever since, acting as the Chairman of the Union at the PKP Cargo S.A. South Unit. During his term in office, he was a member of the Executive Committee of the Trade Section in PKP CARGO S.A., a member of the Council of the Trade Section in PKP CARGO S.A., a member of the National Council of the Railwaymen Section and a Delegate for the General Meeting of the Transport Secretariate.

Paweł Sosnowski

Mr. Paweł Sosnowski graduated from the Faculty of Law and Administration at the University of Warsaw and from the Faculty of Canon Law at the Warsaw Theological Academy. He obtained a Ph.D. degree in administrative law from the Catholic University of Lublin. He is also a licensed legal counsel and a member of the Regional Chamber of Legal Counsels in Warsaw.

In 1992-2006, Mr. Paweł Sosnowski was associated with Totalizator Sportowy Sp. z o.o., and in 1998-2002 he rendered his services to the State Fund for the Rehabilitation of the Disabled. In parallel, he also lectured at the Faculty of Administration and Social Sciences of the Warsaw University of Technology and cooperated with the Department of Administrative Law and Local Self-Government at the Cardinal Stefan Wyszyński University in Warsaw. In 2003-2007, he served as Deputy Mayor of the Wawer District of Warsaw and Chief Specialist in the Legal Department of the Warsaw City Hall. In 2007, he also served as Deputy County Construction Supervision Inspector in the County Construction Supervision Inspectorate for the Capital City of Warsaw. Since 2007, he has worked for the General Counsel to the Republic of Poland.

Mr. Paweł Sosnowski was a member of the Supervisory Board of LIGIA Sp. z o.o. (2000-2002), Chairman of the Supervisory Board of Towarzystwo Budownictwa Społecznego "WOLA" Sp. z o.o. (2003-2006) and a member and secretary of the Supervisory Board of PKP S.A. (2017-2018).

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 Audit Committee members, including its Chairperson, meet the independence criteria and are appointed in the manner specified in § 20 and 21 of the Company's Articles of Association. At least one member of the Audit Committee must be qualified in accounting or audit of financial statements and at least one member must have the knowledge and skills in the specific industry in which the Company operates or the various members of the Audit Committee have, in specific areas, knowledge and skills pertaining to this industry. 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 41 Composition of the Audit 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
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, date of appointment of members of the Audit Committee of the 7th term of the PKP CARGO S.A. Supervisory Board*
Source: Proprietary material

In 2019, the Audit Committee held 12 meetings and took 3 votes without holding a meeting, using means of direct remote communication. In 2019, the Audit Committee adopted 17 resolutions.

The Audit Committee members who satisfy the statutory independence criteria are:

1. Ms. Zofia Dzik,
2. Mr. Dariusz Górski (Member of the Committee since 1 July 2019)

Until 26 June 2019, Mr. Raimondo Eggink was a Committee Member fulfilling the statutory criteria for independence.

As required by the provisions of the Act on Statutory Auditors, Audit Firms and Public Oversight of 11 May 2017 (Journal of Laws of 2019, Item 1421, as amended), the independent members of the Audit Committee submitted statements confirming their fulfillment of the criteria listed in Article 129(3) of the said Act.

The Audit Committee members who have the knowledge and skills in the area of accounting or auditing of financial statements are:

1. Ms. Zofia Dzik: 9 years of experience in a Big Four firm providing audit services and financial and business consulting services in 1995-2004, Senior Manager and Director in a business and financial consulting department, MBA postgraduate studies, Manchester Business School, member, vice-chair and chair of audit committees in public interest entities (since 2011); At the same time, Ms. Zofia Dzik sat on the corporate bodies of a company in the transport forwarding and logistics industry (InPost S.A.).
2. Mr. Dariusz Górski: M.A. in economics (1995) – Warsaw School of Economics, investment advisor (1995), Erasmus Universiteit Rotterdam scholarship holder in a corporate finance program (1992/1993);
3. Ms. Małgorzata Kryszkiewicz: post-graduate studies “IFRS in practice” held the Warsaw School of Economics and the EY Academy of Business (2017), postgraduate MBA studies – Gdańsk Manager Training Foundation and the University of Gdańsk, program validated by the IAE Aix-en-Provence Graduate School of Management (2009), postgraduate studies in corporate accounting at the Academy of Engineering and Health in Warsaw and the AGH University of Science and Technology in Kraków (2005), postgraduate studies in finance and corporate taxation at the Warsaw School of Economics (2002), masters degree from the Warsaw School of Economics in finance and banking (1996), auditor (2009), accountant certified by the Ministry of Finance (2006).

A member of the Audit Committee who has the knowledge and skills in the specific industry in which PKP CARGO S.A. operates is:

1. Ms. Małgorzata Kryszkiewicz: 18 years of professional experience (employment) in rail sector companies, including 13 years in managerial positions, since 2001 discharging the function of a member and chairwoman of supervisory boards in rail companies (repair, power supply, transshipment), and since 2012 a member and chairwoman of audit committees.

The PKP CARGO S.A. Supervisory Board’s Audit Committee, having assessed the risks and safeguards of independence of the audit firm BDO Audit s.r.o. with its registered office in Prague, the Czech Republic, adopted Resolution No. 11/2019 of 4 June 2019 expressing the consent for the audit firm to execute a contract for the provision of services other than audit services and Resolution No. 17/2019 of 7 December 2019 expressing the consent for the audit firm to execute a contract for the provision of services other than audit services.

In compliance with the provisions of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2019 item 1421, as amended), the Company’s Supervisory Board Audit Committee, by Resolution No. 6/2017 of 19 October 2017, established the policy and procedure for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group as well as the policy for the provision of additional services by PKP CARGO S.A.’s audit firm, its related parties or members of its network, which lost its validity in connection with the adoption of Resolution No. 9/2019 of 15 April 2019 on adoption of the Policy for the provision of additional services by PKP CARGO S.A.’s audit firm, its related parties or members of its network and the “Policy and procedure for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group”.

The policy for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group assumes that:

1. In accordance with the Articles of Association of PKP CARGO S.A., the audit firm is selected by the Shareholder Meeting of PKP CARGO S.A. from among entities participating in the Procedure for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group. The selection is made on the basis of a recommendation submitted by the Audit Committee, which contains:

- at least two options for the selection of an audit firm along with a justification and indication of the candidate for the auditor preferred by the Audit Committee;
- statement by the Audit Committee that its recommendation is devoid of any third party influence;
- statement by the Audit Committee confirming that PKP CARGO S.A. has not entered into any agreements containing clauses that would confine the Shareholder Meeting’s selection of an audit firm to certain categories or lists of audit firms.

2. When issuing a recommendation and when selecting an audit firm, the Audit Committee and the Shareholder Meeting, respectively, are required to pay special attention to:

- the need to maintain the independence and objectivity of the audit firm and the auditor – the scope of services provided during the most recent financial years by the audit company itself as well as by its related parties and network members to the Company or its parent company or entities controlled by PKP CARGO S.A. is a matter of detailed analysis;
- experience in auditing standalone and consolidated financial statements of public interest entities of a similar size to that of the Company and the PKP CARGO Group and listed on the Warsaw Stock Exchange;
- experience in auditing companies with a similar business profile to that of the Company;
- professional qualifications and experience of persons directly involved in the conduct of the audit/review of the Company and selected subsidiaries of PKP CARGO S.A.;
- the ability to provide the required range of services within the specified period, including the ability to ensure the stability of the team;
- the availability of qualified specialists in of specific issues related to financial statements, such as tax analysis, hedge accounting, measurement of derivatives, IT systems;
- costs of the audit.

3. The selection of an audit firm must be made sufficiently in advance to enable the execution of the audit contract early enough to enable the audit firm to prepare for the interim review.
4. Verification and monitoring of the independence of the statutory auditor and the audit firm are carried out at every stage of the procedure for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group.
5. The selection of an audit firm is made in consideration of the principle of rotation of audit firms and key statutory auditors in such a manner that the maximum duration of uninterrupted statutory audits for individual financial years carried out by the same audit firm or by a company related to this audit firm or any member of the network operating in European Union Member States which includes these audit firms does not exceed five years and the key statutory auditor does not perform any statutory audits in the Company for more than five years. The same key statutory auditor may be selected no earlier than three years after the completion of the most recent statutory audit.
6. The first contract for a statutory audit is entered into with an audit firm for a period not shorter than two years with an option to extend the contract by subsequent periods of at least two years, in consideration of the rules of rotation of audit firms and key statutory auditors in compliance with the applicable laws.
7. The audit firm selection process is conducted in accordance with the adopted “Policy and Procedure for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group”.

The Procedure for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group assumes that:

1. The selection procedure is initiated by the Audit Committee of the PKP CARGO S.A. Supervisory Board which lays down detailed guidelines regarding the requirements to be satisfied by the audit firm responsible for conducting audits of standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group as well as the selection criteria.
2. The coordinator, with the support of the Procurement Department of PKP CARGO S.A., prepares and carries out a procurement procedure in accordance with the Regulations for awarding contracts at PKP CARGO S.A. If the selection of an audit firm is carried out under a procurement procedure resulting from the establishment of a procurement group within the PKP S.A. Group, the PKP CARGO S.A. Supervisory Board designates a person/persons to join the tender committee and represent PKP CARGO S.A.
3. The request for proposals to be sent to audit firms in compliance with Article 130(3)(2)(a) of the Act should contain at least the following information:

- presentation of the business of PKP CARGO S.A. and its controlled entities, the organizational structure of the Company and the PKP CARGO Group, locations of business;
- list of entities and the scope of their financial statements subject to audit and review, period covered by the request for proposals, additional services (if any) (taking into consideration the requirements of the Policy for the provision of additional services by PKP CARGO S.A.’s audit firm, its related parties or members of its network);
- selection criteria applied by the Company in the evaluation of proposals submitted by audit firms;

- additional expectations and requirements for bidders resulting from, without limitation, the selection criteria adopted for application, including, in particular, the need to provide information on:
  – total price offered for the conduct of interim reviews and the audit of the standalone financial statements of PKP CARGO S.A. and the consolidated financial statements of the PKP CARGO Group and, if specified in the request for bids, separately for each member of the PKP CARGO Group (including statutory VAT), specifying the price of each interim review and annual audit of the financial statements and the terms of payment of the fee for these services;
  – planned dates for carrying out the work, including, in particular, the time limits for the submission of audit/review reports;
  – methods of the audit firm's work, certificate of entry in the list of audit firms authorized to audit financial statements;
  – current third party liability insurance policy covering the audit firm;
  – composition of the audit team(s) dedicated to the conduct of reviews and audits of the financial statements, along with information on the competences and experience of the team members;
  – independence of the statutory auditor and the audit firm;
  – readiness to participate in meetings of the Company's statutory bodies (Supervisory Board and Shareholder Meeting) and the Audit Committee;

4. The Company evaluates the proposals submitted by audit firms. If the procurement procedure is conducted by a member of the PKP Group, the evaluation referred to in the preceding sentence is made on the basis of documentation from the procurement procedure provided by that member company. The Company submits for approval to the Audit Committee a report containing the conclusions of the selection procedure (hereinafter: the report) along with all documentation from the procurement procedure.
5. After receiving the report, the Audit Committee prepares a recommendation for the Company's Shareholder Meeting in accordance with the provisions of the Policy, taking into consideration the conclusions of the annual report of the Audit Oversight Commission referred to in Article 90 Section 5 of the Act, the analysis of proposals submitted by audit firms, documentation of the procurement procedure and the report.
6. In accordance with the Articles of Association, the selection of an audit firm is made by the Shareholder Meeting of PKP CARGO S.A.
7. Based on the resolution adopted by the Shareholder Meeting, the Company signs an audit contract with the selected audit firm.
8. After the adoption of a resolution on the selection of an audit firm by the Shareholder Meeting, the Management Board is required to communicate, in the form of a current report, information about the selection made, in compliance with the applicable laws.
9. If there is a justified suspicion that the pending procedure for the selection of an audit firm may lead to the selection of an auditor out of compliance with the principles laid down in the Act, Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC and the Procedure and Policy for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group, in particular in breach of the principles of impartiality and independence, the Audit Committee may, by resolution, at any time during the procedure, terminate it without issuing the recommendation referred to in item 5 above and immediately start a new procedure.

The Audit Committee has adopted the following rules governing the provision of additional services by audit firms, including their related parties or members of their network responsible for auditing standalone financial statements of the Company and consolidated financial statements of the PKP CARGO Group:

1. Besides the audit/review of the financial statements, the audit firm may provide the following services to: (i) the Company, or (ii) entities controlled by PKP CARGO S.A. (hereinafter: controlled entities), or (iii) the parent company of PKP CARGO S.A. (hereinafter: the parent company):

- conducting due diligence procedures regarding the economic and financial standing and preparation of comfort letters in connection with the issue prospectus, carried out in accordance with the national standard of related services (agreed procedures);
- assurance services regarding pro forma financial information, result forecasts or estimates given in the issue prospectus;
- audits of historical financial information, referred to in the Commission Regulation (EC) No 809/2004 of 29 April 2004;
- verification of consolidation packages;
- confirmation of the fulfillment of the terms of loan agreements based on an analysis of the financial information provided in the financial statements;

- assurance services regarding corporate governance, risk management and corporate social responsibility reporting;
- auditor's opinion on financial statements or other financial information addressed to supervisory authorities, the supervisory board or another supervisory body of the Company or the shareholders, not covered by the scope of the statutory audit, and intended to support those bodies in the performance of their statutory duties.

2. Provision of the services referred to in point 1 is possible only within a scope not related to the tax policy of the Company, its parent entity or subsidiaries, after the Audit Committee of the Supervisory Board has assessed the threats and warranties regarding the independence of the audit firm.
3. The execution of an agreement for the provision of additional services referred to in item 1 by the audit firm requires in each case the consent of the Audit Committee at the request of the pertinent company's Management Board. Before making a decision in the matter, the Audit Committee may request any and all documents necessary or useful, in the opinion of the Audit Committee, for evaluation of the threats to and safeguards of independence in accordance with item 2.

The consent of the Audit Committee referred to in the preceding sentence is required for the audit firm to execute an agreement with the Company, with each controlled entity and with the parent company.

1. If the audit firm conducting the audit additionally provides non-auditing services for a period of at least three consecutive financial years, then the fee for the provision of such services must be limited to 70% of the average fee for the last three subsequent financial years paid for the statutory audit of the standalone financial statements of PKP CARGO S.A. and, if applicable, its controlled entities and parent company as well as the consolidated financial statements of the PKP CARGO Group. Services that are required to be provided by law are excluded from this limit. The audit firm is responsible for compliance with the set fee limit.
2. As regards prohibited services, that is services other than the authorized services referred to in item 1, their provision is prohibited, either directly or indirectly, to PKP CARGO S.A., its controlled entities or the parent company by the audit firm represented by the statutory auditor as well as by any member of its network that conducts audit work in PKP CARGO S.A. during the period from the start of the audited period until the issue of the audit report. In the case of services involving the development and implementation of internal control procedures or risk management procedures related to the preparation or verification of financial information or services involving the development and deployment of technological financial information systems, their provision is prohibited also in the financial year immediately preceding the audited period.
3. The Company presents to the Audit Committee of the Supervisory Board, at least annually, a list of all additional services provided by the audit firm to PKP CARGO S.A., its parent entity and the entities controlled by the Company.

By resolution of 13 June 2019, the Audit Committee of the PKP CARGO S.A. Supervisory Board recommended to the Shareholder Meeting of PKP CARGO S.A. the audit firm BDO spółka z ograniczoną odpowiedzialnością sp. k. as a candidate for the auditor of the Company's financial statements. The recommendation regarding the selection of an audit firm to audit the Company's financial statements satisfied the requirements of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2019 item 1421, as amended) and the "Policy for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A." adopted by a resolution of the Audit Committee of the PKP CARGO S.A. Supervisory Board of 15 April 2019.

In recommending the selection of BDO spółka z ograniczoną odpowiedzialnością sp.k., the Audit Committee of the PKP CARGO S.A. Supervisory Board took into account, without limitation, the specific needs of the PKP CARGO Group as a public interest entity, the result of the group procurement procedure and previous cooperation with the bidder.

Moreover, the Audit Committee declared that the above recommendation is free from any third party influence and that PKP CARGO S.A. has not entered into any agreements containing clauses that would confine the Shareholder Meeting's selection of an audit firm to certain categories or lists of audit firms.

By resolution of 26 June 2019, the Shareholder Meeting of PKP CARGO S.A. selected the audit firm BDO spółka z ograniczoną odpowiedzialnością sp.k. with its registered office in Warsaw as the entity authorized to audit the standalone financial statements of PKP CARGO S.A. for 2019-2020 and to review the semi-annual condensed standalone and consolidated financial statements of PKP CARGO S.A. in 2019-2020 prepared in accordance with IFRS.

NOMINATION COMMITTEE

The PKP CARGO S.A. Supervisory Board appoints a Nomination Committee. It consists of three Supervisory Board members, of whom, in accordance with the Company's Articles of Association, 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 the Committee Chairman. The Committee members are appointed for a term corresponding to the Supervisory Board's term of office. The Nomination Committee organizes and exercises ongoing oversight over the recruitment procedure for the positions of the Company's Management Board members and over the process of assessment and appointment of the Company's Management Board members, and supports the attainment of the Company's strategic objectives by presenting opinions and findings to the Supervisory Board pertaining to the employment structure and remuneration for the Company's employees, including in particular the Company's Management Board Members and high-ranking management.

Table 42 Composition of the Nomination Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2019 to the submission date of this report

Name	Position	Period in office	
		from	to
Zofia Dzik	Chairperson	20 May 2016	to date*
Mirosław Antonowicz	Committee Member	27 June 2017	to date*
Władysław Szczepkowski	Committee Member	27 November 2017	to date*

** the 7th term of office of the PKP CARGO S.A. Supervisory Board began on 26 June 2019, the date of holding the Ordinary Shareholder Meeting of PKP CARGO S.A.*
Source: Proprietary material

STRATEGIC COMMITTEE

The Strategy Committee is appointed by the PKP CARGO S.A. Supervisory Board. It consists of at least three Supervisory Board members, of whom at least one Supervisory Board Member must satisfy the independence criteria and be appointed in the manner provided for in § 20 and § 21 of the Company's Articles of Association. The Committee members are appointed for a term corresponding to the Supervisory Board's term of office. The 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 43 Composition of the Strategic Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2019 to the submission 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, date of appointment of members of the Strategic Committee of the 7th term of the PKP CARGO S.A. Supervisory Board*

Source: Proprietary material

10. Representation of the PKP CARGO Group and PKP CARGO S.A. on non-financial information

From Zenon Kozendra, Member of the Management Board, Employee Representative

– ambassador of the socially responsible business (CSR) in PKP CARGO S.A.

PKP CARGO S.A. manages the transportation process in compliance with the highest standards of sustainable development in economic, social and environmental aspects. **We do business with a forward-looking focus on the interests of our clients, shareholders, employees, social partners, local communities and the natural environment in all our activities.**

A responsible approach to the practice of the transport process requires that we pay attention to compliance of the decisions we make made with the guidelines laid down in our CSR Policy, which is a signpost for the adoption of responsible attitudes in the Company. As regards the concept of a socially responsible business, our activities in this area are conducted in a systemic manner and we summarize and analyze them on an annual basis. The conclusions we draw from such analysis and the experience we gain permit us to verify our original assumptions and design long-term CSR initiatives in accordance with the PKP CARGO Group's current business. ***We align the developmental directions of our corporate social responsibility activities with the Company's specific nature and structure of employment, traditions of the Polish railway industry and areas of significance and interest for the Company's staff.***

In 2019, one of the initiatives we pursued at PKP CARGO S.A. was to build a safe workplace culture. ***Life and health are the greatest values that should be protected whenever and wherever our employees are involved in the performance of their professional duties.*** *For this reason, we consider the development of a safe workplace culture to be among the Company's most responsible pursuits. Transportation processes and the freight of cargo require continuous improvement of occupational safety conditions but also fostering the awareness of the key role of safety in the workplace at all levels of both management and conduct of each stage of the transportation process.*

In 2019, with the involvement of interdisciplinary teams, the "Program to improve occupational safety among employees involved in rail traffic management and safety" was implemented. Within its framework, we launched a social campaign called "Direction: Safety at Work", addressed to representatives of management and employees representing teams of key importance for the transportation process. In 2019, PKP CARGO S.A. was also the host of the conference "Building a safe workplace culture in the rail sector". The conference served as a platform for the exchange of best practices among representatives of leading operators in the rail sector and representatives of state authorities at ministerial and industry levels, charged with the duty to enforce workplace safety.

2019 was another year in which we continued and developed our systemic CSR-related activities originally launched more than a decade ago. PKP CARGO S.A.'s social involvement boosts the Company's favorable reputation and builds stakeholders' trust in its business activity. Our active preoccupation with socially and environmentally friendly projects as well as initiatives focused on the provision of direct support to our employees increase the quality of our services and improve freight safety. This, in turn, translates into a higher degree of satisfaction among the Company's external stakeholders: clients and business partners.

Together, employees of PKP CARGO Group develop an environment conducive to creating the best possible spirit in the workplace, based on the following ethical values:

Respect	Reliability	Cooperation	Good management	Safety
Professionalism	Modernity	Transparency	Responsibility	

10.1 Representation of the PKP CARGO Group

The Representation of the PKP CARGO Group[133] on non-financial information for 2019 (hereinafter: the Representation), constitutes a stand-alone part of the Report on the PKP CARGO Group Activities (hereinafter: the Group, PKP CARGO Group) and presents non-financial information about the Group for the period from 1 January 2019 to 31 December 2019. The Representation is based on the guidelines recommended by the IIRC (International Integrated Reporting Council), the GRI guidelines (Global Reporting Initiative) and reflects the provisions of the Accounting Act of 29 September 1994.

The Representation presents non-financial data which has been prepared as a result of a dialog conducted with the Group stakeholders and is material for the Group itself, showing mutual relationships and correlations between financial and non-financial aspects of its activity.

In its non-financial reporting, the PKP CARGO Group addresses the following issues:

NATURAL ENVIRONMENT | EMPLOYEES | SOCIETY | HUMAN RIGHTS | PREVENTION OF CORRUPTION AND BRIBERY

For the PKP CARGO Group, non-financial reporting is an opportunity to present to its stakeholders a broader picture of how the company value is created. Although difficult to estimate and measure, over longer term the non-financial data translates into financial and operational performance.

The Group's objectives and qualitative changes resulting from the Company's sustainable development activities are presented below.

- We care about the environment -> better quality and efficiency, more environmentally friendly operations
- We care about employees -> professional human resources, committed employees
- We care about society -> support for culture and tradition, better brand recognition
- We care about respect for human rights -> reliable and recommendable employer
- We care about prevention of corruption and bribery -> trustworthy, ethical employer, safe workplace

In 2019, awards granted to the PKP CARGO Group for its achievements in the areas of business and sustainable development included:

[133] The data included in the disclosures also cover the subsidiaries PKP CARGO CONNECT and PKP CARGO International (formerly AWT)

The Best Annual Report

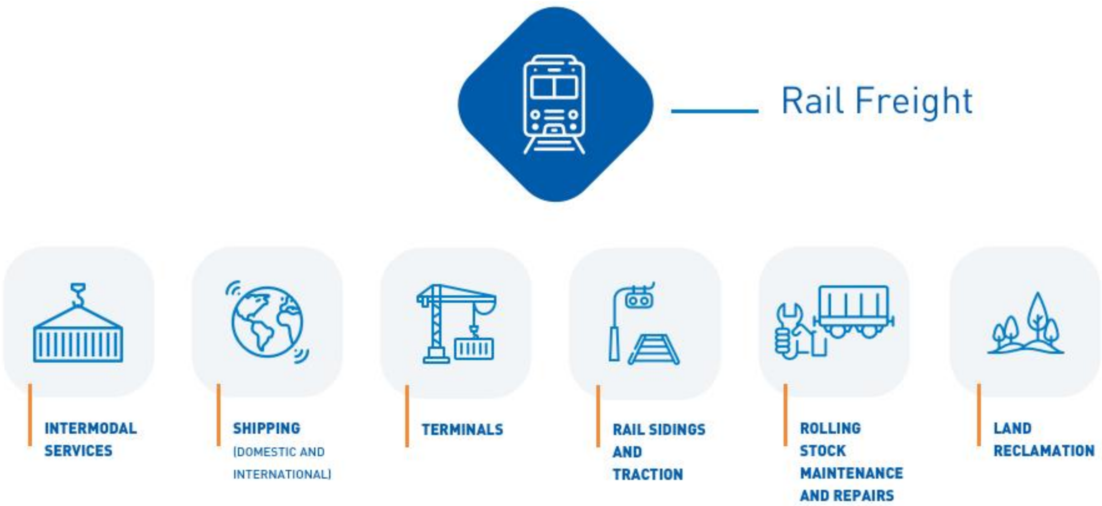
“The Best Annual Report” is a contest was organized by the Accounting and Tax Institute. The purpose of the contest is to promote the creation of annual reports offering the highest value in use for shareholders and investors.

The Transparent Company of the Year

The “Transparent Company of the Year” is a ranking compiled by the Investor and Stock Market Magazine “Parkiet”, together with the Institute of Accounting and Taxes. The purpose of the ranking is to find the most transparent companies from among the companies of the three main stock market indexes (WIG20, mWIG40 and sWIG50), based on a questionnaire survey covering such areas as: financial statement and reporting, investor relations and corporate governance.

10.1.1 Description of the business model

The PKP CARGO Group is Poland’s largest rail operator and the EU’s leading operator. It owns the biggest fleet of rolling stock in Poland.



The Group’s activity covers a wide range of services connected with rail freight transport. The Group’s revenue from rail transportation and freight forwarding services makes up 80% of the Group’s total operating revenue. The services provided by the Group allow it to participate in the entire logistic value chain, including railway shipping, siding services, freight transport, transshipment and storage services and using the Group's terminals. The above services offer a natural competitive advantage in terms of customer acquisition and service.

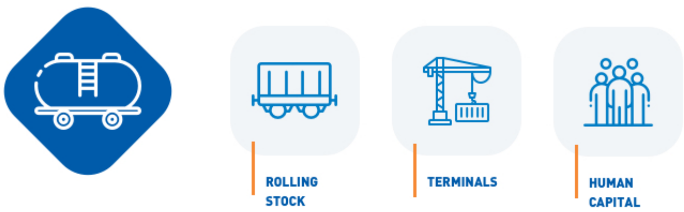
Intermodal services is the fastest developing area of the PKP CARGO Group’s activities. The revenue generated by these services is expected to grow.

The Group employs competent staff with extensive experience, who ensure the highest quality of services and form the foundation of the its operations. As at 31 December 2019, the Group had over 23 thousand employees.

The Group's operations are also based on relations with key suppliers, in particular contracts for access to rail infrastructure, traction power supply, property leasing, diesel fuel sales and rolling stock repair and modernization.

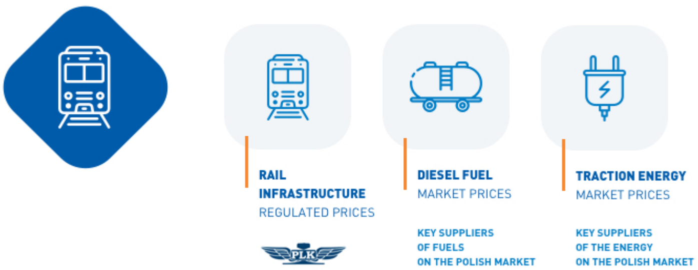
Business model

Resources



The PKP CARGO Group holds necessary resources to provide cargo rail transport services and ancillary services complementing its comprehensive transport offer. The Group expends all efforts to achieve, and invests in the improvement of, the quality of its services.

Key Suppliers



The key suppliers of the PKP CARGO Group are responsible for rail infrastructure, fuels and electricity. PKP PLK is responsible for the condition of the rail infrastructure used by the Group's rolling stock. The locomotives used by the Group are powered by diesel fuel and traction power. Electricity is delivered by PKP ENERGETYKA. All the factors listed above have an impact on the costs of the PKP CARGO Group's services.

Clients

The Group's key customers include steel mills, coking plants, power plants, mines, steel works and shipping companies. The PKP CARGO Group collaborates with the largest Polish and global groups, including the ArcelorMittal Group, the PKN Orlen Group, PGNiG, the Lafarge Group, the Azoty Group, Jastrzębska Spółka Węglowa, Węglokoks, the Enea Group, the PGE Group, the Tauron Group, Polska Grupa Górnicza and International Paper. The contracts with these business partners are regularly renewed, which confirms the high quality of the transport services provided by the PKP CARGO Group.

10.1.2 Key non-financial performance indicators of the PKP CARGO Group operation

NATURAL ENVIRONMENT

Table 44 Electricity consumption by the Group in 2016-2019

Electricity	Energy consumed [MWh]			
	2019	2018	2017	2016
Traction	607,035	703,493	645,438	631,019
Non-traction	43,665	45,193	44,512	44,627

Source: Proprietary material

Table 45 Air emissions by the Group in 2016-2019

Substance emission	Total emissions [t]			
	2019	2018	2017	2016
Sulfur dioxide	850	4,369	1,159	1,151
Nitrogen dioxide	2,079	9,040	3,418	3,172
Carbon oxide	755	657	758	807
Carbon dioxide	505,618	624,717	527,792	518,347
Benzo[a]pyrene	0	2	0	0
Dust and soot	214	447	262	259
Total hydrocarbons	481	467	455	356
HFC	0	0	0	0
Other	27	46	35	16

Source: Proprietary material

The largest substance emission generated by the PKP CARGO Group is the indirect emission generated as a result of electricity consumption in locomotives, accounting for over 90% of the entire energy purchased by the Group. The emission indicators for generated electricity decreased significantly in comparison to 2018, which translated into a significant decrease in the reported substance emissions.

Table 46 Primary waste produced by the Group, by type and volume, in 2016-2019

Waste	Waste code	Waste volume [t] in 2019		Waste volume [t] in 2018		Waste volume [t] in 2017		Waste volume [t] in 2016	
		inventory at the end of							
		preceding period	reporting period	preceding period	reporting period	preceding period	reporting period	preceding period	reporting period
Sawdust, shavings, cuttings, wood, chipboard and veneer, other than those listed in 03 01 04	03 01 05	441	5.1	3.9	441	1.4	3.9	6.6	1.4
Slag, bottom ash and boiler dust (excluding dust listed in 100104)	10 01 01	91.6	39.3	195.3	91.6	364.7	195.3	318.8	364.7
Wastes from turning and sawing of ferrous metals and their alloys	12 01 01	56.9	140.0	115.8	56.9	133.4	115.8	204.1	133.4
Waste grinding materials containing hazardous substances	12 01 20*	22.3	5.4	13.3	22.3	13.6	13.3	113.2	13.6
Mineral engine and transmission oils	13 02 05*	15.2	9.8	8.1	15.2	27.4	8.1	32.3	27.4
Other engine, transmission and lubricating oils (lubricants)	13 02 08*	11.1	21.5	26.8	11.1	28.2	24.8	32.9	28.2
Worn-out clothes and cleaning cloth	15 02 02*	25.1	21.8	13	25.1	24.1	13	14.8	24.1
Worn-out or unusable vehicles, not containing liquids or other hazardous elements	16 01 06	0	0	0	0	5,184.90	0	6,896.10	5,184.90
Ferrous metals (scrap)	16 01 17	3,652.80	6,312.5	4,244.70	3,652.80	3,194.60	4,244.70	5,521.90	3,194.60
Non-ferrous metals	16 01 18	48.9	50.2	15.8	48.9	16.8	15.8	140.3	16.8
Other waste, not listed elsewhere	16 01 99	119.2	78.1	127.9	119.2	117.7	127.9	34.2	117.7
Worn-out devices, other than those listed in 16 02 09 to 16 02 13	16 02 14	27	19.5	10.3	27	4	10.3	8.1	4
Lead batteries	16 06 01*	11.6	9.1	8.8	11.6	19.9	8.8	4.4	19.9
Iron and steel	17 04 05	10.2	118.3	16	10.2	21.7	16	52.5	21.7
Wood	19 12 07	68	130.3	23.4	68	13.4	23.4	39.3	13.4
Other waste		590.5	167.7	53.3	590.5	168.8	55.5	100.9	168.8

Source: Proprietary material

Ferrous metals, i.e. scrap, form the majority of waste generated by the Group. The increase in its volume resulted directly from the intensification of rolling stock repair processes.

Table 47 Expenditure on environment protection incurred by the Group in 2016-2019

Expenditures incurred for: [PLN thousand]	2019	2018	2017	2016
Air protection, including:	**3,437**	**1,494**	**1,510**	**1,049**
Boiler plants	2,078	163	424	181
Technological processes	384	308	240	183
Vehicles and machinery	54	35	30	32
Locomotives	852	960	795	621
Steam engines	6	8	7	13
Other	63	20	14	19
Water protection, including:	**1,081**	**937**	**574**	**875**
Water intake	485	365	339	372
Sewage disposal	218	156	112	296
Disposal of rainwater and snowmelt	33	23	17	15
Other	345	394	105	192
Tree and shrub clearing	**11**	**43**	**197**	**167**
Protection of the earth's surface	**54**	**53**	**0**	**108**
Waste management	**3,558**	**2,382**	**1,982**	**1,531**
Other costs of environmental protection	**423,316**	**176,903**	**138,910**	**249,415**

Source: Proprietary material

The category "Other costs of environmental protection" is a collective category, comprising other expenses. In 2019, the Group spent PLN 423.3 million on capital expenditures and repairs related to environmental protection. The expenditures include, inter alia, expenditure to lower emissions or regulate formal and legal environmental status. The lion's share of this amount, more than 90%, was spent on investments in rolling stock (purchase of container platforms and electric locomotives, modernization of locomotives).

The other expenditure items include investments ad renovation in technical facilities, such as:

- construction of fueling stations,
- double-jacket tanks for worked oils,
- modernization of water supply and sewage networks,
- locomotive painting plants,
- construction of waste storage,
- modernization of boiler plants, heating networks, etc.

EMPLOYEES

Table 48 Number of employees in the Group in 2016-2019

Number of employees, including:	As at 31 December 2019		As at 31 December 2018		As at 31 December 2017		As at 31 December 2016	
	persons	FTEs	persons	FTEs	persons	FTEs	persons	FTEs
Women	**5,837**	**5,829**	**5,620**	**5,499**	**5,418**	**5,398**	**5,391**	**5,431**
Tertiary education	1,698	1,670	1,595	1,556	1,416	1,386	1,397	1,397
Secondary education	3,325	3,330	3,243	3,158	3,146	3,143	3,155	3,178
Primary and vocational education	814	829	782	785	856	869	839	856
Men	**17,781**	**17,928**	**18,044**	**17,926**	**17,897**	**17,897**	**17,824**	**17,824**
Tertiary education	2,341	2,316	2,236	2,277	2,085	2,085	2,063	2,063
Secondary education	8,696	8,729	8,817	8,769	8,555	8,555	8,507	8,507
Primary and vocational education	6,744	6,883	6,991	6,880	7,257	7,257	7,254	7,254
Total	**23,618**	**23,756**	**23,664**	**23,425**	**23,315**	**23,295**	**23,215**	**23,255**

Source: Proprietary material

Table 49 Interns and new employees in the Group in 2016-2019

Item	2019	2018	2017	2016
Number of apprenticeships started [units]	91	57	31	10
Number of apprentices accepted [persons]	8	13	6	4
Number of new employees [persons]	1,443	1,838	1,597	641
Number of new employees [FTEs]	1,338	1,788	1,563	616

Source: Proprietary material

Table 50 Training in the Group in 2016-2019

Item	2019	2018	2017	2016
Number of training courses conducted [hours], including:	**131,131**	**95,863**	**101,152**	**103,159**
under the post-accident psychological support program	25,634	7,411	7,486	7,639
Number of training hours per employee [hour/person]	**6**	**4**	**4**	**4**

Source: Proprietary material

The post-accident psychological support program (PPS) has been operated by the Company for many years now, in the form of diverse initiatives, including a specialist help line, provision of psychologist consultations and training.

SOCIAL AREA

In 2016, the Parent Company adopted the "Corporate Social Responsibility Policy". The document is a road map for responsible activities for everyone involved in the execution of business processes.

Socially responsible business (CSR) combines a responsible attitude towards employees, business partners and the natural environment with professional realization of business goals.

CSR benefits can be observed in the following three areas:

- Organizational, including raising the level of the company's organizational culture and increasing work efficiency and transport security;
- Customer relations, including increasing competitiveness and customer loyalty;
- Employee relations, including building a positive image of the employer; reduction of employee turnover; raising employee awareness regarding the processes operated by the Company.

In 2019, PKP CARGO S.A. executed corporate social responsibility projects addressed to company employees or their families, activities focused on environmental protection, as well as initiatives designed to increase the security of transport provided by the Company. The projects have been described in the Responsible Business Best Practice Forum report. The projects addressed the following Social Development Goals:

Among the CSR projects carried out in 2019, particular emphasis should be placed on the following:

Post-Accident Psychological Support

The purpose of the program is to ensure continuous rail traffic safety through the provision psychological support to individuals employed in positions directly related to the conduct of transportation processes. Measures are applied to promote a responsible approach of both the employer and the employees themselves to the proper perception of the impact of psychosocial factors on the level of safety of persons involved in the conduct of transportation processes.

The project is carried out in all organizational units of the Company and covers over 7,000 employees. It is dedicated to members of train crews and other employees directly involved in rail traffic and rail traffic safety, as well as members of permanent rail commissions.

The project's main deliverables include:

- Psychological Support Helpline staffed by specialist psychologists. It is available to employees directly responsible for carrying out rail transport operations, working as train drivers, setters, inspectors, shunters, etc. The helpline is a toll free number and offers: a conversation with an experienced psychologist, assistance in occupational issues and daily life problems, confidentiality and security of conversation, full anonymity and no professional consequences for the caller.
- Appointment with a psychologist – in justified cases, during a telephone conversation with a Psychological Support Hotline specialist, the Company's employees may set up an appointment with a psychologist specialized in rail traffic safety and psychological aspects of post-traumatic stress,

The Post-Accident Psychological Support program also covers education of employees in the area of psychological aspects of rail accidents – including Acute Stress Disorder (ASD) and Post-Traumatic Stress Disorder (PTSD). This form of education is targeted at dedicated teams and is of a long-term nature. In 2019, the Company also organized additional training, "Psychogenic factors in the work environment and reaction methods", for occupational safety and health specialists and experts, representatives of the Freight Management Department and persons involved in internal communication on work safety and promotion the Post-Accident Psychological Support program among staff.

Information and prevention materials devoted to the project were distributed to a dedicated group of employees: more than 7,000 persons in 2019. Our activities in this area were also recognized by the Responsible Business Forum, which since 2018 has been regularly publishing information on Post-Accident Psychological Support in its annual Best Practices Report on corporate social responsibility and sustainable development. In 2017, the Office of Rail Transport granted an award to the Post-Accident Psychological Support program in the second edition of the Safety Culture in Rail Transport contest. The year 2019 also proved that the program is appreciated by institutions creating an environment for the safe development of the rail sector as one of the best practices increasing the safety of transportation processes.

In 2019, the Company organized the next stage of communication activities designed to disseminate and promote the Post-Accident Psychological Support program and knowledge in this area. The Company's promotional efforts involving the program included the campaign "Direction: Safety at Work" targeted at employees of PKP CARGO S.A. as an important element of improving work safety and building a work safety culture.

Table 51 Training for train crews and other employees directly involved in rail traffic and rail traffic safety, as well as members of permanent rail commissions

Position	Number of training hours in the year	Number of trainees during the year			
		2019	2018	2017	2016
Operator of rail vehicles on rail sidings, traction vehicle driver, traction vehicle assistant driver	24	3,965	4,113	4,135	4,112
Operator of special rail vehicles which are not intended to move using their own propelling mechanism on actively used rail tracks	8	22	24	18	14
Rail traffic controller	16	74	53	77	92
Control room employee	16	13	14	23	36
Train conductor	16	112	72	151	198
Rolling stock auditor	16	1,581	1,246	1,072	1,115
Shunting master	16	1,316	1,201	1,227	1,251
Switchman	16	673	622	706	752
Track supervisor	16	10	10	9	10
Points operator	16	51	56	68	59
Total	**160**	**3,965**	**7,411**	**7,486**	**7,639**

Source: Proprietary material

PKP CARGO as the patron of rail technology history

For 16 years, PKP CARGO S.A., as the main patron of rail technology history, has been maintaining historic rolling stock in Chabówka, Małopolskie Voivodship, and has been co-funding, jointly with the local governments of Wielkopolskie Voivodship, the operations of more than 100-year-old Wolsztyn Railway Roundhouse, which has had the status of the Cultural Institution since 1 January 2017.

PKP CARGO S.A. also promotes the rail traditions by organizing the following events in Chabówka:

- "Parowozjada" – an annual event featuring working steam locomotives, which attracts thousands of railway fans from Poland and abroad. In 2018, to celebrate 100 years of Poland's Independence, a unique program based on Polish history was prepared.
- "Summer with Steam Locomotives" – an educational program addressed to children and entire families, which popularizes historical and modern trains through education and fun activities. Besides Chabówka, the program is also carried out in the Museum Station, in the Wolsztyn and Skierniewice Roundhouses, and in the Open-Air Museum of Locomotives in Zduńska Wola Karsznice.
- "Tourist Trails of Małopolska" – a project carried out jointly with the Małopolski Marshal's Office. Every year, over 10 thousand people take a trip on retro trains offered under the project.
- The Open-Air Museum in Chabówka – it contains the largest Polish collection of historical rolling stock, including steam locomotives, diesel and electric engines, passenger and freight wagons, snow plows and rail handcars. Some of the steam locomotives are maintained in operating condition. In 2018, the Open-Air Museum celebrated 25 years of operation as a museum facility.

PKP CARGO also cooperates with non-profit community organizations working to protect monuments of rail history as well as the development of rail tourism and tourism promotion by offering financial and technical support. PKP CARGO strives to serve as an integrator of historical heritage activities in Poland. One of the projects carried out to this end in consultation with railroad enthusiasts is the restoration of historical colors to selected locomotives and promotion of historical knowledge among youths by organizing open-access meetings with people creating rail history.

"We run to help"

As a "Running-Friendly Company", PKP CARGO promotes a healthy life style and integrates Employees working in different locations in Poland and in different positions. The campaigns organized by the Running-Friendly Company initiative also have a positive impact on strengthening the work and life balance. In addition, it supports Employees in adopting pro-social and help-oriented attitudes.

For a few years now, PKP CARGO has been carrying out a project entitled "A Running-Friendly Company", which rests on the following three pillars:

- **sport and integration –** promotion of a healthy and active life style. Under this pillar of activities, team of PKP CARGO S.A. employees take part in running initiatives, as well as marathon and half-marathon events organized in Poland and across the world.
- **charitable –** running, employees help beneficiaries of the foundations they work with. For three years now, the Company has taken part in the national charitable event Poland Business Run, with the money paid as the entry fee in the run going to a foundation supporting people with motor disabilities. The extensive geographical structure of the Company lets it find runner employees in almost all locations in which the Poland Business Run is held. In 2019, as many as 22 employee teams from across the PKP CARGO Group participated in this initiative, that is 110 participants who ran in 8 cities. The importance of such actions for the development of pro-social attitudes was also highlighted by the participation of the President of the PKP CARGO S.A. Management Board in one of such events.
- **symbolic/historical –** commemoration of important anniversaries and jubilees, celebration of significant events in Poland's history, with the memory of those events integrating both the Company's employees and their families.

Year 2019:

roughly 200 employee participants across Poland,

nearly 40 marathon and half-marathon participants in Poland and across the world, including the participation of a group of 40 employees in the Runfest Ostrava running event held in the Czech Republic,

8 cities in which 110 employees ran for charity to support the beneficiaries of the Poland Business Run Foundation.

"Direction: Safety at Work" campaign

Work safety is a priority regardless of the type of professional duties performed. At PKP CARGO S.A., this matter is of particular significance for thousands of individuals employed in positions directly related to the operation and safety of rail traffic. With its "Direction: Safety at Work" campaign, the Company sends the message that safety must be treated as a priority for all duties performed by its employees.

Improvement in the safety of employees at work is the goal of the "Program to improve occupational safety" launched at PKP CARGO S.A. in 2019. Joint action under the Program is taken in all areas of the Company's business that may affect the safety of transportation processes. Both the services responsible for occupational safety and health and experts managing the organization of rail traffic are involved in carrying out the program. A very significant aspect is also a social campaign which aims to build a safe workplace culture and shape attitudes conducive to the safe performance of professional duties. The campaign's main objective is to reach more than 7,000 employees working in positions related to train traffic. Project activities included a consistent information campaign for employees (using posters, Intranet site, leaflets, promotional video) and a conference entitled "Building a safe workplace culture in the rail sector". The conference served as a platform for the exchange of best practices among representatives of leading operators in the rail sector and representatives of state authorities at ministerial and industry levels, charged with the duty to enforce workplace safety.

HUMAN RIGHTS

In 2019, no risks related to exploitation of child labor or risks of exploitation of forced labor were identified in the PKP CARGO Group.

Freedom of association

Table 52 Trade unions in the Group in 2016-2019

Item	2019	2018	2017	2016
Number of trade unions in the Group [organizations]	165	179	174	172
Number of employees who are members of trade unions [persons]	17,985	17,973	17,637	16,937
trade union membership percentage ratio	76.1%	76.0%	75.6%	73.0%

Source: Proprietary material

Right to a safe working environment

Table 53 Number of accidents and accident ratio in the Group in 2016-2018

Item	2019	2018	2017	2016
Number of accidents at work [cases]	179	239	236	205
Accident ratio [‰]	7.5	10.1	10.1	8.7

Source: Proprietary material

The PKP CARGO Group makes every effort to continuously increase the level of safety, with regard to the working environment as well as the cargo shipped. Usage of the fleet of unmanned drones resulted in increasing the safety level, as well as in a significant reduction of theft of the shipped cargo.

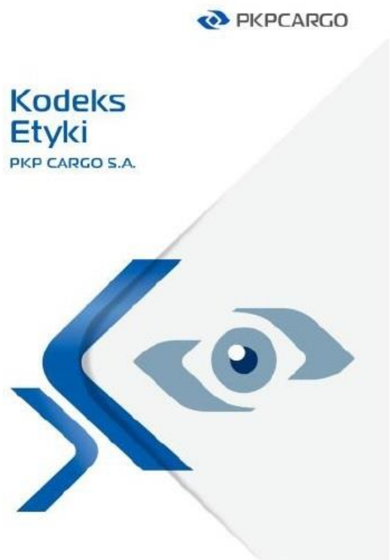
Day-to-day activities based on the use of Unmanned Aerial Vehicles (UAVs) increase the range of observations in the field. This also permits the observation of locations where theft may occur outside of the regular surveillance area.

- A security audit of the areas belonging to PKP CARGO or used by PKP CARGO pursuant to an agreement with other Group companies. An analysis of the processed materials collected by UAVs and a security audit from the point of view of the infrastructure located in the audited areas;

- Prevention activities conducted at the sites of PKP CARGO units;
- Increasing the number of UAVs in the fleet in response to bigger demand for utilization of the technology in various areas managed by PKP CARGO;
- Utilization of UAVs fitted with an RGB camera (which allows observation during the day) or a thermal vision camera (which allows observation during the night) to monitor train routes.

PREVENTION OF CORRUPTION AND BRIBERY

In February 2018, PKP CARGO S.A. adopted and implemented a Code of Ethics.



The Code of Ethics is one of the fundamental elements supporting the process of building and developing the organizational culture in the Company. The values and standards of conduct it contains are desirable in any organization. The Code sets out the fundamental rules of conduct developed by the representatives of PKP CARGO S.A., with the participation of its Employees and Clients, such as: reliability, cooperation, good management, safety, professionalism, modernity, transparency, responsibility and respect: these are the principles that employees should be guided by in their everyday work.

The main purpose of the Code of Ethics is to recommend attitudes and rules of conduct at the workplace. The Code serves as a road map for the actions undertaken in the Company in the relations with Employees, Clients, Suppliers, Competitors and with the social and natural environment. The implementation of the Code of Ethics will improve the quality of the Company's services and increase job satisfaction, both for Employees and Clients. It will also enhance the organizational culture, improve the image and strengthen PKP CARGO S.A.'s position in the Polish and international markets.

Since 2017, PKP CARGO S.A. has maintained anonymous reporting channels for PKP CARGO S.A.'s employees who would like to report an abuse/irregularity. The channels include: a dedicated hotline, an e-mail address and a traditional mail address. Selected PKP CARGO S.A. employees have been trained to act as Value Leaders and an Ethics Officer. The Code of Ethics, in its full scope, will be implemented across the PKP CARGO Group.

10.1.3 Policies and their results

The Safety Management System guarantees not only a high quality of the Group's services and highly qualified staff but also, above all, an acceptable level of safety of the services.

The Safety Management System ensures:

- the highest level of service safety without compromising its quality,
- safety of the rail system participants (other rail operators, infrastructure administrators, subcontractors),
- collaboration with other rail operators and rail infrastructure administrators, to jointly achieve shared safety objectives,
- a satisfactory level of safety indicators,
- safe working conditions for employees and subcontractors;
- compliance with rail safety standards and regulations,
- prevention of accidents at the workplace and occupational illnesses,
- continuous improvement of occupational health and safety, and continual improvement in this area,
- ongoing identification and minimization of technical and occupational risk.

The Safety Policy developed by the PKP CARGO Group reflects the Company's commitment and strategic vision in the area of rail traffic safety. The Policy contains, inter alia, a declaration of intentions, as well as outlines the overall goals and objectives of the **Safety Management System (SMS)** and principles and core values pursued by the Group. It contributes to the organization's commitment to create and improve work ethics; it also provides the employees with clear guidelines, which solidify the culture of safety.

The SMS System operates on the basis of national and EU legal regulations in respect of rail traffic safety, and it is a requirement which, if not complied with, will preven a rail company from conducting its operations. The SMS System represents a systemic approach to the Company's organization and supervision of its activities in order to ensure rail traffic safety.

The implementation and operation of the SMS System is confirmed by the Safety Certificate issued by the Office of Rail Transport. On the basis of the Certificate, and having ensured compliance with other requirements, the Company may also conduct independent shipment operations in the following 7 EU countries: Czech Republic, Slovakia, Germany, the Netherlands, Austria, Hungary and Lithuania.

The purpose of the SMS System is also to ensure supervision over all types of risk associated with rail carrier's activities, together with maintenance services, the supply of materials and hiring of subcontractors.

PKP CARGO's freight wagon **Maintenance Management System (MMS)** represents a systemic approach to the organization and supervision of activities designed to ensure rail traffic safety through keeping the freight wagons for which PKP CARGO is responsible in good technical condition.

The System is developed by, and applicable to, a given company which conducts its operations as part of the rail system. Having an MMS System in place and ensuring its proper implementation and operation is mandatory for all enterprises responsible for maintenance of freight wagons; it is the condition necessary for conducting operations in that area. The System is subject to oversight by the Office of Rail Transport.

The MMS system has been implemented in PKP CARGO S.A. in 2013. The primary scope of the system includes maintenance of good technical condition of freight wagons as part of the main maintenance process, as well as auxiliary processes that ensure correct operations, such as risk analysis, management of staff competences or collaboration with other enterprises (in that regard, it is similar to the SMS System).

On the basis of its approved MMS, in 2013 PKP CARGO received the Entity in Charge of Maintenance Certificate (ECM Certificate) confirming its approval in the European Union.

The certificate is maintained on the condition of full implementation of the principles and conditions of freight wagons maintenance set out in national and EU laws.

Thanks to implementation of the MMS system and obtaining the ECM Certificate, at present PKP CARGO may conduct maintenance of freight wagons on its own or subcontract their maintenance to other companies, including its subsidiary PKP CARGOTABOR Sp. z o.o.

Without the MMS System and the ECM Certificate, the Company would not be able to conduct activities in that area, and the maintenance of freight wagons would have to be outsourced (PKP CARGO holds the aforementioned certificate).

The ECM Certificate is valid for 5 years, after which it is subject to renewal. The current certificate expires in May 2021.

Figure 39 Policies pertaining to sustainable development

Policy area	PKP CARGO	PKP CARGO SERVICE	PKP CARGOTOR	PKP CARGO CONNECT	CARGOSPED TERMINAL BRANIEWO	CARGOTABOR	PKP CARGO TERMINALE	PKP CARGO INTERNATIONAL
- social matters								
- employee matters								
- environmental matters								
- respect for human rights								
- prevention of corruption and bribery								

PKP CARGO Group's policy related to social matters

In view of the PKP CARGO Group Companies' pursuit of the highest corporate governance standards and in order to ensure the consistency of the financing of social undertakings in the form of donations and sponsorship, the company has implemented the "Rules and regulations for the financing of social undertakings in the form of donations and sponsorship in PKP Cargo Group subsidiaries". The purpose of the regulations is to standardize the procedures for examining requests for donations and offers to provide sponsorship in the PKP CARGO Group, as well as to ensure a seamless flow of information in this area. The rules and regulations define internal procedures for filing applications for donation or for replying to sponsorship offers.

Cooperation with trade unions in PKP CARGO S.A. takes place not only in accordance with the principles set forth in generally applicable regulations but also as laid down in agreements defining mutual obligations of the parties to social dialog in the Company and in the Collective Bargaining Agreement.

The significance and role of trade unions in PKP CARGO S.A. are affected by the following factors in particular:

- rights arising from generally applicable laws and the Company's internal regulations,
- participation in managing the Company through selection of employee representatives to the corporate bodies (there are three union representatives in the Supervisory Board and one in the Management Board),
- high level of union membership among employees (around 84%).

In PKP CARGO S.A., social dialog is conducted by:

- at the Company level - the President of the Management Board or a person designated thereby and the competent statutory bodies of supra-company trade unions operating at the level of PKP CARGO S.A. and company trade unions being a party to the CCBA;
- at the Company's Head Office level - a person designated by the President of the Management Board and the competent statutory bodies of company trade unions;
- at the Company's unit level - the Company's unit manager and the competent statutory bodies of company trade unions.

The basic form of dialog are regular meetings aimed at discussing current issues of material importance to the employer and the employees, which are held, in principle, once a month on the plant level and once a quarter on the Company level.

PKP CARGO SERVICE Sp. z o.o.

The values of a socially responsible business are also reflected in the certified management systems operated in the Company (Integrated Management System consisting of: quality management system, environmental management system, occupational safety and health management system, information security management system, Energy Management System, Safety Management System (SMS) and Maintenance Management System (MMS)) as well as the Company's bylaws (including the Labor Bylaws and the Organizational Bylaws) and procedures.

For PKP CARGO SERVICE sp. z o.o., the conduct of business in a socially responsible manner means taking responsibility for employees and the local community, comprehensive care for all stakeholders (including employees and clients), continuous improvement of the organizational and legal culture, counteracting abuses and care for the environment and broadly construed safety. The issue of maintaining positive relations and an open dialog with employees and enabling them to speak about the Company's matters is particularly important for the Company in this context.

The employees of PKP CARGO SERVICE sp. z o.o. take an active part in building the Company's culture and strengthening its market position. They are the company's driving force and its ambassadors outside the organization. As one of the most important stakeholder groups in the Company, employees are encouraged to take initiative, propose new, better solutions and raise their qualifications. For exemplary performance of duties, taking initiative at work and improving its quality, they are awarded, distinguished and rewarded financially in accordance with the applicable bylaws.

Given that the freedom of association is a fundamental right, any development of social dialog with employees cannot proceed without the participation of trade unions as their representatives. In 2019, the company established cooperation with 3 trade union organizations, meaning that at the end of 2019 there were 6 trade union organizations operating at PKP CARGO SERVICE sp. z o.o. The company actively cooperates with the trade unions, negotiating issues related to implementation of employee-related regulations, including the Company Social Benefit Fund and the Collective Bargaining Agreement for Employees of PKP CARGO SERVICE Sp. z o.o.

CARGOTOR Sp. z o.o.

CARGOTOR Sp. z o.o. has a donations and support policy in place. The Company provides donations to social organizations and participates in sponsoring activities.

PKP CARGO CONNECT Sp. z o.o.

In 2019, PKP CARGO CONNECT Sp. z o.o. provided its employees with social benefits which encompassed subsidizing holidays, subsidizing stays in treatment, spas and rehabilitation centers for old age and disability pensioners, and subsidizing organized holidays for children and youth. Subsidizing school aid and financing material assistance is also possible. Employees may also receive hardship assistance, living expenses aid and a loan for housing needs. In 2019, the Company purchased discounted railway fares for its employees.

Bylaws concerning the financing of social undertakings through donations and sponsorships in subsidiaries of the PKP CARGO Group were also adopted.

CARGOSPED Terminal Braniewo Sp. z o.o.

The company, based on agreements with the Employment Office and local schools, organizes internships and practices to reduce unemployment in the region and provide vocational training.

PKP CARGOTABOR Sp. z o.o.

The company is involved in a dialog with the trade unions which operating in it and representing the social party. It holds regular meetings with those representatives to analyze potential problems that may occur in various areas and implement appropriate prevention strategies. The company supports the activities of social labor inspectors.

In addition, the company operates the Company Social Benefits Fund the purpose of which is to provide financial support to employees in need and to ensure integration among the crew. As a result of such policies, the company's authorities have good relations with employees and trade unions operating in it.

PKP CARGO TERMINALE Sp. z o.o.

As regards social issues, PKP CARGO TERMINALE sp. z o.o. does not have any separate policies in place and abides by the provisions of generally applicable law.

PKP CARGO INTERNATIONAL

The PKP CARGO INTERNATIONAL Group's approach to social issues is explained in the company's principles referred to as the "Social Responsibility Code". The document addresses the following issues: corporate governance, natural environment, energy and water consumption, waste, prevention, sustainable development, ways of treating people, cooperation with schools, occupational safety and health, support and assistance, support for non-profit activities, communication, external relations.

PKP CARGO Group's policy related to employee issues

PKP CARGO S.A.

HR Policy of PKP CARGO S.A.

In 2019, the Company's HR Policy was developed that includes a set of standards and best practices in human resource management. It defines directions for further actions aimed at ensuring growth, optimal working conditions, a friendly and open atmosphere and opportunities for each member of staff to acquire new skills and improve existing ones. It also combines rail tradition with a modern approach to human capital management. It is based on the application and improvement of best practices in the areas of recruitment and employment, adaptation, development of employee competences and compliance with ethical and safety rules. Shaping responsible social relations with employees is one of the HR Policy's most significant areas that exerts a direct impact on the achievement of business targets. Another important component of the HR Policy is partnership in the dialog with the social party, which improves efficiency across the Company.

Employee recruitment

In 2019, similarly to 2018, internal and external recruitment processes were ongoing. In addition to standard recruitment activities aimed at acquiring individuals with competences necessary to perform business tasks, more intense activities aimed at recruiting candidates with potential, without professional experience or with a relatively short employment history, took place. To ensure that assigned tasks would be completed, the recruitment offer was also aimed at people with short employment history. To that end, efforts on implementing systemic solutions to underpin the hiring of new employees were intensified. These efforts fell within the scope of three major programs:

- Vocational internship program,
- Scholarships program
- Summer internships program.

As was the case in 2018, also in 2019 new employees new employees without professional qualifications were allowed to participate in an extensive training project to prepare them to work as a train driver, rolling stock inspector or switchman.

Moreover, to build the image of PKP CARGO S.A. as an attractive employer, collaboration with local organizations to support employment in specific facilities was continued. In 2019, the Company took part in the Education and Career Day organized during the TRAKO International Rail Fair 2019 and in job fairs held by the County Employment Office.

In addition, cooperation with the Polish Ministry of Education was continued in 2019 to reinstate vocational education by drafting new curricula to deliver education in railway-related professions, which resulted in the establishment of a rail vehicle mechanic class in Senior Secondary School Complex No. 6 in Siedlce.

Adaptation program

In 2019, the professional adaptation program was continued, adjusted to the needs and expectations of selected groups of positions in the Company: administrative employees, managerial staff and non-administrative employees. For employees in positions directly associated with the transport process, a series of training sessions was updated to allow them to obtain required professional qualifications. An optimally selected professional training program ensured that new employees were able to take up their duties quickly and effectively. A well designed adaptation program results in decreased employee turnover. To improve personnel qualifications and competences related to their duties, periodic instruction sessions were held.

Training and Development

PKP CARGO S.A. aims to obtain the status of a learning organization, using knowledge- and experience-based management and various forms of professional development that would support the accomplishment of business goals.

In 2019, activities begun in the previous year were continued, aiming to improve competences through the participation of selected employees in post-graduate studies organized in cooperation with the Association of Railway Employers (ZPK). In addition, management staff improved their competences in post-graduate MBA studies organized for employees employed with railway companies.

Additionally, in 2019, the existing foreign language teaching course (English, German and Russian) was continued for Head Office employees. The course responded to language-related business needs of organizational units resulting from the Company's strategy.

Moreover, training in the form of e-learning was continued and developed. In 2019, the existing series of training sessions for customer service employees was continued with a view to developing soft competences related to building relationships, communication, stress management and assertiveness.

Social activity and travel benefits

The Company Social Benefits Fund (CSBF) has been established at PKP CARGO S.A., based on the rules following from generally applicable provisions of law and the Collective Bargaining Agreement (CBA). Social activities are conducted separately by employers forming the Company on the basis of CSBF Regulations in effect in each company, taking into account local needs and preferences of the staff. The CSBF, depending on its capabilities, satisfies the living, social and cultural needs of Company employees and former employees. In particular, use of CSBF funds is granted to employees, old age and disability pensioners and members of their families.

Employees can take advantage of a wide-ranging package of social benefits:

- Vacation allowance
- Allowance for cultural, educational, leisure and sports events
- Allowance for preschool/nursery fees
- Material assistance/aid
- Low-interest loans for housing purposes

Employees and members of their families, as well as old age and disability pensioners, are eligible for discounted travel services in the form of preferential fares in trains running throughout the country. In 2019, such benefits were purchased for 22,621 persons, including:

- 59% for employees,
- 9% for members of employees' families,
- 32% for old age and disability pensioners from the rail sector.

Every year several hundred people (approx. 300) decide to purchase an international ticket, which allows them to travel around Europe and selected countries in Asia for a token fee.

PKP CARGO SERVICE Sp. z o.o.

With regard to employee issues, the PKP CARGO SERVICE sp. z o.o. Labor Bylaws and the Collective Bargaining Agreement for Emplyees of PKP CARGO SERVICE sp. z o.o. are of particular importance as they define the organization and order of work in the Company as an Employer as well as the related rights and obligations of the employer and employees (regardless of their position and the basis for employment). The Bylaws also spell out the rules of social conduct in the Company. In matters not covered by the regulations, the applicable laws, in particular the Labor Code, and relevant secondary legislation apply.

PKP CARGO SERVICE sp. z o.o. has taken a number of initiatives related to social and employee matters:

- dialog with employees,
- collaboration with Employment Offices,
- “Recommend an Employee” program,
- provision of support to personal passions of employees, such as the Ultra-Trail du Mont-Blanc and the Open Championships of Polish Railway Workers in Alpine Skiing. The company’s employees also participated successfully in the Polish Championships of railway workers in women’s and men’s table tennis, Polish Championships of railway workers in bicycle cross-country racing, the PKP CARGO Group futsal tournament for the cup of the CEO of PKP CARGO S.A. and the Open Polish Championships of railway workers in futsal. In 2019, the Company’s team took part in the Poland Business Run charity event for the first time,
- protection of employees’ health – vaccination against tick-borne encephalitis,
- educational support – collaboration with schools, scholarship program.

CARGOTOR Sp. z o.o.

At CARGOTOR Sp. z o.o., the subject of social relations is regulated by documents and bylaws relating to labor order and discipline, in which the principles, duties and rights resulting from employment and the position held in the Company are defined. Those documents include the Labor Bylaws, Anti-mobbing Policy and Organizational Bylaws

PKP CARGO CONNECT Sp. z o.o.

At PKP CARGO CONNECT Sp. z o.o. the rules for improving employee qualifications apply, defining the manner of and eligibility of employees for raising professional qualifications. As part of the employee development policy, the following forms of qualifications improvement are implemented: bachelor, master and post-graduate studies, foreign language learning, other forms of qualification improvement.

Activities aimed at improving employee competences are defined in the “Periodic Employee Review Rules”. The Company refers employees to courses and training on its own in order for them to improve qualifications and obtain authorizations to perform assigned duties.

CARGOSPED Terminal Braniewo Sp. z o.o.

The following documents are in effect in the Company: Labor Bylaws, Remuneration Bylaws and Company Social Benefits Fund Management Bylaws defining the rights and duties of employees and the employer, rules governing working time, leaves, employee liability, remuneration, work organization and order, occupational safety and health and discrimination prevention measures.

PKP CARGOTABOR Sp. z o.o.

The policy applied in the area of employee affairs is basically reflected is the adoption of a Collective Bargaining Agreement as the basic document regulating the issue of remunerating employees. The CBA comprehensively regulates issues related to setting the remuneration, jubilee bonuses, retirement benefits and any other employee benefits. In addition, the company has Labor Bylaws, as well as detailed regulations related to bonuses, in effect. Of note is also the establishment of an Anti-mobbing Committee, which is an expression of the employer’s proactive attitude in fighting mobbing as a pathology in employee relations. As a result of such policies, all conflicts related to legal and employee relations are minimized.

PKP CARGO TERMINALE Sp. z o.o.

As regards employee issues, PKP CARGO TERMINALE sp. z o.o. does not have any separate policies in place and abides by the provisions of generally applicable law. The Company recognizes the essential right of all employees to establish trade unions and elect their representatives, and also strives to engage in sincere and trust-based cooperation with employee representatives and to balance the interests of both sides. Occupational safety and health issues are included in the Company’s internal regulations, including its Labor Bylaws. The Company also provides employees with social benefits through the Company Social Benefits Fund.

PKP CARGO INTERNATIONAL

Employee affairs are described mainly in the Collective Bargaining Agreement and partly in the Code of Ethics. Additionally, PKP CARGO INTERNATIONAL has the "Rules of behavior and conduct" in place. The document is one of the foundations of the organization. It defines the rules of employee conduct, including conduct outside the organization and between employees. It sets out the essential principles of professional and appropriate approach of employees to various non-standard situations. It defines standards that strengthen the responsibility of employees for their actions and resulting consequences. The purpose of that document is to provide employees with tips on how they can behave appropriately in specific, ethically difficult or complicated situations.

PKP CARGO Group's policy related to natural environment

The environmental policy adopted by the Group is a consistent feature of PKP CARGO S.A. policy regarding the Integrated Management System (IMS) and includes:

- protection of the natural environment through the promotion and implementation of eco-friendly forms of transport and prevention of pollution,
- reasonable use of raw materials, other materials and energy and water in accordance with the legal requirements of environmental protection and sustainable development, raising awareness of responsibility for the quality of the natural environment among employees.

The application of those policies results in:

- safe transport of goods by rolling stock that meets environmental requirements;
- investments in the procurement of new rolling stock and modernization of used stock, in the maintenance and repair facilities, and in rolling stock diagnostics equipment, which helps maintain high standards of rolling stock maintenance and protect of the environment against possible consequences of rolling stock breakdowns and accidents;
- compliance of undertaken activities with effective legal and other regulations,
- minimizing the impact on the natural environment, limiting the amount of substances and pollutants released to the environment,
- the environmental awareness of employees is growing every year – they are regularly trained according to the environmental hazards which they face in their jobs.

The tasks performed by PKP CARGO S.A. focus on gradual modernization and obtainment of an increasing number of new diesel and electric locomotives, leading to a reduction in harmful gas and particulate matter emissions to the environment and enabling savings of fuel and energy and a lower level of noise emitted to the environment.

The company invests in the purchase of modern rolling stock (modern Vectron MS EU46 multi-system locomotives, six-axle Dragon electric locomotives, wagon platforms manufactured by Tatravagónka a.s.). The purchased platforms improve the efficiency of transport, permit the carriage of heavier loads compared to older wagons and are equipped with composite brake blocks. In total, the Company plans to spend almost PLN 572 million on wagon platforms and locomotives, of which PLN 269 million will be co-funded by the EU. PKP CARGO S.A. is also performing a contract under which Newag Group S.A. will make P5 level major repairs and at the same time modernization of 60 SM48 diesel locomotives in 2018-2021. A contract under which Pesa Bydgoszcz S.A. will make P5 level repairs and at the same time modernization of 38 ST44 diesel locomotives in the period 2019-2020 is also being performed. The repairs will include among others a replacement of an obsolete two-stroke combustion engine for a four-stroke one which meets the UICIIIA emission standards.

PKP CARGO S.A. also implements rolling stock solutions for energy consumption optimization through modernization of electric locomotives by installing modern electrical equipment and runs pilot tests of selected locomotives on which DC electricity meters have been installed.

The Company supports also innovative solutions and research and development works on a new generation rolling stock to improve the efficiency of freight turnover and enable the applications of solutions for reduced energy and fuel consumption and exhaust emissions involved in the commercial use of rail cars and locomotives.

In its activities for air protection, the Company invests not only in the rolling stock. It gradually modernizes and removes sources of low emission by overhauling and liquidating solid fuel boiler plants and shifting to more ecological fuels, such as fuel oil and gas. Both the results of the Energy Audit and local anti-smog regulations are taken into account in this case. Climate protection effects are ensured also by purchasing high-quality fuels and investing in thermal performance improvement of the utilized backup facilities.

PKP CARGO SERVICE Sp. z o.o.

The Integrated Management System Policy, apart from the company's obligations in respect of other management systems, includes commitments towards the natural environment (environmental management system) and, which is to a certain extent also related to the natural environment, obligations related to energy use (energy management system). These commitments are:

- prevention of environmental pollution during the provision of services, transportation of cargo and rail infrastructure maintenance,
- introduction of technical and organizational solutions to reduce the demand for electricity, decrease CO_2 emissions and fuel consumption and apply environmentally friendly waste management methods,
- regular monitoring of energy consumption and energy efficiency,
- inclusion of the possibility to improve energy performance in investment projects,
- improvement of technical infrastructure to reduce energy consumption,
- conduct of activities aimed at improving energy performance,
- promotion of the purchase of energy-saving products and services.

In 2019, the company joined the Center for Rail Energy Efficiency Program (CEEK), a joint initiative of the rail industry to save energy. The exchange of experience within CEEK is intended to help develop and implement energy-efficient and environmentally friendly solutions that will serve all participants in the rail market.

PKP CARGO SERVICE sp. z o.o., being aware of its environmental impact, attaches great importance to minimizing and preventing pollution and reducing its adverse effects on the environment. The company is proud of its environmentally friendly initiatives and strives to raise awareness of the significance of environmental protection among its staff. It applies technological and organizational solutions aimed at reducing the environmental impact of its business. It introduces uniform rules of reasonable management of materials, water and energy at all operating levels. Its activities are also focused on carrying out waste management in a manner that does not pose a threat to the environment by sorting, securing and transferring waste for subsequent recycling.

CARGOTOR Sp. z o.o.

CARGOTOR Sp. z o.o. does not have specific internal rules regarding environmental protection. It applies generally applicable environmental protection rules.

PKP CARGO CONNECT Sp. z o.o.

The environmental policy adopted by PKP CARGO CONNECT Sp. z o.o. includes:

- compliance with all legal requirements essential for the environment, including laws, regulations and administrative duties concerning environmental protection,
- systematic identification of threats and significant environmental aspects,
- attempts to eliminate or minimize the occurrence of threats to the natural environment,
- reasonable use of and saving water, energy and fuels,
- reduction of pollutants emitted into the atmosphere,
- eco-friendly waste management in accordance with the requirements of environmental law,
- raising employee environmental awareness through appropriate information and training.

Effects of complying with the environmental policy:

- compliance of undertaken activities with effective legal and other provisions – reviewing and updating legal and other requirements,
- reduction of impacts on natural environment – monitoring environmental aspects,
- increasing employee ecological awareness – organizing internal training for employees responsible for environmental protection tasks (waste management, supervision of installations and equipment operated by the Company).

CARGOSPED Terminal Braniewo Sp. z o.o.

The Company has implemented and complies with procedures that define the rules of hazardous and non-hazardous waste management. Reports required by law are filed and environmental fees paid.

PKP CARGOTABOR Sp. z o.o.

The company applies policies aimed at intensifying its activities for the implementation of procedures regulating the broadly understood environmental protection issues. In addition to the appointment of the Chief Specialist for Environmental Protection, the company has implemented a number of regulations in the area, including a scrap management procedure, a waste disposal procedure, terms of sale of slag and waste wood. The effectiveness of applying these policies is confirmed by the absence of sanctions or complaints regarding a breach of environmental protection regulations.

PKP CARGO TERMINALE Sp. z o.o.

As regards environmental issues, PKP CARGO TERMINALE sp. z o.o. does not have any separate policies in place and abides by the provisions of generally applicable law.

PKP CARGO INTERNATIONAL

Rules concerning natural environment are set out in the "Environmental and energy issues" regulation. The regulation specifies the procedure for identifying, registering, assessing the significance and updating environmental and energy issues and maintaining continuity in setting environmental targets and programs (in the environmental management system, EMS), and for setting energy targets and action plans (as part of managing energy issues).

PKP CARGO Group's policy related to respecting human rights

Such human rights as equality regardless of sex, prohibition of discrimination, freedom and personal inviolability, the right to privacy and protection of personal data and freedom of association and freedom of opinion are a reference point for Polish law and form the grounds for the activities relating to the employees' affairs also in the PKP CARGO Group.

PKP CARGO S.A.

PKP CARGO S.A. treats developing proper interpersonal relations and ethical behaviors in the working environment as a priority. Considerable attention is paid to monitoring and effectively fighting all instances of mobbing and other forms of employee discrimination through the introduction of a number of organizational, legal, informational and cultural measures.

There are Anti-mobbing Committees and Trustees at the Company's Head Office and Units, which employees can turn to on a confidential basis in any matter that involves undesirable behavior. The Trustees cooperate with the Ethics Officer.

The anti-mobbing principles found in the Labor Code have been reflected in adopted internal regulations, forming the core of the Company's anti-mobbing policy. The obligation to prevent mobbing has been introduced into labor bylaws of PKP CARGO S.A. organizational units.

Particular attention in the mobbing prevention policy is paid to preventive actions, especially as regards education and information. To this end, employees and especially managerial staff are trained and the issues of mobbing and protecting against instances of mobbing are included in OHS training. An e-mail address is also available to which instances of mobbing can be reported, and employees are kept informed on this topic via the PKP CARGO intranet site.

Employees can also report irregularities outside the organization's structures. To achieve this, the Company began to work with an external "Ethics Hotline" that allows anonymous reporting of mobbing instances as well as ethical irregularities and corruption, conducts explanatory investigations and organizes training.

PKP CARGO SERVICE Sp. z o.o.

The Code of Ethics of PKP CARGO SERVICE sp. z o.o. is a code of conduct describing the Company's values, attitudes and expected method of action in relations with colleagues, clients, business partners, competitors and other stakeholders of the Company. The Code emphases the significance of honesty, reliability and prevention of abuse, ensuring safe, healthy and friendly working conditions, conducting business in a responsible manner and in line with the principles of sustainable development. It draws on references to the principles of equal employment opportunities, professional development and improvement, communication and cooperation commitments, reporting and documentation rules, use of time, company assets and equipment, protection of information, personal data and privacy. The Code also provides guidelines in the areas of fair competition, conflicts of interest, communication rules with regard to external entities, behaviors of employees as the company's ambassadors outside the place and time of work. It also serves as a platform for conducting Corporate Social Responsibility policy in the company. Any irregularities or concerns related to the implementation of the principles set forth in the Code and the closely related "Abuse Prevention Policy at PKP CARGO SERVICE sp. z o.o." are reported to the Ethics Committee operating in the company.

CARGOTOR Sp. z o.o.

CARGOTOR Sp. z o.o. has an Anti-mobbing Policy to prevent instances of mobbing.

PKP CARGO CONNECT Sp. z o.o.

As part of building a long-term subcontractor management policy, the company has adopted the Code of Conduct with Suppliers. The Code has established the standards of conduct for suppliers and subcontractors providing the company with goods or services. The Code specifies key values that the company follows in its cooperation with subcontractors.

This is aimed at:

- consolidating the positive image of the company as a TFL operator,
- building the perception of the Company as an entity that cares about standards in relations with its customers and subcontractors,
- verify and assess rail operators according to IMS procedures, identifying and managing the risks related to social, environmental and ethical factors;

CARGOSPED Terminal Braniewo Sp. z o.o.

Effective regulations include principles designed to prevent instances of discrimination.

PKP CARGOTABOR Sp. z o.o.

The Company's business is conducted in deep respect for all human and civil rights. Its Organizational and Legal Department exercises ongoing supervision to ensure compliance of regulations and procedures in effect with the whole list of human rights laid down in the Constitution and appropriate international regulations. The Compliance Commission carries out detailed analyses of internal procedures to eliminate the risk of human rights violations in the company's day-to-day operations. As a result of the said policies adopted by the company, the risk of occurrence of human rights violations has been effectively prevented.

PKP CARGO TERMINALE Sp. z o.o.

Respect for human rights – in this area the Company applies mandatory provisions of law, in particular the Labor Code and internal regulations in the form of Labor Bylaws.

In 2019, the Code of Ethics at PKP CARGO Terminale sp. z o.o. was adopted and the Ethics Ombudsman was appointed. The main purpose of the Code of Ethics is to recommend attitudes and rules of conduct for day-to-day work.

PKP CARGO INTERNATIONAL

Questions associated with respecting human rights are described in the document entitled "Rules of behavior and conduct" referred to in the section discussing the policies applied by the PKP CARGO Group with regard to employee issues.

PKP CARGO Group's policy related to preventing corruption and bribery

PKP CARGO S.A.

As of 1 January 2018, the Decision of President of the PKP CARGO S.A. Management Board dated 31 October 2017 entitled "Procedure of Dealing with Corruption Risks in PKP CARGO S.A." entered into effect. The procedure governs:

- the manner of reporting cases of corruption or suspected corruption;
- the role of whistleblowers,
- dealing with identified cases of corruption;
- informing the Management Board about cases of corruption;
- reporting cases of corruption to law enforcement agencies and cooperation with such agencies;
- analyzing cases of corruption;
- preventing the recurrence of cases of corruption;
- cooperation with the stakeholders, partners, business partners and administration institutions;

The anti-corruption policy is implemented via the Procedure for Dealing with Corruption Risks at PKP CARGO S.A.

By implementing the Procedure and the Code of Ethics, the Company's management exercises due diligence in strengthening the Company's image in the market as a competent and reliable player, demonstrates the Company's efficient adaptation to the changing requirements, legal changes and new trends and enables the application of appropriate measures in the event of any irregularities. Building lasting relationships hand in hand with shareholders, employees, clients and business partners is based on honesty, transparency and a professional approach to business. As Poland's largest and Europe's second largest freight carrier, in pursuing its key strategic objective, which is to build shareholder value, Company remember to combine operational efficiency with obedience to the ethical principles espoused in the Company's internal regulations. In close collaboration with business divisions, we define actions that need to be taken to minimize risks.

Enforcing compliance with the Procedure for dealing with corruption risks in PKP CARGO S.A. is the responsibility of the Compliance Officer. Any complaints/notifications regarding suspected cases of corruption require immediate notification to the Compliance Officer anonymously or non-anonymously a specially designated e-mail address. When examining signals about potential irregularities, PKP CARGO S.A. provides protection against the disclosure of information to unauthorized persons, feedback and reliability in explaining each signal in accordance with the Procedure for dealing with corruption risks in PKP CARGO.

PKP CARGO SERVICE Sp. z o.o.

The Abuse Prevention Policy, based on the principle of "zero tolerance for corruption", has been adopted out of concern for the image, reputation and confidence in the Company by clients, business partners and all stakeholders. The goal of the Policy is to establish for all employees, coworkers, clients and business partners a clear set of rules of conduct in business relations by creating a culture of transparency and zero tolerance for any corrupt behaviors. In accordance with the Policy, preventing and combating corruption-related abuses is one of the company's priorities in its dealings with external entities. The Policy contains guidelines on how to identify and manage risks related to corruption abuses and incorporates best practices in preventing, detecting and responding to bribery and other corruption-based behaviors that may harm the company's economic, financial and image-related interests.

PKP CARGO CONNECT Sp. z o.o.

PKP CARGO CONNECT Sp. z o.o. is committed to conduct its operations honestly and in compliance with law and effective regulations. The adopted Code of Ethics is aimed at maintaining the trust of clients, employees, state administration authorities and the public.

The code consists of two parts:

- defining the principles of conducting business activity,
- defining the principles of human rights and social justice.

CARGOSPED Terminal Braniewo Sp. z o.o.

Internal procedures include established rules for verifying contractors and drafting business proposals and offers on the basis of cost calculations and guidelines for a particular years. The business proposals and offers are recorded. The movement of goods is defined and regulated by permits issued by customs services and recorded in a separate electronic warehouse software, preventing unwanted actions by separating access rights. The company has adopted procedures that define the rules for managing investments and renovation projects as well as the use of business payment cards.

PKP CARGOTABOR Sp. z o.o.

An 'internal control position' has been established in the company to identify and prevent potential and existing risks in this area. Moreover, the company pays considerable attention to cooperation with all competent state authorities appointed to prosecute this phenomenon. As a consequence, there have been no signals pointing to the occurrence of corruption in the company.

PKP CARGO TERMINALE Sp. z o.o.

In 2019, the company adopted the "Anti-Corruption Policy of PKP CARGO Terminale sp. z o.o.". The Policy lays down the fundamental principles and rules that must be followed in all business dealings and specifies prohibited behaviors that may be regarded as cases of corruption or paid protection.

PKP CARGO INTERNATIONAL

Corruption issues are explained in the "Rules for conducting negotiations with external entities". The rules cover issues such as compliance with the effective provisions of law (competition and anti-monopoly policy, bribes for state officials), conflicts of interests (employee's personal interest, acceptance of gifts and benefits) and honest relations (relations with customers, offering gifts and entertainment, relations with suppliers).

10.1.4 Due diligence procedures

The PKP CARGO Group takes efforts on an ongoing basis to ensure that assigned tasks are effectively completed and legal provisions are complied with. The adopted internal regulations are regularly adjusted to current business needs and must be consistent with mandatory provisions of law. At the same time, the use of good practices contributes to improving the standards of conducted activities and increases the qualifications and competences of human resources.

Systematic risk assessment, including in relation to social, employee and human rights issues, allow to identify threats early and keep their consequences down to a minimum.

The human resources management area is subject to a system of internal audits, part of the Integrated Management System, which allows to identify processes, ensure their compliance with assumed requirements, and implement improvements.

10.1.5 Risks related to Group activities and managing these risks

On 25 September 2018, the PKP CARGO S.A. Management Board adopted a Resolution on introducing the "Risk Management Policy in PKP CARGO S.A." Pursuant to the resolution, changes were introduced in the previously effective Policy whose purpose was to link the Investment Plan being developed to existing, high risks, and make the process more flexible. The Security and Audit Office has been takes with exercising supervision over the implementation and execution of the provisions of the Policy.

The basic task of the PKP CARGO Supervisory Board Audit Committee (SBAC) is to examine the correctness and effectiveness of carrying out internal financial audits in the Company and monitoring the effective operation of internal control, internal audit and risk management systems. The Supervisory Board Audit Committee assesses the risk management system.

The PKP CARGO Management Board is responsible for risk management on the basis of the adopted strategy of the PKP CARGO Group; it primarily defines the directions of development and makes decisions regarding risk handling plans.

The Unit or Department Director is responsible for risk management in the reporting area. Its tasks include:

- identifying risks related to activities,
- analysing and assessing the risks,
- and then comparing them with expected results.

Depending on the comparison results obtained, actions are taken to either retain the status quo or reduce the risk level. PKP CARGO employees are obliged to comply with the provisions of the Policy within the scope of their powers.

The Policy designates a Risk Leader whose task is to coordinate all matters associated with risk management. Gathering and analysis of information and subsequent reporting to the Management Board and Supervisory Board Audit Committee.

Particularly important risks have been subjected to special monitoring. With regard to the risks indicated by the Management Board Members, indicators illustrating the risk level have been designed. Currently, 24 indicators are monitored. Once a month the PKP CARGO Management Board receives a report which presents the indicator levels (neutral, alert and catastrophic), the trend in the given ratio and information about the causes of deviations and actions taken by the risk owners in connection with the deviations.

The indicators in most cases are of quantitative nature and present information which is verifiable and obtained without sustaining undue costs from PKP CARGO's IT systems. The PKP CARGO Management Board has the possibility of changing the monitored indicators depending on their information needs. The policy has been developed on the basis of the provisions of the ISO 31000 standard "Risk management".

The risk assessment process takes place at least once a year, as part of self-assessment. During the assessment the risk owners identify the risks in their area and the information assets with regard to the risks associated with information security and plan actions aimed at reducing the risk level if it is unacceptable. If there are important circumstances affecting the risk level, the risk owner should carry out a self-assessment before elapse of one year.

The assessment process takes place in 3 stages: it starts with risk identification, then the risk is analyzed and the results obtained are compared with the expectations, which determines the next steps regarding the risk handling. The risk may be accepted or the risk owner prepares a Risk Handling Plan.

With regard to the risks associated with information security with regard to assets which have been found critical by their owners, Business Continuity Plans are developed. The asset owner is responsible for maintaining, updating and testing the Plan. The cyclical nature of the process assumes its continuous changes aimed at improvement.

Among the material risks associated with the entity's operations (social issues, employee issues, human rights) one should list:

Risks in the area of environmental protection

Key risks in the area of environmental protection:

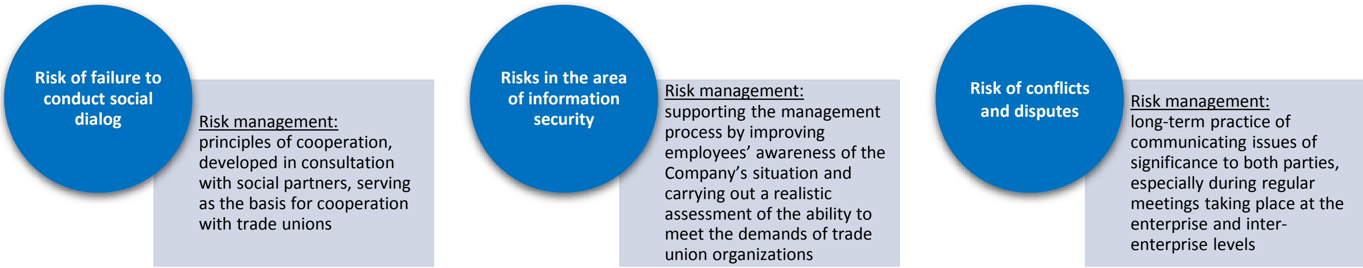
- the risk of failure to comply with the legal requirements as regards environmental protection – the legal and financial consequences (fines, reclamation costs, increased environmental fees) in the case of identification of non-compliance by environmental protection inspection authorities) – negative impact on the image of the organization, in the case of identification of irregularities, environmental contamination, use of the environment without the required decisions, permits, authorizations and filings and without the required waste records and reporting;
- the risk of failing to meet PL-EN ISO 14001:2015-9 requirements – discovering a critical non-compliance during a third party audit and loss of IMS certificate as regards the PN-EN ISO 14001 standard

Environment risks have been defined in the "PKP CARGO S.A. risk management policy" in the context of environmental processes such as managing emissions into air from technology processes and burning fuels in installations and equipment, managing equipment containing substances that deplete the ozone layer and fluorinated greenhouse gases, managing water and sewage, managing produced industrial and municipal waste, managing noise emissions to the environment, managing green areas and taking action in case of damage to the environment. Risk handling plans have been designed for environmental processes that require actions to be taken.

In the case of PKP CARGO CONNECT Sp. z o.o., the risk of non-compliance with legal requirements related to environmental protection has been identified, which might result in legal and financial consequences or the loss of the company's good name. With a view to minimizing the occurrence of this risk, the company continuously monitors legislative developments in accordance with the procedure P02_Ś – Identification and access to legal and other requirements. Moreover, in the context of environmental protection, the company keeps the "List of legal and other acts" containing current statutes, ordinances and permits associated with the use of the natural environment as well as notified installations.

PKP CARGOTABOR Sp. z o.o. operates in the heavy industry domain, which by its very nature generates certain risks related to potential breaches of environmental laws or standards. The company sells scrap metal and waste and is exposed to risks associated with the operation of paint shops in its various units. In order to minimize these risks, the position of Chief Specialist for Environmental Protection has been created in the company along with the implementation of a number of regulations in this area, including a scrap management procedure and a waste disposal procedure.

Management of risks related to social dialog

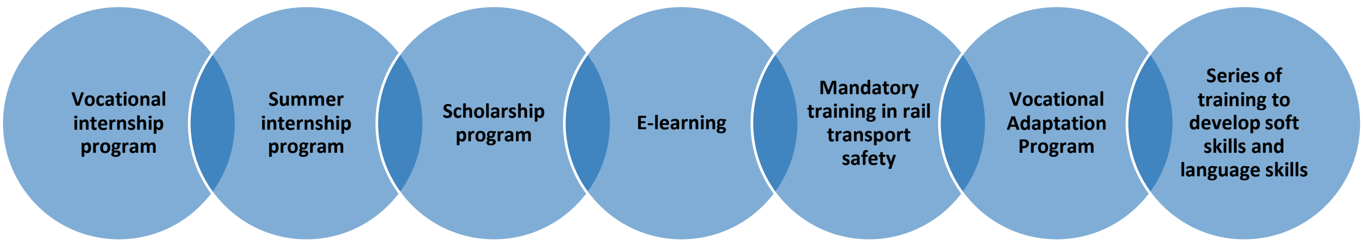


Management of risks related to the proper implementation and conduct of Employee Capital Schemes

- Joint proceedings regarding the selection of a financial institution for a procurement group consisting of 23 PKP Group companies and updating the trade unions on an ongoing basis about key issues related to the conducted proceedings,
- Information campaign on the Employee Capital Scheme for employees and contractors of PKP CARGO S.A.,
- Selection of the most favorable bid, taking into account the bid evaluation criteria,
- Execution of the Employee Capital Scheme Management Agreement on 25 October 2019 for the conduct of an ECS in PZU Specjalistyczny Fundusz Inwestycyjny Otwarty [PZU Specialist Open-End Mutual Fund], managed and represented by Towarzystwo Funduszy Inwestycyjnych PZU S.A.,
- Timely transfer of first contributions on 12 November 2019,
- Ongoing cooperation with the financial institution and monitoring of operations carried out in the process.

Management of risks related to the inability to recruit appropriate staff and the shortage of trained personnel

One of the core objectives of the human resources management area is ensuring necessary human resources for Company needs.



In 2019, internal and external recruitment processes were ongoing, efforts on implementing systemic solutions to underpin the hiring of new employees were intensified (professional internship program, scholarship program, summer internship program). Cooperation with local organizations and the Ministry of National Education was continued. Moreover, activities were carried out to develop employee competencies.

Management of risks related to mobbing

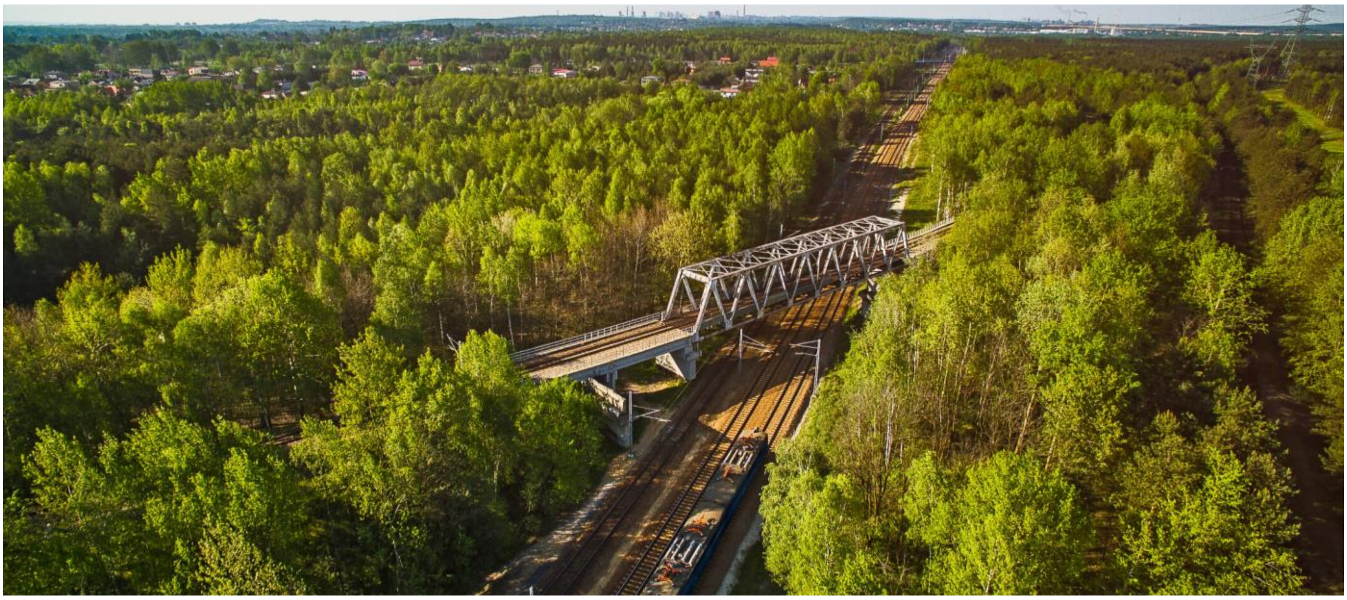
- **Internal regulations forming the basis for actions aimed at preventing cases of mobbing**
- **Legislative, information and training activities**
- **Appointment of Trustees and Anti-mobbing Committees in cooperation with the Ethics Officer**
- **Additional channels for reporting unwanted events through a dedicated e-mail address, helpline or reporting platform, operated by an external entity**

Shaping the proper work culture, interpersonal relations and ethical attitudes, creating a friendly workplace

Corruption risk management

Minimizing the risk of corruption takes place through introduction of a Procedure for handling corruption risks and through introduction of the whistleblower status and appointment of a Compliance Officer responsible for clarifying irregularities. Whistleblowers may be recruited from among both employees and persons/entities outside the Company which cooperate with it (customers, business partners, suppliers, etc.).

In PKP CARGO SERVICE Sp. z o.o., the subject matter of creation and rollout of the corruption risk management system is included in the Abuse Prevention Policy of PKP CARGO SERVICE sp. z o.o. adopted with a view to counteracting and combating corruption-related abuses. This Policy is closely related to the Code of Ethics of PKP CARGO SERVICE sp. z o.o. and constitutes the company's declaration that it runs its business in a transparent and responsible manner and in compliance with the highest ethical standards, heeding the principle of "zero tolerance for corruption". The Abuse Prevention Policy applies to all employees of the company and persons rendering any services for or on behalf of the company (contractors) and applies to all cases of abuse as well as situations of a suspected commission of an abuse by employees, contractors, advisory entities, clients and business partners. Any irregularities or doubts related to the implementation of these principles must be reported to the Ethics Committee. Because teamwork appears to guarantee a greater degree of transparency, especially at the Code implementation stage and in respect of such sensitive issues as reporting and investigating violations, the Ethics Committee will operate as a team.



10.2 Representation of PKP CARGO S.A.

The Representation of the PKP CARGO Group on non-financial information for 2019 (hereinafter: the Representation) presented below constitutes a standalone part of the Report on the PKP CARGO Group Activities (hereinafter: the Group, PKP CARGO Group) and presents non-financial information about PKP CARGO S.A. (hereinafter: PKP CARGO, the Company) for the period from 1 January 2019 to 31 December 2019. The Representation is based on the guidelines recommended by the IIRC (International Integrated Reporting Council) and the GRI (Global Reporting Initiative) guidelines and reflects the provisions of the Accounting Act of 29 September 1994.

The Representation includes non-financial data which have been prepared as a result of the dialog conducted with the Company's stakeholders, showing mutual relations and interdependencies between financial and non-financial aspects of its business.

In its non-financial reporting, PKP CARGO addresses the following issues:

For PKP CARGO, non-financial reporting is an opportunity to present to its stakeholders a broader picture of how the company value is created. Although difficult to estimate and measure, in the longer term these non-financial data translate into financial and operational results.

The objectives and qualitative changes resulting from the Company's sustainable development activities are presented below.

- We care about the environment -> better quality and efficiency, more environmentally friendly operations
- We care about employees -> professional human resources, committed employees
- We care about society -> support for culture and tradition, better brand recognition
- We care about respect for human rights -> reliable and recommendable employer
- We care about prevention of corruption and bribery -> trustworthy, ethical employer, safe workplace

In 2019, awards granted to PKP CARGO S.A. for its achievements in the areas of business and sustainable development included:

The Best Annual Report

"The Best Annual Report" is a contest was organized by the Accounting and Tax Institute. The purpose of the contest is to promote the creation of annual reports offering the highest value in use for shareholders and investors.

The Transparent Company of the Year

The "Transparent Company of the Year" is a ranking compiled by the Investor and Stock Market Magazine "Parkiet", together with the Institute of Accounting and Taxes. The purpose of the ranking is to find the most transparent companies from among the companies of the three main stock market indexes (WIG20, mWIG40 and sWIG50), based on a questionnaire survey covering such areas as: financial statement and reporting, investor relations and corporate governance.

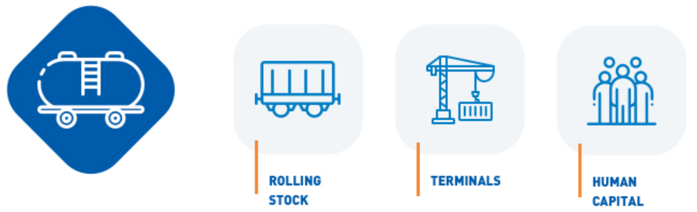
10.2.1 Description of the business model

PKP CARGO is Poland's largest and the EU's leading rail freight carrier.

It owns the biggest fleet of rolling stock in Poland. The Company's activity covers a wide range of services connected with rail freight transport. PKP CARGO's revenue from rail transportation and freight forwarding services makes up 96% of the Company's total operating revenue.

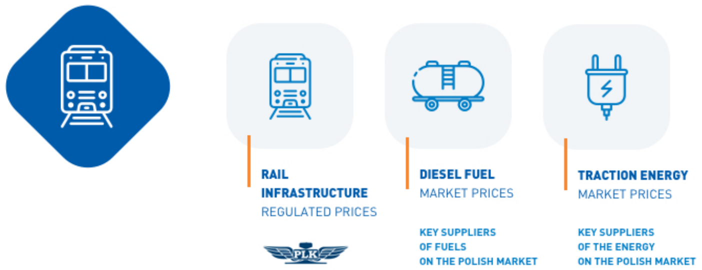
Business model

Resources



The PKP CARGO Group holds necessary resources to provide cargo rail transport services and ancillary services complementing its comprehensive transport offer. The Group expends all efforts to achieve, and invests in the improvement of, the quality of its services.

Key Suppliers



The key suppliers of the PKP CARGO Group are responsible for rail infrastructure, fuels and electricity. PKP PLK is responsible for the condition of the rail infrastructure used by the Group's rolling stock. The locomotives used by the Group are powered by diesel fuel and traction power. Electricity is delivered by PKP ENERGETYKA. All the factors listed above have an impact on the costs of the PKP CARGO Group's services.

Clients

PKP CARGO's key customers include steel mills, coking plants, power plants, mines, steel works and shipping companies. PKP CARGO collaborates with the largest Polish and global groups, including ArcelorMittal, PKN Orlen, PGNiG, Lafarge Group, Azoty Group, Jastrzębska Spółka Węglowa, Węglokoks, Enea Group, PGE Group, Tauron Group, Polska Grupa Górnicza and International Paper. Contracts with these business partners are regularly renewed, which confirms the high quality of the transportation services provided by the Company.

The Company employs competent staff with extensive experience, who ensure the highest quality of services and form the foundation of the its operations. As at 31 December 2019, the Company had over 17 thousand employees.

The Company's operations are also based on relations with key suppliers, in particular contracts for access to rail infrastructure, traction power supply, property leasing, diesel oil sales and rolling stock repair and modernization.

10.2.2 Key non-financial effectiveness indicators connected with the operations of PKP CARGO S.A.

NATURAL ENVIRONMENT

Table 54 Electricity consumption by PKP CARGO S.A. in 2016-2019

Electricity	Energy consumed [MWh]			
	2019	2018	2017	2016
Traction	579,000	673,043	616,394	597,922
Non-traction	21,382	21,850	22,436	22,714

Source: Proprietary material

Table 55 Air emissions by PKP CARGO S.A. in 2016-2018

Substance emission	Total emissions [t]			
	2019	2018	2017	2016
Sulfur dioxide	800	4,347	1,097	1,075
Nitrogen dioxide	1,608	8,938	2,912	2,641
Carbon oxide	509	553	516	484
Carbon dioxide	477,747	616,780	495,134	482,575
Dust and soot	122	398	190	189
Total hydrocarbons	189	184	156	118
Other	21	42	34	16

Source: Proprietary material

Table 56 Waste produced by PKP CARGO S.A., by type and volume, in 2016-2018

Waste	Waste Code	Waste volume [t] in 2019		Waste volume [t] in 2018		Waste volume [t] in 2017		Waste volume [t] in 2016	
		inventory at the end of							
		preceding period	reporting period	preceding period	reporting period	preceding period	reporting period	preceding period	reporting period
Slag, bottom ash and boiler dust (excluding dust listed in 100104)	10 01 01	49.4	18	63	49.4	162.3	63	93.8	162.3
Wastes from turning and sawing of ferrous metals and their alloys	12 01 01	14.9	103	39.8	14.9	59.4	39.8	121.6	59.4
Other engine, transmission and lubricating oils (lubricants)	13 02 08*	8.2	21.4	22.4	8.2	25.6	22.4	22.5	25.6
Worn-out clothes and cleaning cloth	15 02 02*	15.8	18.1	9.3	15.8	13.7	9.3	9.5	13.7
Ferrous metals (scrap)	16 01 17	3,387.7	5,890.3	3,360.8	3,387.7	1,588.5	3,360.8	4,235.5	1,588.5
Non-ferrous metals	16 01 18	47.7	49.1	14.4	47.7	9.5	14.4	21.9	9.5
Other waste, not listed elsewhere	16 01 99	3.5	17.2	32.5	3.5	3.9	32.5	2.6	3.9
Worn-out devices, other than those listed in 16 02 09 to 16 02 13	16 02 14	27.0	19.4	10.0	27.0	3.7	10.0	7.8	3.7
Lead batteries	16 06 01*	10.4	9.1	7.4	10.4	18.4	7.4	4.4	18.4
Wood, glass and plastic waste containing or contaminated with hazardous substances	17 02 04*	15.4	9.8	8.0	15.4	8.0	8.0	12.2	8.0
Iron and steel	17 04 05	10.2	118.3	16	10.2	21.7	16	52.5	21.7
Wood	19 12 07	50.6	129.3	23.4	50.6	10.6	23.4	36.1	10.6
Other waste		126.8	157.9	33.5	126.8	154.4	33.6	76.9	154.4

Source: Proprietary material

The list presents waste, the inventory of which at the end of the period was at least 9 tons. The categories of waste, the inventory of which at the end of the period in 2019 was less than 9 tons are included in the collective category - "Other wastes". Ferrous metals, i.e. scrap, form the majority of waste generated by PKP CARGO. The increase in its volume resulted directly from the intensification of rolling stock repair processes.

Table 57 Expenditures on environment protection incurred by PKP CARGO S.A. in 2016-2018

Expenditures incurred for: [PLN thousand]	2019	2018	2017	2016
Air protection, including:	**1,002**	**1,046**	**898**	**747**
Boiler plants	46	52	63	73
Technological processes	100	73	66	54
Vehicles and machinery	8	9	9	9
Locomotives	791	893	753	599
Steam engines	6	8	7	13
Other	50	11	0	0
Water protection, including:	**344**	**133**	**52**	**38**
Water intake	0	0	0	1
Sewage disposal	7	7	10	4
Disposal of rainwater and snowmelt	3	8	5	5
Other	334	118	37	29
Tree and shrub clearing	**11**	**32**	**5**	**0**
Protection of the earth's surface	**54**	**53**	**0**	**108**
Waste management	**622**	**334**	**392**	**266**
Other costs of environmental protection	**422,482**	**176,103**	**138,042**	**248,736**

Source: Proprietary material

The significant increases in costs associated with waste management resulted from an increase by a factor of several times in waste removal prices and the need to prepare fire protection plans. The increase in investment expenditures resulted from rolling stock investments made in 2019 (purchase of container platforms and electric locomotives, modernization of locomotives).

The category "Other costs of environmental protection" is a collective category, comprising other expenses. In 2019, PKP CARGO spent PLN 422 million on capital expenditures and repairs related to environmental protection. The expenditures include, inter alia, expenditure to lower emissions or regulate formal and legal environmental status. More than 90%, was spent on investments in rolling stock (purchase of container platforms and electric locomotives, modernization of locomotives).

The other expenditure items include investments ad renovation in technical facilities, such as:

- construction of fueling stations,
- double-jacket tanks for worked oils,
- modernization of water supply and sewage networks,
- locomotive painting plants,
- construction of waste storage,
- modernization of boiler plants, heating networks, etc.

EMPLOYEES

Table 58 Number of employees in PKP CARGO S.A. in 2016-2019

Number of employees, including:	As at 31 December 2019		As at 31 December 2018		As at 31 December 2017		As at 31 December 2016	
	persons	FTEs	persons	FTEs	persons	FTEs	persons	FTEs
Women	**4,701**	**4,691**	**4,621**	**4,514**	**4,432**	**4,412**	**4,420**	**4,440**
Tertiary education	1,219	1,198	1,158	1,128	1,039	1,018	1,012	1,005
Secondary education	2,790	2,790	2,745	2,663	2,660	2,655	2,656	2,674
Primary and vocational education	692	703	718	722	733	739	752	761
Men	**12,439**	**12,602**	**12,687**	**12,622**	**12,611**	**12,765**	**13,009**	**13,259**
Tertiary education	1,681	1,648	1,591	1,641	1,502	1,480	1,488	1,484
Secondary education	6,069	6,106	6,105	6,058	5,876	5,870	5,922	6,007
Primary and vocational education	4,689	4,848	4,991	4,922	5,233	5,415	5,599	5,767
Total	**17,140**	**17,293**	**17,308**	**17,135**	**17,043**	**17,177**	**17,429**	**17,698**

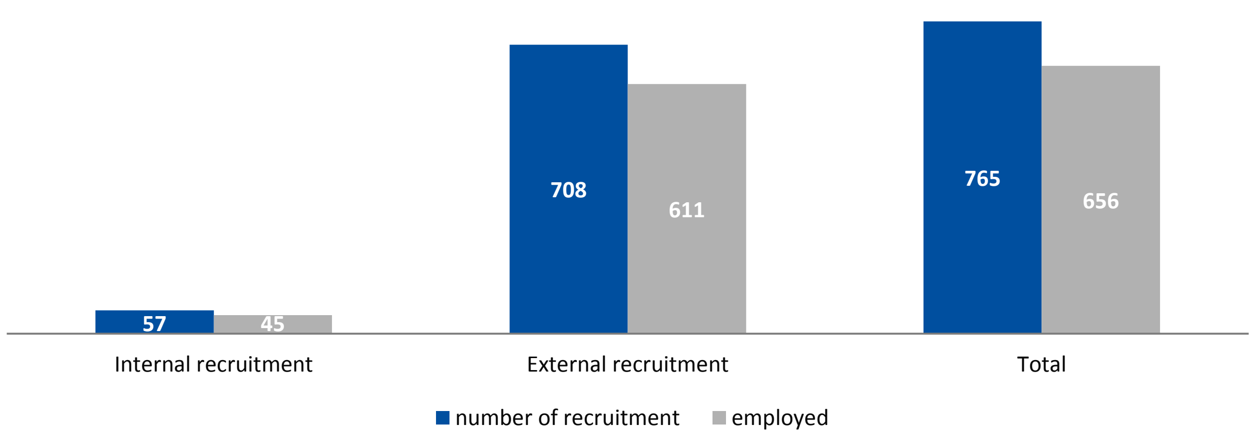
Source: Proprietary material

Table 59 Training courses delivered in PKP CARGO S.A. in 2016-2019

Item	2019	2018	2017	2016
Number of training courses conducted [hours], including:	**64,438**	**49,608**	**53,888**	**66,520**
under the post-accident psychological support program	7,817	7,411	7,486	7,639
Number of training hours per employee [hour/person]	**4**	**3**	**3**	**4**

Source: Proprietary material

Figure 40 Recruitment processes in PKP CARGO S.A. in 2019



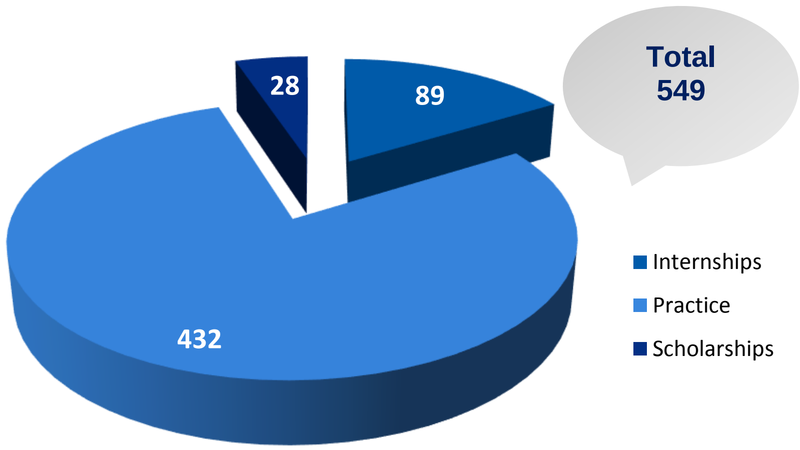
Source: Proprietary material

Table 60 Interns and new employees in PKP CARGO S.A. in 2016-2019

Item	2019	2018	2017	2016
Number of apprenticeships started [units]	89	43	15	7
Number of apprentices accepted [persons]	7	9	0	1
Number of new employees [persons]	729	1,108	502	198
Number of new employees [FTEs]	725	1,106	502	198

Source: Proprietary material

Figure 41 Employment support programs implemented in PKP CARGO S.A. in 2019



Source: Proprietary material

SOCIAL AREA

In 2016, the Parent Company adopted the "Corporate Social Responsibility Policy". The document is a road map for responsible activities for everyone involved in the execution of business processes.

Socially responsible business (CSR) combines a responsible attitude towards employees, business partners and the natural environment with professional realization of business goals.

CSR benefits can be observed in the following three areas:

- Organizational, including raising the level of the company's organizational culture and increasing work efficiency and transport security;
- Customer relations, including increasing competitiveness and customer loyalty;
- Employee relations, including building a positive image of the employer; reduction of employee turnover; raising employee awareness regarding the processes operated by the Company.

In 2019, PKP CARGO S.A. executed corporate social responsibility projects addressed to company employees or their families, activities focused on environmental protection, as well as initiatives designed to increase the security of transport provided by the Company. The projects have been described in the Responsible Business Best Practice Forum report. The projects addressed the following Social Development Goals:

Among the CSR projects carried out in 2019, particular emphasis should be placed on the following:

Post-Accident Psychological Support

The purpose of the program is to ensure continuous rail traffic safety through the provision psychological support to individuals employed in positions directly related to the conduct of transportation processes. Measures are applied to promote a responsible approach of both the employer and the employees themselves to the proper perception of the impact of psychosocial factors on the level of safety of persons involved in the conduct of transportation processes.

The project is carried out in all organizational units of the Company and covers over 7,000 employees. It is dedicated to members of train crews and other employees directly involved in rail traffic and rail traffic safety, as well as members of permanent rail commissions.

The project's main deliverables include:

- Psychological Support Helpline staffed by specialist psychologists. It is available to employees directly responsible for carrying out rail transport operations, working as train drivers, setters, inspectors, shunters, etc. The helpline is a toll free number and offers: a conversation with an experienced psychologist, assistance in occupational issues and daily life problems, confidentiality and security of conversation, full anonymity and no professional consequences for the caller.
- Appointment with a psychologist – in justified cases, during a telephone conversation with a Psychological Support Hotline specialist, the Company's employees may set up an appointment with a psychologist specialized in rail traffic safety and psychological aspects of post-traumatic stress,

The Post-Accident Psychological Support program also covers education of employees in the area of psychological aspects of rail accidents – including Acute Stress Disorder (ASD) and Post-Traumatic Stress Disorder (PTSD). This form of education is targeted at dedicated teams and is of a long-term nature. In 2019, the Company also organized additional training, "Psychogenic factors in the work environment and reaction methods", for occupational safety and health specialists and experts, representatives of the Freight Management Department and persons involved in internal communication on work safety and promotion the Post-Accident Psychological Support program among staff.

Information and prevention materials devoted to the project were distributed to a dedicated group of employees: more than 7,000 persons in 2019. Our activities in this area were also recognized by the Responsible Business Forum, which since 2018 has been regularly publishing information on Post-Accident Psychological Support in its annual Best Practices Report on corporate social responsibility and sustainable development. In 2017, the Office of Rail Transport granted an award to the Post-Accident Psychological Support program in the second edition of the Safety Culture in Rail Transport contest. The year 2019 also proved that the program is appreciated by institutions creating an environment for the safe development of the rail sector as one of the best practices increasing the safety of transportation processes.

In 2019, the Company organized the next stage of communication activities designed to disseminate and promote the Post-Accident Psychological Support project and knowledge in this area. The Company's promotional efforts involving the program included the campaign "Direction: Safety at Work" targeted at employees of PKP CARGO S.A. as an important element of improving work safety and building a work safety culture.

Table 61 Training for train crews and other employees directly involved in rail traffic and rail traffic safety, as well as members of permanent rail commissions

Position	Number of training hours in the year	Number of trainees during the year			
		2019	2018	2017	2016
Operator of rail vehicles on rail sidings, traction vehicle driver, traction vehicle assistant driver	24	3,965	4,113	4,135	4,112
Operator of special rail vehicles which are not intended to move using their own propelling mechanism on actively used rail tracks	8	22	24	18	14
Rail traffic controller	16	74	53	77	92
Control room employee	16	13	14	23	36
Train conductor	16	112	72	151	198
Rolling stock auditor	16	1,581	1,246	1,072	1,115
Shunting master	16	1,316	1,201	1,227	1,251
Switchman	16	673	622	706	752
Track supervisor	16	10	10	9	10
Points operator	16	51	56	68	59
Total	**160**	**3,965**	**7,411**	**7,486**	**7,639**

Source: Proprietary material

PKP CARGO as the patron of rail technology history

For 16 years, PKP CARGO S.A., as the main patron of rail technology history, has been maintaining historic rolling stock in Chabówka, Małopolskie Voivodship, and has been co-funding, jointly with the local governments of Wielkopolskie Voivodship, the operations of more than 100-year-old Wolsztyn Railway Roundhouse, which has had the status of the Cultural Institution since 1 January 2017.

PKP CARGO S.A. also promotes the rail traditions by organizing the following events in Chabówka:

- “Parowozjada” – an annual event featuring working steam locomotives, which attracts thousands of railway fans from Poland and abroad. In 2018, to celebrate 100 years of Poland’s Independence, a unique program based on Polish history was prepared.
- “Summer with Steam Locomotives” – an educational program addressed to children and entire families, which popularizes historical and modern trains through education and fun activities. Besides Chabówka, the program is also carried out in the Museum Station, in the Wolsztyn and Skierniewice Roundhouses, and in the Open-Air Museum of Locomotives in Zduńska Wola Karsznice.
- “Tourist Trails of Małopolska” – a project carried out jointly with the Małopolski Marshal’s Office. Every year, over 10 thousand people take a trip on retro trains offered under the project.
- The Open-Air Museum in Chabówka – it contains the largest Polish collection of historical rolling stock, including steam locomotives, diesel and electric engines, passenger and freight wagons, snow plows and rail handcars. Some of the steam locomotives are maintained in operating condition. In 2018, the Open-Air Museum celebrated 25 years of operation as a museum facility.

PKP CARGO also cooperates with non-profit community organizations working to protect monuments of rail history as well as the development of rail tourism and tourism promotion by offering financial and technical support. PKP CARGO strives to serve as an integrator of historical heritage activities in Poland. One of the projects carried out to this end in consultation with railroad enthusiasts is the restoration of historical colors to selected locomotives and promotion of historical knowledge among youths by organizing open-access meetings with people creating rail history.

“We run to help”

As a “Running-Friendly Company”, PKP CARGO promotes a healthy life style and integrates Employees working in different locations in Poland and in different positions. The campaigns organized by the Running-Friendly Company initiative also have a positive impact on strengthening the work and life balance. In addition, it supports Employees in adopting pro-social and help-oriented attitudes.

For a few years now, PKP CARGO has been carrying out a project entitled "A Running-Friendly Company", which rests on the following three pillars:

- **sport and integration –** promotion of a healthy and active life style. Under this pillar of activities, team of PKP CARGO S.A. employees take part in running initiatives, as well as marathon and half-marathon events organized in Poland and across the world.
- **charitable –** running, employees help beneficiaries of the foundations they work with. For three years now, the Company has taken part in the national charitable event Poland Business Run, with the money paid as the entry fee in the run going to a foundation supporting people with motor disabilities. The extensive geographical structure of the Company lets it find runner employees in almost all locations in which the Poland Business Run is held. In 2019, as many as 22 employee teams from across the PKP CARGO Group participated in this initiative, that is 110 participants who ran in 8 cities. The importance of such actions for the development of pro-social attitudes was also highlighted by the participation of the President of the PKP CARGO S.A. Management Board in one of such events.
- **symbolic/historical –** commemoration of important anniversaries and jubilees, celebration of significant events in Poland's history, with the memory of those events integrating both the Company's employees and their families.

Year 2019:

roughly 200 employee participants across Poland,

nearly 40 marathon and half-marathon participants in Poland and across the world, including the participation of a group of 40 employees in the Runfest Ostrava running event held in the Czech Republic,

8 cities in which 110 employees ran for charity to support the beneficiaries of the Poland Business Run Foundation.

"Direction: Safety at Work" campaign

Work safety is a priority regardless of the type of professional duties performed. In PKP CARGO S.A., this matter is of particular significance for thousands of individuals employed in positions directly related to the operation and safety of rail traffic. With its "Direction: Safety at Work" campaign, the Company sends the message that safety must be treated as a priority for all duties performed by its employees.

Improvement in the safety of employees at work is the goal of the "Program to improve occupational safety" launched at PKP CARGO S.A. in 2019. Joint action under the Program is taken in all areas of the Company's business that may affect the safety of transportation processes. Both the services responsible for occupational safety and health and experts managing the organization of rail traffic are involved in carrying out the program. A very significant aspect is also a social campaign which aims to build a safe workplace culture and shape attitudes conducive to the safe performance of professional duties. The campaign's main objective is to reach more than 7,000 employees working in positions related to train traffic. Project activities included a consistent information campaign for employees (using posters, Intranet site, leaflets, promotional video) and a conference entitled "Building a safe workplace culture in the rail sector". The conference served as a platform for the exchange of best practices among representatives of leading operators in the rail sector and representatives of state authorities at ministerial and industry levels, charged with the duty to enforce workplace safety.

HUMAN RIGHTS

In 2019, no risks related to exploitation of child labor or risks of exploitation of forced labor were identified in PKP CARGO.

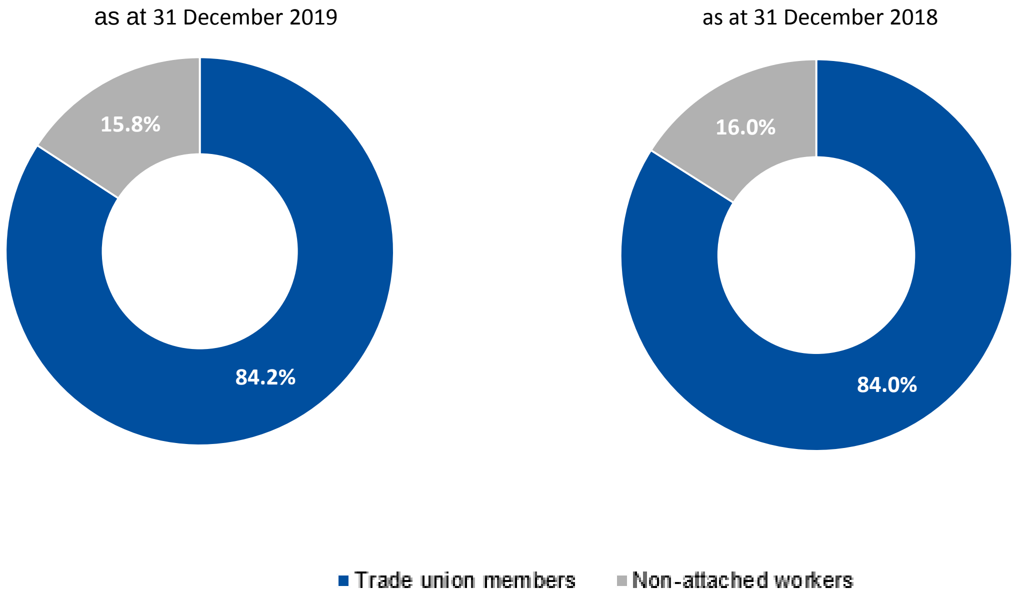
Freedom of association

Table 62 Trade unions in PKP CARGO S.A. in 2016-2019

Item	2019	2018	2017	2016
Number of trade unions in the company	116	123	129	131
Number of employees who are members of trade unions [persons]	14,458	14,620	14,595	14,944
trade union membership percentage ratio	84.2%	84.0%	85.6%	85.7%

Source: Proprietary material

Figure 42 Trade unions in PKP CARGO S.A. in 2019 and 2018



Source: Proprietary material

Right to a safe working environment

Table 63 Number of accidents and accident ratio in PKP CARGO S.A. in 2016-2018

Item	2019	2018	2017	2016
Number of accidents at work [cases]	82	119	119	118
Accident ratio [‰]	4.7	6.9	6.9	6.7

Source: Proprietary material

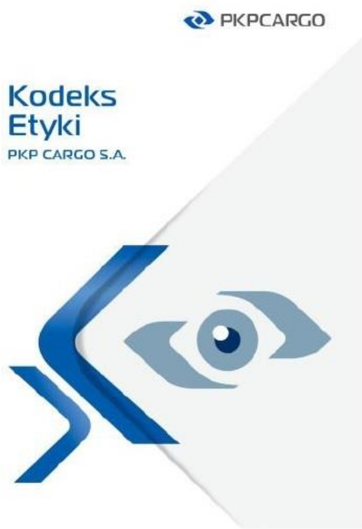
PKP CARGO, as Poland's largest rail freight carrier, makes every effort to continuously increase the level of safety, with regard to the labor environment as well as the shipped cargo. Usage of the fleet of unmanned drones resulted in increasing the safety level, as well as in a significant reduction of theft of the shipped cargo.

Day-to-day activities based on the use of Unmanned Aerial Vehicles (UAVs) increase the range of observations in the field. This also permits the observation of locations where theft may occur outside of the regular surveillance area.

- A security audit of the areas belonging to PKP CARGO or used by PKP CARGO pursuant to an agreement with other Group companies. An analysis of the processed materials collected by UAVs and a security audit from the point of view of the infrastructure located in the audited areas;
- Prevention activities conducted at the sites of PKP CARGO units;
- UAV fleet in response to bigger demand for utilization of the technology in various areas managed by the Company;
- Utilization of UAVs fitted with an RGB camera (which allows observation during the day) or a thermal vision camera (which allows observation during the night) to monitor train routes.

PREVENTION OF CORRUPTION AND BRIBERY

Since 2018, the Code of Ethics has been in place in PKP CARGO S.A.



The Code of Ethics is one of the fundamental elements supporting the process of building and developing the organizational culture in the Company. The values and standards of conduct it contains are desirable in any organization. The Code sets out the fundamental rules of conduct developed by the representatives of PKP CARGO S.A., with the participation of its Employees and Clients, such as: reliability, cooperation, good management, safety, professionalism, modernity, transparency, responsibility and respect: these are the principles that employees should be guided by in their everyday work.

The main purpose of the Code of Ethics is to recommend attitudes and rules of conduct at the workplace. The Code serves as a road map for the actions undertaken in the Company in the relations with Employees, Clients, Suppliers, Competitors and with the social and natural environment. The implementation of the Code of Ethics will improve the quality of the Company's services and increase job satisfaction, both for Employees and Clients. It will also enhance the organizational culture, improve the image and strengthen PKP CARGO S.A.'s position in the Polish and international markets.

Since 2017, PKP CARGO S.A. has maintained anonymous reporting channels for PKP CARGO S.A.'s employees who would like to report an abuse/irregularity. The channels include: a dedicated hotline, an e-mail address and a traditional mail address. Selected PKP CARGO S.A. employees have been trained to act as Value Leaders and an Ethics Officer. The Code of Ethics, in its full scope, will be implemented across the PKP CARGO Group.

10.2.3 Applied policies and the results of their application

The Safety Management System guarantees not only a high quality of the Group's services and highly qualified staff but also, above all, an acceptable level of safety of the services.

The Safety Management System ensures:

- the highest level of service safety without compromising its quality,
- safety of the rail system participants (other rail operators, infrastructure administrators, subcontractors),
- collaboration with other rail operators and rail infrastructure administrators, to jointly achieve shared safety objectives,
- a satisfactory level of safety indicators,
- safe working conditions for employees and subcontractors;
- compliance with rail safety standards and regulations,
- prevention of accidents at the workplace and occupational illnesses,
- continuous improvement of occupational health and safety, and continual improvement in this area,
- ongoing identification and minimization of technical and occupational risk.

The Safety Policy in place in PKP CARGO reflects the company's commitment and strategic vision related to rail traffic safety. The Policy contains, inter alia, a declaration of intentions, as well as outlines the overall goals and objectives of the **Safety Management System (SMS)** and principles and core values pursued by the Company. It contributes to the organization's commitment to create and improve work ethics; it also provides the employees with clear guidelines, which solidify the culture of safety.

The SMS System operates on the basis of national and EU legal regulations in respect of rail traffic safety, and it is a requirement which, if not complied with, will preven a rail company from conducting its operations. The SMS System represents a systemic approach to the Company's organization and supervision of its activities in order to ensure rail traffic safety.

The implementation and operation of the SMS System is confirmed by the Safety Certificate issued by the Office of Rail Transport. On the basis of the Certificate, and having ensured compliance with other requirements, the Company may also conduct independent shipment operations in the following 7 EU countries: Czech Republic, Slovakia, Germany, the Netherlands, Austria, Hungary and Lithuania.

The purpose of the SMS System is also to ensure supervision over all types of risk associated with rail carrier's activities, together with maintenance services, the supply of materials and hiring of subcontractors.

PKP CARGO's freight wagon **Maintenance Management System (MMS)** represents a systemic approach to the organization and supervision of activities designed to ensure rail traffic safety through keeping the freight wagons for which PKP CARGO is responsible in good technical condition.

The System is developed by, and applicable to, a given company which conducts its operations as part of the rail system. Having an MMS System in place and ensuring its proper implementation and operation is mandatory for all enterprises responsible for maintenance of freight wagons; it is the condition necessary for conducting operations in that area. The System is subject to oversight by the Office of Rail Transport.

The MMS system has been implemented in PKP CARGO S.A. in 2013. The primary scope of the system includes maintenance of good technical condition of freight wagons as part of the main maintenance process, as well as auxiliary processes that ensure correct operations, such as risk analysis, management of staff competences or collaboration with other enterprises (in that regard, it is similar to the SMS System).

On the basis of its approved MMS, in 2013 PKP CARGO received the Entity in Charge of Maintenance Certificate (ECM Certificate) confirming its approval in the European Union.

The certificate is maintained on the condition of full implementation of the principles and conditions of freight wagons maintenance set out in national and EU laws.

Thanks to implementation of the MMS system and obtaining the ECM Certificate, at present PKP CARGO may conduct maintenance of freight wagons on its own or subcontract their maintenance to other companies, including its subsidiary PKP CARGOTABOR Sp. z o.o.

Without the MMS System and the ECM Certificate, the Company would not be able to conduct activities in that area, and the maintenance of freight wagons would have to be outsourced (PKP CARGO holds the aforementioned certificate).

The ECM Certificate is valid for 5 years, after which it is subject to renewal. The current certificate expires in May 2021.

PKP CARGO S.A.'s policy related to social issues – social dialog

Cooperation with trade unions in PKP CARGO S.A. takes place not only in accordance with the principles set forth in generally applicable regulations but also as laid down in agreements defining mutual obligations of the parties to social dialog in the Company and in the Collective Bargaining Agreement.

The significance and role of trade unions in PKP CARGO S.A. are affected by the following factors in particular:

- rights arising from generally applicable laws and the Company's internal regulations,
- participation in managing the Company through selection of employee representatives to the corporate bodies (there are three union representatives in the Supervisory Board and one in the Management Board),
- high level of union membership among employees (around 84%).

In PKP CARGO S.A., social dialog is conducted by:

- at the Company level - the President of the Management Board or a person designated thereby and the competent statutory bodies of supra-company trade unions operating at the level of PKP CARGO S.A. and company trade unions being a party to the CCBA;
- at the Company's Head Office level - a person designated by the President of the Management Board and the competent statutory bodies of company trade unions;
- at the Company's unit level – the Company's unit manager and the competent statutory bodies of company trade unions;

The basic form of dialog are regular meetings aimed at discussing current issues of material importance to the employer and employees, which are held, as a rule, once a month in the Head Office and at the enterprise level and once a quarter at the Company level.

The Company's management supports a dialog based on the principle of equality of the parties and mutual trust, pursuit of compromise and respect for the law. At the same time, the Company's management promotes the idea of partnership, which it considers a natural evolution of social dialog in the conditions of market economy, globalization and increased competition as well as a factor conducive to sustainable business development, preservation of jobs and improvements in social matters.

The idea of partnership has been developed as a long practice of PKP CARGO S.A. In 2019, the Company continued activities to promote it, based on, for instance, internal Best Practices of Social Dialog, developed jointly with the social partners. Seeking to develop an effective, partnership-based dialog in the rail sector, and drawing on many years' worth of experiences, employees of the companies being members of the Rail Employers Union and trade union representatives from those companies, defined together five best practices, referring to general humanistic values and principles of good collaboration: responsibility, integrity, respect, openness and discipline.

The jointly developed standards, adapted to the Company's business needs, serve to increase the awareness of the role of an open and partnership-based attitude in searching for optimal solutions for both parties involved in the dialog, thereby contributing to improvement in the efficiency of the decision-making processes implemented by the Company.

PKP CARGO S.A. has continuously promoted partnership in social dialog, including in meetings with social partners and via internal communication channels, i.e. the INFO CARGO newsletter and the Intranet (PKP CARGO S.A. promotes partnership in social dialogue on a continuous basis, among others during meetings with the social party and in internal communication channels: INFO CARGO bulletin, Intranet (under the tab dedicated to social dialog-related topics: "Dialog Academy").

Seeking to ensure transparent principles of cooperation, PKP CARGO S.A. updates its internal regulations which define the rules of cooperation with social partners. The Company also creates conditions conducive to the dissemination and upgrading of knowledge, in its aspects which are important for social dialog parties. To this end, representatives of the social party are offered training courses devoted, for instance, to legislative changes in areas having a direct impact on jointly executed processes, such as amendments to the Trade Unions Act.

The important role of social dialog in PKP CARGO S.A. is validated by the fact that the initiatives in this area are a permanent element of the Company's activities pertaining to corporate social responsibility (CSR). The Company believes that ensuring the proper spirit for a partnership-based dialog is one of the fundamental elements of the CSR Policy. This approach is consistent with both PKP CARGO's Strategy and recognized legal and market standards, such as ISO 26000 in two key areas: "corporate governance" and "labor relations".

Major initiatives in the area of social dialog implemented in 2019:

- Regular meetings of Company-Level Collective Bargaining Agreement signatories – regular quarterly meetings and thematic meetings and consultations resulted in, among other outcomes, the signing of three agreements regarding employee compensation and an annex to the contract governing mutual obligations of the parties to the social dialog conducted in the Company,
- Education regarding social dialog and employee matters carried out through meetings on current legislative amendments, such as Employee Capital Schemes – presentation by experts from the Polish Development Fund, amendments to the Trade Unions Act – training and meetings with an expert in labor law,
- "Dialog Academy": a permanent column in the INFO CARGO newsletter and a dedicated tab on the website. Communication on social dialog in the Company's internal media with the participation of Management Board representatives and officers as well as a significant involvement of trade union leaders, resulting in, for instance, a series of articles in the Company's internal newsletter,
- Audit of the compensation system in place at PKP CARGO S.A. with the participation of the social party and workshops intended for the provision of information to the social party on the results of the compensation system audit and anticipated changes,

- Declaration of Partnership for a safe workplace signed by the Company's Management Board and Company-Level Collective Bargaining Agreement signatories. The declaration is an expression of the parties' will to jointly solidify the workplace safety culture in PKP CARGO S.A.,
- Participation of trade union representatives in the work of teams implementing the Occupational Safety and Health Improvement Program at PKP CARGO within the framework of the 'Direction: Safety at Work' campaign.

PKP CARGO S.A.'s policy related to employee issues

HR Policy of PKP CARGO S.A.

In 2019, the Company's HR Policy was developed that includes a set of standards and best practices in human resource management. It defines directions for further actions aimed at ensuring growth, optimal working conditions, a friendly and open atmosphere and opportunities for each member of staff to acquire new skills and improve existing ones. It also combines rail tradition with a modern approach to human capital management. It is based on the application and improvement of best practices in the areas of recruitment and employment, adaptation, development of employee competences and compliance with ethical and safety rules. Shaping responsible social relations with employees is one of the HR Policy's most significant areas that exerts a direct impact on the achievement of business targets. Another important component of the HR Policy is partnership in the dialog with the social party, which improves efficiency across the Company.

Employee recruitment

In 2019, similarly to 2018, internal and external recruitment processes were ongoing. In addition to standard recruitment activities aimed at acquiring individuals with competences necessary to perform business tasks, more intense activities aimed at recruiting candidates with potential, without professional experience or with a relatively short employment history, took place. To ensure that assigned tasks would be completed, the recruitment offer was also aimed at people with short employment history. To that end, efforts on implementing systemic solutions to underpin the hiring of new employees were intensified. These efforts fell within the scope of three major programs:

- The vocational internships program whose purpose was to select the best interns with considerable development potential who were offered employment in the Company on positions related to railway stock maintenance and operation.
- Scholarship program aimed at junior and senior students of secondary technical schools. The activity had the objective of supplying PKP CARGO S.A. staff with able and promising graduates of technical and vocational secondary schools who, upon completing their education, would be employed in positions related to the Company's core business.
- Summer internships program aimed at university students and graduates. During the summer vacation, interns had the opportunity to learn the ins and outs of work done by technical experts on railway stock and, with the internship completed, the most committed ones were offered employment.

As was the case in 2018, also in 2019 new employees new employees without professional qualifications were allowed to participate in an extensive training project to prepare them to work as a train driver, rolling stock inspector or switchman.

Moreover, to build the image of PKP CARGO S.A. as an attractive employer, collaboration with local organizations to support employment in specific facilities was continued. In 2019, the Company took part in the Education and Career Day organized during the TRAKO International Rail Fair 2019 and in job fairs held by the County Employment Office.

In addition, cooperation with the Polish Ministry of Education was continued in 2019 to reinstate vocational education by drafting new curricula to deliver education in railway-related professions, which resulted in the establishment of a rail vehicle mechanic class in Senior Secondary School Complex No. 6 in Siedlce.

Adaptation program

In 2019, the professional adaptation program was continued, adjusted to the needs and expectations of selected groups of positions in the Company: administrative employees, managerial staff and non-administrative employees. For employees in positions directly associated with the transport process, a series of training sessions was updated to allow them to obtain required professional qualifications. An optimally selected professional training program ensured that new employees were able to take up their duties quickly and effectively. A well designed adaptation program results in decreased employee turnover. To improve personnel qualifications and competences related to their duties, periodic instruction sessions were held.

Training and Development

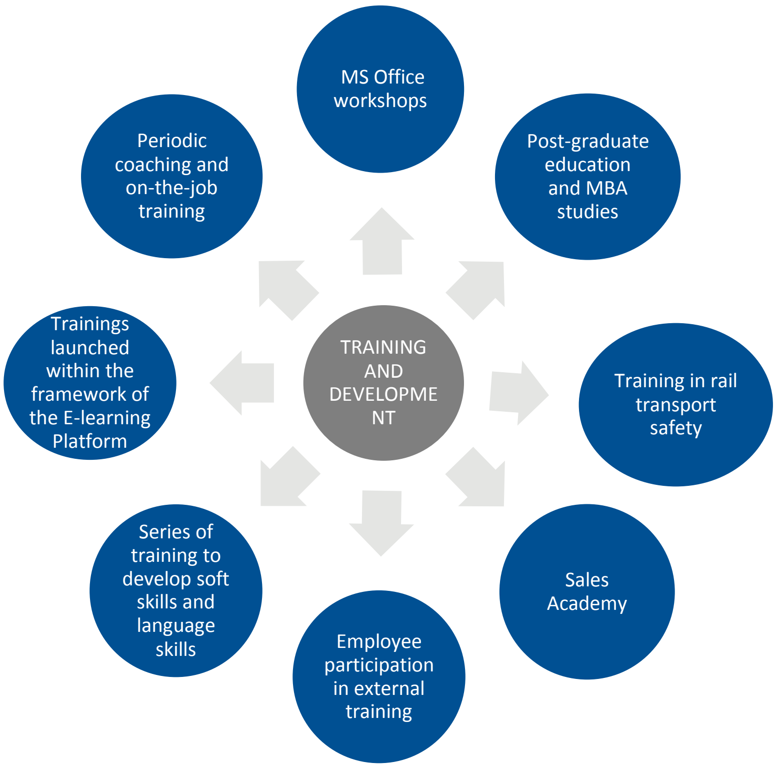
PKP CARGO S.A. aims to obtain the status of a learning organization, using knowledge- and experience-based management and various forms of professional development that would support the accomplishment of business goals.

In 2019, activities begun in the previous year were continued, aiming to improve competences through the participation of selected employees in post-graduate studies organized in cooperation with the Association of Railway Employers (ZPK). In addition, management staff improved their competences in post-graduate MBA studies organized for employees employed with railway companies.

Additionally, in 2019, the existing foreign language teaching course (English, German and Russian) was continued for Head Office employees. The course responded to language-related business needs of organizational units resulting from the Company's strategy.

Moreover, training in the form of e-learning was continued and developed. In 2019, the existing series of training sessions for customer service employees was continued with a view to developing soft competences related to building relationships, communication, stress management and assertiveness.

Figure 43 Training and development activities at PKP CARGO S.A.



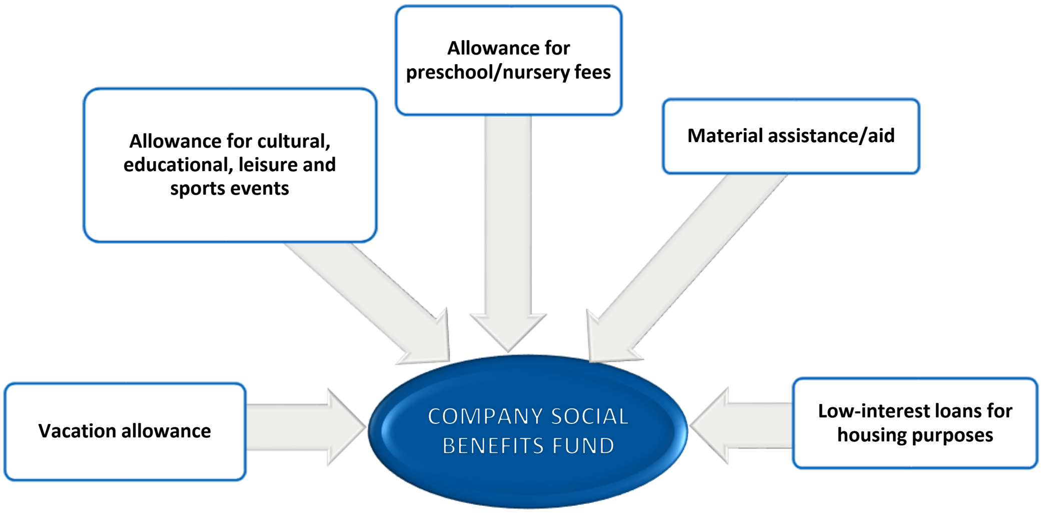
Source: Proprietary material

Social activity and travel benefits

The Company Social Benefits Fund (CSBF) has been established at PKP CARGO S.A., based on the rules following from generally applicable provisions of law and the Collective Bargaining Agreement (CBA). Social activities are conducted separately by employers forming the Company on the basis of CSBF Regulations in effect in each company, taking into account local needs and preferences of the staff. The CSBF, depending on its capabilities, satisfies the living, social and cultural needs of Company employees and former employees. In particular, use of CSBF funds is granted to employees, old age and disability pensioners and members of their families.

Employees can take advantage of a wide-ranging package of social benefits.

Figure 44 Types of social benefits in PKP CARGO S.A.



Source: Proprietary material

Employees and members of their families, as well as old age and disability pensioners, are eligible for discounted travel services in the form of preferential fares in trains running throughout the country. In 2019, such benefits were purchased for 22,621 persons, including:

- 59% for employees,
- 9% for members of employees' families,
- 32% for old age and disability pensioners from the rail sector.

Every year several hundred people (approx. 300) decide to purchase an international ticket, which allows them to travel around Europe and selected countries in Asia for a token fee.

PKP CARGO S.A.'s policy related to natural environment.

The environmental policy adopted by the Company is a coherent element of the PKP CARGO S.A. Integrated Management System (IMS) Policy and includes:

- protection of the natural environment through the promotion and implementation of eco-friendly forms of transport and prevention of pollution,
- reasonable use of raw materials, other materials and energy and water in accordance with the legal requirements of environmental protection and sustainable development,
- raising employees' awareness of their responsibility for the quality of the natural environment

The application of those policies results in:

- safe transport of goods using rolling stock that meets environmental requirements;
- investments in the procurement of new rolling stock and modernization of used stock, in the maintenance and repair facilities, and in rolling stock diagnostics equipment, which helps maintain high standards of rolling stock maintenance and protect of the environment against possible consequences of rolling stock breakdowns and accidents;
- compliance of undertaken activities with effective legal and other regulations;
- minimizing the impact on the natural environment, limiting the amount of substances and pollutants released to the environment;
- The environmental awareness of employees is growing every year – they are regularly trained according to the environmental hazards which they face in their jobs.

Rail transport is crucial for the achievement of the European objectives related to the reduction of greenhouse gas emissions. Rail transport of goods is almost 9 times lower CO2 emission than road freight transport. Railway is the most decarbonized motorized way of travelling: CO_2 emissions, in turn, are less than 3% of the emissions from the entire transport although it accounts for 17% of the land transport (acc. to CER Factsheet Climate 2018). All activities leading to the development and growth of the rail market, resulting in an increased share of this type of transport in the overall transport, always translate into the ecological effect in the form of improved air quality and mitigated climate changes.

The tasks performed by PKP CARGO S.A. focus on gradual modernization and obtainment of an increasing number of new diesel and electric locomotives, leading to a reduction in harmful gas and particulate matter emissions to the environment and enabling savings of fuel and energy and a lower level of noise emitted to the environment.

The Company invests in the purchase of modern locomotives. At the end of 2019, it had in its fleet 18 modern Vectron MS EU46 multi-system locomotives capable of crossing European rail lines without stopping, thereby enabling energy savings. It also has 3 modern six-axle electric Dragon (ET25) locomotives and 7 Dragon 2 (ET26) locomotives. In 2019, the Company signed a contract for the purchase of another 24 locomotives.

PKP CARGO S.A. also invests in a modern wagon fleet. In 2019, 50 wagon platforms were collected from the Slovak manufacturer Tatravagónka a.s. The acquisition of a total of 1,106 platforms is scheduled in the coming years. By 2022, under the contract with Tatravagónka a.s., a total of 936 wagons of three different designs and loading lengths for intermodal transport will be collected. The contract with the Wagony Świdnica/ASTRA Rail consortium (Greenbreier Group) provides for the acquisition of 220 platforms. The purchased platforms improve the efficiency of transport, permit the carriage of heavier loads compared to older wagons and are equipped with composite brake blocks. In total, the Company plans to spend almost PLN 572 million on wagon platforms and locomotives, of which PLN 269 million will be co-funded by the EU.

PKP CARGO S.A. performs a contract under which Newag Group S.A. will make P5 level major repairs and at the same time modernization of 60 SM48 diesel locomotives in the period 2018-2021. As a result of the modernization which includes, among others, building a new modular technology bodywork, replacing the power generator, braking equipment and auxiliary machinery, the SM48 series will be upgraded to the ST48 series, and the intended use of the locomotives will be changed from shunting to line. In 2019, 20 such modernizations were completed. A contract under which Pesa Bydgoszcz S.A. will make P5 level repairs and at the same time modernization of 38 ST44 diesel locomotives in the period 2019-2020 is also being performed. The repairs will include among others a replacement of an obsolete two-stroke combustion engine for a four-stroke one which meets the UICIIIA emission standards. In 2019, 9 such modernizations were completed.

PKP CARGO S.A. also implements rolling stock solutions for energy consumption optimization through modernization of electric locomotives by installing modern electrical equipment and runs pilot tests of selected locomotives on which DC electricity meters have been installed. Within the framework of the electrical equipment improvement program, 20 repairs at level P5 of type ET41 electric locomotives were completed in 2019, combined with modernization.

The Company supports also innovative solutions and research and development works on a new generation rolling stock to improve the efficiency of freight turnover and enable the applications of solutions for reduced energy and fuel consumption and exhaust emissions involved in the commercial use of rail cars and locomotives. During the Inno Trans 2018 trade fair, PKP CARGO S.A. signed a contract with Pesa Bydgoszcz S.A. on the construction of an autonomous dual-mode locomotive. Arrangements regarding technical details are currently underway. In 2018, a letter of intent was signed with Jastrzębska Spółka Węglowa and Fabryka Pojazdów Szynowych H. Cegielski regarding joint innovative investment projects focused on the commercial use of zero-emission hydrogen fuel in rail transport.

In its activities for air protection, the Company invests not only in the rolling stock. It gradually modernizes and removes sources of low emission by overhauling and liquidating solid fuel boiler plants and shifting to more ecological fuels, such as fuel oil and gas. Both the results of the Energy Audit and local anti-smog regulations are taken into account in this case. Climate protection effects are ensured also by purchasing high-quality fuels and investing in thermal performance improvement of the utilized backup facilities.

PKP CARGO S.A.'s policy related to human rights protection – anti-mobbing policy

The anti-mobbing policy pursued by PKP CARGO S.A. is reflected in the Company's internal regulations which provide for the operation of specially appointed bodies within the Company's structure: Trustees and Anti-mobbing Committees. Their job is to identify and scrutinize cases and submit recommendations for actions aimed at preventing any instances of mobbing. The duty resting on employers to counteract mobbing also found its reflection in the provisions of labor bylaws aimed at protecting employees against cases of mobbing.

In accordance with the rules adopted by the Company, every employee has the right to report a mobbing case and obtain information and assistance, while maintaining confidentiality, from a Trustee. To this end, Trustees cooperate with the Ethics Officer who is in charge of examining matters related to compliance with the ethical principles and standards adopted by PKP

CARGO S.A., monitors ethical standards and discharges an advisory function for employees and the Management Board. The Ethics Officer, while maintaining confidentiality and professional approach, examines signals received from employees and recommends actions aimed at improving the Company's ethical culture.

The role of the Anti-mobbing Committee and the Trustee is to prevent and combat instances of mobbing throughout the enterprise. The Trustee's job includes collection of reported cases and their initial assessment as well as the conduct of preliminary talks with persons reporting mobbing cases and presentation of proposed solutions to the existing problem. In turn, the job of the Committee is, in particular, to deal with matters described in reported cases, after the exhaustion of the procedure by the Trustee, including the establishment of facts, assessment of the situation and taking of actions aimed at resolving the conflict, along with a recommendation for the employer to apply preventive measures to block mobbing.

In order to improve the effectiveness of activities in this area and ensure the existence of a variety of channels for reporting irregularities, PKP CARGO uses the services of an external company by the name of Linia Etyki (Ethics Line), which operates a dedicated e-mail address, helpline and violation reporting platform through which the reporting person may obtain advice and information, for instance about what mobbing is and whether or not the behavior in question is a case of mobbing, and accepts reports of other unethical occurrences.

Particular attention in the mobbing prevention policy is paid to preventive actions. This objective was pursued by various initiatives, including training for members of Anti-mobbing Committees, Trustees and other employees, especially those in managerial positions. The issue of mobbing is also discussed during occupational safety and health training.

In addition to its anti-mobbing policy, the Company also has a comprehensive policy of preventing other undesirable phenomena in the workplace, including discrimination and harassment. For this reason, great importance is attached to monitoring and effectively eliminating such incidents. Shaping the proper working conditions, interpersonal relations and ethical attitudes in the work environment is among the priorities of the Company's policy aimed at ensuring a safe and employee-friendly workplace.

PKP CARGO S.A.'s policy related to preventing corruption and bribery

As of 1 January 2018, the Decision of President of the PKP CARGO S.A. Management Board dated 31 October 2017 entitled "Procedure of Dealing with Corruption Risks in PKP CARGO S.A." entered into effect. The procedure governs:

- the manner of reporting cases of corruption or suspected corruption;
- the role of whistleblowers,
- dealing with identified cases of corruption;
- informing the Management Board about cases of corruption;
- reporting cases of corruption to law enforcement agencies and cooperation with such agencies;
- analyzing cases of corruption;
- preventing the recurrence of cases of corruption;

- cooperation with the stakeholders, partners, business partners and administration institutions;

The anti-corruption policy is implemented via the Procedure for Dealing with Corruption Risks at PKP CARGO S.A.

By implementing the Procedure and the Code of Ethics, the Company's management exercises due diligence in strengthening the Company's image in the market as a competent and reliable player, demonstrates the Company's efficient adaptation to the changing requirements, legal changes and new trends and enables the application of appropriate measures in the event of any irregularities. Building lasting relationships hand in hand with shareholders, employees, clients and business partners is based on honesty, transparency and a professional approach to business. As Poland's largest and Europe's second largest freight carrier, in pursuing its key strategic objective, which is to build shareholder value, we remember to combine operational efficiency with obedience to the ethical principles espoused in the Company's internal regulations. In close collaboration with business divisions, we define actions that need to be taken to minimize risks.

Enforcing compliance with the Procedure for dealing with corruption risks in PKP CARGO S.A. is the responsibility of the Compliance Officer. Any complaints/notifications regarding suspected cases of corruption require immediate notification to the Compliance Officer anonymously or non-anonymously a specially designated e-mail address. When examining signals about potential irregularities, PKP CARGO S.A. provides protection against the disclosure of information to unauthorized persons, feedback and reliability in explaining each signal in accordance with the Procedure for dealing with corruption risks in PKP CARGO.

10.2.4 Due diligence procedures

PKP CARGO S.A. undertakes ongoing efforts to ensure that assigned tasks are effectively completed and legal provisions are complied with.

Internal regulations introduced in the Company are adjusted to current business needs and must be consistent with mandatory provisions of law. At the same time, the use of good practices by the Company contributes to improving the standards of conducted activities and increases the qualifications and competences of human resources.

Systematic risk assessment, including in relation to social, employee and human rights issues, allow to identify threats early and keep their consequences down to a minimum.

The human resources management area is subject to a system of internal audits, part of the Integrated Management System, which allows to identify processes, ensure their compliance with assumed requirements, and implement improvements.

10.2.5 Risks related to the activity of PKP CARGO S.A. and management of these risks

On 25 September 2018, the PKP CARGO S.A. Management Board adopted a Resolution on introducing the "Risk Management Policy in PKP CARGO S.A." Pursuant to the resolution, changes were introduced in the previously effective Policy whose purpose was to link the Investment Plan being developed to existing, high risks, and make the process more flexible. The Security and Audit Office has been takes with exercising supervision over the implementation and execution of the provisions of the Policy.

The basic task of the PKP CARGO Supervisory Board Audit Committee (SBAC) is to examine the correctness and effectiveness of carrying out internal financial audits in the Company and monitoring the effective operation of internal control, internal audit and risk management systems. The Supervisory Board Audit Committee assesses the risk management system.

The PKP CARGO Management Board is responsible for risk management on the basis of the adopted strategy of the PKP CARGO Group; it primarily defines the directions of development and makes decisions regarding risk handling plans.

The Unit or Department Director is responsible for risk management in the reporting area. Its tasks include:

- identifying risks related to activities,
- analysing and assessing the risks,
- and then comparing them with expected results.

Depending on the comparison results obtained, actions are taken to either retain the status quo or reduce the risk level. PKP CARGO employees are obliged to comply with the provisions of the Policy within the scope of their powers.

The Policy designates a Risk Leader whose task is to coordinate all matters associated with risk management. Gathering and analysis of information and subsequent reporting to the Management Board and Supervisory Board Audit Committee.

Particularly important risks have been subjected to special monitoring. With regard to the risks indicated by the Management Board Members, indicators illustrating the risk level have been designed. Currently, 24 indicators are monitored. Once a month the PKP CARGO Management Board receives a report which presents the indicator levels (neutral, alert and catastrophic), the trend in the given ratio and information about the causes of deviations and actions taken by the risk owners in connection with the deviations.

The indicators in most cases are of quantitative nature and present information which is verifiable and obtained without sustaining undue costs from PKP CARGO's IT systems. The PKP CARGO Management Board has the possibility of changing the monitored indicators depending on their information needs. The policy has been developed on the basis of the provisions of the ISO 31000 standard "Risk management".

The risk assessment process takes place at least once a year, as part of self-assessment. During the assessment the risk owners identify the risks in their area and the information assets with regard to the risks associated with information security and plan actions aimed at reducing the risk level if it is unacceptable. If there are important circumstances affecting the risk level, the risk owner should carry out a self-assessment before elapse of one year.

The assessment process takes place in 3 stages: it starts with risk identification, then the risk is analyzed and the results obtained are compared with the expectations, which determines the next steps regarding the risk handling. The risk may be accepted or the risk owner prepares a Risk Handling Plan.

With regard to the risks associated with information security with regard to assets which have been found critical by their owners, Business Continuity Plans are developed. The asset owner is responsible for maintaining, updating and testing the Plan. The cyclical nature of the process assumes its continuous changes aimed at improvement.

Among the material risks associated with the entity's operations (social issues, employee issues, human rights) one should list:

Risks in the area of environmental protection

Key risks in the area of environmental protection:

- the risk of failure to comply with the legal requirements as regards environmental protection – the legal and financial consequences (fines, reclamation costs, increased environmental fees) in the case of identification of non-compliance by environmental protection inspection authorities) – negative impact on the image of the organization, in the case of identification of irregularities, environmental contamination, use of the environment without the required decisions, permits, authorizations and filings and without the required waste records and reporting;
- the risk of failing to meet PL-EN ISO 14001:2015-9 requirements – discovering a critical non-compliance during a third party audit and loss of IMS certificate as regards the PN-EN ISO 14001 standard

Environment risks have been defined in the "PKP CARGO S.A. risk management policy" in the context of environmental processes such as managing emissions into air from technology processes and burning fuels in installations and equipment, managing equipment containing substances that deplete the ozone layer and fluorinated greenhouse gases, managing water and sewage, managing produced industrial and municipal waste, managing noise emissions to the environment, managing green areas and taking action in case of damage to the environment. Risk handling plans have been designed for environmental processes that require actions to be taken.

Management of risks related to social dialog

Risk of failure to conduct social dialog

Risk management:
principles of cooperation, developed in consultation with social partners, serving as the basis for cooperation with trade unions in PKP CARGO S.A.

Risks in the area of information security

Risk management:
supporting the management process by improving employees' awareness of the Company's situation and carrying out a realistic assessment of the ability to meet the demands of trade union organizations

Risk of conflicts and disputes

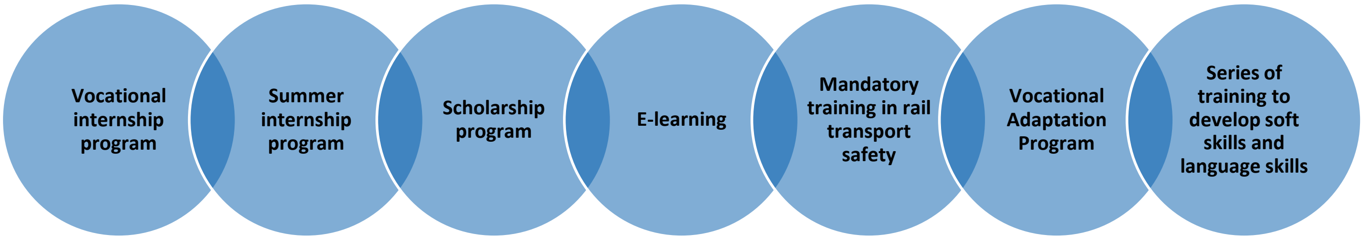
Risk management:
long-term practice of communicating issues of significance to both parties, especially during regular meetings taking place at the enterprise and inter-enterprise levels

Management of risks related to the proper implementation and conduct of Employee Capital Schemes

- Joint proceedings regarding the selection of a financial institution for a procurement group consisting of 23 PKP Group companies and updating the trade unions on an ongoing basis about key issues related to the conducted proceedings,
- Information campaign on the Employee Capital Scheme for employees and contractors of PKP CARGO S.A.,
- Selection of the most favorable bid, taking into account the bid evaluation criteria,
- Execution of the Employee Capital Scheme Management Agreement on 25 October 2019 for the conduct of an ECS in PZU Specjalistyczny Fundusz Inwestycyjny Otwarty [PZU Specialist Open-End Mutual Fund], managed and represented by Towarzystwo Funduszy Inwestycyjnych PZU S.A.,
- Timely transfer of first contributions on 12 November 2019,
- Ongoing cooperation with the financial institution and monitoring of operations carried out in the process.

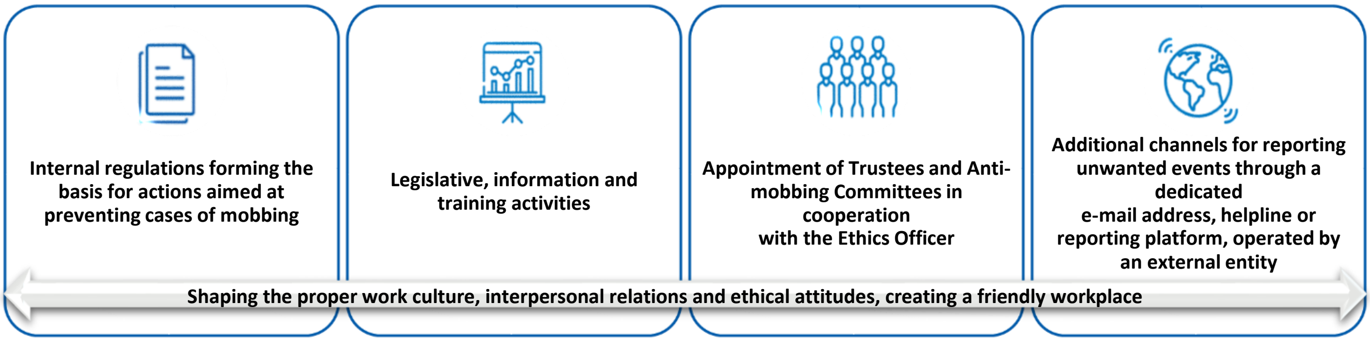
Management of risks related to the inability to recruit appropriate staff and the shortage of trained personnel

One of the core objectives of the human resources management area is ensuring necessary human resources for Company needs.



In 2019, internal and external recruitment processes were ongoing, efforts on implementing systemic solutions to underpin the hiring of new employees were intensified (professional internship program, scholarship program, summer internship program). Cooperation with local organizations and the Ministry of National Education was continued. Moreover, activities were carried out to develop employee competencies.

Management of risks related to mobbing



Preventing corruption and bribery

Minimizing the risk of corruption takes place through introduction of a Procedure for handling corruption risks and through introduction of the whistleblower status and appointment of a Compliance Officer responsible for clarifying irregularities. Whistleblowers may be recruited from among both PKP CARGO employees and persons/entities outside the Company which cooperate with it (customers, business partners, suppliers, etc.)

11. 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 Management Board Report on the activity of the PKP CARGO Group, no other information has been identified that would be of relevance for evaluation of the employment situation, financial standing, financial performance, assets or their movements or information of relevance for assessment of the ability of the issuer to pay its debts.

This Management Board Report on the Activity of the PKP CARGO Group has been prepared by the PKP CARGO S.A. Management Board.

Company's Management Board

Czesław Warsewicz
President of the Management Board

Leszek Borowiec
Management Board Member

Grzegorz Fingas
Management Board Member

Witold Bawor
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 23 March 2020

REPRESENTATION

BY THE PKP CARGO S.A. MANAGEMENT BOARD
on consistency of the Consolidated Financial Statements of the PKP CARGO Group
for the financial year ended 31 December 2019 prepared in accordance with EU IFRS
with the Management Board Report on the activity of the PKP CARGO Group in 2019

I, the undersigned, hereby represent that, to the best of my knowledge, the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2019 prepared in accordance with EU IFRS and the comparative data have been prepared in compliance with the applicable accounting policies and they give a true, fair and clear presentation of the financial position and financial performance of the PKP CARGO Group.

I also represent that the Management Board Report on the activity of the PKP CARGO Group in 2019 gives a true view of the developments, achievements and standing of the PKP CARGO Group, including a description of key threats and risks.

Company's Management Board

Czesław Warsewicz
President of the Management Board

Leszek Borowiec
Management Board Member

Grzegorz Fingas
Management Board Member

Witold Bawor
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 23 March 2020

Warsaw, 23rd March 2020

Information from the PKP CARGO S.A. Management Board, prepared on the basis of the representation by the PKP CARGO S.A. Supervisory Board dated 23rd March 2020 on the selection of an audit firm to audit the annual Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2019, prepared in accordance with EU IFRS, and the annual Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2019, prepared in accordance with EU IFRS

(as required pursuant to § 70 Section 1 Item 7 and § 71 Section 1 Item 7 of 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))

The PKP CARGO S.A. Management Board, based on the representation by the PKP CARGO S.A. Supervisory Board dated 23rd March 2020on the selection of an audit firm to audit the annual Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2019, prepared in accordance with EU IFRS (hereinafter: "Standalone Financial Statements"), and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2019, prepared in accordance with IFRS EU (hereinafter: "Consolidated Financial Statements"), hereby reports that an audit firm has been selected to audit the Standalone Financial Statements and the Consolidated Financial Statements and the Consolidated Financial Statements in accordance with the generally applicable provisions of law and internal regulations of PKP CARGO S.A. (hereinafter: "Company") in effect as at the date of selection of the audit firm performing the audit, and specifies that:

1) the audit firm selected for the purposes of auditing the Standalone Financial Statements and the Consolidated Financial Statements is BDO spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Warsaw, entered in the register of audit firms kept by the Polish Audit Supervision Agency under file no. 3355;
2) the audit firm and members of the audit team fulfilled the conditions for preparing an impartial and independent audit report on the Standalone Financial Statements and the Consolidated Financial Statements in compliance with the applicable laws, professional standards and professional ethics principles and in accordance with the statement contained in the Supplementary Report for the Audit Committee of the PKP CARGO S.A. Supervisory Board;
3) the applicable laws providing for the rotation of the audit firm and the key statutory auditor and waiting periods have been complied with;

4) PKP CARGO S.A. has adopted a policy governing the selection of an audit firm and a policy governing the provision of additional non-audit services to the Company by an audit firm, its related parties and members of its network, including services conditionally exempt from the prohibition on being provided by an audit firm.

Czesław Warsewicz – President of the Management Board ………………………….

Leszek Borowiec – Management Board Member in charge of Finance ………………

Grzegorz Fingas – Management Board Member in charge of Commerce …………….

Witold Bawor – Management Board Member in charge of Operations …………………

Zenon Kozendra – Management Board Member – ……………………………………….
Employee Representative

Warsaw, 23rd March 2020

REPRESENTATION
BY THE PKP CARGO S.A. SUPERVISORY BOARD
on the establishment and operation of the Audit Committee of the PKP CARGO S.A. Supervisory Board

The PKP CARGO S.A. Supervisory Board, in performance of § 70 Section 1 Item 8 and § 71 Section 1 Item 8 of 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) hereby represents that:

1) The Audit Committee of the PKP CARGO S.A. Supervisory Board of the 7th term of office was appointed on 26 June 2019 and that the following members of the PKP CARGO S.A. Supervisory Board are members of the Audit Committee:
    a) Dariusz Górski – Chairman of the Audit Committee of the PKP CARGO S.A. Supervisory Board;
    b) Zofia Dzik – Member of the Audit Committee of the PKP CARGO S.A. Supervisory Board;
    c) Małgorzata Kryszkiewicz – Member of the Audit Committee of the PKP CARGO S.A. Supervisory Board;
2) the laws governing the appointment, composition and operation of the Audit Committee of the PKP CARGO S.A. Supervisory Board have been complied with, including in terms of the fulfillment by its members of the independence criteria and requirements pertaining to the knowledge and skills in the specific industry in which PKP CARGO S.A. operates and in the domain of accounting or audit of financial statements;
3) The Audit Committee of the PKP CARGO S.A. Supervisory Board performed duties of an audit committee provided for in the applicable laws.

REPRESENTATION
BY THE PKP CARGO S.A. SUPERVISORY BOARD
on assessment of the Management Board Report on the activity of the PKP CARGO Group in 2019 and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2019 prepared in accordance with EU IFRS

The PKP CARGO S.A. Supervisory Board, acting pursuant to Article 382 § 3 of the Commercial Company Code in conjunction with § 71 Section 1 Item 12 of 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), is of the opinion that the annual Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2019 prepared in accordance with EU IFRS (hereinafter: "**Consolidated Financial Statements**") and the Management Board Report on the activity of the PKP CARGO Group in 2019 (hereinafter: "**Management Board Report**") are consistent with the accounting ledgers, documents and facts.

The PKP CARGO S.A. Supervisory Board has assessed the Consolidated Financial Statements and the Management Board Report on the activity of the PKP CARGO Group (hereinafter the "**Reports**") on the basis of:

- the wording of the Reports and the unqualified report issued by the independent statutory auditor on the audit of the Reports,
- information obtained during meetings with representatives of BDO spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Warsaw, i.e. the audit firm, including the key statutory auditor,
- information provided to the PKP CARGO S.A. Supervisory Board by the Audit Committee of the PKP CARGO S.A. Supervisory Board as part of the performance, by the Audit Committee of the PKP CARGO S.A. Supervisory Board, of assignments provided for in the applicable laws and internal regulations,
- information and data presented to the PKP CARGO S.A. Supervisory Board by the PKP CARGO S.A. Management Board,
- information obtained by the PKP CARGO S.A. Supervisory Board in the capacity of a supervisory body based on the powers vested in the PKP CARGO S.A. Supervisory Board, including in particular information on internal control and audit activities and access to documents and financial ledgers.

In the opinion of the independent statutory auditor, the Consolidated Financial Statements:

- give a true and fair view of the financial position of PKP CARGO Group as at 31 December 2019 and the financial performance and cash flows of the PKP CARGO Group for the financial year ended 31 December 2019 in accordance with the applicable International Financial Reporting Standards as endorsed by the European Union and the accepted accounting policies,
- are consistent as to the form and content with the legal regulations applicable to the PKP CARGO Group and the Articles of Association of PKP CARGO S.A. (Parent Company).

In opinion of the independent statutory auditor, the Management Board Report (which includes the Management Board Report on the activity of PKP CARGO S.A. in 2019) was prepared in accordance with Article 49 of the Accounting Act (of 17 January 2019, Journal of Laws of 2019 Item 351, as amended) and § 71 of the Finance Minister's Regulation of 29 February 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) and is consistent with information included in the Consolidated Financial Statements.

Furthermore, the independent statutory auditor stated that in the light of its knowledge about the PKP CARGO Group and its environment obtained during the audit, the statutory auditor had not identified any material misstatements in the Management Board Report.

Given the above, the Supervisory Board hereby issues a positive assessment of the Management Board Report and the Consolidated Financial Statements.

For more information on PKP CARGO please contact
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