

## 1.2 Basis for drawing up 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, as amended) ("Regulation").

These Consolidated Financial Statements for the year ended 31 December 2018 have been prepared on the assumption that the Company 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 derivatives measured at fair value and investments in equity instruments.

These Consolidated Financial Statements have been drawn up 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 comparative data presented in these Consolidated Financial Statements have been restated due to the correction of previous period errors and a retrospective application of IFRS 15. Moreover, certain items of the consolidate statement of financial position as at 1 January 2018 have been restated in connection with the implementation of IFRS 9. Data as at 31 December 2017 are presented based on IAS 39. The effects of restatement in connection with the correction of previous period errors and the implementation of IFRS 15 and IFRS 9 are described in [Notes 1.3](#), [1.4](#) and [1.5](#) to these Consolidated Financial Statements.

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 9, as described in [Note 1.3](#). The accounting principles, material estimates and judgments for the key items of the consolidated financial statements were presented in individual notes to these Consolidated Financial Statements.

Note	Title	Amount recognized in the consolidated financial statements		Accounting policy	Material estimates and judgments
		2018	2017		
2.1	Revenues from contracts with customers	5,183.0	4,689.1	X	X
2.2	Operating expenses	(4,919.5)	(4,518.1)		
2.3	Other operating revenue and (expenses)	14.1	(17.6)		
2.4	Financial income and (expenses)	(42.0)	(37.7)		
3.1	Income tax	(59.9)	(34.8)	X	X
5.1	Rolling stock	3,997.0	3,750.4	X	X
5.1	Other property, plant and equipment	949.9	937.6	X	X
5.2	Investments in entities accounted for under the equity method	47.3	53.6		
5.5	Other assets	181.1	158.5	X	
5.3	Inventories	161.7	148.5	X	
5.4	Trade receivables	685.3	688.8	X	X
4.4	Cash and cash equivalents	447.3	516.8	X	
4.2	Equity	3,483.5	3,317.2	X	

Note	Title	Amount recognized in the consolidated financial statements		Accounting policy	Material estimates and judgments
		2018	2017		
4.1	Debt liabilities	1,427.0	1,701.4	X	
5.6	Investment liabilities	287.4	79.1	X	
5.7	Provisions for employee benefits	707.0	684.2	X	X
5.8	Other provisions	77.4	82.2	X	
5.9	Other liabilities	235.6	227.0	X	
7.4	Contingent liabilities	244.8	259.3	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 2018 and 31 December 2017. 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 acquired or sold during the year are taken into account in the consolidated statement of profit or loss and other comprehensive income as of the actual 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 excluded from the consolidation.

Transactions in foreign currencies are converted into the functional currency at the exchange rate at the date of the transaction or valuation upon their initial revaluation. As at the balance sheet date, cash assets and liabilities denominated in foreign currencies are restated according to the average NBP exchange rate binding on that date. Foreign exchange profits and losses obtained as a result of settlements of those transactions and balance sheet valuation of assets and liabilities denominated in foreign currencies are recorded in the 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.

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

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

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

As at 31 December 2018 and 31 December 2017, for the needs of valuation of financial statements of foreign entities subject to consolidation, the Group adopted the following exchange rates:

Currency	Items of the statement of financial position		Items of the statement of comprehensive income and the cash flow statement	
	31/12/2018	31/12/2017	2018	2017
EUR	4.3000	4.1709	4.2669	4.2447
CZK	0.1673	0.1632	0.1663	0.1614
HUF	0.0134	0.0134	0.0133	0.0137
CHF	3.8166	3.5672	3.7081	3.8087

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

