PKP CARGO CAPITAL GROUP CONSOLIDATED ANNUAL REPORT FOR 2014

Warsaw, 12 March 2015

Ladies and Gentlemen,

I would like to present the Annual Report of PKP CARGO S.A. for 2014 – the first year of our presence on the Warsaw Stock Exchange. I have the pleasure to inform you about our success in realizing the commitments we have made before our initial public offering and the strategy we have outlined then come true. We are simultaneously increasing our efficiency and improving the flexibility of PKP CARGO on the demanding and highly competitive market. This allowed us to achieve very good operating and financial results.

In 2014, the conditions on rail freight market were extremely challenging. We had to face the consequences of the conflict in Ukraine, that affected logistics links of our partners and thereby had an impact on our operations. However, we have been able to adapt to the changing conditions by using opportunities and minimalizing risks.

The second factor that have affected the entire rail freight sector in Poland was the falling coal prices on the global markets. PKP CARGO operates over 70% coal shipments in Poland. Thanks to our flexible market approach, development of other operation areas, especially aggregates and construction materials, compensated for reduced coal transports.

The biggest challenge in the country's rail freight sector has been posed by the unprecedented large scale of railway infrastructure modernisation. Today, the fall in average speed caused by renovation works increases operating costs, but it will bring tangible advantage in the next few years. While maintaining high profitability at this level of used resources, we have proven how vast is the potential lying dormant in PKP CARGO.

In 2014, we have undertaken steps that strengthen the foundations for our development in the upcoming years.

We conducted a thorough reorganization of the company's structure, which have improved the entire transportation process. By introducing simultaneously a vertical management model and defining tasks for the sales department anew, we have ensured higher flexibility. These changes have had perfectly improved the transport operations in the company. That helped us to minimalize the impact of the infrastructure modernization works on our clients. The changes in PKP CARGO sales structure has brought us closer to our clients and allowed a better understanding of their needs.

We have sorted the corporate group's rolling stock maintenance capacity by establishing PKP CARGOTABOR company, one of the largest entities in Europe in this industry. Due to implementation of lean management, we have significantly improved the quality of rolling stock modernization, which resulted in completion of thousands of additional rail wagons. We used them to serve our clients during the autumn rail freight transportation peak. All the changes made are a step towards further professionalization. They also create new opportunities to our corporate group. I am convinced that it will open a new chapter in the history of PKP CARGO, which will finally bring us to launch of rolling stock own production.

A new perspective was given to our corporate group's international development, including intermodal services. This happened after polishing strategy of our subsidiary CARGOSPED and purchasing 100% stake in PS Trade Trans, Poland's largest rail forwarder. As a result, PKP CARGO Group follows the path of gaining the ability to serve complex logistics chains.

Implementation of the consistent cutting costs strategy allowed us to achieve very high EBITDA, at the level of 17%. The operating costs of PKP CARGO decreased by 13% per annum, and the net profit increased by 18% – reaching PLN 276 million.

Sound financial condition of PKP CARGO not only translates into being able to pay a dividend for 2014, but also secures implementation of our further development plans.

PKP CARGO takes an active part in the consolidation of the rail market in Poland. Our clear strategy of creating synergy-based value allows us to engage in advanced talks with Poland's largest industry groups. After completing them, we hope to increase the performance of the entire rail freight sector, to the benefit of our clients and the country's economy.

We have actively invested in transport infrastructure allowing us to meet increasingly complex needs of our clients. Today, we have the largest network of conventional and intermodal terminals in Poland, whose importance will grow parallel to the development of our customers. We intend to invest in those parts of logistic chain, that will allow the expansion of our competence in creating an attractive offer for clients in Poland and the region.

2014 was another year of investments allowing us to offer innovative products in the most promising sectors of the market. Our rolling stock fleet has been extended by hundreds of flat rail wagons for container transport. We have also decided to purchase 20 multi-system locomotives that will serve intermodal connections in the Europe's most significant rail freight corridors.

We have been restoring the splendor of railway professions by conducting own comprehensive large-scale train drivers training program. After many years, PKP CARGO rebuilds vocational education in Poland by educating internally nearly 500 train drivers. We consciously invest in development of these professional groups in which the effect of the generation gap will be most noticeable in the future. The unprecedented scale of the training and recruitment will continue in 2015.

The position of the second rail freight carrier in the European Union, operating at the crossing of important transportation corridors, is a perfect starting point for foreign expansion. In Europe, we can observe an apparently high level of competition on rail markets. On the one hand, dozens of players are active in each of the markets. On the other, these markets are dominated by national carriers, which have 70%-80% market share. Should the liberalization of the railway freight sector in Europe be progressing, PKP CARGO has an excellent starting position to act as a catalyst for the changes being underway. An expansion strategy is to be adapted accordingly to the changing conditions.

That is why in December 2014, we signed a contract to purchase 80% stake in Advanced World Transport, a Czech rail freight operator, one of the largest private carriers in Europe. The Czech market is for us a gateway to the south of Europe and a mean to handle the strategic Baltic-Adriatic transport corridor. It will also help us to offer logistics solutions to our clients in the triangle made up of three seas: the Baltic Sea, the Adriatic Sea and the North Sea.

In order to better serve our clients and extend our logistics products portfolio, we seek for strategic alliances. Yet in 2015, we have signed an agreement on strategic cooperation with HZ Cargo, Croatia's national rail freight carrier.

High effectiveness of PKP CARGO operations, sound financial situation and a thought-out development strategy prepare us to play an important part on the Europe's transportation map.

I am glad that our company is appreciated by recognized specialists. PKP CARAGO was awarded, inter alia, the reward "BEST IPO ON THE WARSAW STOCK EXCHANGE 2013/2014", granted by Poland's Treasury Ministry, the National Depository for Securities (KDWP), and the Warsaw Stock Exchange (GPW). Such distinctions are primarily an expression of appreciation for the efforts of our employees, making up a good team that flexibly responds to market challenges.

Currently, PKP CARGO is a modern employer offering the optimum conditions for the professional development in the logistics industry, as evidenced by the prestigious award "The Trustworthy Employer" we were also granted in 2014.

Our company is a modern and flexible organisation that combines the years of experience in the railway industry with new, widely-understood transportation competences and a modern approach to business. These are characteristics of the post-crisis world, where development is based on both hard business aspects and effective management model.

We have consequently changed PKP CARGO into an integrated logistics operator, with international scale of operations. The company that plays an important role for the development of the Polish economy.

Adam Purwin

President of the Management Board of PKP CARGO S.A.

TRANSLATION

PKP CARGO S.A. Group

Opinion and Report of the Independent Auditor Financial Year ended 31 December 2014

The opinion contains 2 pages
The supplementary report contains 11 pages
Opinion of the independent auditor
and supplementary report on the audit
of the consolidated financial statements
for the finacial year ended
31 December 2014

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This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting of PKP CARGO S.A.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of the Group, whose parent entity is PKP CARGO S.A. with its registered office in Warsaw, ul. Grójecka 17 ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and additional information to the consolidated financial statements comprising a summary of significant accounting policies and other information and explanatory information.

Management's and Supervisory Board's Responsibility for the Consolidated Financial Statements

Management of the Parent Entity is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations and preparation of the report on the Group's activities. Management of the Parent Entity is also responsible for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

According to the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with amendments) ("the Accounting Act"), Management of the Parent Entity and members of the Supervisory Board are required to ensure that the consolidated financial statements and the report on the Group's activities are in compliance with the requirements set forth in the Accounting Act.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with section 7 of the Accounting Act, National Standards on Auditing issued by the National Council of Certified Auditors and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the Parent Entity, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the accompanying consolidated financial statements of PKP CARGO S.A. Group have been prepared and present fairly, in all material respects, the financial position of the Group as at 31 December 2014 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

Specific Comments on Other Legal and Regulatory Requirements

Report on the Group's Activities

As required under the Accounting Act, we report that the Management Board's report on the activities of PKP CARGO S.A. Group includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2014, item 133) and the information is consistent with the consolidated financial statements.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
ul. Chłodna 51
00-867 Warsaw

Signed on the Polish original
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Monika Bartoszewicz
Key Certified Auditor
Registration No. 10268
Limited Liability Partner
with power of attorney

11 March 2015

TRANSLATION

PKP CARGO S.A. Group

Supplementary report on the audit of the consolidated financial statements Financial Year ended 31 December 2014

The supplementary report contains 11 pages
The supplementary report on the audit of the consolidated financial statements for the financial year ended 31 December 2014

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Contents

1. General

1.1 Identification of the Group

1.1.1 Name of the Group

PKP CARGO S.A. Group ("Group")

1.1.2 Registered office of the Parent Company of the Group

ul. Grójecka 17
02-021 Warsaw

1.1.3 Registration of the Parent Company in the register of entrepreneurs of the National Court Register

Registration court:	District Court for the Capital City of Warsaw in Warsaw, XII Commercial Department of the National Court Register
Date:	17 July 2001
Registration number:	KRS 0000027702
Share capital as at the end of reporting period:	PLN 2,239,345,850.00

1.1.4 Management of the Parent Company

The Management Board is responsible for management of the Parent Company.

As at 31 December 2014, the Management Board of the Parent Company was comprised of the following members:

- Adam Purwin – President of the Management Board,
- Jacek Neska – Member of the Management Board,
- Łukasz Hadyś – Member of the Management Board,
- Wojciech Derda – Member of the Management Board,
- Dariusz Browarek – Member of the Management Board.

On 6 February 2014, in accordance with a resolution of the Supervisory Board, Mr. Adam Purwin was appointed to the position of President of the Management Board.

On 17 February 2014 Mr. Sylwester Sigiel submitted a resignation from the position of the Management Board Member. The resignation is effective from the day of a resolution of the Supervisory Board of PKP CARGO S.A. on appointment of the new Management Board Member of PKP CARGO S.A. responsible for trade matters.

According to the resolution of the Supervisory Board dated 24 April 2014, Mr. Jacek Neska was appointed to the position of Member of the Management Board responsible for trade matters, Mr. Wojciech Derda was appointed to the position of Member of the Management Board in charge of operations, Mr. Łukasz Hadyś was appointed to the position of Member of the Management Board in charge of finance (effective 12 May 2014) and Mr. Dariusz Browarek was appointed to the position of Member of the Management Board responsible for employee representation.

1.2 Information about companies comprising the Group

1.2.1 Companies included in the consolidated financial statements

As at 31 December 2014, the following companies were consolidated by the Group:

Parent Company:

- PKP CARGO S.A.

Subsidiaries consolidated on the full consolidation basis:

- Cargosped Terminal Braniewo Sp. z o.o.,
- PKP CARGO Centrum Logistyczne Medyka – Żurawica Sp. z o.o.,
- CARGOSPED Sp. z o.o.,
- CARGOTOR Sp. z o.o.,
- PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.,
- PKP CARGO SERVICE Sp. z o.o.,
- Przedsiębiorstwo Spedycyjne TRADE TRANS Sp. z o.o.,
- PKP CARGOTABOR Sp. z o.o. (dawniej CARGOWAG Sp. z o.o.*),
- PKP CARGOTABOR USŁUGI Sp. z o.o. (dawniej PKP CARGOLOK Sp. z o.o.).

* As of 1 July 2014 the merger of PKP CARGOWAG Sp. z o.o. (the acquiring Company) and PKP CARGO TABOR – Karsznice Sp. z o.o. (the acquired Company) has been registered in the National Court Register. At the same time name of PKP CARGOWAG Sp. z o.o. was changed and since 1 July 2014 PKP CARGOWAG Sp. z o.o. has been operating under the name of PKP CARGOTABOR Sp. z o.o. with the registered office in Warsaw.

The following subsidiary was consolidated for the first time during the year ended 31 December 2014:

- CARGOTOR Sp. z o.o. – subject to consolidation for the period from1 January 2014 to 31 December 2014.

CARGOTOR Sp. z o.o. was registered in National Court Register on 13 November 2013, due to its insignificance, the Company was not consolidated as at 31 December 2013.

1.2.2 Entities excluded from consolidation

As at 31 December 2014, the following subsidiaries of the Group were not consolidated:

- Trade Trans Karya Sp. z o.o.,
- Transgaz S.A.,
- Trade Trans Finance Sp. z o.o.,
- PPHU „Ukpol" Sp. z o.o.,

- PKP CARGO International a.s. z siedzibą w Bratysławie.

All of the above mentioned entities are accounted for under the equity method in the consolidated financial statements for the year ended 31 December 2014.

On 17 January 2014 the Extraordinary General Shareholders' Meeting adopted a resolution to dissolve PKP CARGO International a.s. with its registered office in Bratislava and conduct its liquidation.

1.3 Key Certified Auditor and Audit Firm Information

1.3.1 Key Certified Auditor information

Name and surname:	Monika Bartoszewicz
Registration number:	10268

1.4 Prior period consolidated financial statements

The consolidated financial statements for the financial year ended 31 December 2013 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. and received an unmodified opinion.

The consolidated financial statements were approved at the General Meeting of the Parent Entity on 12 May 2014.

The consolidated financial statements were submitted to the Registry Court on 19 May 2014.

1.3.2 Audit Firm information

Name:	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Address of registered office:	ul. Chłodna 51, 00-867 Warsaw
Registration number:	KRS 0000339379
Registration court:	District Court for the Capital City of Warsaw in Warsaw, XII Commercial Department of the National Court Register
NIP number:	527-26-15-362

KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. is entered in the register of audit firms, maintained by the National Council of Certified Auditors, under number 3546.

1.5 Audit scope and responsibilities

This report was prepared for the General Meeting of PKP CARGO S.A. with its registered office in Warsaw, ul. Grójecka 17 and relates to the consolidated financial statements comprising: the consolidated statement of financial position as at 31 December 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and additional information to the consolidated financial statements comprising a summary of significant accounting policies and other information and explanatory information.

The consolidated financial statements were audited in accordance with the contract dated 31 January 2014, concluded on the basis of the resolution of the Supervisory Board dated 17 December 2013 on the appointment of the auditor.

We conducted the audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with amendments) ("the Accounting Act"), National Standards on Auditing issued by the National Council of Certified Auditors, and International Standards on Auditing.

We audited the consolidated financial statements (including the entities comprising the Group) during the period from 17 November 2014 to 5 December 2014, and from 2 February 2015 to 27 February 2015.

Management of the Parent Company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations and preparation of the report on the Group's activities.

Our responsibility is to express an opinion and to prepare a supplementary report on the audit of the financial statements.

The Management Board of the Parent Company submitted a statement, dated as at the same date as this report, as to the true and fair presentation of the accompanying consolidated financial statements, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the consolidated financial statements.

All required statements, explanations and information were provided to us by Management of the Group and all our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of the Audit Firm.

The Key Certified Auditor and the Audit Firm fulfill the independence requirements as described in Art. 56 points 3 and 4 of the Act on Certified Auditors and their Self-Governance, Audit Firms authorized to Audit Financial Statements and Public Oversight dated 7 May 2009 (Official Journal from 2009 No. 77, item 649 with amendments).

1.6 Information on audits of the financial statements of the consolidated companies

1.6.1 Parent Company

The separate financial statements of the Parent Company for the year ended 31 December 2014 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k., certified auditor number 3546, and received an unmodified opinion.

1.6.2 Other consolidated entities

Entity's name	Authorised auditor	Financial year end	Type of auditor's opinion
Cargosped Terminal Braniewo Sp. z o.o.	Auxilium Audyt spółka z ograniczoną odpowiedzialnością sp.k.	31 December 2014	unmodified opinion
PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o.	Auxilium Audyt spółka z ograniczoną odpowiedzialnością sp.k.	31 December 2014	unmodified opinion
CARGOSPED Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	31 December 2014	unmodified opinion
PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	Auxilium Audyt spółka z ograniczoną odpowiedzialnością sp.k.	31 December 2014	unmodified opinion
PKP CARGO SERVICE Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	31 December 2014	unmodified opinion
Przedsiębiorstwo Spedycyjne TRADE TRANS Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	31 December 2014	unmodified opinion
PKP CARGOTABOR Sp. z o.o.	Auxilium Audyt spółka z ograniczoną odpowiedzialnością sp.k.	31 December 2014	unmodified opinion
PKP CARGOTABOR USŁUGI Sp. z o.o.	Auxilium Audyt spółka z ograniczoną odpowiedzialnością sp.k.	31 December 2014	unmodified opinion
CARGOTOR Sp. z o.o.	not audited	31 December 2014	not audited

2 Financial analysis of the Group

2.1 Summary analysis of the consolidated financial statements

2.1.1 Consolidated statement of financial position

ASSETS	31.12.2014 PLN '000	% of total	31.12.2013 PLN '000	% of total
Non-current assets				
Property, plant and equipment	4,011,542	71.1	3,855,446	67.1
Intangible assets	58,268	1.0	61,395	1.1
Goodwill	2,712	-	2,712	0.1
Investment property	1,362	-	1,415	-
Investments accounted for under the equity method	35,246	0.6	38,214	0.7
Other long-term financial assets	6,051	0.1	6,090	0.1
Other long-term non-financial assets	14,645	0.3	1,438	-
Deferred tax assets	88,273	1.6	83,185	1.4
Total non-current assets	4,218,099	74.7	4,049,895	70.5
Current assets				
Inventories	115,298	2.1	76,041	1.3
Trade and other receivables	526,149	9.3	609,267	10.6
Income tax receivables	3,053	0.1	2,394	0.1
Other short-term financial assets	306,383	5.4	691,404	12.0
Other short-term non-financial assets	28,246	0.5	33,355	0.6
Cash and cash equivalents	429,178	7.6	263,700	4.6
Non-current assets held for sale	17,560	0.3	17,560	0.3
Total current assets	1,425,867	25.3	1,693,721	29.5
TOTAL ASSETS	5,643,966	100.0	5,743,616	100.0

EQUITY AND LIABILITIES	31.12.2014 PLN '000	% of total	31.12.2013 PLN '000	% of total
Equity				
Share capital	2,239,346	39.7	2,166,901	37.7
Share premium	615,343	10.9	692,761	12.1
Other items of equity	(51,687)	(0.9)	(16,392)	(0.3)
Retained earnings	527,670	9.3	603,247	10.5
Equity attributable to the owners of the Company	3,330,672	59.0	3,446,517	60.0
Non-controlling interest	63,500	1.1	62,377	1.1
Total equity	3,394,172	60.1	3,508,894	61.1
Liabilities				
Long-term bank loans and credit facilities	208,077	3.7	121,558	2.1
Long-term finance lease liabilities and leases with purchase option	190,836	3.4	313,136	5.5
Long-term trade and other payables	67,982	1.2	113,688	2.0
Long-term provisions for employee benefits	658,217	11.7	592,923	10.3
Other long-term provisions	8,416	0.1	22,854	0.4
Deferred tax provisions	2,328	-	2,577	-
Total non-current liabilities	1,135,856	20.1	1,166,736	20.3
Short-term bank loans and credit facilities	92,123	1.6	73,217	1.3
Short-term finance lease liabilities and leases with purchase option	127,742	2.3	115,790	2.0
Short-term trade and other payables	530,440	9.4	675,841	11.8
Short-term provisions for employee benefits	334,844	6.0	176,461	3.1
Other short-term provisions	24,214	0.4	26,127	0.4
Other short-term financial liabilities	3,934	0.1	306	-
Current tax liabilities	641	-	244	-
Total current liabilities	1,113,938	19.8	1,067,986	18.6
Total liabilities	2,249,794	39.9	2,234,722	38.9
TOTAL EQUITY AND LIABILITIES	5,643,966	100.0	5,743,616	100.0

2.1.2 Consolidated statement of comprehensive income

	1.01.2014 - 31.12.2014 PLN '000	% of total sales	1.01.2013 - 31.12.2013 PLN '000	% of total sales
Revenue from sales of services	4,162,171	97.8	4,553,921	94.9
Revenue from sales of goods and materials	54,902	1.3	163,769	3.4
Other operating revenue	40,029	0.9	79,771	1.7
Operating revenue	4,257,102	100.0	4,797,461	100.0
Operating expenses				
Depreciation/amortisation and impairment losses	(367,200)	8.6	(388,845)	8.1
Consumption of raw materials and supplies	(603,561)	14.2	(711,233)	14.8
External services	(1,319,111)	31.0	(1,577,434)	32.9
Taxes and charges	(41,135)	1.0	(37,874)	0.8
Employee benefits	(1,744,755)	41.0	(1,714,555)	35.7
Other expenses by kind	(40,341)	0.9	(61,484)	1.3
Cost of merchandise and raw materials sold	(38,203)	0.9	(135,670)	2.8
Other operating expenses	(25,722)	0.6	(60,181)	1.3
	(4,180,028)	98.2	(4,687,276)	(97.7)
Profit on operating activities	*77,074*	*1.8*	*110,185*	*2.3*
Financial revenue	33,812	0.8	34,333	0.7
Financial expenses	(37,577)	0.9	(44,209)	0.9
Share in the profit of equity accounted associates	881	-	(13,438)	0.3
Profit/(loss) on sales of shares in an associate	-	-	1,661	-
Profit before tax	74,190	1.7	88,532	1.8
Income tax expense	(12,905)	0.3	(23,145)	0.5
Net profit	*61,285*	*1.4*	*65,387*	*1.3*
OTHER COMPREHENSIVE INCOME				
Other comprehensive income that will be reclassified to profit or loss in subsequent periods:				
The effective portion of changes in fair value of cash-flow hedging instruments	(3,157)	0.1	126	-
Income tax on the comprehensive income	600	-	(24)	-
Items that will never be reclassified to profit or loss				
Actuarial gains/(losses) on employee benefits after employment period	(41,868)	1.0	15,924	0.3
Income tax on other comprehensive income	7,955	0.2	(3,026)	0.1
Total comprehensive income	***24,815***	***0.5***	***78,387***	***1.6***
Net profit attributable to:				
Owners of the Company	58,987		74,043	
Non-controlling interest	2,298		(8,656)	
Total comprehensive income attributable to:				
Owners of the Company	23,692		86,977	
Non-controlling interest	1,123		(8,590)	
Earnings per share (PLN per share):				
Basic earnings per share	1.32		1.71	
Diluted earnings per share	1.32		1.69	

2.2 Selected financial ratios

	2014	2013	2012
1. Return on sales			
profit for the period x 100% / revenue	1.5%	1.4%	5.2%
2. Return on equity			
profit for the period x 100% / equity - profit for the period	1.8%	1.9%	9.1%
3. Debtors' days			
average trade receivables (gross) x 365 days / revenue	59 days	53 days	49 days
4. Debt ratio			
liabilities x 100% / equity and liabilities	39.9%	38.9%	42.8%
5. Current ratio			
current assets / current liabilities	1.3	1.6	1.5

- Revenue includes revenue from sales of finished products, merchandise and raw materials.
- Average trade receivables represent the average of trade receivables at the beginning and at the end of the period, with no deduction made for allowances.

3 Detailed report

3.1 Accounting principles

The Parent Company maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the Parent Company.

The accounting principles are described in the notes to the consolidated financial statements to the extent required by International Financial Reporting Standards as adopted by the European Union.

In view of the fact that not all entities being part of the Group apply common accounting principles consistent with the accounting principles applied by the Parent Company, appropriate adjustments to the financial statements of those entities were made to ensure consistency with the accounting principles applied by the Parent Company.

The financial statements of the entities included in the consolidated financial statements were prepared at the end of the same reporting period as the financial statements of the Parent Company.

3.2 Basis of preparation of the consolidated financial statements

The consolidated financial statements of the PKP CARGO S.A. Group were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

The consolidated financial statements were prepared on the basis of the consolidation documentation prepared in accordance with the requirements the Decree of the Ministry of Finance dated 25 September 2009 on principles for the preparation of consolidated financial statements of a group by companies other than banks and insurance companies (Official Journal from 2009 No. 169, item 1327).

3.3 Method of consolidation

The method of consolidation is described in note 13 of the notes to the consolidated financial statements.

3.4 Goodwill arising on consolidation

The method of calculating goodwill arising on consolidation is described in note 3.4 of the notes to the consolidated financial statements.

3.5 Consolidation of equity and calculation of non-controlling interest

The share capital of the Group is equal to the share capital of the Parent Company.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements in the proportion reflecting the Parent Company's share in the subsidiaries' equity as at the end of the reporting period to the corresponding positions of the equity of the Parent Company.

Only equity of subsidiaries arising after the Parent Company obtained control of the subsidiary is included in the equity of the Group.

Non-controlling interests in subsidiaries included in the consolidated financial statements were determined based on the non-controlling interests' share in the subsidiaries' equity as at the end of the reporting period.

3.6 Consolidation eliminations

Intercompany balances within the Group were eliminated on consolidation.

Sales between entities and other intercompany operating revenues and expenses and financial revenues and expenses were eliminated on consolidation.

The consolidation eliminations were based on the accounting records of PKP CARGO S.A. and agreed with information received from the subsidiaries.

3.7 Notes to the consolidated financial statements

All information included in the additional information to the consolidated financial statements, comprising of a summary of significant accounting policies and other information and explanatory notes, is, in all material respects, presented correctly and completely. This information should be read in conjunction with the consolidated financial statements.

3.8 Report of the Management Board of the Parent Company on the Group's activities

The report of the Management Board of the Parent Company on the Group's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2014, item 133) and the information is consistent with the consolidated financial statements.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
ul. Chłodna 51
00-867 Warsaw

Signed on the Polish original
....
Monika Bartoszewicz
Key Certified Auditor
Registration No. 10268
Limited Liability Partner
with power of attorney

11 March 2015

CONSOLIDATED FINANCIAL STATEMENTS OF **PKP CARGO** CAPITAL GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2014 PREPARED IN ACCORDANCE WITH IFRS AS ENDORSED BY THE EUROPEAN UNION

Warsaw, 12 March 2015

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2014 TO 31 DECEMBER 2014

	Note	For the year ended 31 December 2014 (audited)	For the year ended 31 December 2013 (audited)
		PLN thousand	PLN thousand
Revenue from sales of services	5	4 162 171	4 553 921
Revenue from sales of goods and materials		54 902	163 769
Other operating revenue	7.1	40 029	79 771
Total operating revenue		**4 257 102**	**4 797 461**
Depreciation/amortisation and impairment losses	6.1	367 200	388 845
Consumption of raw materials and supplies	6.2	603 561	711 233
External services	6.3	1 319 111	1 577 434
Taxes and charges		41 135	37 874
Employee benefits	6.4	1 744 755	1 714 555
Other expenses by kind		40 341	61 484
Cost of merchandise and raw materials sold		38 203	135 670
Other operating expenses	7.2	25 722	60 181
Total operating expenses		**4 180 028**	**4 687 276**
Profit on operating activities		**77 074**	**110 185**
Financial revenue	8	33 812	34 333
Financial expenses	9	37 577	44 209
Share in the profit of equity accounted associates		881	(13 438)
Profit/(loss) on sales of shares in an associate		-	1 661
Profit before tax		**74 190**	**88 532**
Income tax expense	10.1	12 905	23 145
NET PROFIT		**61 285**	**65 387**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2014 TO 31 DECEMBER 2014 (Cont'd.)

	Note	For the year ended 31 December 2014 (audited)	For the year ended 31 December 2014 (audited)
		PLN thousand	PLN thousand
NET PROFIT		**61 285**	**65 387**
Other comprehensive income			
Other comprehensive income that will be reclassified to profit or loss in subsequent periods:		**(2 557)**	**102**
The effective portion of changes in fair value of cash-flow hedging instruments:		(3 157)	126
Income tax on other comprehensive income	10.2	600	(24)
Items that will never be reclassified to profit or loss		**(33 913)**	**12 898**
Actuarial gains/(losses) on employee benefits after employment period	29	(41 868)	15 924
Income tax on other comprehensive income	10.2	7 955	(3 026)
		(36 470)	**13 000**
TOTAL COMPREHENSIVE INCOME		**24 815**	**78 387**
Net profit attributable to:			
Shareholders of the Parent company		58 987	74 043
Non-controlling interest		2 298	(8 656)
Total comprehensive income attributable to:			
Shareholders of the Parent company		23 692	86 977
Non-controlling interest		1 123	(8 590)
Earnings per share (PLN per share)			
Continuing operations (basic):	24.1	1.32	1.71
Continuing operations (diluted):	24.2	1.32	1.69

CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 31 DECEMBER 2014

	Note	As at 31 December 2014 (audited) PLN thousand	As at 31 December 2013 (audited) PLN thousand
ASSETS			
Non-current assets			
Property, plant and equipment	11	4 011 542	3 855 446
Intangible assets	12	58 268	61 395
Goodwill		2 712	2 712
Investment property		1 362	1 415
Investments accounted for under the equity method	14, 15	35 246	38 214
Other long-term financial assets	16	6 051	6 090
Other long-term non-financial assets	17	14 645	1 438
Deferred tax assets	10.4	88 273	83 185
Total non-current assets		**4 218 099**	**4 049 895**
Current assets			
Inventories	18	115 298	76 041
Trade and other receivables	19	526 149	609 267
Income tax receivables	10.3	3 053	2 394
Other short-term financial assets	16	306 383	691 404
Other short-term non-financial assets	17	28 246	33 355
Cash and cash equivalents	20	429 178	263 700
		1 408 307	**1 676 161**
Non-current assets held for sale	22	17 560	17 560
Total current assets		**1 425 867**	**1 693 721**
Total assets		**5 643 966**	**5 743 616**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 31 DECEMBER 2014 (cont'd.)

	Note	As at 31 December 2014 (audited)	As at 31 December 2013 (audited)
		PLN thousand	PLN thousand
EQUITY AND LIABILITIES			
Equity			
Share capital	23	2 239 346	2 166 901
Share premium	23.2	615 343	692 761
Other items of equity		(51 687)	(16 392)
Retained earnings		527 670	603 247
Equity attributable to the owners of the Company		3 330 672	3 446 517
Non-controlling interest		63 500	62 377
Total equity		**3 394 172**	**3 508 894**
Non-current liabilities			
Long-term bank loans and credit facilities	25	208 077	121 558
Long-term finance lease liabilities and leases with purchase option	27	190 836	313 136
Long-term trade and other payables	28	67 982	113 688
Long-term provisions for employee benefits	29	658 217	592 923
Other long-term provisions	30	8 416	22 854
Deferred tax provision	10.4	2 328	2 577
Total non-current liabilities		**1 135 856**	**1 166 736**
Current liabilities			
Short-term bank loans and credit facilities	25	92 123	73 217
Short-term finance lease liabilities and leases with purchase option	27	127 742	115 790
Short-term trade and other payables	28	530 440	675 841
Short-term provisions for employee benefits	29	334 844	176 461
Other short-term provisions	30	24 214	26 127
Other short-term financial liabilities	26	3 934	306
Current tax liabilities	10.3	641	244
Total current liabilities		**1 113 938**	**1 067 986**
Total liabilities		**2 249 794**	**2 234 722**
Total equity and liabilities		**5 643 966**	**5 743 616**

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2014

	Share capital	Share premium	Actuarial gains/losses on employee benefits after employment period	Changes in fair value of cash flow hedge	Retained earnings /(uncovered loss)	Attributable to shareholders of the Parent company	Attributable to non-controlling interest	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Balance as at 1 January 2013 (audited)	**2 889 200**	**122 773**	**(29 059)**	**(267)**	**159 947**	**3 142 594**	**72 078**	**3 214 672**
Net profit for the financial year	-	-	-	-	74 043	74 043	(8 656)	65 387
Other net comprehensive income for the year	-	-	12 877	57	-	12 934	66	13 000
Total comprehensive income	-	-	12 877	57	74 043	86 977	(8 590)	78 387
Issuance of shares	1	117 079	-	-	-	117 080	-	117 080
Reduction of share capital	(722 300)	139 982	-	-	582 318	-	-	-
Division of the Company	-	(150)	-	-	-	(150)	-	(150)
Dividend payment	-	-	-	-	-	-	(1 111)	(1 111)
Share-based payment provision	-	100 016	-	-	-	100 016	-	100 016
Other changes in equity	-	213 061	-	-	(213 061)	-	-	-
Balance as at 31 December 2013 (audited)	**2 166 901**	**692 761**	**(16 182)**	**(210)**	**603 247**	**3 446 517**	**62 377**	**3 508 894**
Balance as at 1 January 2014 (audited)	**2 166 901**	**692 761**	**(16 182)**	**(210)**	**603 247**	**3 446 517**	**62 377**	**3 508 894**
Net profit for the financial year	-	-	-	-	58 987	58 987	2 298	61 285
Other net comprehensive income for the year	-	-	(33 874)	(1 421)	-	(35 295)	(1 175)	(36 470)
Total comprehensive income	-	-	(33 874)	(1 421)	58 987	23 692	1 123	24 815
Issuance of shares	72 445	25 530	-	-	-	97 975	-	97 975
Dividend payment	-	-	-	-	(137 496)	(137 496)	-	(137 496)
Share-based payment provision	-	(100 016)	-	-	-	(100 016)	-	(100 016)
Other changes in equity	-	(2 932)	-	-	2 932	-	-	-
Balance as at 31 December 2014 (audited)	**2 239 346**	**615 343**	**(50 056)**	**(1 631)**	**527 670**	**3 330 672**	**63 500**	**3 394 172**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY 2014 TO 31 DECEMBER 2014 [INDIRECT METHOD]

	Note	For the year ended 31 December 2014 (audited)	For the year ended 31 December 2013 (audited)
		PLN thousand	PLN thousand
Cash flows from operating activities			
Gross profit for the financial year		**74 190**	**88 532**
Adjustments:			
Depreciation and amortisation of non-current assets	6.1	367 200	375 445
Impairment of assets		-	13 400
(Gain) / loss on disposal and liquidation of property, plant and equipment and intangible assets		(4 062)	10 701
(Profit) / loss on investing activities		-	(1 646)
Foreign exchange (gains) / losses		6 051	3 837
(Gains) / losses on interest, dividends		(7 983)	4 243
Share in the (profit) / loss of equity accounted associates		(881)	13 438
Profit / (loss) on sales of an associate		-	(1 661)
Other adjustments	21	(45 025)	116 065
Changes in working capital:			
Increase) / decrease in trade and other receivables		76 611	11 733
(Increase) / decrease in inventories		(26 241)	6 114
(Increase) / decrease in other assets		(5 591)	(6 245)
Increase / (decrease) in trade and other payables		(126 401)	(4 797)
Increase / (decrease) in other liabilities		3 627	-
Increase / (decrease) in provisions [(1)]		207 326	74 774
Cash flows from operating activities		518 821	703 933
Interest received / (paid)		14 488	3 734
Income taxes received / (paid)		(9 948)	(7 463)
Net cash provided by operating activities		523 361	700 204

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY 2014 TO 31 DECEMBER 2014 [INDIRECT METHOD] (Cont'd.)

	Note	For the year ended 31 December 2014 (audited)	For the year ended 31 December 2013 (audited)
		PLN thousand	PLN thousand
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(625 996)	(407 432)
Proceeds from sale of property, plant and equipment and intangible assets		17 902	20 711
Acquisition of subsidiaries, associates and joint venture		(313)	(500)
Proceeds from the sale of subsidiaries, associates and joint venture		-	9 522
Interest received		22 564	28 867
Dividends received		1 060	1 501
Proceeds from loans granted		183	51 852
Inflows / (outflows) from bank deposits over 3 months		302 814	3 672
Inflows / (outflows) related to the Employment Guarantees Program		79 614	(79 614)
Net cash (used in) / provided by investing activities		(202 172)	(371 422)
Cash flows from financing activities			
Payments of liabilities under finance lease		(121 581)	(122 552)
Payments of interest under lease agreement		(11 840)	(15 870)
Proceeds from credit facilities / loans received		179 203	3 862
Repayments of credit facilities / loans received		(73 777)	(76 324)
Repayments of interest on credit facilities / loans received		(6 779)	(9 851)
Overdraft received / paid		-	(22 076)
Grants received		24 790	944
Dividends paid to shareholders of the Parent company		(137 496)	-
Dividends paid to non controlling interest		-	(1 111)
Other inflows / (outflows) from financing activities		(8 231)	(10 112)
Net cash (used in) / provided by financing activities		(155 711)	(253 090)
Net increase in cash and cash equivalents		165 478	75 692
Opening balance of cash and cash equivalents	20	263 700	188 008
Closing balance of cash and cash equivalents	20	429 178	263 700

(1) In the year ended 31 December 2014 an item includes a change in the position due to the established provisions for Voluntary Redundancy Program in the amount of 265,331 PLN thousand.

EXPLANATORY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PREPARED AS AT 31 DECEMBER 2014

1. General information

1.1 Information on the Parent company

The Company PKP Cargo S.A. ("Company" ,"Parent company") was established based on the Notarial Deed dated 29 June 2001 (Repertory A No. 1287/2001). The registered office of the Company is located in Warsaw at Grójecka street no. 17. The Company is registered in the National Court Register in the District Court in Katowice, Department of the National Court Register under the number KRS 0000027702. Currently, due to a subsequent change of the registered office of the Parent company, records of the Company are run by the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register.

The Company was assigned a statistical number REGON 277586360 and a tax identification number (NIP) 954-23-81-960.

The Company's financial year is the calendar year.

Composition of the Company's management and supervisory bodies as at the date of preparation of these Consolidated Financial Statements:

Management Board:

Adam Purwin	-	President of the Management Board
Jacek Neska	-	Member of the Management Board, responsible for Trade Matters
Łukasz Hadyś	-	Member of the Management Board, responsible for Finance Matters
Wojciech Derda	-	Member of the Management Board, responsible for Operation Matters
Dariusz Browarek -	-	Member of the Management Board, Employees representative in the Management Board

Supervisory Board:

Jakub Karnowski	-	Chairman
Piotr Ciżkowicz	-	Vice Chairman
Krzysztof Czarnota	-	Member
Marek Podskalny	-	Member
Kazimierz Jamrozik	-	Member
Konrad Anuszkiewicz	-	Member
Stanisław Knaflewski	-	Member
Paweł Ruka	-	Member
Jacek Leonkiewicz	-	Member
Sławomir Baniak	-	Member
Zbigniew Klepacki	-	Member

On 6 February 2014 the Supervisory Board of the Company appointed Mr. Adam Purwin to the position of President of the Management Board. Adam Purwin has been a Member of the Management Board responsible for Finance Matters from 25 February 2013 to 5 February 2014. From 18 November 2013 he has been in charge of matters and organizational units of Company's Headquarters belonging to the competences of President of the Management Board.

On 17 February 2014 Mr. Sylwester Sigiel has resigned from the position of a Member the Management Board responsible for Trade Matters. The resignation was effective from the day of a resolution of the Supervisory Board of the Company on appointment of the new Member of the Management Board responsible for Trade Matters. On 24 April 2014 the Supervisory Board appointed a new member of the Management Board responsible for Trade Matters. Therefore the resignation of Mr. Sylvester Sigiel entered into force.

On 24 April 2014, the Supervisory Board of PKP CARGO S.A., as a result of the contest has appointed four new Members of the Management Board: Mr. Jacek Neska - Member of the Management Board responsible for Trade Matters, Mr Wojciech Derda - Member of the Management Board responsible for Operation Matters, Mr. Łukasz Hadyś - Member of the Management Board responsible for Finance Matters and Dariusz Browarek - Employees Representative - Member of the Management Board. Mr. Łukasz Hadyś was appointed effectively from 12 May 2014.

On 16 April 2014, Mr. Michael Karczyński resigned from the position of a Member of the Supervisory Board of the Company effective from 25 April 2014.

On 24 April 2014 the Company's shareholder - PKP S.A. dismissed Ms Danuta Tyszkiewicz from the Supervisory Board (effective from 25 April 2014) and appointed Mr. Jarosław Pawłowski and Mr. Łukasz Górnicki as the members of the Supervisory Board.

On 27 June 2014, Ms. Milena Pacia resigned from the position of Member of the Supervisory Board (effective from 27 June 2014).

On 29 July 2014 the Company's shareholder - PKP S.A. dismissed Mr. Artur Kawaler from the Supervisory Board and appointed Mr. Piotr Ciżkowicz and Mr. Jacek Leonkiewicz as a Members of the Supervisory Board (effective from 29 July 2014).

On 24 October 2014, Mr. Łukasz Górnicki resigned from the position of a Member of the Supervisory Board (effective from 24 October 2014).

On 24 November 2014, the Company's shareholder - PKP S.A. appointed Mr. Sławomir Baniak as a Member of the Supervisory Board (effective from 24 November 2014).

On 18 February 2015 the Company's shareholder - PKP S.A. dismissed Mr. Jarosław Pawłowski from the Supervisory Board and appointed Mr. Zbigniew Klepacki as a Members of the Supervisory Board (effective from 19 February 2015).

The Company's shareholder's structure as at 31 December 2014 is as follows:

Entity	Registered office	Number of shares	% of share capital held	% of voting rights
PKP S.A.[(1)]	Warsaw	14 784 194	33.01%	33.01%
ING OFE [(2)]	Warsaw	4 738 369	10.58%	10.58%
Morgan Stanley [(3)]	New York	2 380 008	5.31%	5.31%
Aviva OFE [(4)]	Warsaw	2 338 371	5.22%	5.22%
EBRD [(5)]	London	2 286 008	5.10%	5.10%
Other shareholders		18 259 967	40.78%	40.78%
Total		**44 786 917**	**100.00%**	**100.00%**

(1) In accordance with the notice sent by shareholder dated 24 June 2014

(2) In accordance with the notice sent by shareholder dated 30 June 2014

(3) In accordance with the notice sent by shareholder dated 18 June 2014. The total number of shares held by Morgan Stanley (14 916 shares) and indirectly held by its subsidiary Morgan Stanley Investment Management Inc., which owns (2 365 092 shares).

(4) In accordance with the notice sent by shareholder dated 13 August 2014

(5) In accordance with the notice sent by shareholder dated 5 November 2013

PKP S.A. is the parent entity of PKP CARGO S.A. In accordance with the Company's Articles of Association PKP S.A. holds individual special rights to appoint and dismiss Members of the Supervisory Board in the amount equal to half of the Supervisory Board increased by one member. PKP S.A. holds individual right to appoint the Chairman of Supervisory Board and to set the number of members of the Supervisory Board. Additionally, if PKP S.A. holds 50% or less of the share capital, PKP is individually entitled to solely designate candidates for the President of the Management Board. PKP S.A. always holds the individual rights when PKP S.A. owns at least 25% of the share capital.

1.2 Information on the Capital Group

As at the reporting date the PKP Cargo Capital Group ("the Group") comprised of PKP CARGO S.A. as the Parent company and 14 subsidiaries. Additionally the Group also includes 7 associates and shares in 4 joint ventures.

Additional information about the subsidiaries and shares in associates and co-subsidiaries is presented in Notes 13, 14 and 15.

The core business of the PKP CARGO Group is rail transport of goods. In addition to the rail transport services, PKP CARGO Group offers additional services:

a) intermodal services,
b) forwarding services (national and international),
c) terminals (handling and storage of goods),
d) siding services.
PKP CARGO Capital Group occupies also with repair and maintenance of rolling stock.

The duration of the companies belonging to the PKP CARGO Capital Group is unlimited.

1.3 Functional currency and presentation currency

These Consolidated Financial Statements have been prepared in the Polish zloty (PLN). The Polish zloty (PLN) is the Group's functional and presentation currency. The data were presented in thousand PLN in the consolidated financial statements, unless more accuracy was required in particular cases.

2. International Financial Reporting Standards Applied

2.1 Statement of compliance

These Consolidated Financial Statements have been prepared in accordance with the International Financial Reporting Standards and related interpretations adopted by the European Union ("IFRS EU"), issued and effective at the time of preparation of these Consolidated Financial Statements and in accordance with the Regulation of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions of recognition of the information required by the laws of a non-member state (Official Journal No. 33, item 257) ("Regulation").

These Consolidated Financial Statements for the year eneded 31 December 2014 have been prepared under the going concern assumption in the foreseeable future. As at the date of preparation of these Consolidated Financial Statements, there were no circumstances indicating a threat of going concern assumption of the Group during at least 12 months from the date of the financial statements.

During 2013 - 2014 the Group did not discontinue activity that requires recognition in these Consolidated Financial Statements.

These Consolidated Financial Statements have been prepared on the historical cost except of derivates measured at fair value and fixed assets held for sale.

These Consolidated Financial Statements have been prepared in PLN and approved for publication on 11 March 2015 by the Management Board.

2.2 Status of endoresments of the Standards in the EU

The following amendments to existing standards issued by the International Accounting Standards Board and adopted by European Union are effective since 2014:

- **IFRS 10 „Consolidated Financial Statements" -** applicable to the annual periods beginning on or after 1 January 2014,
- **IFRS 11 „Joint Arrangements"** - applicable to the annual periods beginning on or after 1 January 2014,
- **IFRS 12 „Disclosure of Interests in Other Entities"** - applicable to the annual periods beginning on or after 1 January 2014,
- **Amendments to IFRS 10, IFRS 11 and IFRS 12: Consolidated Financial Statements, Joint Arrangements, Disclosure of Interests in Other Entities -** applicable to the annual periods beginning on or after 1 January 2014,
- **IAS 27 (amended in 2011) „Separate Financial Statements"** - applicable to the annual periods beginning on or after 1 January 2014,
- **IAS 28 (amended in 2011) „Investments In Associates and Joint Ventures"** - applicable to the annual periods beginning on or after 1 January 2014,
- **Amendments to IAS 32 „Financial Instruments: Presentation"** – (Compensation of financial assets and financial liabilities), applicable to the annual periods beginning on or after 1 January 2014,
- **Amendments to IAS 39 „Financial Instruments: Recognition and Measurement"** (Amendment of derivatives and hedge accounting) – applicable to the annual periods beginning on or after 1 January 2014,
- **Amendments to IAS 36 „Impairment of Assets"** (Disclosures of recoverable amount for non-financial assets) - applicable to the annual periods beginning on 1 January 2014.

Adoption of these standards, amendments to the existing standards and interpretations did not have material impact on the Group's accounting policy.

2.3 Standards and Interpretations issued by European Union, but not yet effective

When approving these Consolidated Separate Financial Statements the Group did not apply the following standards, amendments to standards and interpretations that had been published and approved for use in the EU, but which have not yet come into force:

- **Interpretation of IFRIC 21 "Levies"** – applicable to the annual periods beginning on 17 June 2014,
- **Amendment to IAS 19 "Employee Benefits"** (Defined Benefit Plans: Employee Contribution) which is effective for periods beginning on or after 1 February 2015,
- **Improvements to International Financial Reporting Standards 2010-2012** (annual improvements to IFRS 2010-2012 contain 8 changes to 7 standards, with consequential amendments to other standards and interpretations) - effective for annual periods beginning on or after 1 February 2015,
- **Improvements to International Financial Reporting Standards 2011-2013** (annual improvements to IFRS from 2011-2013 contain 4 amendments to the standards, with consequential amendments to other standards and interpretations) - effective for annual periods beginning on or after 1 January 2015.

Group has analyzed the potential impact of the aforementioned standards, interpretations and amendments to the standards on the Group's accounting policy. According to the Management Board they will not result in a material impact on the currently used accounting policy.

2.4 Standards and interpretations issued by IASB, but not yet endorsed by the EU

At present, IFRS as endorsed by the EU, do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in the EU as at 11 March 2015:

- **IFRS 9 „Financial instruments"** – applicable to the annual periods beginning on or after 1 January 2018,
- **IFRS 14 „Regulatory Deferral Accounts"** - applicable to the annual periods beginning on or after 1 January 2016,
- **Amendments to IFRS 11 "Joint Arrangements"** (Accounting for Acquisitions of Interest in Joint Operations) - applicable to the annual periods beginning on or after 1 January 2016,
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** (Clarification of Acceptable Methods of Depreciation and Amortization) - applicable for annual periods beginning on or after 1 January 2016,
- **IFRS 15 "Revenue from Contracts with Customers"** - applicable for annual periods beginning on or after 1 January 2017,
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** (Agriculture: Bearer Plants) - applicable for annual periods beginning on or after 1 January 2016,
- **Amendments to IAS 27 "Separate Financial Statements"** – (Equity Method in the Separate Financial Statements) - effective for annual periods beginning on or after 1 January 2016,
- **Amendments to IFRS 10 "Consolidated Financial Statements", and to IAS 28 "Investments in Associates"** (Sale or Contribution of Assets between on Investor and its Associate or Joint Venture) - applicable for annual periods beginning on or after 1 January 2016,
- **Improvements to International Financial Reporting Standards 2012-2014** (annual improvements to IFRS 2012-2014 contain 4 amendments to the standards, with consequential amendments to other standards and interpretations) - applicable for annual periods beginning on or after 1 January 2016,
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** (Investment Entities: Applying the Consolidation Exception) - applicable for annual periods beginning on or after 1 January 2016,
- **Amendments to IAS 1 "Presentation of Financial Statements"** (Disclosure Initiative) - applicable for annual periods beginning on or after 1 January 2016.

Group has analyzed the potential impact of the aforementioned standards, interpretations and amendments to standards used by the Group's accounting policy. According to the Management Board they will not result in a material impact on the currently used accounting policy.

3. Applied accounting principles

3.1 Sales revenue

The amount of revenue arising on a transaction is usually determined by agreement between the entity and the buyer or user of the asset. It is measured at the fair value of the consideration taking into account the amount of trade discounts and volume rabates granted by the entity.

Revenue includes only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, they are excluded from revenue.

Revenue is recognized only when it is probable that the economic benefits associated with the transaction will flow to the entity. However, when an uncertainty arises about the collectability of an amount already included in revenue, the uncollectible amount or the amount in respect of which recovery has ceased to be probable is recognized as an expense, rather than as an adjustment of the amount of revenue originally recognized.

3.1.1 Revenue from sales of services

Revenue from domestic sales is recognized at the date of rendering services in accordance to purchase-sale agreement (date of shipment or making available for the recipient or service acceptance) or, for retail transactions, date of payment by cash, credit card or check.

In particular, the moment of sale:

a) of transport services is, in all cases, the date of receipt (the end of) service;
b) in case of export, is the date when the goods are transported across the border, which is confirmed by the Frontier Custom Office.

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognized by reference to the stage of completion of the transaction at the end of reporting period. The outcome of a transaction can be estimated reliably when all the folliowing conditions are satisfied:

a) the amount of revenue can be measured reliably;
b) it is probable that the economic benefits associated with the transaction will flow to the Group;
c) stage of completion of the transaction at the end of the reporting period can be measured reliably; and
d) the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

3.1.2 Revenue from sales of goods and materials

Revenue from sales of goods and materials is recognized at the time of delivery by the Group to the recipient.

The delivery occurs when the significant risks and rewards of ownership of the goods are transferred to the buyer accorging to the terms of delivery specified in sales contracts.

3.1.3 Interest and dividend revenue

Dividend revenue is recognized when the right to receive dividend is established (provided that it is probable that the Group will obtain economic benefits and that the revenue can be reliably estimated).

Interest revenue is recognised if it is probable that the Group will obtain economic benefits and that the revenue amount can be reliably estimated.

Interest income is deferred in relation to the outstanding amount of capital by using the effective interest rate, representing discounting rate of future cash flows forecast on the useful economic life of the financial asset to the amount of the balance sheet value of the asset at the time of initial recognition.

If necessary, the adjustments are entered to the financial statements of subsidiaries, which adapt their accounting policies to the Group policy.

All transactions made within the Group, the mutual balances and income and expenses of transactions between Group's entities are fully excluded in the consolidation.

3.2 Employee benefits

Employee benefits consist of (a) costs during the employment period, i.e. salaries and wages, overheads, discounts on transportation services, benefits from to the Company's Social Benefits Fund – as short-term benefits and jubilee benefits – as long-term benefits; and (b) be costs after the employment period, i.e. retirement and disability bonuses, discounts on transportation services and benefits from the Company's Social Benefits Fund.

Pursuant to the Collective Labour Agreement ("CLA") and applicable laws, The Parent Company and the selected entities of Group provides employees with long-term benefits during their employment (jubilee bonuses) and post-employment benefits (retirement and disability bonuses, discounts on transportation services and benefits from the Company's Social Benefits Fund). The Company recognises the aforesaid benefits at the present value of a liability in its statement of financial position as at the end of the reporting period.

Long-term employee benefits and post-employment benefits are determined by an independent actuary using the actuarial method for forecasting individual benefits. The method treats each period in service as entitlement to an additional benefit amount and values each amount separately, to arrive at a liability amount which is subsequently discounted. The valuation is based on demographic assumptions regarding retirement age, future salaries growth, employee turnover and financial assumptions regarding future interest rates (in order to determine the discount rate).

Jubilee benefits are paid to employees who have served a specified term. Retirement and disability benefits are paid on a one-off basis upon retirement. The amounts of retirement and disability benefits and jubilee benefits depend on the number of years in service and average salary of each employee. The Group recognises a provision for future liabilities in this respect to allocate costs to the periods which they relate to. Actuarial gains or losses, except for jubilee bonuses resulting from changes in actuarial assumptions, and differences between the actual and forecast amounts are charged to other comprehensive income. These amounts are not reclassified to the profit/loss – they are recognised as a separate item of equity.

Pursuant to the Collective Labour Agreement, provisions of Act on commercialization, restructuring and privatization of the state enterprise „Polskie Koleje Państwowe" dated 8 September 2000 r. (Official Journal No 84, item. 948) and Agreement on Discounts on Transport Services, The parent company and selected subsidiaries of the Group PKP CARGO have to pay for the right to a discount on transport services for employees, pensioners and individuals eligible for pre-retirement railway benefits. The value of benefits is estimated by an independent actuary using the actuarial method for forecasting individual benefits - also referred to as the method for calculation of benefits accrued during employment - at each reporting date. The liabilities presented in the statement of financial position are calculated as a part of future benefits estimated by using the forecasted transport services with reduced price.

Pursuant to the Collective Labour Agreement, provisions of Act on commercialization, restructuring and privatization of the state enterprise „Polskie Koleje Państwowe" dated 8 September 2000 r. (Official Journal No 84, item. 948) and provisions of the Act on the Company Social Benefits Fund of 4 March 1994 (Journal of laws of 1996 No. 79 item 335 as amended), the Group's Social Benefits Fund is incurred by the Group. The Group offsets the fund's liabilities and assets in the statement of financial position.

Employees of the Group have the right to paid holiday under the Labour Code. The Group's estimates the future short-term liabilities due to unused paid holidays at each reporting date.

3.3 Tax

The corporate income tax for the reporting period comprises current and deferred tax. Tax is recognised in the Consolidated Statement of comprehensive income excluding the portion that related directly to items recognised under other comprehensive income (other items of equity).

3.3.1 Current tax

The current tax liability is measured on the basis of the taxable income (tax base) of a particular reporting period. The tax profit (loss) differs from the accounting net profit (loss) due to the exclusion of temporarily non-taxable income and temporarily non-taxable expenses and items in expenses and revenues that will never be taxable. Tax liabilities are calculated on the basis of tax rates applicable in a given financial year.

3.3.2 Deferred tax

Deferred tax is recognised with respect to temporary tax differences between the carrying amount of assets and liabilities in the Consolidated Financial Statements, and the corresponding tax base used for determination of the taxable income, and unrealized tax losses and tax relieves not used. A deferred tax liability is recognised for all taxable temporary differences.

A deferred tax asset is recognised with respect to deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Such deferred tax assets and liabilities are not recognised if the temporary differences result from the goodwill or initial recognition (except business combination) of other assets and liabilities related to the contract, which does not have any effect on the tax or accounting profit.

A deferred tax liability is recognised with respect to taxable temporary differences resulting from investments in subsidiaries or associates and interests in joint ventures unless the Group can control reversal of the temporary differences and when it is likely that the temporary differences will not be reversed in the foreseeable future. A deferred tax asset resulting from temporary deductions related to such investments and shares is recognised to the extent that it is probable that taxable profits will be available against which the temporary differences can be utilised and that it is expected that the temporary differences will be reversed in the foreseeable future.

The carrying amount of the deferred tax asset is reviewed as at each reporting date and when the expected taxable profits are not sufficient for the recovery of the asset or its part, impairment is recognised as appropriate.

Deferred tax is measured at tax rates that are expected to apply during the period when the asset is realized or liability becomes due. Measurement of the deferred tax liabilities and deferred tax assets reflects the tax consequences resulting from realization or recognition, expected by the Group, of the carrying amount of assets and liabilities as at the reporting date.

3.4 Investments in subsidiaries, associates, and interests in joint ventures

The Consolidated Financial Statements comprise separate financial statements of the Parent company and entities controlled by the Company (its subsidiaries). Control is exercised when the Group is able to manage financial and operating policy of the subsidiary to gain economic benefits from its operation.

Revenue and expenses of subsidiaries acquired or sold during the year are included in the Consolidated Statement of Comprehensive Income from the date of actual acquisition of the entity until its effective disposal. The comprehensive income of subsidiaries is attributed to the owners of the Company and non-controlling interest even if such attribution results in a negative value of the balance of non-controlling interest.

If necessary, the financial statements of subsidiaries are adjusted to adapt their accounting policy to the Group's policy.

All transactions inside the Group, the balances of settlements, revenue and expenses from operations made between the entities in the Group were excluded from the consolidation.

3.4.1 Change in interest in the Capital Group subsidiaries

Change in interest in the Group subsidiaries which does not result in losing control are recognised as equity trades. In order to reflect changes in the interest in subsidiaries, the Group adjusts the carrying amount of the controlling and non-controlling interest. All differences between the amount of adjustment of non-controlling interest and the fair value of the amount paid or received are directly charged to equity and attributed to the owners of the Company.

When the Group loses control over a subsidiary, gains or losses constitute the difference between (i) the sum of the fair value of payment received and fair value of the interest retained, and (ii) the carrying amount of assets (including goodwill) and subsidiary's liabilities – and charged to profit or loss. If a subsidiary's assets are measured at a revalued amount or fair value and if the resulting accumulated gains or losses are recognised in other comprehensive income and charged to equity, the values previously recognised in other comprehensive income and charged to equity are recognised as though the Group sold given assets directly (i.e. reclassified to profit/loss or directly to retained earnings, in accordance with the relevant IFRS). The fair value of an investment retained in a former subsidiary as at the date of loss of control is the fair value upon initial recognition, recognised and measured in accordance with IAS 39 "Financial Instruments: recognition and measurement" or the expense upon initial recognition of the investment in the subsidiary or jointly controlled entity.

3.4.2 Business combinations

Acquisitions of other entities are recognised using the acquisition method. The consideration transferred in a business combination is measured as the aggregate of the fair value (at the date of payment) of transferred assets, incurred or assumed liabilities, and equity instruments issued by the parent, in exchange for control over the acquiree. Contract related costs are recognised as expenses of the period in which they were incurred.

Identifiable assets and liabilities are measured at fair value as at the acquisition date, except:

- Assets and liabilities in respect of deferred tax or employee benefit agreements, which are recognised and measured in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee Benefits";
- Liabilities or equity instruments in respect of payment plans based on shares in the acquiree or Capital Group that are to replace the same agreements that are in force in the acquiree, which are measured in accordance with IFRS 2 "Share-based payment" as at the acquisition date (Note 29.3); and
- Assets (or groups of assets held for sale) classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", which are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, value of non-controlling interest in acquiree and the fair value of previously held shares in the acquired entity over the fair value of the identifiable net assets acquired at the date of acquisition. If after another verification the net fair value of the identifiable assets and liabilities exceeds the sum of payment received, non-controlling interests in the acquiree and the fair value of shares in that entity, previously held by the acquire, the surplus is charged directly to profit or loss as gain on a bargain purchase.

Non-controlling shares being a part of the ownership interests and entitling their holders to a proportionate share in net assets of the acuiree in the event of liquidation, may be initially measured at fair value or according to the proportion of non-controlling interest in the recognized value of the identifiable net assets of the acquiree. Other non-controlling interest is measured at fair value or using other method prescribed by IFRS.

If payment transferred in transaction of business combination includes assets or liabilities resulting from the contract for the payment of the contingent payment that are measured at fair value at the acquisition date and are recognized as part of the consideration transferred in the business combination. Changes in the fair value of the contingent consideration classified as retrospective adjustments for the measurement period with corresponding adjustments to the goodwill. Adjustments to measurement period are the result of additional information on the "measurement period" (the measurement period shall not exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Changes in the fair value of the contingent consideration not classified as adjustments to the measurement period are recognised depending on classification of the contingent consideration. Contingent consideration classified as equity shall not be remeasured and its subsequent settlement shall be accounted for within equity. A contingent contribution is classified as an asset of liability is remeasured as at subsequent reporting dates in accordance with IAS 39 or 37 "Provisions, contingent assets and contingent liabilities" and the resulting result is recognised under profit or loss.

In a business combination achieved in stages, shares in the acquire previously held by the Group are remeasured to fair value on the acquisition date (i.e. date of gaining control), and the resulting gain or loss is charged to profit or loss. Amounts resulting from shares held in the acquiree before the acquisition date, previously recognised under other comprehensive revenue is reclassified to the statement of comprehensive income if such treatment is correct at the date when the shares are sold.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, the Group shall adjust the provisional amounts recognised at the acquisition date (see above) or recognized additional assets or liabilities to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known, would have affected the measurement of the amounts recognised as at that date.

3.4.3. Investments in associates

An associate is an entity on which the Group can have significant influence and which is neither a subsidiary nor a joint venture. Significant influence is the possibility of taking part in decisions regarding the financial and operating policy of a company, which does not constitute control or joint control over such policy.

The profit/loss, assets and liabilities of associates were recognised in the Consolidated Financial Statements using the equity method except investments classified as held for sale, settled in accordance with IRFS 5 "Non-current Assets Held for sale and Discontinued Operations". In accordance with the equity method, investments in associate are initially recognised in the consolidated statement of financial position at cost and then they are recognised in the portion of the profit or loss attributable to the Group or in other comprehensive income of the associate. If the Group's share in the losses of the associate exceeds the value of its shares on that entity (long-term interest constituting part of the net value of investment in the entity), the Group ceases to recognise its shares in subsequent loss of the associate. The subsequent loss is recognised only up to the sum of legal or customary liabilities of the Group or payments made on behalf the associate.

The surplus of acquisition cost over the Group's share in the net value of identifiable assets, liabilities and contingent liabilities of an associate recognised as at the acquisition date is recognised as goodwill and constitutes part of the carrying amount of the investment. The surplus of the Group's share in the net value of identifiable assets, liabilities and contingent liabilities over the acquisition cost after remeasurement is charged directly to the profit/loss.

IAS 39 is used for verifying whether the Group should recognise an impairment loss on investment in an associate. If necessary, the carrying amount of investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of Assets" as if it were an individual asset component, by comparing its recoverable amount (the higher of value in use and fair value less selling costs) with the carrying amount. Impairment losses are recognised in the carrying amount of the investment. Impairment losses are reversed in accordance with IAS 36, at amounts corresponding to the increase in the recoverable value of the investment.

After disposal of an associate, resulting in the Group loss of significant influence, the remaining interest is measured at fair value as at that date, and the value is treated as fair value at the initial recognition of an asset in accordance with IAS 39. Any differences between the initial value and carrying amount of the associate attributable to other shares and the fair value of those shares is taken into account when determining the profit or loss due to the disposal of an associate. In addition, the Group recognises all amounts previously charged to the comprehensive income of the associate in the same way as in the case of disposal of relevant assets and liabilities by that entity. Consequently, if the profit or loss previously recognised in comprehensive income is charged to the profit or loss as at the date of disposal of relevant assets and liabilities, the Group reclassifies the profit or loss from equity to the financial result (as reclassification adjustment) when significant influence on that associate is lost.

If an entity on the Group concludes transactions with an associate, the profit or loss on such transactions is disclosed in the consolidated financial statements of the Group only in respect of the shares in that entity that are not held by the Group.

3.4.4. Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control whereby the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

If an entity in the Group undertakes a joint venture directly, the Group's share in the assets and liabilities jointly controlled with other parties to the joint venture is recognised in the financial statements of the relevant entity and classified in accordance with its nature. Liabilities and expenses resulting directly form interest in jointly controlled assets are recognised using the accrual method. Income on the disposal or use of the interest of the Group in products manufactured by jointly controlled assets and share in the expenses of a joint venture are recognised when it is probable that the economic benefits associated with the transaction (if they can be reliably measured) will flow to the Group.

Joint ventures in respect of establishment of a separate entity in which all parties hold interests are referred to as jointly controlled entities.

The Group recognises shares in such entities using the equity method except investments classified as held for sale, settled in accordance with IRFS 5 "Non-current Assets Held for sale and Discontinued Operations".

3.5 Goodwill

Goodwill resulting from a business acquisition is recognised at cost as at the acquisition date less impairment.

For the purposes of the impairment test, goodwill is allocated to the Capital's Group individual cash generating units (or groups of such units) that should benefit from the synergy arising from the business combination.

Cash generating units, to which goodwill is allocated are tested for impairment once a year or more frequently, if impairment can be reliably determined. If the recoverable amount of a cash generating unit is lower than its carrying amount, the impairment loss is initially allocated to reduce the carrying amount of goodwill attributable to this unit; and then to other assets of the unit, proportionately to the carrying amount of individual assets of the entity. Impairment of goodwill is charged directly to profit or loss. Impairment losses on goodwill are not reversed in subsequent periods.

When a cash generating unit is sold, the goodwill attributed to that unit is included in the calculation of the income or loss on disposal.

The rules of recognising goodwill in the Group at the date of acquisition of an associate are presented in note 3.4.3.

3.6 Lease

A lease is classified as a finance lease if - within the agreement- transfers substantially all the risks and rewards incident to ownership to the lessee. All other leases are classified as operating leases.

3.6.1 Group as a lessee

Assets used under finance leases (i.e. all risks and benefits are transferred to the Group) are treated as the Group's assets and are measured at fair value upon their acquisition, not higher however than the current value of minimum lease payments. The corresponding liability to the lessor is presented in the statement of financial position under finance lease liabilities.

It is assumed that all ownership risks and rewards of assets are usually transferred to the Group if:

- the lease transfers ownership of the asset to the lessee by the end of the lease term;
- the lessee may purchase the leased asset for a price, which - according to projections – will be so much lower than the fair value measured as at the date when the title to purchase may be realized – that at the inception of the lease, there is sufficient certainty that the lessee will take the opportunity;
- the lease term is for the major part of the economic life of the asset;
- at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset;
- the leased assets are of such a specialized nature that only the lessee can use them without major modifications.

Lease payments include interest expense and a reduction of the lease liability, so that the interest rate on the outstanding liability is fixed. Financial costs are recognised directly in profit or loss, unless they can be directly attributed to the appropriate assets – then they are capitalised in accordance with the accounting policy of the Group in respect of borrowing costs, described in note 3.8 below. Contingent lease payments are recognised in the period when they are incurred.

Operating lease payments are recognised in the profit and loss on the straight line basis throughout the lease term, unless another systematic basis for recognition is more representative for the time pattern ruling the consumption of the economic benefits resulting from the lease of a given asset. Contingent payments under an operating lease are recognised as an expense in the period in which they are incurred.

3.7 Foreign currencies

Transaction in currencies other than the functional currency (foreign currency) are recognised at the exchange rate of a given currency applicable on the transaction date. As at the reporting date, assets and liabilities denominated in foreign currencies are translated into PLN on the basis of the exchange rate applicable on that day. Non-monetary assets and liabilities measured at fair value and denominated in foreign currencies are translated at the average exchange rate valid on the date of fair value measurement. Other non-monetary assets are measured at historical cost.

3.8 Borrowing costs

Borrowing costs directly related to acquisition or manufacturing of assets requiring a longer period of time to be used are charged to the manufacturing cost of such assets until they are generally ready for commissioning or sale.

Investment income from current investment of borrowings, directly allocated to finance the acquisition or manufacture of assets, decrease the value of capitalized borrowing costs.

Other borrowing costs are charged directly to the income statement in the period when they were incurred.

3.9 Government grants

Government grants are recognised if it is reasonably certain to be obtained and all necessary conditions are met.

The Group can obtain non-reimbursable government subsidies, mainly in the form of direct and indirect subsidies for investments project. Subsidies decrease the value of assets and are recognised in profit or loss under decrease in depreciation/amortisation, depending on how the expected economic benefits are obtained from a given asset.

Government subsidies as an offset of costs incurred or losses, or as a form of direct financial support granted to the Group without any future costs involved, are recognised in the profit/loss of the period in which they mature.

Benefits resulting for government loans with an interest rate below market rates are recognised as subsidies and measured as a difference between the value of a loan received and the fair value of the loan determined using the appropriate market interest rate.

3.10 Share based payments

The Group conducts a share based payment program settled in equity instruments (own shares) as according to IFRS 2 "Share based payments". The fair value of services received from employees as consideration for granted shares is recognised as cost ("Employee benefit costs") with a corresponding increase in equity.

3.11 Property, plants and equipment

The initial amount of fixed assets includes their cost along with import duties, non-deductible taxes included in the price, reduced by rebates and discounts and increased by outlays directly related to adjustment of the asset for its intended use and, if applicable, to borrowing costs.

Payments deferred for a period exceeding the typical payment term for a trade credit are discounted, and the initial value of a fixed asset is equal to the present value of all payments. The difference between the initial value and total payments is charged to discount expenses over the period of funding.

Maintenance and repair costs (running costs) are charged to profit or loss when incurred except for reviews and periodic repairs of wagons and train engines which constitute important component and are depreciated between individual repairs.

Own land is not subject to depreciation. The right to perpetual usufruct of land purchased on the secondary market is presented as land and is not depreciated.

Depreciation is recognised by recognizing an impairment or measurement of an asset (except land and fixed assets under construction) to the residual value using the straight line method. The estimated useful life, residual values and depreciation methods are verified at the end of each reporting period (including prospective application of any changes to the estimates). Depreciation of such fixed assets begins when they are available for use, pursuant to the principles applicable to other fixed assets of the Group.

Assets used under finance leases are depreciated over their expected useful lives on the same basis as the Group's owned assets. If it is not certain that the ownership will be transferred after the lease term, fixed assets used under a finance lease are depreciated over the estimated useful life of the fixed asset or the lease term, whichever is shorter.

Property, plant and equipment are derecognised upon disposal or if no economic benefits are expected from further use of the asset. At the time of the decision to liquidate item of the tangible fixed assets, its book value is recognized in profit or loss as an expense of the reporting period in which the decision was made, except for items of rolling stock, which at the time of the decision about liquidation, are recognized as inventiories in the amount of their residual value.

Fixed assets under construction for production, rental or administration purposes are presented in the statement of financial position at cost less impairment.

Economic useful life of fixed assets for the purpose of depreciation:

	2014	2013
Buildings, premises, civil and water engineering structures	from 5 to 75 years	from 5 to 75 years
Technical equipment and machinery	from 2 to 30 years	from 2 to 30 years
Vehicles, including:		
Freight wagons	from 36 to 48 years	from 36 to 48 years
Electric engines	from 32 to 45 years	from 32 to 45 years
Diesel engines	from 24 to 32 years	from 24 to 32 years
Other vehicles	from 2 to 10 years	from 2 to 10 years
Other fixed assets	from 3 to 10 years	from 3 to 10 years

3.12 Investment property

Investment property is property held to earn rentals or for capital appreciation. In the statement of financial position investment property is presented as non-current assets in line investment property.

Investment property is initially measured at its cost. Transaction costs are included in the initial measurement.

After initial recognition, the Company decided to adopt the cost model as according to IAS 16.

3.13 Intangible assets

3.13.1 Intangible assets purchased

Intangible assets purchased with a defined economic useful life are recognised at cost less accumulated amortisation and impairment. Amortisation is recognised on a straight line basis over the estimated useful economic life. The estimated useful economic life and amortisation method are verified at the end of each reporting period and the effects of changes in the estimates are recognised prospectively. Intangible assets purchased with an unspecified economic useful life are recognised at cost less accumulated impairment.

For the purpose of amortisation of intangible assets with defined economic useful life, the Group uses periods from 2 to 10 years.

3.13.2 Derecognition of intangible assets

Intangible assets are derecognised after disposal or if further use or disposal will not result in economic benefits. Any gains or losses (calculated as a difference between possible inflows from sales and the carrying amount of the item) resulting from derecognition of the asset are charged to profit or loss for the period of the derecognition.

3.14 Impairment of tangible fixed assets and intangible assets

At each reporting date, the Group reviews the carrying amounts of its tangible fixed assets and intangible assets in order to determine whether there is any indication of impairment. If there are such indications, the recoverable amount of the asset is estimated in order to determine a possible impairment loss. When estimation of the recoverable amount of an asset is not possible, an analysis of the recoverable amount is carried out in respect the group of cash-flow generating assets to which a given asset belongs. Where a reasonable and consistent basis of allocation can be identified, the Group's non-current assets are allocated to individual cash flow generating units, or to the smallest groups of cash flow generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives or intangible assets which have not been commissioned are tested for impairment annually and in addition, whenever there is an indication that the assets may be impaired.

The recoverable amount is measured at the higher of following two values: fair value less cost to sell or value in use. Value in use is defined as the present value of estimated future cash flows discounted using a discount rate before tax, which reflects the current market value of money and the risk specific to the asset.

If the recoverable amount of an asset (or cash generating unit) is lower than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. Impairment loss is recognised immediately in profit or loss.

Where an impairment loss is reversed, the net value of the asset (or the cash generating unit) is increased to the revised estimate of the recoverable amount, which, however, does not exceed the carrying amount of the asset which would be determined had an impairment loss of the asset / cash flow generating unit not been recognised in previous years. Reversal of an impairment is charged directly to profit or loss.

3.15 Non-current assets held for sale

Non-current assets and groups of net assets are classified as held for sale, if their carrying amount will be recovered as a result of sale rather than as a result of their further use. This condition is considered as fulfilled only when a sale is highly probable and an asset (or group of net assets held for sale) is currently available for immediate sale. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of change in the classification.

If the sale results in the Group's loss of control over a subsidiary, all assets and liabilities of the subsidiary are classified as held for sale if all the above conditions are met and regardless of whether or not the Group retains non-controlling interests after the sale.

Non-current assets (and groups) classified as held for sale are measured at the lower of the following two amounts: the carrying amount or fair value less cost to sell.

3.16 Inventories

Inventories are measured at cost or net realizable value, whichever is lower. Release of inventories is measured using the FIFO method. The realizable value is the estimated sale price of inventories less any costs necessary to carry out the sale.

The Group recognises impairment losses on obsolete or damaged inventories and if the net realizable value is less than the carrying amount of the inventories.

3.17 Provisions

Provisions are recognised, if the Group has a present obligation (legal or constructive) as a result of a past event and when it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the amount required to fulfill the present obligation as at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the estimated cash flows required to fulfill the present obligation, the carrying amount corresponds to the present value of such cash flows (if the impact of cash over time is material).

If it is probable that the economic benefits required for the settlement of the provision, in part or in whole, can be recovered from a third party, the receivables are recognised as an asset, provided that the probability of recovery is sufficiently high and a reliable measurement is possible.

3.17.1 Onerous contracts

Current liabilities arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

3.17.2 Restructuring

A provision for restructuring costs is recognised only when the Group has prepared a detailed and formal restructuring plan and communicated it or its main assumptions to those affected by it. Measurement of the restructuring provision includes only direct expenditures arising from the restructuring, i.e. amounts necessarily entailed by the restructuring and not associated with the on-going activities of the entity.

3.17.3 Customer complaints

To the best of the Group's knowledge, it recognises a provision for customer complaints against damage to cargo or incorrectly calculated freight charges or any additional fees under the freight agreement. The most frequent basis for customers' complaints in respect of transport services is loss, damage, late delivery or incorrect application of the applicable tariffs and agreements. A customer complaint is deemed as resolved on the date of a money transfer or mutual reconciliation (e.g. offset).

3.18 Financial instruments

Financial assets and liabilities are recognised when the Group becomes a party to a financial instrument contract.

Initial measurement is performed at fair value. Transaction expenses directly attributable to the acquisition or issuance of financial assets and liabilities (except financial assets and liabilities measured at fair value through profit or loss) are added to or deducted from the fair value of financial assets or liabilities on initial recognition. Transaction expenses directly attributable to the acquisition of financial assets or financial liabilities measured at fair value through profit or loss are charged directly to profit or loss.

3.19 Financial assets

Financial assets are classified to the following categories: financial assets measured at fair value through profit or loss, investments held to maturity, available for sale, and loans and receivables. The classification depends on the nature and designation of the financial assets and is determined at the time of initial recognition. A regular way purchase or sale of financial assets shall be recognised and derecognised using trade date accounting. A regular way purchase or sale is a purchase or sale of financial asset under a contract whose terms require delivery of the asset within the time frame established by regulation or convention in the marketplace concerned.

3.19.1 Effective interest rate method

The effective interest rate method is a method of calculating the amortized cost of a debt instrument and allocating interest income over the relevant period of time. An effective interest rate is the exact discount rate of the estimated future cash payments (including all payments made and received, items constituting an integral part of an effective interest rate, transaction costs and other commissions and discounts) through the expected life of a debt instrument or when appropriate, over a shorter period to the net carrying amount on initial recognition.

Income is recognised on the basis of the effective interest rate of debt instruments other than financial assets measured at fair value through profit or loss.

3.19.2 Financial assets measured at fair value through profit or loss (FVTPL)

Financial assets are classified as assets measured at FVTPL if they are held for trading or measured at fair value through profit or loss.

A financial asset is classified as held for trading, if:

- it was acquired principally for the purpose of selling in the next term; or
- constitutes a part of a portfolio of financial instruments managed by the Group for which there is evidence of recent and actual pattern of short-term profit-taking; or
- is a derivative, except for derivative that is designated and effective hedging instrument.

A financial asset other than held for trading can be classified as measured at fair value through profit or loss at initial recognition if:

- such classification eliminates or significantly reduces incoherence of measurement or recognition under other circumstances; or

- the financial asset belongs to the group of financial assets or liabilities or to both groups managed whose result is measured at fair value in accordance with the documented risk management strategy or investments of the Group in which information on grouping assets is shared internally; or
- the financial asset is part of a contract including one or more embedded derivatives and under IAS 39 "Financial Instruments: Recognition and Measurement", the entire contract (assets or liabilities) can be classified as measured at fair value through profit or loss.

Financial assets measured at FVTPL are measured at fair value and profit and loss on remeasurement is recognised in profit or loss. Gains or losses include all dividends or interest on financial assets and is recognised in line other financial revenue or expenses in the statement of comprehensive income. The fair value is determined as described in Note 31.7.

3.19.3 Investments held to maturity (HTM)

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity, which the Group intends to and is able to hold to maturity. After initial recognition, investments held to maturity are measured at amortized cost using the effective interest rate method, taking into account the impairment.

3.19.4 Financial assets available for sale (AFS)

Financial assets available for sale are non-derivative financial assets designated as available for sale or not classified as (a) loans and receivables, (b) held to maturity investments (HTM), (c) financial assets at fair value through profit or loss (FVTPL).

A dividend on equity instruments available for sale is recognised in profit or loss when the Group obtains the right to dividend.

Equity investments held for sale not listed on an active market or whose fair value cannot be reliably measured and derivatives linked to them, settled in the form of transfer of such unlisted equity investments are measured at cost less impairment at the end of each reporting period.

3.19.5 Loans and receivables

Loans and receivables are non-derivative financial assets, with fixed or determinable payments, that are not listed on an active market. Loans and receivables (including trade receivables, bank balances and cash at bank) are measured at amortized cost using the effective interest rate method, taking into account the impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables, when the recognition of interest would be immaterial.

3.19.6 Impairment of financial assets

Financial assets except financial assets measured at fair value through profit or loss are tested for impairment at the end of each reporting period. It is deemed that assets are impaired if there are reasonable reasons to believe that the estimated cash flows have decreased as a result of an event or events after the date initial recognition of a given asset.

As regards equity investments available for sale, it is deemed that they are impaired if the fair value of the securities drops below the cost for a significant or extended period.

As regards to all other financial assets, objective evidence indicating their impairment can include:

- Significant financial difficulty of the issuer or counterparty;
- Breach of contract, e.g. default or delinquency in interest or principal payment
- Probability of bankruptcy or financial restructuring of the debtor;
- Disappearance of an active market of a given financial asset as a result of financial difficulties.

As regards trade receivables and assets that have not been impaired, an additional impairment test is conducted. Objective evidence indicating impairment of a portfolio of receivables includes the Group's experience in debt collection, a higher number of overdue payments from 6 to 12 months and over 12 months in the portfolio, and noticeable changes in domestic and international economic conditions having an effect on the overdue payment of receivables.

Impairment of a financial asset measured at amortized cost is the difference between the carrying amount and the present value of the expected future cash flows discounted using the original effective interest rate.

Impairment of a financial asset measured at cost is the difference between the carrying amount and the present value of the expected future cash flows discounted using the current effective rate of return on a similar financial asset. Such impairment is not subject to reversal in the subsequent periods.

The carrying amount of a financial asset is reduced directly by the impairment loss using an impairment account.

If the amount of impairment of financial assets measured at amortized cost is reduced in the subsequent period, and the reduction can be objectively linked to the event which took place after recognition of the impairment, the impairment loss is reversed in the statement of comprehensive income to the extent corresponding to the reversal of the carrying amount of the investment as at the date of impairment.

3.19.7 Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows generated by that asset expire or if the asset and all risks and benefits related to that asset are transferred to another entity. If the Group neither transfers all risks and benefits resulting from ownership of an asset nor retains them, but continues exercising control over the asses transferred, it recognises the interest retained in the asset and related liabilities to be satisfied. If the Group retains all risks and benefits resulting from ownership of a transferred asset, it continues recognizing that asset and secured borrowing costs under benefits received.

If an asset is completely derecognised, the difference between its carrying amount and total payment received and payable and accumulated profit or loss charged to other comprehensive income is recognised in profit or loss.

3.20 Financial liabilities and equity instruments

3.20.1 Classification: debt instruments or equity instruments

Debt and equity instruments issued by the Group are classified as financial liabilities or equity, depending on the contractual arrangements.

3.20.2 Financial liabilities

Financial liabilities are classified as "measured at FVTPL" or as "other financial liabilities".

3.20.2.1 Financial liabilities measured at FVTPL

The category comprises financial liabilities held for trading or classified as measured at FVTPL.

A financial liability is classified as held for trading, if:

- It it incurred principally for the purposes of repurchasing in the near term;
- It constitutes a part of a portfolio of financial instruments managed by the Group for which there is evidence of recent and actual pattern of short-term profit-taking; or
- It is a derivative, except for derivative that is designated and end effective hedging instrument.

Financial liabilities other than financial liabilities held for trading can be classified as financial liabilities measured at fair value through profit or loss on initial recognition if:

- Such classification eliminates or significantly reduces incoherence of measurement or recognition under other circumstances; or
- The financial asset belongs to the group of financial assets or liabilities or to both groups managed, whose result is measured at fair value in accordance with the documented risk management strategy or investments of the Group in which information on grouping assets is shared internally; or
- It is part of a contract including one or more embedded derivatives and under IAS 39, the entire contract (assets or liabilities) can be classified as measured at fair value through profit or loss.

Financial liabilities measured at FVTPL are measured at fair value and profit and loss on remeasurement is recognised in profit or loss. Gains or losses include all interest paid on financial liabilities and is recognised in line other financial revenue or expenses in the statement of comprehensive income. The fair value is determined as described in Note 31.7.

3.20.2.2 Other financial liabilities

After initial recognition, other financial liabilities (including credit facilities and loans, trade payables and other payables) are measured at amortized cost using the effective interest rate method.

3.20.2.3 Financial guarantee agreements

A financial guarantee agreement imposes on the Group a duty of making payments offsetting the holder's loss incurred as a result of a debtor's defaulting on a payment due in respect of a given debt instrument.

Financial guarantee agreements issued by the Group are measured at fair value, and it they are not classified as measured at FVTPL, they are measured at the higher of the following:

- The amount of the contractual liability determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and
- initially recognised amount reduced, when applicable, by total amortisation charges in accordance with the revenue recognition principles.

3.20.2.4 Derecognition of financial liabilities

The Group derecognises financial liabilities if they are paid or if they expire. The difference between the carrying amount of derecognised financial liability and the payment made is recognised in profit or loss.

4. Material values based on professional judgment and estimates

Applying accounting principles presented in Note 3, the Management Board of the Group is obliged to make estimates, judgments and assumptions in measuring assets and liabilities. The estimates and assumptions are based on historical experience and other significant factors. Actual results may differ from the estimated values.

4.1 Professional accounting judgement

Where a specific transaction is not regulated by any standard or interpretation, the Management Board of the Parent Company uses its judgement in developing and applying an accounting policy which ensures that the Consolidated Financial Statements contain relevant and reliable information and:

- present clearly and fairly the Group's financial position, financial performance and cash flows,
- reflect the substance of transactions,
- are objective;
- have been drawn up in line with the prudence principle; and
- are complete in all material respects.

4.2 Estimation uncertainty

Presented below are the main assumptions concerning the future and other key uncertainties as at the end of the reporting period which have a significant impact on the risk of material adjustment of the carrying amount of assets and liabilities in the next financial year.

4.2.1 Economic useful life of property, plant and equipment

The Management Board of the Parent Company estimates economic useful lives of particular property plant and equipment and determines depreciation rates of particular items. The estimations are based on expected economic useful lives of these assets. Depreciation rates may change in case of circumstances causing the change in expected useful life (e.g. technological changes, withdrawal from use, etc.). Consequently, the depreciation rates and the net carrying amount of non-current assets will also change.

4.2.2 Residual value of railroad fleet

The Group uses own and leased train engines and wagons (railroad fleet). According to the IFRS, residual value of non-current assets should be recognised separately and it should not be depreciated as a part of the total initial value of the property plant and equipment item. Residual value has been determined based on the average price of scrap as at the date of first time adoption of IFRS by the PKP CARGO S.A. The value is reviewed periodically and updated in case of significant changes in prices of scrap.

4.2.3 Measurement of financial instruments

As described in Note 31.7 to estimate the fair value of certain financial instruments, The Group uses measurement techniques that use input data which are not based on observable market data. Key assumptions applied in fair value measurement of financial instruments are disclosed in Note 31.7.

The Management Board of the Parent Company considers that the chosen measurement techniques and assumptions are appropriate to define the fair value of financial instruments.

4.2.4 Impairment of cash generating units, individual items of fixed assets and intangible assets

As according with the assumption presented in Note 3.14, the Group tests property, plant and equipment and intangible assets for impairment if objective evidence indicating impairment occurs. Key assumptions made in determining the realizable value of the asset are the analysis of impairment indicators, impairment testing model, discounting and growth rates.

4.2.5 Impairment allowances for loans granted and own receivables

The methodology applied to determine the impairment allowance is disclosed in Note 3.19.6, while the information underlying the estimation of the impairment allowance is disclosed in Note 16 to the Consolidated Financial Statements.

4.2.6 Impairment allowance on slow-moving and obsolete inventories

The methodology applied to determine the net realizable value of inventory is disclosed in Note 3.16, while the information underlying the estimation of the impairment allowance is disclosed in Note 18 to the Consolidated Financial Statements.

4.2.7 Deferred income tax

Assumptions adopted to recognise deferred tax asset are disclosed in Note 3.3.2, while the calculation of the deferred tax asset and deferred tax liability has been disclosed in Note 10 to the Consolidated Financial Statements.

4.2.8 Employee benefits

Key assumptions adopted to estimate provisions for employee benefits are: discount rates, remuneration growth and expected average employment period. Methods of recognizing the provision are disclosed in Note 3.17., while the calculation of the provision for employee benefits is disclosed in Note 29 to the Consolidated Financial Statements.

Provisions for employee benefits arising from the Voluntary Redundancy Program employees of the Company ("VRP" or "Program") was estimated based on the actual number of employees who have benefited from the program, known at the date of the financial statements. The value of the reserve was calculated individually for each employee in accordance with the Program Regulation, which regulates the amount of benefits payable to employees. The result of the calculation of the provision is presented in Note 29.2 to the Consolidated Financial Statements.

4.2.9 Provisions

Provisions for employment termination and restructuring benefits: discount rate and other assumptions. The assumptions adopted to measure provisions for claims and litigations are disclosed in Note 3.17, while the calculation of the provision is disclosed in Note 30 to the Consolidated Financial Statements.

4.2.10 Classification of finance leases

The Group concludes lease agreements for fixed assets. The Management Board of the Partner Company analyses the classification of such agreements as finance lease. The detailed principles of classifying lease agreements as finance lease are disclosed in Note 3.6 Note 27 to the Consolidated Financial Statements presents information concerning finance lease, while the operating lease has been presented in Note 33.

5. Operating segments

5.1. Products and services of the operating segment

The Group has not determined operating segments since it has a single product to which all services provided by the Group are assigned. The Group operates only in one segment - domestic and international transport of goods and providing comprehensive logistics services in the field of railway freight. The Management Board of the Parent Company analyzes financial data in a manner in which they have been presented in the Consolidated Financial Statements.

5.2. Geographical information

The Group defines geographical area as a registered office of the client, not the country where the services are provided. The related analysis has brought the following conclusions:

The Group operates in one geographical area, Poland, which is its country of residence. The total revenue for all geographical areas except from Poland does not exceed 15% of revenue. No other geographical area (except for Poland) exceeds 10% of revenue from sales of services.

Below are presented revenues from external customers by location:

	For the year ended 31/12/2014	For the year ended 31/12/2013
	PLN thousand	PLN thousand
Poland	3 582 888	3 880 123
Germany	165 853	233 114
Czech Republic	88 391	104 050
Slovakia	89 025	100 843
Cyprus	76 277	66 196
Other countries	159 737	169 595
Total	**4 162 171**	**4 553 921**

5.3 Information about major customers

The Group does not present any information about major customers, since no single customer generated revenue in excess of 10% of the sales revenue.

5.4 Structure of the sales revenue

The Group distinguishes several groups of services provided within the scope of its domestic and international activity (transport of goods and providing comprehensive logistics services in the field of railway freight) which have been presented in this Note. However, the Management Board of Parent Company does not take this division into account during evaluation of the Group's results and making decisions about the resource allocation to each group of services. Therefore the disclosed groups of activities cannot be treated as operating segments of PKP CARGO Group.

	For the year ended 31/12/2014	For the year ended 31/12/2013
	PLN thousand	PLN thousand
Transport revenue and railway shipping	3 791 533	4 141 611
Revenue from other transport activities	114 976	119 143
Siding and traction revenue	159 318	189 419
Cargo revenues	42 739	31 704
Other revenue (1)	53 605	72 044
Total	**4 162 171**	**4 553 921**

(1) The position of other revenue for the financial year ended 31 December 2014 presents mainly revenue arising from renting of railroad fleet – PLN 23,897 thousand, revenue arising from repair services of railroad fleet – PLN 9,242 thousand and revenue arising from customs agencies and border shipping services – PLN 10,814 thousand. In 2013 this position presents mainly revenue arising from renting of railroad fleet – PLN 27,985 thousand, revenue arising from repair services of railroad fleet PLN 22,308 thousand and revenue arising from complex support services connected with extraction of chalk – PLN 6,777 thousand.

6. Expenses by kind

6.1 Depreciation / amortization and impairment losses

	For the year ended 31/12/2014	For the year ended 31/12/2013
	PLN thousand	PLN thousand
Depreciation of property, plant and equipment	350 208	353 182
Amortisation of intangible assets	16 617	22 263
Impairment losses recognised / (derecognised):		
Property, plant and equipment	375	11 906
Assets held for sale	-	1 494
Total depreciation / amortization and impairment losses	**367 200**	**388 845**

6.2 Consumption of raw materials and supplies

	For the year ended 31/12/2014	For the year ended 31/12/2013
	PLN thousand	PLN thousand
Fuel consumption	207 634	223 173
Consumption of materials	27 604	58 394
Electricity, gas and water consumption	386 460	430 277
Impairment losses recognised / (derecognised)	(19 390)	(1 574)
Other (including physical count)	1 253	963
Total consumption of materials and supplies	**603 561**	**711 233**

6.3 External services

	For the year ended 31/12/2014	For the year ended 31/12/2013
	PLN thousand	PLN thousand
Access to infrastructure connections	680 009	951 434
Repair services	24 929	29 463
Rent and lease fees (real estate and railroad fleet)	167 144	155 338
Transport services	265 027	266 834
Telecommunication services	11 776	16 770
Legal, advisory and similar services	23 972	20 269
IT services	54 895	49 328
Services related to property maintenance and operation of fixed assets	29 601	36 879
Cargo services	18 284	19 201
Siding services	23 849	10 103
Other services	19 625	21 815
Total external services	**1 319 111**	**1 577 434**

6.4 Employee benefits

	For the year ended 31/12/2014	For the year ended 31/12/2013
	PLN thousand	PLN thousand
Salaries and wages	1 111 790	1 111 765
Costs of social insurance	220 955	226 281
Appropriation to the Company's Social Benefits Fund	33 595	32 825
Other employee benefits during employment	37 116	35 643
Other post-employment benefits	10 879	9 015
Employee Guarantees Program [1]	-	209 160
Voluntary Redundancy Program [2]	265 331	-
Changes in provision for employee benefits	60 702	74 042
Other employee benefit costs	4 387	15 824
Total employee benefits	**1 744 755**	**1 714 555**

[1] Employee Guarantee Program is described in details in Note 29.3.
[2] Voluntary Redundancy Program is described in details in Note 29.2.

7. Other operating revenue and expenses

7.1 Other operating revenue

	For the year ended 31/12/2014	For the year ended 31/12/2013
	PLN thousand	PLN thousand
Gains on disposal of assets:		
Gain on sales of non-current assets	9 550	4 225
Derecognised impairment losses:		
Trade receivables	5 602	5 570
Other (including interest on receivables)	533	3 464
	6 135	9 034
Other operating revenue:		
Return of paid fine imposed by OCCP	-	46 000
Release of provisions for the fine imposed by OCCP	14 362	9 945
Release of provisions for other fines	5 548	1 655
Interest on trade and other receivables	2 006	2 495
Forex gains on trade receivables and payables	213	749
Grants	68	25
Other	2 147	5 643
Other operating revenue total	**40 029**	**79 771**

7.2 Other operating expenses

	For the year ended 31/12/2014	For the year ended 31/12/2013
	PLN thousand	PLN thousand
Losses on disposal of assets:		
Loss on sales of non-current assets	-	244
Recognised impairment losses:		
Trade receivables	10 714	10 681
Other (including on interest on receivables)	364	979
	11 078	11 660
Other operating expenses:		
Costs of liquidation of non-current and current assets	7 666	16 311
Provisions for the fine imposed by OCCP	-	1 786
Provisions for other fines	2 573	21 986
Court and collection costs	771	781
Costs of transport benefits for non-employees	2 213	2 036
Interest on trade and other liabilities	582	1 105
Other	839	4 272
Other operating expenses total	**25 722**	**60 181**

8. Financial revenue

Interest income by class of financial instruments	For the year ended 31/12/2014	For the year ended 31/12/2013
	PLN thousand	PLN thousand
Interest income:		
Bank deposits and accounts	19 439	28 867
Bid bonds and collateral	274	396
Loans granted	26	1 194
Other (including interest on state settlements)	12 919	726
Total interest income	**32 658**	**31 183**

Interest income by category of financial instruments:	For the year ended 31/12/2014	For the year ended 31/12/2013
	PLN thousand	PLN thousand
Loans and receivables (including cash in hand and bank deposits)		
Loans and receivables (including cash in hand and bank deposits)	19 739	30 457
Other (including interest on state settlements)	12 919	726
Total interest income	32 658	31 183
Other financial revenue		
Gains on measurement of financial assets and liabilities at FVTPL	-	2 160
Other financial revenue		
Other	1 154	990
Total financial revenue	**33 812**	**34 333**

9. Financial expenses

Interest expense by class of financial instruments:	For the year ended 31/12/2014	For the year ended 31/12/2013
	PLN thousand	PLN thousand
Interest expense:		
Interest on loans and overdraft facilities	6 675	9 851
Interest on liabilities under finance lease agreements	11 840	15 870
Interest on long-term liabilities	7 679	10 361
Interest on bid bonds and guarantees	455	256
Other (including interest on state settlements)	733	1 702
Total interest expense	**27 382**	**38 040**

Interest expense by category of financial instruments:	For the year ended 31/12/2014	For the year ended 31/12/2013
	PLN thousand	PLN thousand
Interest expense:		
Financial liabilities measured at amortized cost	26 649	36 518
Other (including interest on state settlements)	733	1 522
Total interest expense	**27 382**	**38 040**
Other financial expenses		
Losses on shares:		
Recognised impairment losses on shares	9	-
Losses on measurement of financial assets and liabilities at FVTPL	2 857	-
Other financial expenses:		
Net forex loss	6 060	3 777
Other financial expenses	1 269	2 392
Total financial expenses	**37 577**	**44 209**

10. Income tax

10.1 Income tax recognised in profit or loss

	For the year ended 31/12/2014	For the year ended 31/12/2013
	PLN thousand	PLN thousand
Current income tax:		
Current tax expense	9 037	5 806
Adjustments recognised in the current period with respect to prior year tax	650	-
Total current income tax	**9 687**	**5 806**
Deferred income tax:		
Deferred tax that occurred in the reporting period	3 218	17 304
Deferred tax reclassified from equity to profit or loss	-	35
Total deferred income tax	**3 218**	**17 339**
Total tax expense recognised in the current year	**12 905**	**23 145**

The current tax liability is calculated based on the current tax regulations in force. Pursuant to these regulations, the tax profit (loss) differs from the accounting net profit (loss) due to the exclusion of non-taxable revenue and non-tax deductible expenses and items of expenses and revenues that will never be taxable. Tax liabilities are calculated on the basis of tax rates applicable in a given financial year. The existing regulations do not assume different tax rates for future periods.

Reconciliation of tax profit to accounting profit:

	For the year ended 31/12/2014	For the year ended 31/12/2013
	PLN thousand	PLN thousand
Profit before tax	74 190	88 532
Income tax expense at 19% rate	14 096	16 821
Effect of non-taxable revenues pursuant to tax regulations	(8 946)	(14 504)
The effect of costs not deductible expenses according to the tax laws	11 787	18 895
Effect of tax losses applied in the period (no deferred tax asset on these tax losses)	(260)	54
Using of the tax relief for the acquisition of new technologies [1]	(8 265)	-
Other	3 843	1 330
	12 255	**22 596**
Adjustments recognised in the current period with respect to prior year tax	650	549
Income tax expense recognised in profit	**12 905**	**23 145**

[1] In 2014 the Parent Company took the opportunity to deduct the incurred expenses connected with acquisition of new technologies from taxable income for the years 2008-2012 (art. 18b paragraph 2 of the Law on Corporate Income Tax).

The tax rate applied in the above reconciliation for 2014 and 2013 amounts to 19% and represents a current income tax imposed by Polish tax regulations.

Since 1 January 2015 Group has introduced tax group under the name PKP CARGO LOGISTICS – Capital Tax Group (CTG) (art. 1a of the Law on Corporate Income Tax). CTG was established by an agreement of CTG on 29 September 2014. CTG was established for 3 years (to 31 December 2017) and consists of PKP CARGO S.A as representing company, CARGOSPED Sp. z o.o., PKP CARGO SERVICE Sp. z o.o., PKP CARGOTABOR Sp. z o.o., and CARGOTOR Sp. z o. o.

10.2 Income tax recognized in other comprehensive income

	For the year ended 31/12/2014	For the year ended 31/12/2013
	PLN thousand	PLN thousand
Deferred income tax		
Due to income and expenses recognised in other comprehensive income:		
Fair value measurement of financial instruments designated as cash flow hedges	(600)	24
Actuarial gains/losses on post-employment benefit plans	(7 955)	3 026
Income tax recognised in other comprehensive income	**(8 555)**	**3 050**

10.3 Income tax receivables and liabilities

	As at 31/12/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Income tax receivables		
Tax refund receivable	3 053	2 394
Income tax liabilities		
Income tax payable	641	244

10.4 Deferred tax balance

Below is presented an analysis of deferred tax assets (liabilities) recognised in the Consolidated Statement of FinancialPosition:

	As at 31/12/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Deferred tax assets	88 273	83 185
Deferred tax liabilities	(2 328)	(2 577)
Total	**85 945**	**80 608**

Deferred income tax:

For the year ended 31/12/2014	Opening balance PLN thousand	Recognised in profit or loss PLN thousand	Recognised in other comprehensive income PLN thousand	Closing balance PLN thousand
Temporary differences resulting in items of deferred tax (liabilities) / assets				
Property, plant and equipment (incl. Finance Lease)	(155 333)	16 272	-	(139 061)
Investments accounted for under the equity method - impairment losses	-	3 364	-	3 364
Long-term liabilities	(3 031)	1 456	-	(1 575)
Inventories	4 364	(5 541)	-	(1 177)
Receivables - impairment allowance	9 042	(2 793)	-	6 249
Accrued interest on assets	(2 373)	1 765	-	(608)
Accrued interest on liabilities	1	(1)	-	-
Provisions for employee benefits	165 191	14 949	7 955	188 095
Other provisions	4 381	(1 916)	-	2 465
Accrued expenses	5 654	328	-	5 982
Deferred income	(2 665)	(2 789)	-	(5 454)
Unpaid employee benefits	9 048	(804)	-	8 244
Forex losses	9 354	(2 380)	-	6 974
Forex gains	(6)	12	-	6
Other (including hedging derivatives)	1 754	316	600	2 670
	45 381	22 238	8 555	76 174
Unused tax losses and other reliefs				
Tax losses (1)	35 227	(25 456)	-	9 771
Total deferred tax assets (liabilities)	**80 608**	**(3 218)**	**8 555**	**85 945**

(1) Deferred tax asset arising from tax losses to be used in future periods represents loss incurred by the Parent Company (of PLN 41,925 thousand) and tax loss of PLN 9,503 thousand in subsidiaries.

Deferred income tax:

For the year ended 31 December 2013	Opening balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Temporary differences resulting in items of deferred tax (liabilities) / assets				
Property, plant and equipment (incl. Finance Lease)	(106 471)	(48 862)	-	(155 333)
Long-term liabilities	(4 718)	1 687	-	(3 031)
Inventories - impairment allowance	4 665	(301)	-	4 364
Receivables - impairment allowance	8 234	808	-	9 042
Accrued interest on assets	(3 466)	1 093	-	(2 373)
Accrued interest on liabilities	5	(4)	-	1
Provisions for employee benefits	135 468	32 749	(3 026)	165 191
Other provisions	2 226	2 155	-	4 381
Accrued expenses	941	4 713	-	5 654
Deferred income	(940)	(1 725)	-	(2 665)
Unpaid employee benefits	7 150	1 898	-	9 048
Forex losses	12 487	(3 133)	-	9 354
Forex gains	(11)	5	-	(6)
Other (including hedging derivatives)	2 195	(417)	(24)	1 754
	57 765	(9 334)	(3 050)	45 381
Unused tax losses and other reliefs				
Tax losses (1)	43 197	(7 970)	-	35 227
Total deferred tax assets (liabilities)	**100 962**	**(17 304)**	**(3 050)**	**80 608**

(1) The deferred tax on tax losses to use in future period represented loss of the Parent Company (in the amount of PLN 182,649 thousand).

10.5 Tax losses and unused tax reliefs unrecognised in deferred tax asset

	As at 31/12/2014	As at 31/12/2013
	PLN thousand	PLN thousand
As at the reporting date, the following deferred tax assets remained unrecognised:		
- Unused tax losses[1)]	12 960	14 885
Total	**12 960**	**14 885**

[(1)]As at 31 December 2014 tax losses unrecognised in deferred tax asset represents the tax loss of companies PKP CARGOTABOR Usługi Sp. z o.o. of PLN 8,737 thousand, Cargosped Terminal Braniewo Sp. z o.o. of PLN 2,362 thousand and PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o. of PLN 1,861 thousand As at 31 December 2013 tax loss of PKP CARGOLOK Sp. z o.o. amounted to PLN 7,571 thousand and PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o of PLN 3,938 thousand represented the largest portion of the balance.

11. Property, plant and equipment

Carrying amounts:	As at 31/12/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Land	139 876	141 739
Buildings, premises, civil and water engineering structures	504 665	505 168
Technical equipment and machinery	120 825	134 361
Means of transport	3 220 195	3 034 047
Other fixed assets	7 757	9 935
Fixed assets under construction	18 224	30 196
Total	**4 011 542**	**3 855 446**

Including finance lease:	As at 31/12/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Technical equipment and machinery	6 138	18 895
Means of transport	324 810	349 008
Other fixed assets	-	43
Total	**330 948**	**367 946**

	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Means of transport	Other fixed assets	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Gross value						
Balance as at 31 December 2012	**115 053**	**511 809**	**263 885**	**4 116 823**	**30 787**	**5 038 357**
Additions:						
Acquisition	-	27 232	20 009	282 492	3 182	**332 915**
Finance leases	-	-	5 176	4 776	-	**9 952**
Contribution in kind	33 866	81 601	1 608	-	5	**117 080**
Other	-	1 228	2 630	943	631	**5 432**
Disposals:						
Sales	-	(17 821)	(594)	(3 533)	(72)	**(22 020)**
Liquidation	-	(2 439)	(2 450)	(149 939)	(249)	**(155 077)**
Reclassification to assets held for sale	(6 489)	-	-	(15 506)	-	**(21 995)**
Other	-	(623)	319	(806)	(2 358)	**(3 468)**
Balance as at 31 December 2013	**142 430**	**600 987**	**290 583**	**4 235 250**	**31 926**	**5 301 176**
Additions:						
Acquisition	-	27 278	21 610	491 084	1 587	**541 559**
Finance leases	-	-	275	2 465	-	**2 740**
Other	-	194	347	3	-	**544**
Disposals:						
Sales	(1 863)	(8 267)	(1 191)	(1 931)	(48)	**(13 300)**
Liquidation	-	(9 602)	(1 785)	(210 158)	(162)	**(221 707)**
Other	-	-	(397)	(639)	(399)	**(1 435)**
Balance as at 31 December 2014	**140 567**	**610 590**	**309 442**	**4 516 074**	**32 904**	**5 609 577**

	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Means of transport	Other fixed assets	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Accumulated depreciation						
Balance as at 31 December 2012	-	**69 711**	**129 620**	**1 041 769**	**18 730**	**1 259 830**
Additions:						
Depreciation charges	-	18 822	30 755	299 197	4 408	**353 182**
Other	-	531	16	3	680	**1 230**
Disposals:						
Sales	-	(3 503)	(428)	(2 605)	(54)	**(6 590)**
Liquidation	-	(1 021)	(3 501)	(133 419)	(1 205)	**(139 146)**
Reclassification to assets held for sale	-	-	-	(2 941)	-	**(2 941)**
Other	-	(21)	(240)	(801)	(568)	**(1 630)**
Balance as at 31 December 2013		**84 519**	**156 222**	**1 201 203**	**21 991**	**1 463 935**
Additions:						
Depreciation charges	-	23 480	33 344	289 686	3 698	**350 208**
Other	-	-	130	-	-	**130**
Disposals:						
Sales	-	(4 194)	(153)	(1 724)	(20)	**(6 091)**
Liquidation	-	(911)	(846)	(192 874)	(158)	**(194 789)**
Other	-	-	(106)	(412)	(372)	**(890)**
Balance as at 31 December 2014	-	**102 894**	**188 591**	**1 295 879**	**25 139**	**1 612 503**

	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Means of transport	Other fixed assets	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Accumulated impairment						
Balance as at 31 December 2012	**-**	**-**	**-**	**1 885**	**-**	**1 885**
Additions:						
Impairment recognition	691	11 300	-	-	-	**11 991**
Disposals:						
Impairment derecognition	-	-	-	(1 885)	-	**(1 885)**
Balance as at 31 December 2013	**691**	**11 300**	**-**	**-**	**-**	**11 991**
Additions:						
Impairment recognition	-	341	26	-	8	**375**
Disposals:						
Impairment derecognition	-	(8 610)	-	-	-	**(8 610)**
Balance as at 31 December 2014	**691**	**3 031**	**26**	**-**	**8**	**3 756**

Fixed assets under construction	For the year ende d 31/12/2014	For the year ende d 31/12/2013
	PLN thousand	PLN thousand
Opening balance	31 996	30 473
Additions	546 690	473 386
Grants to assets	(13 999)	(11 726)
Disposals - transfer to non-current assets	(544 299)	(459 948)
Disposals - discontinued investments	(364)	(189)
Closing balance	**20 024**	**31 996**

Accumulated impairment of fixed assets under construction	For the year ende d 31/12/2014	For the year ende d 31/12/2013
	PLN thousand	PLN thousand
Opening balance	1 800	-
Additions	-	1 800
Closing balance	**1 800**	**1 800**

11.1 Impairment recognised in the current year

In 2013, as a result of physical count of property, plant and equipment, the Group stated that part of its non-current assets had lost their usefulness because the Group ceased to use them in a business activity. This regards mainly investments in leased premises (PLN 11,300 thousand) and commenced but uncompleted investment in the region of Ostaszewo Toruńskie (PLN 1,800 thousand). Impairment loss on these assets was recognised in 2013. In 2014 as a result of the partial period book liquidation of these assets, the impairment loss was utilized in the amount of PLN 8,610 thousand.

As at 31 December 2014 the Group recognized an additonal impairment allowance on property, plant and equipment of PLN 375 thousand. Impairment allowance was presented in depreciation position.

11.2 Assets used as collateral

PKP CARGO Group has loan and credit agreements, which provide banks with collateral for Group’s assets.

As at 31 December 2014 the Group used as collateral the following assets:

a) train engines which are the subject of registered pledge to the amount of PLN 90,000 thousand, and
b) built-up land property covered by the mortgage to the amount of PLN 20,000 thousand,
c) other property, plant and equpiment assets amounting to PLN 2,569 thousand,
d) inventories amounting to PLN 600 thousand.

As at 31 December 2013 the Group used as collateral the following assets:

a) train engines which are the subject of registered pledge to the total amount of 351,960 thousand PLN, and
b) built-up land property covered by the mortgage to the amount of 20,000 thousand PLN,
c) other property, plant and equpiment assets amounting to PLN 3,912 thousand,
d) inventories amounting to PLN 600 thousand.

Detailed information on loans secured by the assets is disclosed in note 25.1.

Lease agreements concluded by the Group ale pledged on leased asset. Additionally lease agreements are secured with statement of submission to enforcement in the form of a notarizeed deed, pursuant to Article 777.1.4 and 777.1.5. of the Civil Proceedings Code, or in minor cases by a blank promissory note or receivables assignment contract.

11.3 Grants to property, plant and equipment

Within the framework of the Operational Programme "Infrastructure and Environment" the Parent Company signed with the Centre for EU Transport Projects (CEUTP) in Warsaw two agreements for financial support from the Cohesion Fund within the framework of the Company's investment activities.

The first contract, signed on 15 October 2012, concerns construction and equipment of railway intermodal terminal at the Poznań Franowo station. As at 31 December 2014 the total expenditure incurred by the Parent Company for the construction of the terminal amounted to PLN 18,957 thousand. This amount includes PLN 8,258 thousand of grant received.

The second agreement, signed on 24 October 2013, concerns purchase and supply of newly built wagons series Sggrss. As at 31 December 2014 the value of investments made on this purchase amounts to PLN 68,664 thousand. This amount includes PLN 17,468 thousand of grant received.

In the case of both contracts, the valve of government grants was recognised as a reduction of the initial value of property, plant and equipment which are subject of the contranct.

As at 31 December 2014 and 31 December 2013 there were no unfulfilled conditions related to the government grants.

12. Intangible assets

Carrying amountss	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Licenses	31 959	33 453
Intangible assets under development	26 309	27 942
	58 268	**61 395**

	Licenses-computer software PLN thousand	Intangible assets under development PLN thousand	Total PLN thousand
Gross value			
Balance as at 31 December 2012	**103 119**	**18 451**	**121 570**
Additions	-	19 885	**19 885**
Putting intangible assets under construction into use	9 718	(9 718)	**-**
Disposal or reclassification to asset held for sale	(15)	-	**(15)**
Other	(54)	(676)	**(730)**
Balance as at 31 December 2013	**112 768**	**27 942**	**140 710**
Additions	-	13 472	**13 472**
Putting intangible assets under construction into use	15 105	(15 105)	**-**
Other	(23)	-	**(23)**
Balance as at 31 December 2014	**127 850**	**26 309**	**154 159**

	Licenses-computer software PLN thousand	Intangible assets under development PLN thousand	Total PLN thousand
Accumulated amortisation			
Balance as at 31 December 2012	**57 138**	**-**	**57 138**
Amortisation charges	22 263	**-**	**22 263**
Other	(86)	**-**	**(86)**
Balance as at 31 December 2013	**79 315**	**-**	**79 315**
Amortisation charges	16 617	**-**	**16 617**
Other	(41)	**-**	**(41)**
Balance as at 31 December 2014	**95 891**	**-**	**95 891**

12.1 Significant intangible assets

The key intangible assets include licenses for integrated company management software SAP. As at 31 December 2014 the net value of software amounted to PLN 9,808 thousand (at 31 December 2013 - PLN 11,871 thousand).
As at 31 December 2014, the weighted average of remaining useful economic life of the aforemenioned SAP software is 3 years.

13. Subsidiaries

Detailed information regarding subsidiaries as at 31 December 2014 and 31 December 2013:

No.	Name of subsidiary	Core business	Place of registration and operation	% of interests and voting rights held by the Parent Company	
				As at 31/12/2014	As at 31/12/2013
1	CARGOSPED Sp. z o.o.	Forwarding services (transport of aggregate as well as domestic and international intermodal transport)	Warsaw	100%	100%
2	PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	Services supporting land transport, transshipment of goods, wholesale and retail sale of waste and metal scrap	Małaszewicze	100%	100%
3	PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o.	Transshipment of goods in other terminals	Żurawica	100%	100%
4	PKP CARGO SERVICE Sp. z o.o.	Siding services	Warsaw	100%	100%
5	PKP CARGO TABOR – Karsznice Sp. z o.o. (1)	Repair and maintenance of railroad	Zduńska Wola	-	100%
6	PKP CARGO International a. s. with registered office in Bratislava (3)	Shipping outside of Poland	Bratislava	51%	51%
7	Przedsiębiorstwo Spedycyjne TRADE TRANS Sp. z o.o.	Shipping services	Warsaw	56%	56%
8	PKP CARGOTABOR Sp. z o.o. (1)	Repair and maintenance of railroad fleet	Warsaw	100%	100%
9	PKP CARGOTABOR USŁUGI Sp. z o.o. (2)	Collection, processing and disposal of waste; recovery of recyclable materials	Warsaw	100%	100%
10	CARGOTOR Sp. z o. o.	Management of logistics infrastructure including railway sidings and tracks	Warsaw	100%	100%

The above entities are consolidated using the full method except for PKP CARGO International a.s. with the registered office in Bratislava, which is accounted for under the equity method. Changes in the PKP CARGO Group regarding subsidiaries that occurred in the period covered with the Consolidated Financial Statements are described below.

(1) On 2 June 2014 the Extraordinary General Shareholders Meetings of PKP CARGOWAG Sp. z o.o. and PKP CARGO TABOR-KARSZNICE Sp. z o.o. adopted resolutions to take-over of subsidiary PKP CARGO TABOR-KARSZNICE Sp. z o.o. in Zduńska Wola by PKP CARGOWAG Sp. z o.o. in Warsaw. The take-over was proceeded under Article 492 § 1 of the Commercial companies code, i.e. by transfer of all property from entity to acquiring company. The take-over was registered by the National Register Court on 1 July 2014. From 1 July 2014 PKP CARGOWAG Sp. z o.o operates under the name of PKP CARGOTABOR Sp. z o.o with its registered office in Warsaw, 100% of the share capital of the company belongs to the PKP CARGO S.A.

(2) On 1 July 2014 an agreement was signed for sale of the company between CARGOLOK Sp. z o.o. (vendor) and PKP CARGOTABOR Sp. z o.o. (buyer). The subject of the sale is the sale of the company, which is understood as the sale of organized units of tangible and intangible assets for business within the meaning of Art. 551 of the Civil Code (including the name of the company - PKP CARGOLOK, movable property, rights arising from contracts, cash, cash receivables, business secrets, books and documents related to business of the enterprise) and the assumption of liabilities associated with entrepreneurship. On 22 October 2014, Founding Act of PKP CARGOLOK Sp. z o.o. was changed in terms of changing the company's name and the subject of business activity. Since the 22 October 2014, the company has been operating under the firm of PKP CARGOTABOR USŁUGI Sp. z o.o. and its main business activities are: collection, processing and disposal of waste; recycling of materials.

(3) On 17 January 2014 the Extraordinary General Shareholders Meeting adopted a resolution and decided to dissolve the PKP Cargo with registered office in Bratislava and conduct its liquidation.

Information on the companies which are indirectly dependent (belonging to PS Trade Trans Sp. z o.o.), which are accounted for the Consolidated Financial Statements under the equity method are as follows:

	Name of subsidiary	Core business	Place of registration and operation	% of interests and voting rights held by the subsidiary (nominal value)	
				As at 31/12/2014	As at 31/12/2013
11	TRADE TRANS KARYA Sp. z o.o.	Transshipment of goods, customs depot	Lublin	100%	60%
12	TRANSGAZ S.A.	Transport agency	Zalesie k. Małaszewicz	64%	64%
13	TRADE TRANS FINANCE Sp. z o.o.	Financial and accounting services	Warsaw	100%	100%
14	PPHU UKPOL Sp. z o.o.	Transshipment of goods, customs depot	Werchrata	100%	75%

Information on the companies, indirectly dependent (belonging to Cargosped Sp. z o.o.) which are accounted for the Consolidated Financial Statements under the equity methodare as follow:

	Name of subsidiary	Core business	Place of registration and operation	% of interests and voting rights held by the subsidiary (nominal value)	
				As at 31/12/2014	As at 31/12/2013
15	Cargosped Terminal Braniewo Sp. z o.o.	Transshipment of goods, customs depot	Braniewo	100%	100%

14. Investments in entitiesaccounted for under the equity method

	For the year ended 31/12/2014	For the year ende d 31/12/2014
	PLN thousand	PLN thousand
Opening balance	**38 214**	**60 514**
Purchase of shares	305	500
Sales of shares / liquidation of the company	-	(7 861)
Share in profit/(loss) of investments accounted for under the equity method	1 751	3 386
Impairment allowance on shares in companies accounted for under the equity method	(870)	(16 824)
Changes in equity arising from dividend payment	(1 052)	(1 501)
Change in method of consolidation of investments that were accounted for under the equity method to full method [1]	(3 102)	-
Closing balance	**35 246**	**38 214**

[1] Because of the fact that as at 30 June 2014, CARGOTOR Sp. z o.o. has met the criteria defined in the accounting principles applied by the PKP Cargo Capital Group, this entity was consolidated using the full method in these interim condensed consolidated financial statements. As at 31 December 2013 CARGOTOR Sp. z o.o. was accounted for using the equity method in the consolidated financial statements of PKP Cargo Capital Group.

Below please find summary of the financial data of the entities accounted for under the equity method.

	As at 31/12/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Total assets	168 096	171 938
Total liabilities	58 792	61 584
Net assets [1]	**109 304**	**110 354**
Group's interests in net assets of entities accounted for under the equity method	31 784	32 215
Total revenue	316 583	311 914
Total profit for the reporting period	4 528	4 320
Group's share in the profit of entities accounted for under the equity method	1 751	3 386
Group's share in the comprehensive income of entities accounted for under the equity method	1 751	3 386

[1] Data calculated as the sum of subsequent net assets of all affiliates and subsidaries of the Group accounted for under equity method.

15. Detailed Information on entities accounted for under the equity method

Name of entity measured with equity method	% of interests and voting rights held by the Group		Carrying amount of assets	
	As at 31/12/2014	As at 31/12/2013	As at 31/12/2014	As at 31/12/2013
	%	%	PLN thousand	PLN thousand
COSCO POLAND Sp. z o.o.	20	20	1 171	1 128
Pol – Rail S.r.l [3]	37	36	7 882	5 740
PKP CARGO INTERNATIONAL a.s. [1]	51	51	-	-
CARGOTOR Sp. z o.o. [2]	-	100	-	3 103
Cargosped Składy Celne Sp. z o.o.	50	50	-	-
Terminale Przeładunkowe Sławków – Medyka Sp. z o.o.	28	28	19 989	21 000
Trade Trans Karya Sp. z o.o. [4]	56	34	1	334
Transgaz S.A.	36	36	3 774	3 990
Trade Trans Finance Sp. z o.o.	56	56	224	529
PPHU "Ukpol" Sp. z o.o. [5]	56	42	13	-
Rail Cargo Spedition GmbH	21	21	-	869
Rentrans Cargo Sp. z o.o.	15	15	1 771	1 075
Rail Cargo Service Sp. z o.o.	11	11	135	160
SC TRADE TRANS TERMINAL SRL	13	13	-	-
Gdański Terminal Kontenerowy S.A.	42	42	286	286
TOTAL			**35 246**	**38 214**

[1] On 17 January 2014 the Extraordinary General Shareholders Meeting adopted a resolution and decided to dissolve the Company and conduct its liquidation, therefore, the Parent company has recognised an additional impairment allowance. As a result these shares were written off to null.

[2] CARGOTOR Sp. z o.o. was founded on 10 October 2013 and registered in the National Court Register on 13 November 2013. As at 31 December 2013 CARGOTOR Sp. z o.o. was accounted for using the equity method in the consolidated financial statements of PKP Cargo Capital Group. Because of the fact that as at 30 June 2014, CARGOTOR Sp. z o.o. has met the criteria defined in the accounting principles applied by the PKP Cargo Capital Group, this entity was consolidated using the full method in these interim condensed consolidated financial statements.

[3] On 24 July 2014, the Ordinary General Shareholders Meeting of the Trade Trans Sp. z o.o has adopted a resolution to purchase a 3.23% shares of POL-RAIL S.r.l. The share purchase agreement was signed on 16 September 2014. As at 31 December 2014 PS Trade Trans Sp. z o.o has a 28.2% shares, while PKP CARGO SA has 21.8% of the share capital of POL – RAIL S.r.l

[4] On 21 November 2014, the company PS TRADE TRANS Sp. z o.o. acquired 139 shares in the company TRADE TRANS KARYA Sp. z o.o. based in Lublin, representing 39.7% of the share capital of the company, from the second shareholder- the company KARYA Sp. z o.o. based in Lublin. As at 31 December 2014, the company PS TRADE TRANS Sp. z o.o. owns 100% of the share capital TRADE TRANS KARYA Sp. z o.o..

[(5)] On 16 December 2014 the company entered into Conditional Share Purchase Agreement between the shareholders of the company PPHU UKPOL Sp. z o.o. - Mr. Marian Syty (the Seller) and PS TRADE TRANS Sp. z o.o. (Buyer). Under this agreement, Mr. Marian Syty sold to PS TRADE TRANS Sp. z o.o. 25 shares of PPHU UKPOL Sp. z o.o., constituting 25% of the share capital. As at 31 December 2014, the company PS TRADE TRANS Sp. z o.o. owns 100% of the shares in the company PPHU UKPOL Sp. z o.o., whose carrying amount is PLN 12,625.

16. Other financial assets

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Derivatives designated and used as hedges, recognised at fair value (positive measurement of derivatives)		
Currency forwards and spots	-	2 387
Investments in shares		
Shares in Polish entities [1]	6 020	6 020
Shares in foreign entities [1]	-	9
	6 020	6 029
Loans and receivables measured at amortized cost		
Loans granted to related entities		
Loans granted to other entities	4 999	5 044
Deposits from 3 months to 1 year	301 415	604 420
Receivables from EGP [2]	-	79 614
	306 414	689 078
Total	**312 434**	**697 494**
Non-current assets	6 051	6 090
Current assets	306 383	691 404
	312 434	**697 494**

[1] As at 31 December 2014 the impairment allowance on shares amounts to PLN 11,833 thousand, while as at 31 December 2013 amounted to PLN 11,825 thousand.

[2] As at 31 December 2013, the receivables from the Employment Guarantees Program (EGP) presented the cash paid by PKP CARGO S.A. and its subsidiaries included in EGP to the entitled employees' bank accounts in the brokerage house as a payment provided for shares on behalf of entitled employees. Cash transferred to the brokerage house was returned to PKP CARGO S.A. on 5 May 2014 after registration of the Company's share capital increase as a payment for employee' shares. The share based payment cost on this transaction was incurred by Group companies, which were obliged to pay for the shares of PKP CARGO S.A. granted to employees of subsidiaries.

17. Other non-financial assets

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Advances for purchase of fixed assets	1 059	1 059
Prepayments	40 664	33 240
Other	1 168	494
Total	**42 891**	**34 793**
Non-current assets	14 645	1 438
Current assets	28 246	33 355
Total	**42 891**	**34 793**

As at 31 December 2014 the most significant items of prepayments for external services are: advances for purchase of remaining traction energy (in the amount of PLN 16,534 thousand), cost of rents for the subsequent periods (in the amount of PLN 16,174) cost of IT services (in the amount of PLN 3,706 thousand). In the corresponding period the most significant itmes of prepayments for external services were: costs of IT services (in the amount of PLN 7,154 thousand) costs of prepaid rents (in the amount of PLN 2,648 thousand) and costs of prepaid transport benefits for employees (in the amount of PLN 10,452 thousand).

18. Inventories

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Materials (gross)	113 440	92 258
Semi-finished products	2 417	2 045
Finished products	3 082	4 742
Impairment loss (-)	(3 641)	(23 004)
Net inventories	**115 298**	**76 041**

In the period ended 31 December 2014, as a result of the verification of usefullness of inventory, the Group derecognized the impairment allowance on spare parts for rolling stock in the amount of PLN 17,034 thousand due to the fact that they are strategic and full-value inventories which are used for repairing rolling stock owned by the Group.

As for the other itmes of inventory, in the period ended 31 December 2014, the Company reversedthe impairment allowance in the amount of PLN 2,664 thousand and recognized the impairment allowance in the amount of PLN 335 thousand.

19. Trade and other receivables

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Trade receivables	581 790	657 543
Impairment allowance for receivables	(84 213)	(102 511)
Total	**497 577**	**555 032**
Receivables from sales of non-financial non-current assets	-	21 325
Settlements under public law (excluding CIT)	4 932	4 796
Guarantee, deposits and bid bonds	1 269	999
Receivables from co-financing agreements	-	10 782
VAT settlements	16 262	9 840
Other receivables	6 109	6 493
Total	**526 149**	**609 267**
Current assets	526 149	609 267
Total	**526 149**	**609 267**

19.1 Trade receivables

The aging analysis of overdue receivables for which no impairment allowance was recognized.

Trade receivables	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Current receivables	441 501	491 143
Overdue receivables		
Up to 90 days	48 956	62 339
From 91 to 365 days	7 028	932
Over 365 days	92	618
Total	**497 577**	**555 032**
Average debt age (days)	**43**	**42**

Change in impairment allowance for doubtful debt.

Trade receivables	For the year ended 31/12/2014 PLN thousand	For the year ended 31/12/2013 PLN thousand
Opening balance	**102 511**	**87 214**
Recognised impairment allowance for receivables	26 683	48 018
Utilized during the year	(30 829)	(2 957)
Derecognised impairment allowance	(14 152)	(29 764)
Closing balance	**84 213**	**102 511**

20. Cash and cash equivalents

For the purpose of preparation of the statement of cash flows, cash and cash equivalents consist of cash in hand and cash at bank, including bank deposits up to 3 months maturity. Cash and cash equivalents recognised in the statement of cash flows at the end of the financial year can bereconciles to the financial statement as its presented below:

	For the year ended 31/12/2014 PLN thousand	For the year ended 31/12/2013 PLN thousand
Cash in hand and at bank	73 647	82 738
Bank deposits up to 3 months	355 531	180 962
Total	**429 178**	**263 700**
Cash and cash equivalents classified for sale	-	-
Total	**429 178**	**263 700**

21. Explanation of changes of captions in the Consolidated Statement of Financial Position and other adjustments presented in the Consolidated Statement of Cash Flows.

	For the year ended 31/12/2014 PLN thousand	For the year ended 31/12/2013 PLN thousand
Actuarial gains/(losses) recognised in the statement of comprehensive income	(41 868)	15 924
The effective portion of gains/(losses) on the hedging instruments in a cash flow	(3 157)	126
Change in provisions for Employment Guarantees Program included in equity	-	100 015
Total other adjustments	**(45 025)**	**116 065**

22. Non-current assets classified as held for the sale

As at 31 December 2014 and 31 December 2013 non-current assets classified as held for sale were as follows:

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Land held for sale	4 994	4 994
Vehicles	12 566	12 566
	17 560	**17 560**

As at 31 December 2013 the Group had some redundant non-current assets and decided to sell them.

Non-current assets held for sale includes 4 land properties, as well as 77 train engines, which due to their technical usage are not in use. In case of other assets held for sale the Group is actively engaged in efforts to sell them.

23. Share capital

	As at 31/12/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Share capital consists of:		
Ordinary shares, fully paid and registered	**2 239 346**	**2 166 901**

As at 31 December 2014 and as at 31 December 2013 share capital consisted of ordinary shares with the nominal value of PLN 50 each

23.1 Ordinary shares fully covered with capital

	Number of shares	Share capital
	units	PLN thousand
As at 31 December 2012	**2 889 200**	**2 889 200**
issue of shares - registered on 2 October 2013	1	1
reduction of share capital - registered on 2 October 2013	-	(722 300)
Share capital after changes	2 889 201	2 166 901
Other changes:		
share split 1:15 - registered on 2 October 2013	43 338 015	2 166 901
As at 31 December 2013	**43 338 015**	**2 166 901**
Issue of shares series C	1 448 902	72 445
Stan na 31 grudnia 2014 roku	**44 786 917**	**2 239 346**

According to the agreement between the Management Board of the parent company and trade unions signed on 2 September 2013 on subject of the Employment Guarantees Program (EGP), the parent company made the transaction of payment in form of shares. On 2 October 2013 the Extraordinary General Shareholders Meeting of parent company adopted resolution of share capital increase by issuance of series C shares, which were acquired in the open subscription. On 7 March 2014, the Management Board of the parent company allocated shares of series C to eligible employees. In the subscription, the parent company has allocated 1,448,902 shares of series C at a nominal price of PLN 50 per each. Employee benefits are disclosed in Note 29.3

Issuance of series C shares was registered in the National Court Register by the District Court for the Capital City Warsaw in Warsaw, XII Commercial Division of the National Court Register on 25 April 2014.

23.2 Share Premium

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Share premium, including:	**615 343**	**692 761**
Agio	201 263	175 741
Profit appropriation (statutory)	44 023	36 496
Profit appropriation (above the statutory minimum)	230 075	240 526
Capital created from shares redemption	139 982	139 982
Share-based payment provision	-	100 016

In accordance with the Code of Commercial Companies, joint stock companies are obliged to create share premium to cover losses. This capital receives at least 8% of the profit for a given financial year recognised in the Separate financial statements of the entity, until it reaches at least one third of the share capital of the entity. The use of the share premium and reserve capital is decided upon by the General Meeting. However, the portion of the share premium representing one third of the share capital may be used only to cover a loss disclosed in the Separate Financial Statements of the Company and cannot be allocated to other purposes. The amount allocated for distribution among the shareholders may be increased by retained earnings and by amounts reclassified from share premium created from profit.

Agio represents the excess of the issue valve over the nominal valve of Company's shares which is transferred into the share premium with no ability to pay dividend.

Capital created from shares redemption is the capital created by reduction of the Company's share capital in 2013 and intended to cover losses.

As at 31 December 2013 the share-based payment provision resulted from Employment Guarantees Program (EGP). On 2 September 2013 the Management Board of PKP CARGO S.A. and trade unions signed an agreement on the Employment Guarantees Program (EGP). On 7th March 2014 the Management Board has allocated the shares to eligible employees. Employee benefits are discolosed in Note 29.3.

On 12 May 2014, the General Shareholders Meeting of PKP CARGO S.A. ("GSM") adopted a resolution on distribution of profit recognized in 2013, resulting from the Separate Financial Statements of the Parent Company for the year ended 31 December 2013. In accordance with the GSM resolution net profit achieved in 2013 in the amount of PLN 94,083 thousand, was allocated to:

1) payment of the dividend in amount of PLN 86,556 thousand,
2) share premium in the amount of PLN 7,527 thousand.

Additionally, the General Shareholders Meeting decided to allocate PLN 50,939 thousand from retained earnings on the payment of the dividend. The dividend day was estabilished on 20 May 2014 and the dividend payment date on 4 June 2014.

24. Earnings per share

	For the year ended 31/12/2014 PLN thousand	For the year ended 31/12/2013 PLN thousand
Profit used to calculate basic earnings per share on continuing operations	58 987	74 043

24.1 Basic earnings per share

	For the year ende d 31/12/2014 PLN thousand	For the year ende d 31/12/2013 PLN thousand
Weighted average number of ordinary shares	44 524 924	43 338 006
Basic earnings per share (PLN per share)	1.32	1.71

The net profit per share for each period is calculated as a quotient of the net profit for the period and the weighted average number of shares existing in that period. The weighted average number of shares existing in a given period includes treasury shares.

24.2 Diluted earnings per share

	For the year ende d 31/12/2014 PLN thousand	For the year ende d 31/12/2013 PLN thousand
Weighted average number of ordinary shares	44 790 878	43 821 559
Diluted earnings per share (PLN per share)	1.32	1.69

In accordance with IAS 33 the Company prepares diluted earnings per share calculation taking into account the potential shares which are issued conditionally under the incentive program - the program of share based payments (EGP) described in Note 29.3.

25. Credit facilities and loans received

	As at 31/12/2014 thousand PLN	As at 31/12/2013 thousand PLN
Credit facilities and loans received measured at amortized cost		
Overdraft facilities	271	9 147
Bank loans - pledged on assets	39 387	183 833
Bank loans - other	258 956	-
Borrowings from other entities	1 586	1 795
Total	**300 200**	**194 775**
Non-current liabilities	208 077	121 558
Current liabilities	92 123	73 217
Total	**300 200**	**194 775**

25.1 Summary of loan and borrowings agreements

Investment loans agreements in the Group were signed mainly to finance the modernization of engines, to finance the purchase of real estate and to modernize transshipment terminals. The reference rate for loan agreements is WIBOR 1M and 3M plus margin. The agreements are usually signed for the period of maximum 5 years. Repayment is made in PLN. Investment loan agreements are secured by a registered pledge on the subject of financing which is gradually released after payment of specific amount of money. Loan for the purchase of real estate is secured by the mortgage.

Below please find summary of other bank loans taken by the Group (companies consolidated with the full method):

As at 31/12/2014 (Parent company)

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in PLN thousand	Liability in PLN thousand
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	05.10.2015	Bank enforcement[1)]	53 000	8 500
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	21.03.2016	Bank enforcement[1)]	36 400	8 950
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.03.2016	Bank enforcement[1)]	36 600	11 185
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Bank enforcement[1)]	39 000	21 174
Investment loan	FM Bank PBP S.A.	PLN	WIBOR 1M + margin	31.10.2017	Registered pledge on the diesel engines ST44 to the amount of PLN 90,000 thousand[3)]	60 000	27 442
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2017	Bank enforcement[1)]	49 200	29 520
Investment loan	Bank Millennium S.A.	PLN	WIBOR 3M + margin	21.08.2017	Mortgage to the amount of PLN 20,000 thousand	16 667	8 883
Investment loan	Bank Gospodarstwa Krajowego	PLN	WIBOR 1M + margin	31.03.2021	Bank enforcement[1)]	515 200	178 429
						Total	**294 083**

[1)] On 29 October 2014, the Parent Company concluded with mBank S.A. annexes to investment loans agreements exempting pledges in the form of registered pledges. The Parent Company received a notice from the registry court that the aforementioned train engines were deleted from the registry of pledges.

[2)] On 16 December 2014 the Parent Company concluded with Pekao S.A. annex to investment loan agreement exempting pledge in the form of registered pledge. As at 31 December 2014, the Parent Company is awaiting an adequate notice from the registry court.

[3)] On 18 Februrary 2015 the Company concluded with FM Bank PBP S.A. annex to investment loan agreement exempting pledge in the form of registered pledge established on diesel engines.

On 11 September 2014, the Parent Company signed an investment loan agreement with Bank Gospodarstwa Krajowego up to the amount of PLN 515,200 thousand. The loan is dedicated to finance and / or refinance the modernization of train engines and scheduled overhauls of rolling stock. The agreement has been divided into projects where the repayment period for a single project is 5 years from the moment of drawdown of each advance of the loan. The last date when the last advance of the loan will be available is 31 March 2016. Until 31 December 2014, the amount of advanced received by the Company under the loan agreement amounted to PLN 178,429 thousand.

As at 31/12/2014 (subsidiaries)

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in PLN thousand	Liability in PLN thousand
Loan	BGŻ Leasing Sp. z o.o.	PLN	WIBOR 1M + margin	15.03.2015	Transfer of ownership registered pledge on company's assets	88	8
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	30.06.2015	1) Transfer of receivables, 2) Authorization to charge bank accounts, 3) Statement of submission to enforcement, 4) Registered pledge	7 600	524
Loan	BGŻ Leasing Sp. z o. o.	PLN	WIBOR 1M + margin	15.08.2015	Transfer of ownership registered pledge on company's assets	186	28
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2015	1) Transfer of receivables, 2) Authorization to charge bank accounts, 3) Statement of submission to enforcement, 4) Registered pledge	18 400	2 538
Overdraft facilities	PKO BP S.A.	PLN	WIBOR 1M + margin	15.04.2016	Capped mortgage in amount of PLN 700 thousand, Pledge on inventories PLN 600 thousand	1 300	271
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.09.2016	Surety of PKP CARGO S.A. up to PLN 1,048 thousand	911	317
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.10.2016	Surety of PKP CARGO S.A. up to PLN 1,380 thousand with submission to enforcement by the guarantor	1 200	455
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Surety of PKP CARGO S.A. up to PLN 1,028 thousand	894	426
Loan	WFOŚIGW Łódź	PLN	2,5% (fixed interest rate)	31.03.2024	1) Blank promissory notes, 2) Non-revocable authorization to charge bank accounts, 3) Surety of PKP CARGO S.A.	1 500	1 550
						Total	**6 117**

As at 31/12/2013 (Parent company)

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in PLN thousand	Liability in PLN thousand
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	05.10.2015	Registered pledge on the electric engines ET22 which is gradually released after payment of specific amount of money	53 000	19 180
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	21.03.2016	Registered pledge on the electric engines ET22 which is gradually released after payment of specific amount of money	36 400	16 270
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.03.2016	Registered pledge on the electric engines EU07 which is gradually released after payment of specific amount of money	36 600	20 137
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Registered pledge on the electric engines ET22 which is gradually released after payment of specific amount of money	39 000	29 659
Investment loan	Bank Millennium S.A.	PLN	WIBOR 3M + margin	21.08.2017	Mortgage to the amount of PLN 20,000 thousand	16 667	12 219
Investment loan	FM Bank PBP S.A.	PLN	WIBOR 1M + margin	31.10.2017	Registered pledge on the diesel engines ST44 which is gradually released after payment of specific amount of money	60 000	38 562
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2017	Registered pledge on the diesel engines ST45 which is gradually released after payment of specific amount of money	49 200	39 360
						Total	**175 387**

As at 31/12/2013 (subsidiaries)

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in PLN thousand	Liability in PLN thousand
Overdraft facilities	Bank Pekao S.A.	PLN	WIBOR 1M + margin	30.06.2014	1) Transfer of receivables, 2) Authorization to charge bank accounts, 3) Statement of submission to enforcement	15 000	7 772
Overdraft facilities	CITI Handlowy	PLN	WIBOR 1M + margin	30.01.2015	Transfer of receivables in amount of PLN 30,000 thousand	20 000	294
Loan	BGŻ Leasing Sp. z o.o.	PLN	WIBOR 1M + margin	15.03.2015	Transfer of ownership registered pledge on company's assets	88	40
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	30.06.2015	1) Transfer of receivables, 2) Authorization to charge bank accounts, 3) Statement of submission to enforcement, 4) Registered pledge	7 600	1 573
Loan	BGŻ Leasing Sp. z o.o.	PLN	WIBOR 1M + margin	15.08.2015	Transfer of ownership registered pledge on company's assets	186	69
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2015	1) Transfer of receivables, 2) Authorization to charge bank accounts, 3) Statement of submission to enforcement, 4) Registered pledge	18 400	5 076
Overdraft facilities	PKO BP	PLN	WIBOR 1M + margin	15.04.2016	Capped mortgage in amount of PLN 700 thousand, Pledge on inventories PLN 600 thousand	1 300	1 080
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.09.2016	Surety of PKP CARGO S.A. up to PLN 1,048 thousand	911	498
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.10.2016	Surety of PKP CARGO S.A. up to PLN 1,380 thousand with submission to enforcement by the guarantor	1 200	703
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Surety of PKP CARGO S.A. up to PLN 1,028 thousand	767	597
Loan	WFOŚIGW Łódź	PLN	2,5% (fixed interest rate)	10.03.2024	1) Blank promissory notes, 2) Non-revocable authorization to charge bank accounts, 3) Surety of PKP CARGO S.A.	1 500	1 686
						Total	**19 388**

Not utilized credit and overdraft facilities

Type of loan	Name of bank	Currency	As at 31.12.2014	As at 31.12.2013
Investment loan	Bank Gospodarstwa Krajowego	PLN	336 771	-
Investment loan	European Investment Bank	PLN	240 000	200 000
Overdraft facilities	mBank S.A.	PLN	100 000	100 000
Overdraft facilities	PKO BP	PLN	1 029	220
Overdraft facilities	Bank Pekao S.A.	PLN	2 500	7 228
Overdraft facilities	CITI Handlowy	PLN	-	19 706
Total not utilized credit and overdraft facilities			**680 300**	**327 154**

25.2 Events of default in loan agreements

Within the period covered by these Consolidated Financial Statement no breaches of covenants in loan agreements occured.

26. Other financial liabilities

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Derivatives designated and used as collateral, measured at fair value (negative measurement of derivatives)		
Interest-rate swap (IRS)	3 284	306
Currency forwards and spots	650	-
Total	**3 934**	**306**
Current liabilities	3 934	306
Total	**3 934**	**306**

27. Short and long-term finance lease liabilities and leases with purchase option

27.1 General terms of lease

The Group uses mainly cargo wagons, transshipment devices, devices of technical backroom, cars, computer hardware under finance leases. The leases are concluded for 3 to 11 years. The Group may buy the leased equipment for the amount equivalent to its residual value at the end of lease term. EURIBOR 1M, 3M, 6M is the reference rate for contracts denominated in EUR, LIBOR 6M CHF is the reference rate for those denominated in CHF, and WIBOR 1M and 3M is the reference rate for those denominated in PLN.

27.2 Lease liabilities

	Minimum Lease Payments	
	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Up to one year	137 662	129 093
Over one year, up to five years	161 747	280 892
Over five years	48 136	61 434
	347 545	471 419
Less future lease charges	(28 967)	(42 493)
Present value of minimum lease payments	**318 578**	**428 926**

	Present value of minimum lease payments	
	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Up to one year	127 742	115 790
Over one year, up to five years	144 327	255 250
Over five years	46 509	57 886
Present value of minimum lease payments	**318 578**	**428 926**

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Included in the financial statements under:		
Long-term liabilities due to finance lease and leases with purchase option	190 836	313 136
Short-term liabilities due to finance lease and leases with purchase option	127 742	115 790
Total	**318 578**	**428 926**

28. Trade and other payables

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Trade payables	227 664	266 864
Accruals	20 453	23 305
Liabilities due to purchase of non-financial non-current assets	134 685	203 866
Liabilities related to securities (deposits)	21 624	32 279
State payables	106 215	124 784
Settlements with employees	79 764	82 332
Other payabels	3 987	4 341
VAT payables	4 030	51 758
Total	**598 422**	**789 529**
Non-current liabilities	67 982	113 688
Current liabilities	530 440	675 841
Total	**598 422**	**789 529**

In case of short-term liabilities in which the contractual payment deadline exceeds 30 days, the Group is not charged by suppliers with statutory interest arising from the Act on payment deadlines in commercial transactions dated 12 June 2003 (Law Journal of 8 August 2003). Over last three years, the Group paid its liabilities within the contractual deadlines.

Long-term liabilities include in particular installments regarding the purchase (improvements of property, plant and equipment). They are made in accordance with pre-defined payment schedules.

29. Employee benefits

The actuarial valuation was based on the following assumptions:

	Measurement as at	
	31/12/2014	31/12/2013
	%	%
Discount rates	2.60	4.00
The average annual increase assumed for the basis of calculation of the provision for retirement benefits and jubilee bonuses	1.50	1.50
Assumed increase in the price of benefit entitlement	2.50	1.5 – 3.6
The average annual increase assumed for the basis of calculation of the provision for Social Benefit Fund	3.60	3.60
Weighted average employee mobility ratio	2.50	2.50
Inflation (annual)	2.50	2.50

Amounts recognised in **profit or loss** in relation to employee benefit plans are as follows:

	For the year ended 31/12/2014	For the year ended 31/12/2013
	PLN thousand	PLN thousand
Post-employment defined benefit plans		
– retirement benefits	10 155	10 846
– appropriations to the Social Benefit Fund for pensioners	7 001	8 184
– transport benefits	1 797	1 196
Other long-term employee benefits		
– jubilee bonuses	39 549	40 253
Short-term benefits		
– other employee benefits	2 200	13 345
Total change in employee benefit plans	**60 702**	**73 824**
– provision for Employment Guarantees Program (EGP)	-	73 171
– provision for Voluntary Redundancy Program (VRP)	265 331	-
Total	**326 033**	**146 995**

Amounts recognised in **other comprehensive income** in relation to employee benefit plans:

	For the year ended 31/12/2014 PLN thousand	For the year ended 31/12/2013 PLN thousand
Post-employment defined benefit plans		
– retirement benefits	17 689	4 198
– appropriations to the Social Benefit Fund for pensioners	23 174	(16 996)
– transport benefits	1 005	(3 126)
Total	**41 868**	**(15 924)**

Amount recognised in the Statement of Financial Position in relation to Company's liabilities arising from employee benefit plans:

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Post-employment defined benefit plans		
– retirement benefits	158 448	148 188
– appropriations to the Social Benefit Fund for pensioners	168 876	145 039
– transport benefits	37 719	36 232
Other long-term employee benefits		
– jubilee bonuses	323 382	329 546
Short-term benefits		
– other employee benefits (unused holidays / bonuses)	39 305	37 208
– provision for Employment Guarantees Program (EGP)		73 171
– provision for Voluntary Redundancy Program (VRP)	265 331	
Total	**993 061**	**769 384**
including:		
– long-term	658 217	592 923
– short-term	334 844	176 461

Changes in the present value of defined benefit plan liabilities in the current period:

	For the year ended 31/12/2014	For the year ended 31/12/2013
	PLN thousand	PLN thousand
Opening balance of defined benefit plan liabilities	**769 384**	**716 443**
Current service cost	21 222	21 100
Other employee benefits	2 128	13 345
Past service cost vested	-	85
Interest expense	23 414	23 511
Actuarial losses/ (gains) - post-employment benefits	41 868	(15 924)
Actuarial losses/ (gains) - other long term employee benefits	13 938	15 812
Benefits paid	(71 053)	(78 886)
Plan reduction / modification	-	727
Employment Guarantees Program	(73 171)	73 171
Voluntary Redundancy Program	265 331	-
Closing balance of defined benefit plan liabilities	**993 061**	**769 384**

Actuarial (gains) / losses incurred in 2014 arise from:

	changes in demographic assumptions	changes in financial assumptions	Total
	PLN thousand	PLN thousand	PLN thousand
Actuarial losses/ (gains) - post-employment benefits			
– retirement benefits	694	16 995	**17 689**
– provision for Employment Guarantees Program (EGP)	(3 527)	26 701	**23 174**
– transport benefits	(5 121)	6 126	**1 005**
Actuarial losses/ (gains) - other long term employee benefits			
– jubilee bonuses	(13 629)	27 567	**13 938**
Total	**(21 583)**	**77 389**	**55 806**

Actuarial (gains)/ losses incurred in 2013 arise from:

	changes in demographic assumptions	changes in financial assumptions	Total
	PLN thousand	PLN thousand	PLN thousand
Actuarial losses/ (gains) - post-employment benefits			
– retirement benefits	3 914	284	**4 198**
– provision for Employment Guarantees Program (EGP)	(14 259)	(2 737)	**(16 996)**
– transport benefits	(2 207)	(919)	**(3 126)**
Actuarial losses/ (gains) - other long term employee benefits			
– jubilee bonuses	15 662	150	**15 812**
Total	**3 110**	**(3 222)**	**(112)**

Weighted average period of employee benefits amounts to 14,01 years for jubilee bonuses, 8,06 years for retirement benefits, 15,47 years for disability benefits, 37,06 years for social benefits and 39,18 years for transport benefits.

29.1 Sensitivity analysis of employee benefits

Below is presented a sensitivity analysis of balances of provisions for employee benefits as at 31 December 2014 and at 31 December 2013 for key assumptions underlying actuarial valuation. The key assumptions include: discount rate, pay increase ratio, employee mobility ratio.

		Discount rate		Pay increase ratio		Employee mobility ratio	
	As at 31/12/2014 PLN thousand	+0,25 pp.	-0,25 pp.	+0,25 pp.	-0,25 pp.	+0,25 pp.	-0,25 pp.
Jubilee benefits	323 382	(4 514)	4 644	4 682	(4 571)	(4 797)	4 872
Retirement benefits	154 739	(2 887)	2 990	3 014	(2 920)	(3 071)	3 061
Disability benefits	3 709	(44)	45	46	(45)	(46)	47
Social Benefit Fund	168 876	(5 244)	5 535	5 467	(5 207)	(872)	877
Transport benefits	37 719	(1 223)	1 291	1 289	(1 227)	(297)	307
Total	**688 425**	**(13 912)**	**14 505**	**14 498**	**(13 970)**	**(9 083)**	**9 164**

		Discount rate		Pay increase ratio		Employee mobility ratio	
	As at 31/12/2013 PLN thousand	+0,5 pp.	-0,5 pp.	+0,5 pp.	-0,5 pp.	+0,5 pp.	-0,5 pp.
Jubilee benefits	329 546	(8 432)	8 812	8 953	(8 693)	(9 153)	9 406
Retirement benefits	144 331	(4 980)	5 270	5 361	(5 120)	(5 400)	5 526
Disability benefits	3 857	(83)	86	88	(86)	(89)	92
Social Benefit Fund	145 039	(7 929)	8 761	8 753	(7 996)	(1 367)	1 429
Transport benefits	36 232	(2 084)	2 304	2 328	(2 196)	(494)	525
Total	**659 005**	**(23 508)**	**25 233**	**25 483**	**(24 091)**	**(16 503)**	**16 978**

29.2 Employee benefits - Voluntary Redundancy Program

Based on Resolution No. 423/2014 of the Management Board PKP CARGO S.A. from 17 November 2014 and Resolution No. 1363/V/2014 of the Supervisory Board of PKP CARGO S.A. from 27 November 2014, PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. introduced the Voluntary Redundancy Program for its employees (VRP or Program). The main purpose of the Program was restructuring of employment in the Group. The Program does not introduce in the Company the collective redudancies within the meaning of Act of 13 March 2013 on the specific principies of terminating labour relationship for reasons not attributable to employees. From 29 December 2014 to 15 January 2015, the employees of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. were allowed to apply to join the Voluntary Redundancy Program. As a result of the verification of declarations of employees, the Group has agreed to that 3.041 employees could benefit from the Program. Employees who receive a benefit from the Program' except for a statutory severance pay, dependent on the length of service will receive also additional compensation, amount of which depends on wheather an employee was beneficiary of an employment guarantee and, if so, on the type of it (4- or 10- year). The total value of liabilities resulting from the implemented Program was estimated in the amount of PLN 265.331 thousand. Payment of benefits related to the VRP will take place in two tranches. The first tranche in the amount of PLN 227.479 thousand will be paid together with the salary for January 2015. The second tranche of PLN 37.852 thousand will be paid in January 2016.

Amount related to the Volountary Redundancy Program recognised in the **Consolidated Statement of Financial Position:**

	As at 31/12/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Long-term employee benefits	37 852	-
Short-term employee benefits	227 479	-

The amounts recongised in the **Consolidated Statement of Comprehensive Income** in relation to the Volountary Redundancy Program are disclosed in note 6.4.

29.3 Employee benefits – share-based payment transaction

In 2013 Parent Company has concluded a share-based payment transaction in an equity settled instruments.

On 2 September 2013 an agreement was concluded between the Management Board of PKP CARGO S.A. and trade unions on subject of the Employment Guarantees Program (EGP). According to the agreement employees of the Parent Company and employees of entities belonging to PKP CARGO S.A. Group received an one-off share based payment settled in shares of PKP CARGO S.A. The right to a share based payment was granted to the employees of PKP CARGO S.A., who at the time of the conclusion of the agreement were employed in the Parent Company or in PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o., PKP CARGO Centrum Logistyczne Medyka – Żurawica Sp. z o.o., PKP CARGO Tabor – Karsznice Sp. z o.o., PKP CARGOWAG Sp. z o.o. and PKP CARGOLOK Sp. z o.o. with an exception of the Members of the Board of Parent Company and the members of the Management Boards of subsidiaries included in the share based program. The vesting condition for a share based payment to employees of PKP CARGO Group was an initial public offering of PKP CARGO S.A. shares on a WSE market.

The value of one-off bonus for entitled employees is dependent on work experience on the railways.

The number of employee shares was calculated as the quotient of the amount of one-off bonus and the sales price of the Parent Company's shares offered by PKP S.A. in public offer, i.e. PLN 68 per share.

On 2 October 2013 the Extraordinary General Shareholders Meeting adopted resolution of share capital increase by issuance of series C shares, which were acquired in the open subscription. Shares of series C were only offered to employees of the Parent Company and eligible employees of the Group. Entitled employees could sign up for shares of Parent Comany in the period from 2 December 2013 to 28 February 2014.

In order to realize this employees' entitlement the Parent Company will increase its share capital by issuing new shares, excluding issuance rights. On 7 March 2014, the Management Board allocated shares of series C to eligible employees. In the subscription, the Parent Company has allocated 1,448,902 shares of series C at a nominal price of PLN 50 per each.

On 7 March 2014, the Management Board of Parent Company allocated 1,448,902 shares of series C to eligible employees. Issuance of Series C shares was registered in the National Court Register on 25 April 2014.

Employee shares may not be sold within 2 years from the date of the first listing of the new shares. However, employee shares will participate in the dividend. The expiration date of this limitation is 30 October 2015.

Amount related to Employment Guarantees Program recognised in the **Consolidated Statement of Financial Position:**

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Share capital (shares of series C)	72 445	-
Share premium	25 530	100 015
including:		
Share premium (agio)	26 081	-
Share premium - cost of issue shares series C	(551)	-
Share premium (provision for share based payment granted to employees of PKP CARGO S.A. subsidiaries)	-	90 623
Share premium (provision for share based payment granted to employees of subsidiaries)	-	9 392
Short-term provisions for employee benefits	-	73 171

The amounts recognized in the **Consolidated Statement of Comprehensive Income** in relation to Employment Guarantees Program are disclosed in Note 6.4.

30. Other provisions

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Provision for the fine imposed by OCCP	8 416	22 778
Other provisions	24 214	26 203
Total	**32 630**	**48 981**
Long-term provisions	8 416	22 854
Short-term provisions	24 214	26 127
Total	**32 630**	**48 981**

	Provision for the fine imposed by OCCP PLN thousand	Other provisions PLN thousand	Total PLN thousand
As at 31 December 2012	**16 576**	**10 573**	**27 149**
Provisions recognised	16 148	20 432	36 580
Derecognised	(9 946)	(2 871)	(12 817)
Used	-	(1 931)	(1 931)
As at 31 December 2013	**22 778**	**26 203**	**48 981**
Provisions recognised	-	8 334	8 334
Derecognised	(14 362)	(10 173)	(24 535)
Used	-	(150)	(150)
As at 31 December 2014	**8 416**	**24 214**	**32 630**

Provision for the fine imposed by Office of Competition and Consumer Protection (OCCP)

The provision represents a fine imposed on the Parent Company by the Office of Competition and Consumer Protection in Warsaw. First of them (in the amount of PLN 16,576 thousand imposed on 31 December 2012 on the basis of the Decision no RWR, 44/2012) was imposed on the basis of statement that PKP CARGO S.A. was accused of blocking the possibility of compete with shipping companies belonging to PKP CARGO Group. In 2013 as a result of recalculation of the provision for known and quantifiable risk related to OCCP's proceedings, the Company derecognized the provision in the amount of PLN 9,946 thousand, acknowledging that provision in amount of PLN 6,630 thousand is the best estimate of the amount of which payment is probable. As at 31 December 2014, these estimates have not been changed. Second fine (in the amount of PLN 1,786 thousand on the basis of the Decision no DOK-4/2012 dated on 26 July 2012) was related to delay in implementation of the OCCP's President's decision dated on 31 December 2004 concerning unjustified differentiation of discounts in the carriage of coal. By judgment of 3 November 2014 the Court for Competition and Consumer Protection dismissed the appeal of the company while maintaining the same decisions of the OCCP's President's no DOK-4/2012 dated on 26 July 2012 including a quantification of the fine. On 22 December 2014, the company has appealed against the above mentioned judgment. Any obligation to pay a penalty arise after the judgment of the Court of Appeal. In both cases the decisions of the OCCP are unlawful.

On 3 October 2013 the Supreme Court rescinded the judgments of District Court in Warsaw - Court of Competition and Consumer Protection (dismissal of the Parent Company's appeal from the decision no DOK-3/2009) and Court of Appeal in Warsaw (dismissal of the Parent Company's appeal from the District Court's judgment). As a result, Office for Competition and Customer Protection returned the fine paid by PKP CARGO S.A. in the amount of PLN 60,362 thousand. As at 31 December 2013, the Management Board estimated that the provision in amount of PLN 14,362 thousand is the best estimate of the amount of which payment is probable. On 17 March 2014 Court of Competition and Consumer Protection in the decision no DOK-3/2009 repealed from the decision no DOK-3/2009 stating that it is bound by the law applied by the Supreme Court, and as a result, the Management Board of the Parent Company has decided to reverse the remaining amount of the provision for the fine on decision no DOK-3/2009. The OCCP President did not appeal from the above described judgment and because of this fact the judgment became final. Further course is described in Note 36(iii).

Other provisions

According to the Management Board of Parent Company the amount of other provisions as at 31 December 2014 and 31 December 2013 represents the best estimation of probable payment. If any penalties are imposed, their value is dependent on the future events with uncertain result. Consequently, the amount of provisions may vary in future periods.

31. Financial instruments and financial risk management

31.1 Financial risk management objectives and principles

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

a) liquidity risk;
b) market risk, including:
- currency risk;
- interest rate risk;

c) credit risk.

The Group is exposed to market risk related to forex and interest rates. The purpose of market risk management process is to limit undesirable effects of changes in market risk factors on cash flows and performance in short and medium term. The Company manages market risks arising from the above factors based on internal procedures that determine measurement principles, parameters and time horizon for each exposure.

Market risk management is performed by appointed organizational units supervised by the Management Board of the Parent Company. Market risk management follows determined strategies and is partly based on derivatives. Derivatives are used solely to limit the risk of changes in carrying amounts and cash flows. Transactions are concluded only with reliable partners that have passed internal acceptance procedures completed with signing of relevant documentation.

According to the adopted financial risk policy the Group concluded in 2014 currency forward transactions for EUR/PLN currency pair.

The subsidiary Trade Trans Sp. z o.o. subsidiary is using the hedge accounting. To manage the currency risk the company uses financial instruments, primarily the NDF currency forward sales transactions. In addition to securing foreign currency transactions the company also uses a variable rate security for their investment loans and lease liabilities. For that, the company concluded the IRS type transactions on interest rate.

Details of liquidity, currency, interest rate and credit risk management are presented in notes 31.6, 31.3., 31.4. and 31.5 respectively.

31.2 Equity management

According to the adopted policy and assumptions arising from its loan agreements, PKP CARGO Capital Group allows the maximum debt level of 60% of the balance sheet total (therefore, the equity cannot be lower than 40% of the balance sheet total). The debt level is monitored by the Parent Company at the end of each quarter.

The net debt to the balance sheet total ratio as at the year-end:

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Equity (i)	3 394 172	3 508 894
Debt (ii)	2 249 794	2 234 722
Cash and cash equivalents	(429 178)	(263 700)
Net debt	1 820 616	1 971 022
Balance sheet total	5 643 966	5 743 616
Net debt to balance sheet total	**32%**	**34%**

(i) Equity equals to total equity.

(ii) Debt includes both short- and long-term debt.

Categories and classes of financial instruments	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Financial assets		
Financial assets measured at fair value through profit or loss	-	2 224
Hedges	-	163
Loans and receivables	1 233 169	1 529 135
Total assets by category	**1 233 169**	**1 531 522**
Financial liabilities		
Financial liabilities measured at fair value through profit or loss	633	-
Liabilities arising from derivatives designated as hedges: hedge accounting	3 301	306
Financial liabilities measured at amortized cost	683 002	688 810
Hedges		
Liabilities excluded from IAS 39 (finance lease)	318 578	428 926
Total liabilities by category	**1 005 514**	**1 118 042**

Financial instruments by classes	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Trade receivables	497 577	555 032
Receivables from sales of non-current assets	-	21 325
Loans granted	4 999	5 044
Receivables related to EGP	-	79 614
Bank deposits	301 415	604 420
Cash	429 178	263 700
Assets from measurement of derivatives and embedded derivatives including:		
Derivatives designated as cash flow hedges	-	163
Derivatives held for trading	-	2 224
Total financial assets	**1 233 169**	**1 531 522**
Credit facilities and loans	300 200	194 775
Trade liabilities	248 117	290 169
Liabilities arising from purchase of non-current assets	134 685	203 866
Finance leases	318 578	428 926
Measurement of derivatives and embedded derivatives, including		
Derivatives designated as cash flow hedges	3 301	306
Derivatives held for trading	633	-
Financial liabilities total	**1 005 514**	**1 118 042**

31.3 Currency risk management

During the period covered by these Consolidated Financial Statements, the Group was exposed to currency risk related to receivables, liabilities and cash. The Group's receivables denominated in foreign currencies included current amounts, while liabilities denominated in foreign currencies are mostly related to short- and long-term leases.

Financial revenue (forex gains) and expenses (forex losses) are recognised as a result of measurement of receivables and liabilities denominated in foreign currencies as at the reporting date and following settlement of amounts receivable and payable denominated in foreign currencies. Financial revenue and expenses change over the year due to exchange rate fluctuations.

Extended maturity of short- and long-term lease liabilities denominated in EUR and CHF decides on their key contribution to financial revenue and expenses and on material fluctuations of the Group's performance on the level of financial revenue and expenses on unrealized forex differences.

From the long-term perspective the currency risk is compensated by the risk of cash flow changes, therefore the Group's cash flow are subject to hedging activities.

Partial natural hedge occurs for EUR/PLN rate since revenue denominated in EUR partly offsets expenses in EUR. The aim of the currency risk management is securing the net exposure from changes in PLN.

The carrying value of the Group's monetary assets and liabilities denominated in foreign currency as at the reporting date is as follows:

	Assets		Liabilities	
	As at 31/12/2014	As at 31/12/2013	As at 31/12/2014	As at 31/12/2013
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
USD	1 421	965	2 840	2 565
EUR	73 864	79 589	167 004	202 708
CHF	589	744	73 817	123 204
CZK	-	-	1 003	811
GBP	2	-	-	-
Other	-	96	-	247

31.3.1 Currency risk sensitivity

The Group was exposed in 2014 and 2013 to currency risk, both in relation to its receivables and payables. Group's receivables denominated in foreign currencies included current amounts, while liabilities denominated in foreign currencies are mostly related to short- and long-term leases. Extended maturity of short- and long-term lease liabilities denominated in EUR and CHF decides on their key contribution to financial revenue and expenses and on material fluctuations of the Group's performance on the level of financial revenue and expenses on unrealized forex differences. Below is presented the sensitivity analysis based on gross exposure (before tax):

Analysis of currency risk sensitivity

As at 31.12.2014		Currency risk USD/PLN Impact on profit or loss		Currency risk EUR/PLN Impact on profit or loss		Currency risk CHF/PLN Impact on profit or loss		Currency risk CZK/PLN Impact on profit or loss	
Financial statements item	Carrying amount in PLN thousand	+15%	-15%	+5%	-5%	+5%	-5%	+5%	-5%
ASSETS									
Trade and other receivables and Other short-term financial assets	67 838	196	(196)	3 297	(3 297)	29	(29)	-	-
Cash and cash equivalents	8 039	-	-	396	(396)	-	-	-	-
EQUITY AND LIABILITIES									
Non-current liabilities									
Long-term finance lease liabilities and leases with purchase option	98 215	-	-	(4 875)	4 875	(36)	36	-	-
Current liabilities									
Short-term finance lease liabilities and leases with purchase option	112 125	-	-	(2 139)	2 139	(3 468)	3 468	-	-
Short-term trade and other payables	34 323	(426)	426	(1 337)	1 337	(187)	187	(50)	50
Total gross effect		**(230)**	**230**	**(4 658)**	**4 658**	**(3 662)**	**3 662**	**(50)**	**50**

As at 31.12.2013		Currency risk		Currency risk		Currency risk		Currency risk	
Financial statements item	Carrying amount in PLN thousand	USD/PLN Impact on profit or loss		EUR/PLN Impact on profit or loss		CHF/PLN Impact on profit or loss		CZK/PLN Impact on profit or loss	
		+15%	-15%	+8%	-8%	+25%	-25%	+7%	-7%
ASSETS									
Trade and other receivables	70 609	89	(89)	5 540	(5 540)	185	(185)	-	-
Cash and cash equivalents	10 785	71	(71)	827	(827)	1	(1)	6	(6)
EQUITY AND LIABILITIES									
Non-current liabilities									
Long-term finance lease liabilities and leases with purchase option	203 001	-	-	(10 904)	10 904	(16 677)	16 677	-	-
Current liabilities									
Short-term finance lease liabilities and leases with purchase option	95 604	-	-	(3 467)	3 467	(13 066)	13 066	-	-
Short-term trade and other payables	30 930	(383)	383	(1 878)	1 878	(1 058)	1 058	(57)	57
Total gross effect		**(223)**	**223**	**(9 882)**	**9 882**	**(30 615)**	**30 615**	**(51)**	**51**

31.3.2 Currency forward transactions

For the purposes of currency risk management the PKP CARGO Capital Group used in 2014 and 2013 PLN/EUR forward contracts. Details of the currency risk management are disclosed in note 31.3.
The following tables presents details of unrealized currency forward transactions as at 31 December 2014 and 31 December 2013 respectively:

As at 31 December 2014:

Entity	Transaction type	Number of open transactions	Transaction date	Settlement date	Currency pair	Base currency amount in EUR	Floating currency amount in PLN	Fair value *
BZ WBK	forward	14	02.2014-10.2014	01.2015-10.2015	EUR/PLN	3 200	13 646	(98)
mBANK	forward	31	02.2014-12.2014	01.2015-12.2015	EUR/PLN	4 650	19 861	(104)
Millenium	forward	9	03.2014-05.2014	01.2015-04.2015	EUR/PLN	1 700	7 273	1
Pekao	forward	23	05.2014-12.2014	03.2015-12.2015	EUR/PLN	4 550	19 359	(218)
PKO BP	forward	28	07.2014-12.2014	05.2015-12.2015	EUR/PLN	5 350	22 880	(183)
RCB	forward	6	04.2014-05.2014	01.2015-03.2015	EUR/PLN	1 800	7 666	(31)
Total						**21 250**	**90 685**	**(633)**

As at 31 December 2013:

Entity	Transaction type	Number of open transactions	Transaction date	Settlement date	Currency pair	Base currency amount in EUR	Floating currency amount in PLN	Fair value*
BZ WBK	forward	22	05.2013-11.2013	01.2014 -09.2014	EUR/PLN	6 750	28 801	603
mBANK	forward	16	06.2013 -11.2013	01.2014 -11.2014	EUR/PLN	6 400	27 777	1 000
Millenium	forward	6	11.2013	05.2014 -07.2014	EUR/PLN	1 800	7 612	63
Pekao	forward	24	07.2013 -11.2013	01.2014 -10.2014	EUR/PLN	5 400	23 167	516
RCB	forward	6	11.2013	08.2014 -10.2014	EUR/PLN	1 800	7 641	43
Total						**22 150**	**94 998**	**2 224**

* Fair value of currency forwards is based on discounted future cash flows from the concluded transactions based on the difference between the forward price and transaction price. The forward price is calculated based on the fixing of the National Bank of Poland and the curve implied by FX Swap transactions. It is located at level 2 of the fair value hierarchy.

31.3.3 Hedge accounting applied in the currency risk management

In order to present effects of hedging transactions in accordance with their economic nature the hedge accounting is used in the Group (in Trade Trans Sp. z o.o). In the currency risk management process the Group uses financial instruments (primarily the NDF currency forward sales transactions).

As at the reporting date the Group has open forward transactions hedging revenues from sale denominated in foreign currencies. Following a hedge effectiveness test, measurement of the following NDF was charged to the Group's equity.

As at 31 December 2014:

Entity	Transaction type	Number of open transactions	Transaction date	Settlement date	Currency pairs	Base currency amount in EUR	Floating currency amount in PLN	Fair value *
mBANK	Forward	1	1.2014	1.2015	EUR/PLN	500	2 131	(9)
Pekao	Forward	2	1.2014	1.2015	EUR/PLN	575	2 451	(6)
Citi Handlowy	Forward	1	1.2014	1.2015	EUR/PLN	120	511	(2)
Total						**1 195**	**5 093**	**(17)**

As at 31 December 2013:

Entity	Transaction type	Number of open transactions	Transaction date	Settlement date	Currency pairs	Base currency amount in EUR	Floating currency amount in PLN	Fair value *
Citi Handlowy	Forward	1	01.2013	01.2014	EUR/PLN	500	2 074	48
Pekao	Forward	7	01.2013 - 05.2013	01.2014 - 05.2014	EUR/PLN	1 630	6 760	115
Total						**2 130**	**8 834**	**163**

* Fair value of currency forwards is based on discounted future cash flows from the concluded transactions based on the difference between the forward price and transaction price. The forward price is calculated based on the fixing of the National Bank of Poland and the curve implied by FX Swap transactions. It is located at level 2 of the fair value hierarchy.

31.4 Interest rate risk management

Bank deposits, that were concluded for the period ranging from a few days to 5 months depending on liquidity needs accounted for the most financial investments of the Group in 2014. The average weighted interest rate of term deposits in 2014 amounted to 2.96 % in comparison to 3.10% in 2013 (a consequence of the reduction of interest rates by the Monetary Policy Council). Further, the Group is exposed to the risk of fluctuating cash flows arising from interest on bank loans and floating rate based leases. Interest on leases was accrued in line with reference rates increased by the creditor's margin. EURIBOR 1M, 3M, 6M is the reference rate for contracts denominated in EUR, while LIBOR 6M CHF is the reference rate for those denominated in CHF.
Interest rate risk in leases is realized by revaluation of lease installments over the period of one month, three months and six months, depending on a contract.
Interest on loan agreements was calculated at WIBOR 1M and WIBOR 3M reference rate increased by the bank's margin. Interest rate risk in loan agreements is realized by revaluation of loan installments on a monthly basis.

Furthermore, according to the applied financial risk management policy, the Group has concluded in 2014 and 2013 interest rate risk management transactions so-called IRS. As the external financing that is based on floating interest rates the Group concluded IRS transactions for credit risk exposure in order to secure fluctuations in interest rates of the loans and payables denominated in PLN.

31.4.1 Sensitivity to interest rate fluctuations

The sensitivity analyses presented below are based on the exposure of other financial instruments to interest rate risk as at the reporting date. In case of liabilities with floating interest rate, for the purpose of analysis the amount outstanding as at the reporting date was assumed as outstanding for the entire year. Fluctuations up and down by 100 basis points in the case of the interest rates based on WIBOR and 70 basis points for all other interest rates are used in internal reports on interest rate risk for key members of management. The results presented in the table below reflect management's assessment of probable change in interest rates.

The results of sensitivity analysis are presented on a gross basis (before tax):

As at 31.12.2014		Interest rate risk		Interest rate risk		Interest rate risk	
Financial statements item	Carrying amount in PL thousand	WIBOR		EURIBOR		LIBOR	
		Impact on profit or loss		Impact on profit or loss		Impact on profit or loss	
		+ 100 pb	- 100 pb	+ 70 pb	- 70 pb	+ 70 pb	- 70 pb
ASSETS							
Long-term other financial assets	30	-	-	-	-	-	-
Other short-term financial assets	306 383	3 085	(3 085)	-	-	-	-
Cash and cash equivalents	428 184	4 801	(4 801)	-	-	-	-
EQUITY AND LIABILITIES							
Non-current liabilities							
Long-term credit facilities and loans	208 077	(2 081)	2 081	-	-	-	-
Long-term liabilities due to finance lease and lease agreements with a purchase option	190 836	(926)	926	(683)	683	(5)	5
Current liabilities							
Short-term credit facilities and loans	92 123	(921)	921	-	-	-	-
Long-term liabilities due to finance lease and lease agreements with a purchase option	127 742	(194)	194	(318)	318	(462)	462
Total gross effect		**3 764**	**(3 764)**	**(1 001)**	**1 001**	**(467)**	**467**

As at 31.12.2013		Interest rate risk		Interest rate risk		Interest rate risk	
Financial statements item	Carrying amount in PLN thousand	WIBOR		EURIBOR		LIBOR	
		Impact on profit or loss		Impact on profit or loss		Impact on profit or loss	
		+ 100 pb	- 100 pb	+ 70 pb	- 70 pb	+ 70 pb	- 70 pb
ASSETS							
Long-term other financial assets	61	-	-	-	-	-	-
Other short-term financial assets	689 017	6 890	(6 890)	-	-	-	-
Cash and cash equivalents	263 700	1 643	(1 643)	36	(36)	-	-
EQUITY AND LIABILITIES							
Non-current liabilities							
Long-term bank loans and credit facilities	121 558	(1 216)	1 216	-	-	-	-
Long-term finance lease liabilities and leases with purchase option	313 136	(1 087)	1 087	(797)	797	(467)	467
Current liabilities							
Short-term bank loans and credit facilities	73 217	(732)	732	-	-	-	-
Long-term finance lease liabilities and leases with purchase option	115 790	(190)	190	(273)	273	(366)	366
Total gross effect		**5 308**	**(5 308)**	**(1 034)**	**1 034**	**(833)**	**833**

31.4.2. Open interest rate

In order to present effects of hedging transactions in accordance with their economic nature, hedge accounting has been used in the Group (in the Trade Trans Sp. z o.o). In the currency risk management process the Group uses the IRS financial instruments (the stream of interest swap).
These transactions hedge floating interest rate of investment loans and lease liabilities. Following a hedge effectiveness test, measurement of the following IRS was charged to the Group's equity.

As at 31 December 2014:

Entity	Transaction type	Transaction date	Beginning of period	End of period	Nominal amount	Amount payable	Amount receivable	Fair value *
Pekao	IRS	31-10-2006	31-12-2014	31-12-2015	10 880	5,24%	WIBOR 1M + marża	(414)
Citi Handlowy	IRS	09-04-2013	31-12-2014	01-05-2018	74 776	3,33%	WIBOR 1M + marża	(2 869)
							Total	(3 283)
							including positive	-
							including negative	(3 283)

As at 31 December 2013:

Entity	Transaction type	Transaction date	Beginning of period	End of period	Nominal amount	Amount payable	Amount receivable	Fair value *
Pekao	IRS	31-10-2006	2013-12-31	31-12-2015	10 880	5,24%	WIBOR 1M + marża	(503)
Citi Handlowy	IRS	09-04-2013	2013-12-31	01-05-2018	74 776	3,33%	WIBOR 1M + marża	197
							Total	(306)
							including positive	197
							including negative	(503)

* The fair value of the forward transactions on interest rate is determined by the future discounted cash flows from the transaction, calculated based on the difference between the forward rate and the price of the transaction.

31.5 Credit risk management

The Group conducts sales to business partners with a deferred payment. As a result, a risk of payment delay may occur in relation to the provided services. In order to minimize the credit risk, the Group manages it by applying the obligatory assessment procedure of client's credit worthiness. The assessment is carried out for all clients offered deferred payment terms. According to the Group's policy the deferred payment is acceptable for clients with a good financial standing and positive cooperation history.

Receivables are monitored on a regular basis. In the case of receivables that are past due, the sales are suspended and debt collection proceedings are run in line with applicable internal procedures.
Concentration of risk related to trade receivables is limited due to a large number of counterparties with trade credits distributed among different sectors. Further, in order to minimize the risk of trade receivables turning into bad debts, the Group accepts collateral from its clients in the form of: bank/insurance guarantees, contract assignment, lock on bank accounts and promissory notes
Maximum exposure to credit risk is represented by balance of trade and other receivables and amounts to PLN 502,576 thousand. This exposure is limited by the pledges established in favour of the Group (in the form of bank / insurance guarantees or guarantee deposits).

Credit risk related to cash and bank deposits is considered low. All entities in which the Group deposits its free cash operate in the financial sector. They include domestic and foreign banks, as well as branches of foreign banks.

31.6 Liquidity risk management

The Group may be exposed to liquidity risk arising from the relationship between current assets and net short-term liabilities (those without short-term provisions). The current ratio as at 31 December 2014 and as at 31 December 2013 is presented below. In order to ensure additional sources of funds necessary to maintain short-term liquidity, the Group used an overdraft facility. Additionally, in order to ensure long-term liquidity, the Group used investment loans and leases (to finance property, plant and equipment).

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Current assets	1 408 307	1 676 161
Current liabilities	1 113 938	1 067 986
Short-term provisions for employee benefits	(334 844)	(176 461)
Other short-term provisions	(24 214)	(26 127)
Current liabilities, net	754 880	865 398
Current ratio	**1,87**	**1,94**

Information regarding available external finance sources is presented in note 25.1.

31.6.1. Financial liabilities of the Group by maturity as at the reporting date based on undiscounted contractual payments (including interest payable in future):

31 December 2014	Below 3 months	From 3 to 12 months	From 1 year to 5 years	Above	Total
Interest-bearing credit facilities and loans	22 756	76 570	211 847	5 969	317 142
Trade liabilities	247 204	849	63	-	248 116
Liabilities due to purchase of property, plant and equipment	39 809	37 699	71 044	-	148 552
Finance lease liabilities	40 492	97 170	161 747	48 136	347 545
Other financial liabilities	3 934	-	-	-	3 934
Total	**354 195**	**212 288**	**444 701**	**54 105**	**1 065 289**

31 December 2013	Below 3 months	From 3 to 12 months	From 1 year to 5 years	Above	Total
Interest-bearing credit facilities and loans	26 727	51 984	126 798	-	205 509
Trade liabilities	289 366	242	561	-	290 169
Liabilities due to purchase of property, plant and equipment	59 582	38 386	121 274	-	219 242
Finance lease liabilities	36 077	93 016	280 892	61 434	471 419
Other financial liabilities	306	-	-	-	306
Total	**412 058**	**183 628**	**529 525**	**61 434**	**1 186 645**

31.7 Fair value of financial instruments

According to the Management Board of Parent company, carrying amounts of financial assets and liabilities recognised in the Consolidated Financial Statements approximate their fair values. The following table compares the carrying amount with fair value and explains which items lack fair value data.

As at 31/12/2014	Carrying amount	Level 1	Level 2	Level 3
			Fair value	
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Financial assets				
Loans and receivables:	**1 233 169**	**-**	**1 233 169**	**-**
Trade receivables	497 577	-	497 577	-
Loans granted	4 999	-	4 999	-
Bank deposits	301 415	-	301 415	-
Cash	429 178	-	429 178	-
Financial liabilities				
Financial liabilities measured at fair value throught profit or loss:	**633**	**-**	**633**	**-**
Derivatives - forwards [1)]	633		633	
Financial liabilities measured at amortised cost::	**683 002**	**-**	**683 002**	**-**
Credit facilities and loans	300 200	-	300 200	-
Trade payables	248 117	-	248 117	-
Payables arising from purchase of non-current assets	134 685	-	134 685	-
Derivatives - cash flow hedges [2)]	**3 301**	**-**	**3 301**	**-**
Finance lease liabilities [3)]	**318 578**	**-**	**318 578**	**-**

As at 31/12/2013	Carrying amount	Level 1	Level 2	Level 3
		Fair value		
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Financial assets				
Financial liabilities measured at fair value throught profit or loss:	**2 224**	**-**	**2 224**	**-**
Derivatives - forwards [1)]	2 224	-	2 224	-
Loans and receivables:	**1 529 135**		**1 529 135**	
Trade receivables	555 032	-	555 032	-
Receivables from sales of non-current assets	21 325	-	21 325	-
Loans granted	5 044	-	5 044	-
Employment Guarantees Program receivables	79 614	-	79 614	-
Bank deposits	604 420	-	604 420	-
Cash	263 700	-	263 700	-
Derivatives - cash flow hedges [2)]	**163**	**-**	**163**	**-**
Financial liabilities				
Financial liabilities measured at amortised cost:	**688 810**		**688 810**	
Credit facilities and loans	194 775	-	194 775	-
Trade payables	290 169	-	290 169	-
Payables arising from purchase of non-current assets	203 866	-	203 866	-
Derivatives - cash flow hedges [2)]	**306**	**-**	**306**	**-**
Finance lease liabilities [3)]	**428 926**	**-**	**428 926**	**-**

[1)] Fair value of currency forwards is based on discounted future cash flows on concluded transactions calculated based on the difference between the forward and transaction price. The forward price is calculated based on the fixing of the National Bank of Poland and the curve implied by FX Swap transactions. It is located at level 2 of the fair value hierarchy.

[2)] Fair value of hedges is based on discounted future cash flows on concluded transactions calculated based on the difference between the forward and transaction price. Fair value is calculated and discounted by bank based on WIBOR 1 M. It is located at level 2 of the fair value hierarchy.

[3)] The fair value of lease liabilities is determined in accordance with the analysis of discounted cash flows.

32. Related party transactions

Transactions between the Group and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Detailed information on transactions between the Group and other related parties are disclosed below.

32.1 Commercial transactions

In the period covered by these Consolidated Financial Statements entities belonging to the Group entered into the following commercial transactions with related parties:

	Year 2014			
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
	PLN	PLN	PLN	PLN
Parent company (PKP S.A.)	**(478)**	**103 828**	**1 026**	**6 584**
Subsidiaries / Co-subsidiaries	**5 848**	**7 137**	**2 160**	**530**
Associates	**6 859**	**1 909**	**315**	**-**
Other related parties from PKP S.A. Group	**65 122**	**1 262 166**	**9 971**	**86 556**

	Year 2013			
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
	PLN	PLN	PLN	PLN
Parent company (PKP S.A.)	**23 402**	**94 970**	**22 447**	**7 961**
Subsidiaries / Co-subsidiaries	**17 141**	**27 810**	**2 515**	**375**
Associates	**9 620**	**-**	**-**	**3**
Other related parties from PKP S.A. Group	**99 655**	**1 575 968**	**9 565**	**124 353**

The Group's cost generating transactions with Parent company (PKP S.A.) include in particular lease of property, media supply and occupational health care services.

Sales transactions concluded with other related parties from PKP S.A. Group included service of trains, lease of train engines with drivers, financial settlement with third parties, maintenance of railroad fleet, sub-lease of real estate property. Purchase transactions included among others access to railroad infrastructure, real estate property lease, media supplies, maintenance of railroad traffic security infrastructure, purchase of electricity, purchase of network maintenance services, IT systems operation, purchase of ticket discounts for employees and pensioners.

Apart from commercial transactions the Parent company granted sureties to subsidiaries described in Note 36.
All transactions were concluded on the arm's length basis.

32.2 Remuneration of executive management

Remuneration of Members of the Parent company Management Board in the financial year:	For the year ended 31/12/2014 PLN thousand	For the year ended 31/12/2013 PLN thousand
Short-term benefits	2 763	1 909
Post-employment benefits	855	-
Employment termination benefits	631	896
Total	**4 249**	**2 805**
Remuneration of Members of the Parent company Supervisory Board in the financial year:	**For the year ended 31/12/2014 PLN thousand**	**For the year ended 31/12/2013 PLN thousand**
Short-term benefits	837	332
Total	**837**	**332**
Remuneration of Parent company's other executive management (Proxies, Managing Directors) in the financial year:	**For the year ended 31/12/2014 PLN thousand**	**For the year ended 31/12/2013 PLN thousand**
Short-term benefits	1 422	665
Share-based payments	11	-
Employment termination benefits	19	-
Total	**1 452**	**665**
Remuneration of Members of the subsidiaries Management Board in the financial year:	**For the year ended 31/12/2014 PLN thousand**	**For the year ended 31/12/2013 PLN thousand**
Short-term benefits	4 412	6 760
Post-employment benefits	1 576	-
Other long-term benefits	-	17
Employment termination benefits	118	153
Total	**6 106**	**6 930**
Remuneration of Members of the subsidiaries Supervisory Board in the financial year:	**For the year ended 31/12/2014 PLN thousand**	**For the year ended 31/12/2013 PLN thousand**
Short-term benefits	1 103	1 918
Total	**1 103**	**1 918**

During 2014 and 2013 Members of Management Board and Supervisory Board of the Parent company and subsidiaries of the PKP CARGO Group did not grant or receive any loans or guarantees.

33. Operating lease agreements

33.1 Group as a lessee

33.1.1 Terms of lease

Operating lease agreements regard in particular lease of property land and train engines. In addition, the note included concluded in March 2010 by the Parent company a lease agreement regarding office property in Katowice for the period of five years, and concluded by subsidiaries of the lease and the lease of office space, warehouses, yards and tracks.

33.1.2 Payments recognised as expenses

	For the year ended 31/12/2014	For the year ended 31/12/2013
	PLN thousand	PLN thousand
Minimum lease payments recognised as expenses	80 223	96 466
	80 223	**96 466**

33.1.3 Future minimum lease payments under non-cancellable operating leases

	As at 31/12/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Up to 1 year	62 753	52 705
1 year – 5 years	15 248	18 632
Over 5 years	11 517	14 975
	89 518	**86 312**

34. Commitments to incur expenses

In May 2013 the Parent Company concluded an agreement with a counterparty regarding modernisation of 30 SM-48 series diesel engines. The aforementioned agreement is being gradually realized and future valve of the liabilities as at 31 December 2014 ranges between PLN 109.2 and 111.9 million, depending on fulfillment of specific technical conditions. According to the timetable, the completion date of the agreement expired in February 2016.

In September 2013 the Parent Company concluded an agreement with a counterparty for the execution and delivery of 330 newly built Sggrss container wagons. Until 31 December 2014, the Company received 240 wagons, while the remaining part of wagons should be received during the first months of 2015. The future valve of liabilities as at 31 December 2014 amounts to PLN 31.8 million. For the implementation of this project, the Parent Company was granted a funding under the Operational Program "Infrastructure and Environment", in a total amount not exceeding 30% of contract value.
As at 31 December 2014 and 31 December 2013 the subsidiaries PKP CARGO S.A. did not have significant obligations to incur expenditure.

35. The agreement of the potential acquisition of shares Advanced World Transport BV

On 30 December 2014, the Parent Company entered into an agreement with Mr. Zdenek Bakala ("ZB") and The Bakala Trust ("ZBT") regarding the acquisition by the Parent Company (the "Purchase Agreement") 60,000 shares (the "Shares") in the share capital of Advanced World Transport B.V. with its registered office in Amsterdam ("AWT"), constituting 80% of all the shares in the share capital of AWT and the entitling to exercise 80% of the overall number of votes at the general shareholders meeting of AWT. The total purchase price of the Shares is EUR 103,200 thousand. The ownership of the Shares will be transferred and the price will be paid upon the satisfaction of certain precedent conditions, including obtaining by the Company approvals from the antitrust authorities from Poland, the Czech Republic, Slovakia and Germany on the transaction. Agreement provides a contractive penalty in the amount of EUR 10,000 thousand in the case of failure to comply by one of the side conditions specified in agreement which is payable if either of the sides fail to comply with the condidions specified in the Purchase Agreement.

On 10 February 2015 the Company received a notification from ZB and ZBT regarding the satisfaction of one of the precedent conditions specified in the Purchase Agreement.

36. Contingent liabilities

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Sureties granted to subsidiaries (i)	24 518	24 951
Guarantees issued on request of PKP Cargo S.A. (ii)	36 431	47 539
Proceedings carried out by OCCP (iii)	9 946	9 946
Other contingent liabilities (iv)	75 797	35 802
Total	**146 692**	**118 238**

(i) **Sureties and guarantees granted to subsidiaries**

As at 31 December 2014 the following valid sureties were granted by the Parent Company: PKP Cargo Service sp. z o.o. (surety regarding a multi-currency credit facility agreement), PKP CARGOTABOR Sp. z o.o. (surety regarding an operating lease, surety regarding three credit agreements and surety regarding a loan agreement).

As at 31 December 2013 the following valid sureties were granted by the Parent Company: to PKP Cargo Service sp. z o.o. (surety a multi-currency credit facility agreement and surety of guarantee lines), PKP CARGOWAG sp. z o.o. (surety regarding an operating lease and a credit agreement), PKP CARGOLOK sp. z o.o. (surety regarding two investment loans) and PKP Cargo Tabor Karsznice sp. z o.o. (surety regarding a loan agreement).

(ii) **Guarantees issued by banks on behalf of PKP CARGO S.A.**

As at 31 December 2014 a number of guarantees issued by banks on behalf of the Parent Company to counterparties were effective. The guarantees included bid bonds (worth PLN 460 thousand) and performance bonds (worth PLN 31,738 thousand) and payment bonds (worth PLN 4,233 thousand).

As at 31 December 2013 a number of guarantees issued by banks on behalf of the Parent Company to counterparties were effective. The guarantees included bid bonds (worth PLN 2,500 thousand) and performance bonds (worth PLN 42,070 thousand) and payment bonds (worth PLN 2,969 thousand).

(iii) **Proceedings conducted by the OCCP**

As at 31 December 2014 and 31 Decemeber 2013 the Parent Company recognizes as a contingent liability a part of provision for the fine imposed by the OCCP (PLN 9,946 thousand) that has not been recognised in provisions for liabilities. In case of negative outcome of the proceeding disclosed in note 30, the Parent Company will be obliged to recognize the cost in profit or loss.

On 22 August 2014 the Management Board of PKP Cargo S.A. was informed by the President of the Office of Competition and Consumer Protection about further conducting of the antimonopoly proceeding regarding PKP Cargo S.A.'s abuse of the dominant position on the domestic market of rail transport of goods (proceeding which resulted in decision no. DOK-3/2009). In the view of the Management Board of the Parent Company as at 31 December 2014, there is no basis to end this proceeding with imposing another fine on the Parent Company. Because of the early stage of the proceeding, it cannot be excluded that as a result of future events, the view of Management Boards may change in next reporting periods.

(iv) **Other contingent liabilities**

Other liabilities include mainly conducted by the subsidiary PS Trade Trans Sp. z o.o. guarantee agreements with recourse with the right to insurance companies. As at 31 December 2014 the total value of the PS Trade Trans Sp. z o.o. contracts with insurance companies amounted to PLN 27,100 thousand, while as at 31 December 2013, the total value amounted to PLN 35,050 thousand.

In 2014 the Parent company received payment requests from external entities. The total value of claims does not exceed PLN 48,000 thousand. On the basis of legal analysis of these claims, the Parent company estimates that as at 31 December 2014 the likelihood of outflow of cash in accordance with claims is remote. Consequently, the assessment of future events may vary in future periods.

37. Events after reporting date

On 2 February 2015, the Company concluded a preliminary non-binding agreement (the "Agreement") with KGHM Polska Miedź S.A. with its registered office in Lubin ("KGHM") and Pol - Miedź Trans Sp. z o.o. with its registered office in Lubin ("PMT") on the potential subscription by the company for shares in PMT (the "Transaction"). In the course of the Transaction, the Company will subscribe for new Shares in PMT representing 49% of PMT's share capital and carrying 49% of the votes of PMT's shareholders' meeting, in exchange for contribution in kind consisting of train engines and a monetary contribution. The Agreement entitles the Company to conduct the due diligence of PMT and to make an appropirate filing to the Office of Competition and Consumer Protection. It is the parties' intention to conduct the Transaction in the second quarter of 2015.

On 5 February 2015 the Parent Company and Trade Trans Invest a.s. with its registered office in Bratislava entered into an agreement regarding the acquisition by the Company 44.44% shares in the share capital of PS Trade Trans Sp. z o.o. As a result of this transaction, the Parent Company became the owner of 100% shares of PS Trade Trans Sp. z o.o.

On 17 February 2015 the Management Board of the Parent Company PKP CARGO S.A. received notification from European Bank of Reconstruction and Development with its registered office in London. EBRD informed that as a result of sale of shares in package transaction on Warsaw Stock Exchange on 11 February 2015, completed 13 February 2015, Bank has decreased its vote rights below 5% on Extraordinary Shareholders Meeting of the Parent Company. Before the transaction EBRD owned 2,286,008 shares of Parent Company amounting to 5.10% of initial share capital and the same amount of vote rights. After the transaction EBRD do not hold any shares of the Parent Company.

38. Approval of the Consolidated Financial Statements

These Consolidated Financial Statements were approved by the Management Board of the Parent company and approved for publication on 11 March 2015.

Management Board of the Company

Adam Purwin	President of the Management Board
Jacek Neska	Member of the Management Board
Łukasz Hadyś	Member of the Management Board
Wojciech Derda	Member of the Management Board
Dariusz Browarek	Member of the Management Board

Warsaw, 11 March 2015

MANAGEMENT BOARD'S REPORT OF THE ACTIVITIES OF **PKP CARGO CAPITAL GROUP** IN 2014

Warsaw, 12 March 2015

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1. Selected financial figures of PKP CARGO Group

Table 1 Selected financial figures of PKP CARGO Group

PKP CARGO Group	For the year ended 31/12/2014 (audited)	For the year ended 31/12/2013 (audited)	For the year ended 31/12/2014 (audited)	For the year ended 31/12/2013 (audited)
	in PLN '000		in EUR '000	
Total operating revenue	4 257 102	4 797 461	1 016 185	1 139 269
Profit on operating activities	77 074	110 185	18 398	26 166
Profit before tax	74 190	88 532	17 709	21 024
Net profit on continuing operations	61 285	65 387	14 629	15 528
Total comprehensive income	23 692	86 977	5 655	20 655
*Adjusted profit on operating activities**	342 405	319 345	81 733	75 836
*Adjusted profit before tax**	339 521	297 692	81 045	70 694
*Adjusted net profit**	276 203	234 806	65 931	55 760
Adjusted total comprehensive income	238 610	256 397	56 957	60 887
Weighted average number of ordinary shares (pcs.)	44 524 924	43 338 006	44 524 924	43 338 006
Weighted average number of shares adopted to calculate diluted earnings per share (pcs.)	44 790 878	43 821 559	44 790 878	43 821 559
Earnings per share	1.32	1.71	0.32	0.41
Adjusted earnings per share (PLN)	6.15	5.62	1.47	1.33
Adjusted diluted earnings per share (PLN)	1.32	1.69	0.31	0.40
Net cash flows from operating activities	523 361	700 204	124 928	166 280
Net cash flows from investment activities	-202 172	-371 422	-48 259	-88 203
Net cash flows from financial activities	-155 711	-253 090	-37 169	-60 102
Change in cash and cash equivalents	165 478	75 692	39 500	17 975
PKP CARGO Group	**2014-12-31**	**2013-12-31**	**2014-12-31**	**2013-12-31**
Total non-current assets	4 218 099	4 049 895	989 630	976 537
Total current assets	1 408 307	1 676 161	330 410	404 167
Non-current assets classified as held for sale	17 560	17 560	4 120	4 234
Share capital	2 239 346	2 166 901	525 384	522 497
Equity attributable to parent company's shareholders	3 330 672	3 446 517	781 426	831 047
Equity attributable to minority shareholders	63 500	62 377	14 898	15 041
Non-current liabilities	1 135 856	1 166 736	266 489	281 331
Current liabilities	1 113 938	1 067 986	261 347	257 520

* Data for 2013 for presentation purposes adjusted for the costs resulting from the Agreement partially ending the collective dispute of 10 June 2013 between the Trade Unions and PKP CARGO S.A. signed by the parties on 22 August 2013, and also from the Employees' Guarantees Pact signed on 2 September 2013 in the total amount of PLN 209.2 million.
Data for 2014 for presentation purposes adjusted for the effect of provisions resulting from implemented Voluntary Redundancy Program based on the Resolution no. 423/2014 of the Management Board of PKP CARGO S.A. from 17 November 2014 and the Resolution no. 1363/V/2014 of the Supervisory Board of PKP CARGO S.A. from 27th November 2014 in total estimated amount of PLN 265.3 million.

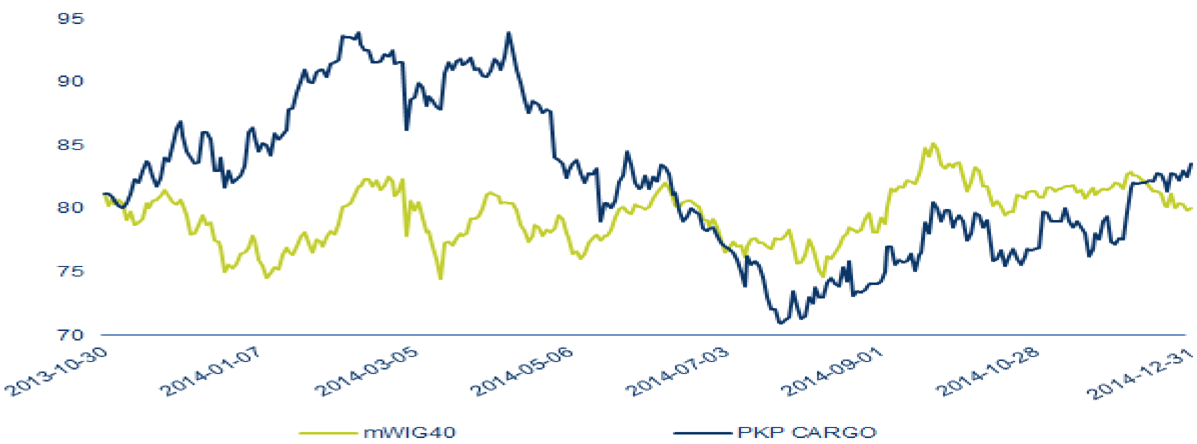
Source: Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2014, prepared in accordance with IFRS EU

For the periods covered by the financial statements, in order to convert items comprised by the financial statements, the following average exchange rates against EUR determined by the National Bank of Poland were applied:

- exchange rate applicable on the last day of the reporting period: 31.12.2014 – 4.2623 PLN/EUR, 31.12.2013 – 4.1472 PLN/EUR,
- average exchange rate in the period, calculated as arithmetic mean of exchange rates applicable on the last day of each month in a given period: 01.01 - 31.12.2014 – 4.1893 PLN/EUR, 01.01 - 31.12.2013 – 4.2110 PLN/EUR.

On 30 October 2013, PKP CARGO S.A. was listed on the Warsaw Stock Exchange (WSE). The historical opening price of the first listed company from the PKP Group stood at PLN 80.20. The Company's shares are included in the mWIG40 index.

Figure 1 Listings of PKP CARGO S.A. from the day of its WSE debut till 31 December 2014



Trading of securities on the WSE is conducted in PLN.

During 2014 the average share price of PKP CARGO S.A. amounted to PLN 81.97 while the difference between the quotation at the end of 2014 and the quotation at the beginning of 2014 amounted to minus 3.4%.

In 2014 the lowest closing price of PKP CARGO S.A. stock stood at PLN 70.90, while the highest closing price stood at PLN 93.89. The share price of PKP CARGO S.A. at the end of 2014 stood at PLN 83.50. In 2014 the average daily trading volume amounted to 66 3231 shares.

In 2014, according to the Company's best knowledge, brokerages issued 18 recommendations for shares of PKP CARGO S.A. The target price for PKP CARGO S.A. shares according to recommendations issued by brokerages in 2014 ranged from PLN 69.00 to 103.00 PLN.

2. General information on PKP CARGO Group

According to the data of the Office of Rail Transport ("UTK"), PKP CARGO Group[2] is the largest rail freight operator in Poland and the second largest rail freight operator in the EU in terms of freight turnover in 2013. The Group expands the geographical scope of its operations, taking advantage of the opportunities offered by the liberalisation of the European rail freight market. Currently, the Parent Company in the Group, i.e. PKP CARGO S.A, holds safety certificates which allow to provide independent rail freight services in Slovakia, the Czech Republic, Germany, Austria, Belgium, Hungary, the Netherlands, and Lithuania. In addition to rail freight services, PKP CARGO Group offers its clients additional services enlisted below, related to rail freight services:

- intermodal services;
- freight forwarding (domestic and international);
- terminals – intermodal and conventional (transloading and storage of goods at the interface of broad and standard gauge tracks on the Eastern border of Poland, and in other key locations in Poland),
- siding and tractions services;
- maintenance and repairs of rolling stock.

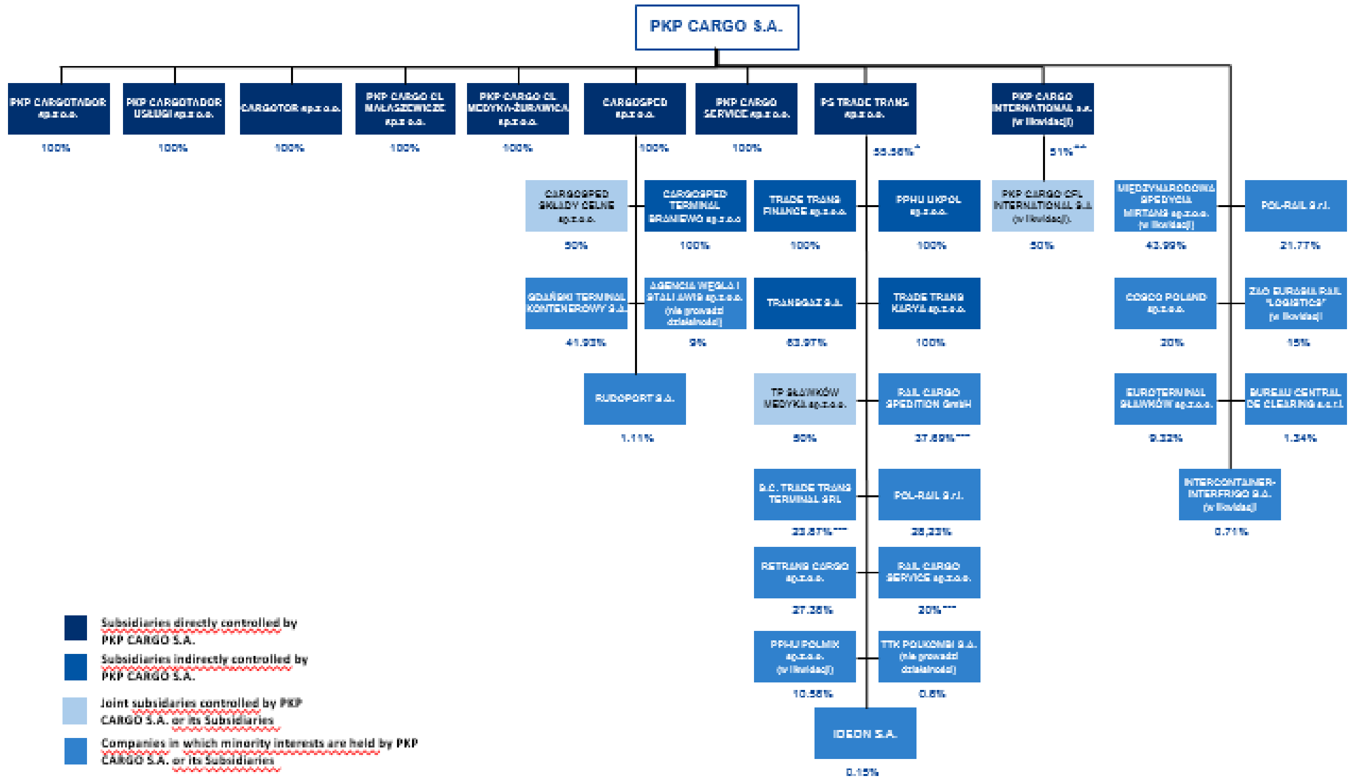
2.1. Structure of PKP CARGO Group and description of changes in the Group's organization

As at 31 December 2014, in addition to PKP CARGO S.A., PKP CARGO Group was composed of 9 direct subsidiaries and 5 entities where the majority of shares is held by subsidiaries of PKP CARGO S.A. (indirectly dependent from PKP CARGO S.A.). The subsidiaries are involved in forwarding, logistics, transloading services, carriage and traction train repair and siding operations.

[1] Source: *www.gpwinfostrefa.pl*
[2] For the purposes of this Report:
- "The Company", "the Parent Company", shall mean PKP CARGO S.A. solely,
- "PKP CARGO Group", or the Group, shall mean PKP CARGO S.A. and its subsidiaries jointly.

Moreover, PKP CARGO Group includes 3 companies controlled by the subsidiaries of PKP CARGO S.A. (owning 50% of shares in the share capital) and 17 companies where PKP CARGO S.A. (7 companies) or the subsidiaries of PKP CARGO S.A. (11 companies) have a minor share in its share capital. Both PKP CARGO S.A. and one of its subsidiaries – PS TRADE TRANS Sp. z o.o. hold shares in POL-RAIL s.r.l. and as a result both entities from PKP CARGO Group have 50% shares in the share capital of POL-RAIL s.r.l.

Figure 2 Structure of the PKP CARGO Capital Group as at 31 December 2014



** as at the date of this report PKP CARGO S.A. is owner of 100% shares of PS Trade Trans Sp. z o.o. (on 05.02.2015 was concluded the acquisition agreement of 44.44% shares from Trade Trans Invest a.s.)*
*** as at the date of this report PKP CARGO S.A. is owner of 100% shares of PKP CARGO International a.s. in liquidation (on 05.02.2015 was concluded the acquisition agreement of 49% shares from Rail Cargo Spedition a.s.)*
**** as at the date of this report, PS Trade Trans Sp. z o.o. did not own shares in Rail Cargo Spedition Gmbh, Trade Trans Terminal SRL and Rail Cargo Service Sp. z o.o. (on 5.02.2015 it was signed the sales of shares agreement by PS Trade Trans Sp. z o.o.)*
-- Source: Own study

Consolidation for the purposes of the annual Consolidated Financial Statements includes PKP CARGO S.A. and 9 subsidiaries consolidated using the full method. Below we present the list of consolidated subsidiaries as at 31 December 2014:

- PKP CARGO SERVICE Sp. z o.o.
- PKP CARGOTABOR Sp. z o.o.
- PKP CARGOTABOR USŁUGI Sp. z o.o.
- PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.
- PKP CARGO CENTRUM LOGISTYCZNE MEDYKA-ŻURAWICA Sp. z o.o.
- „CARGOSPED" Sp. z o.o.
- CARGOSPED TERMINAL BRANIEWO Sp. z o.o.
- CARGOTOR Sp. z o.o.
- Przedsiębiorstwo Spedycyjne TRADE TRANS Sp. z o.o.

Other entities from the Group, enlisted in the note no. 15 to Consolidated Financial Statements are accounted for under the equity method. As at 31 December 2014 the following entities were accounted for under the equity method:

- COSCO POLAND Sp. z o.o.
- Pol – Rail S.r.l.
- PKP CARGO International a.s.
- Cargosped Składy Celne Sp. z o.o.
- Terminale Przeładunkowe Sławków – Medyka Sp. z o.o.
- Trade Trans Karya Sp. z o.o.
- Transgaz S.A.
- Trade Trans Finance Sp. z o.o.
- PPHU "Ukpol" Sp. z o.o.
- Rail Cargo Spedition GmbH
- Rentrans Cargo Sp. z o.o.
- Rail Cargo Service Sp. z o.o.
- S.C. Trade Trans Terminal S.r.L.
- Gdański Terminal Konternerowy S.A.

Changes in PKP CARGO Group

As of 1 July 2014 the merger of PKP CARGOWAG Sp. z o.o. (the Acquiring Company) and PKP CARGO TABOR – Karsznice Sp. z o.o. (the Acquired Company) has been registered in the NCR. All assets of PKP CARGO TABOR – Karsznice Sp. z o.o. have been transferred to PKP CARGOWAG Sp. z o.o. At the same time name of PKP CARGOWAG Sp. z o.o. was changed and since 1 July 2014 PKP CARGOWAG Sp. z o.o. has been operating under the name of PKP CARGOTABOR Sp. z o.o. with the registered office in Warsaw (share capital of PLN 88.087.000 - 100% of the share capital of the company belongs to PKP CARGO SA).

On 1 July 2014 an agreement was signed for sale of the company between PKP CARGOLOK Sp. z o.o. and PKP CARGOTABOR Sp. z o.o. The subject of the agreement is the sale of the business of PKP CARGOLOK Sp. z o.o. to PKP CARGOTABOR Sp. z o.o. (which is understood as the sale of organized units of tangible and intangible assets used to conduct business constituting PKP CARGOLOK Sp. z o.o. within the meaning of Art. 55^1 of the Civil Code) and the takeover of liabilities associated with the business.

On 16 September 2014 an agreement for Purchase of Share was concluded between KTF VIAFER S.A. in liquidation (the Company of the PKP Group) and PS TRADE TRANS Sp. z o.o. under which PS TRADE TRANS Sp. z o.o. (a subsidiary of PKP CARGO S.A.) acquired from KTF VIAFER S.A. in liquidation shares in the company POL-RAIL s.r.l., constituting 3.23% of the share capital of this company. Following the acquisition of shares by PS TRADE TRANS Sp. z o.o., the capital structure of POL-RAIL s.r.l. is presented as follows:

- PS TRADE TRANS Sp. z o.o. - 28.23% share in the share capital,

- PKP CARGO S.A.   - 21.77% share in the share capital,

(which in total gives companies from PKP CARGO Group 50%) and

- TRENITALIA S.p.A. - 50% share in the share capital.

On 21 November 2014 (date of the resolution of the Extraordinary Shareholders Meeting) PS TRADE TRANS Sp. z o.o. acquired from another shareholder – KARYA Sp. z o.o. 139 shares in the company TRADE TRANS KARYA Sp. z o.o., i.e. 39.7% of share capital of this company. From this date PSTT owns 100% shares of the share capital in TRADE TRANS KARYA Sp. z o.o.

On 16 December 2014 a Conditional Share Purchase Agreement was concluded between the shareholders of PPHU UKPOL Sp. z o.o. – Mr. Marian Syty (Seller) and PS Trade Trans Sp. z o.o. (Buyer). Under this agreement, Mr. Marian Syty sold to PS Trade Trans Sp. z o.o. 25 shares in PPHU UKPOL Sp. z o.o. constituting 25% of the share capital. According to the Share Purchase Agreement "the title to the shares is passed on the date of payment". Payment was concluded on 19 December 2014, consequently, on this day PSTT became the owner of 100% of shares in PPHU UKPOL Sp. z o.o.

In addition, after the balance-sheet date, on 5 February 2015 the following agreements were concluded:

1. The acquisition by PKP CARGO S.A. of 44.44 % of the shares in PS Trade Trans Sp. z o.o. from Trade Trans Invest a.s. (on the date of this report PKP CARGO S.A. owns 100% of shares)
2. The acquisition by PKP CARGO S.A. of 49% shares in PKP CARGO International a.s. in liquidation from Rail Cargo Spedition a.s. (on the date of this report PKP CARGO S.A. owns 100% of shares)
3. Sale by PS Trade Trans Sp. z o.o. of shares of Rail Cargo Spedition Gmbh, Trade Trans Terminal SRL and Rail Cargo Service Sp. z o.o.

A brief overview of the companies consolidated under the full method is presented below.

PKP CARGO S.A.

The Parent Company was established under Article 14 of the Act of 8 September 2000 on the commercialisation, restructuring and privatisation of the state-owned enterprise "Polskie Koleje Państwowe". On 17 July 2001, the company under the name of PKP CARGO Spółka Akcyjna was incorporated and established and registered by the District Court in Katowice, VIII Commercial Department of the National Court Register under KRS number 0000027702. Following a change of the registered office of the Company as of 7 October 2002, to Warsaw, ul. Grójecka 17, the incorporation files have been kept by the District Court for the Capital City of Warsaw, XII Commercial Department of the National Court Register. Since its inception, the Company has existed as a member of the PKP Group. The primary object of business of the Company is the domestic and international rail freight.

PKP CARGO SERVICE Sp. z o.o.

PKP CARGO SERVICE Sp. z o. o. was established as Agencje Celne PKP CARGO Sp. z o.o. on 11 July 2002 by PKP CARGO S.A. The company started operations on 1 December 2002. For the purposes of siding operations, the so-called "execution areas" are set up in locations where the company's siding operations are concentrated. The Company's core business includes comprehensive siding operation services as well as rail freight operations. PKP CARGO SERVICE also carries on offloading/trucking operations supporting rail forwarding.

PKP CARGOTABOR Sp. z o.o.

On 1 July 2014 consolidation of activities of companies from the PKP CARGO Group dedicated to repairs of the railway rolling stock was performed. Currently, competencies in this area are concentrated in CARGOTABOR Sp. z o.o. The core business of the company are services regarding repairs and maintenance of the railway rolling stock and liquidation of wagons and locomotives. Furthermore, the company provides complex services regarding repairs of electrical machines and wheelsets as well as weighing and regulation of the traction and carriage rolling stock. The company focuses on railway rolling stock's repairs performed within the PKP CARGO Group.

PKP CARGOTABOR USŁUGI Sp. z o.o.

In the first half of 2014 the Company PKP CARGOTABOR USŁUGI Sp. z o.o. provided repair services of rolling stock as PKP CARGOLOK Sp. z o.o. with its registered office in Warsaw. According to the Company Sales Agreement signed between PKP CARGOLOK Sp. z o.o. and PKP CARGOTABOR Sp. z o.o., the organized part of company PKP CARGOLOK Sp. z o.o. was sold to PKP CARGOTABOR Sp. z o.o.

Since 22 October 2014 the company under which PKP CARGOLOK Sp. z o.o. operates has been changed to PKP CARGOTABOR USŁUGI Sp. z o.o. On the same day changes concerning extension of the subject matter of Company's operations were registered in point 38 of PKD (Polish Classification of Economic Activities), i.e. activities connected with collecting, processing and neutralising of waste; recovery of recyclable materials.

PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.

PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o. was established on 22 February 2010. The primary object of business of this company is complex handling of goods - reloading, storing, segregating, packing, crushing and a whole range of other terminal services. „PKP CARGO Centrum Logistyczne Małaszewicze" Sp. z o.o. has terminals which allow to reload any freight in bulk and in pieces.

PKP CARGO Centrum Logistyczne Medyka – Żurawica Sp. z o.o.

PKP CARGO Centrum Logistyczne Medyka - Żurawica Sp. z o.o. was established on 5 January 2011. The Company has been running business activity since 1 February 2011. The primary object of business of this company is complex handling of goods – reloading, storing, segregating, packing, crushing and a whole range of other terminal services. Chief asset of the company is taking advantage of gauge switching railroad (change of wheelsset on the edge of the normal track – i.e. 1435 mm and wide track i.e. 1520 mm), mainly when transporting dangerous materials and reloading of oversized shipments, requiring applying specialist reloading equipment.

„CARGOSPED" Sp. z o.o.

Cargosped Sp. z o.o. was established on 29 February 2000. In 2005 PKP CARGO S.A. received from PKP S.A. contribution in kind in the form of 100% of shares in Cargosped Sp. z o.o. The main activities of the company are rail freight transport and related logistic services.

As part of implementation of the process associated with optimisation of activities of forwarding companies in the PKP CARGO Group, it was dedicated to provide forwarding services as regards intermodal transport, aggregate transport and terminal services, including own terminals. Among intermodal transport, „CARGOSPED" Sp. z o.o. offers e.g. door-to-door services, including just in time and place on time.

PS TRADE TRANS Sp. z o.o.

PS TRADE TRANS Sp. z o.o. was established on 8 March 1990. The main activities of the company are forwarding and logistic services in the country and abroad. The company implements complex logistic services using rail and car transport, sea and inland by organising transporting, reloading, storing, warehousing, packaging and distributing. Also, the company implements comprehensive customs services for clients of the PKP CARGO Group.

Cargosped Terminal Braniewo Sp. z o. o.

Cargosped Terminal Braniewo Sp. z o. o. has been a part of the PKP CARGO Group since January 2010, when it was purchased by "Cargosped" Sp. z o.o. Main areas of firm's operations are reloading of various goods and coal trade. The company is a direct importer of Russian coal, is occupied with wholesale and retail sales in this respect.

CARGOTOR Sp. z o.o.

CARGOTOR Sp. z o.o. was registered on 13 November 2013 and 100% of shares covered PKP CARGO S.A. The company carries out activities throughout the country as regards managing the track and service infrastructure in the form of rail sidings and track systems together with necessary devices and buildings and making the infrastructure available to railway carriers on commercial terms.

The company is applying for the safety authorization in order to become the licenced manager of railway infrastructure.

2.2. Changes in primary managing rules of the Company and the Group

Parent Company

Since 24 April 2014, in relation to the implementation of changes to the Management Board of PKP CARGO S.A., the number of Management Board Members has increased – instead of former three Management Board Members, i.e. President of the Management Board, Member of the Management Board responsible for Finance and Member of the Management Board responsible for Trade, the Management Board consists of five members:

- President of the Management Board,
- Member of the Management Board, responsible for Finance,
- Member of the Management Board, responsible for Trade,
- Member of the Management Board, responsible for Operations,
- Member of the Management Board, Employees representative in the Management Board.

From 1 January 2014 to 30 June 2014 the Company's operation range together with its assignment to the respective Members of the Management Board was defined by the Organizational Regulations of PKP CARGO S.A. Its resolutions were described in detail in the resolution of the Management Board establishing the Offices of the Headquarters ("Head Offices") and matching the operating areas to offices. In addition to these rules the Management Board resolution was in force concerning the creation of new posts of Managing Director and determining which offices (operating areas) are subject to the additional supervision of appropriate Managing Directors.

The structure and the competence of Head Offices were described in details in the regulations of respective offices which were adopted by the President of the Management Board. The structure and the competence of the Company's Divisions were determined in the organization regulations of respective units. They were created based on the frame regulation of the Company which was the integral part of the Organizational Regulations of PKP CARGO S.A. The regulations were assigned by Division Directors and accepted by the President of the Management Board.

The management in the Company used to base on the law constituted by the Members of the Management Board, i.e. resolutions of the Management Board and decisions of the President and Members of the Management Board (including the common decision of the President and Members of the Management Board as well as two Members of the Management Board in cases regulating the activity areas of more than one member). Managing Directors and Directors of the Head Offices did not have the competence for posing the formal law acts. Instead, the Division Directors posed the regulations as if under their autonomy. Based on these regulations they performed the decisions of resolutions of the Management Board and decisions of the President and Members of the Management Board. Furthermore, in current affairs not requiring the resolutions the Directors undertook the formal decisions.

Since 1 July 2014 new managing system has been implemented in the Company. It is based on the hierarchical subordination of respective management tiers among the functional sectors (so-called "verticalization of management"), including the structure of the Headquarter and Divisions of the Company.

The Organizational Regulations of PKP CARGO S.A., adopted by the resolution of the Management Board of PKP CARGO S.A. no. 232/2014 dated 17 June 2014 defined the operation areas of the Company which were subordinated to the particular Members of the Management Board. The detailed description of management rules was determined in the resolution of the Management Board concerning the organization of functional divisions of the managing structure of PKP CARGO S.A. According to these decisions the organization units of the Headquarters and the Divisions of the Company performing the tasks in operation areas, are included into the functional departments, which are managed directly by the Members of the Management Board and by the Managing Directors. The main element of the department structure are the Head Offices. Their core task is also to supervise the organisation units of the Company's Divisions. In Divisions there are the Divisions Directors who support the Head Office's Directors in the realisation of tasks in determined areas, and the Regional Directors, who comprise the executive management tier.

The detailed structure and competences of the Head Offices are described in the organizational regulations of respective Offices, accepted by the President of the Management Board. Whereas, the structure and competence of the Company's Divisions are defined in the organizational regulations of respective Divisions. They are created based on the frame regulations of the Division which is the integral part of the Organizational Regulations of PKP CARGO S.A. and guidelines of Directors of the Head Offices. Guidelines, issued as regulations of Offices Directors, create the detailed units structure of the divisions, being the part of the functional departments. The divisions regulations are approved by the President of the Management Boards, based on the Division Director's motion proposal.

Since 1 July 2014 the management in the Company is based on the rules established by the Members of the Management Board, i.e. Management Board regulations and decisions of the President and Members of the Management Board (including the common decisions of the President and Members of the Management Board as well as two Members of the Management Board in cases concerning the regulation influencing the operation area of more than one member). The position of the Directors was strengthened as a result of passing them the possibility of making decisions in the areas supervised by them, both made for defined period and for the time of performing particular task, in order to determine the guidelines and rules concerning the process realization. Moreover, the role of Directors of Head Offices was emphasized by giving them the right to issue regulations concerning the execution of the Management Board's resolutions and the decisions of the President and Members of the Management Board.

It enabled among others:
- strengthening of the management in particular functional areas of PKP CARGO S.A.,

- usage of homogeneous solutions in the whole Company, easier implementation of standardized mechanisms,
- increase in effectiveness of utilization of the Company's resources,
- execution of the best practise in other locations,
- quality increase of rendered services due to specialization in particular areas,
- taking decisions faster due to better information flow,
- decrease in functional costs of PKP CARGO S.A.

PKP CARGO Group

Consolidation of companies dedicated to repair of the railway rolling stock

The merger of companies dedicated to repair of the railway rolling stock, performed in 2014, i.e. the merger of PKP CARGOWAG Sp. z o.o. and PKP CARGO TABOR – Karsznice Sp. z o.o. and operating under the name of PKP CARGOTABOR Sp. z o.o as well as the sales of the business of PKP CARGOLOK Sp. z o.o to PKP CARGOTABOR Sp. z o.o. (which was understood as the sale of organized units of tangible and intangible assets) enables the better use of the potential of companies and the experienced staff which in the future will allow gaining orders from the market and thus the diversification of revenue sources.

2.3. Information on organisational or equity links of PKP CARGO S.A. with other entities

A summary of all shares held by PKP CARGO S.A. as at 31 December 2014 is presented below.

Table 2 Entities in which PKP CARGO S.A. holds shares as at 31 December 2014

Item	COMPANY NAME	PLACE IN PKP CARGO GROUP	HEADQUARTERS	SHARE CAPITAL	NUMBER OF SHARES HELD BY THE COMPANY	VALUE PER 1 SHARE	% IN SHARE CAPITAL
SUBSIDIARIES where PKP CARGO S.A. helds over 50% shares and COMPANIES WITH THE SHARE HELD BY THE SUBSIDIARIES OF PKP CARGO S.A.							
1.	PKP CARGO SERVICE Sp. z o.o.	subsidiary	Warsaw	30 827 000 PLN	61 654	500 PLN	100% PKP CARGO S.A.
2.	PKP CARGOTABOR Sp. z o.o.	subsidiary	Warsaw	88 087 000 PLN	88 087	1 000 PLN	100% PKP CARGO S.A.
3.	PKP CARGOTABOR USŁUGI Sp. z o.o. (formerly: PKP CARGOLOK Sp. z o.o.)	subsidiary	Warsaw	18 138 000 PLN	18 138	1 000 PLN	100% PKP CARGO S.A.
4.	PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	subsidiary	Małaszewicze	54 016 000 PLN	54 016	1 000 PLN	100% PKP CARGO S.A.
5.	PKP CARGO CENTRUM LOGISTYCZNE MEDYKA-ŻURAWICA Sp. z o.o.	subsidiary	Żurawica	11 675 000 PLN	11 675	1 000 PLN	100% PKP CARGO S.A.
6.	„CARGOSPED" Sp. z o.o.	subsidiary	Warsaw	12 969 000 PLN	12 969	1 000 PLN	100% PKP CARGO S.A.
7.	CARGOTOR Sp. z o.o.	subsidiary	Warsaw	20 181 000 PLN	20 181	1 000 PLN	100% PKP CARGO S.A.
8.	Przedsiębiorstwo Spedycyjne TRADE TRANS Sp. z o.o.	subsidiary	Warsaw	16 000 000 PLN	800	10 000 PLN	55.56% PKP CARGO S.A.*
9.	PKP CARGO International a.s. in liquidation	subsidiary	Bratislava, Slovakia	1 000 000 EUR	510	1 000 EUR	51% PKP CARGO S.A.**
AFFILIATED COMPANIES, where PKP CARGO S.A. holds not less than 20% and no more than 50% shares							
10.	Międzynarodowa Spedycja MIRTRANS Sp. z o.o. - <u>THE COMPANY DOES NOT OPERATE</u>	the company with shares held by PKP CARGO S.A.	Gdynia	1 114 000 PLN	245	2 000 PLN	43.99% PKP CARGO S.A.
11.	POL-RAIL Societa' a responsabilita' limitata	the company with shares held by PKP CARGO S.A.	Rome, Italy	2 000 000 EUR	1 share of 435 443 EUR	Shares with various value	21.77% PKP CARGO S.A.
12.	COSCO POLAND Sp. z o.o.	the company with shares held by PKP CARGO S.A.	Gdynia	250 000 PLN	20	2 500 PLN	20% PKP CARGO S.A.
OTHER COMPANIES where PKP CARGO S.A. holds less than 20% shares							
13.	ZAO „Eurasia Rail Logistics"	the company with shares held by PKP CARGO S.A.	Moscow, Russia	1 670 000 Rubli	–	–	15% PKP CARGO S.A.
14.	EUROTERMINAL SŁAWKÓW Sp. z o.o.	the company with shares held by PKP CARGO S.A.	Sławków	182 479 000 PLN	340 000	50 PLN	9.32% PKP CARGO S.A.
15.	Bureau Central de Clearing s.c.r.l.	the company with shares held by PKP CARGO S.A.	Brussels, Belgium	111 750 EUR	2	750 EUR	1.34% PKP CARGO S.A.
16.	Intercontainer-Interfrigo S.A. in liquidation	the company with shares held by PKP CARGO S.A.	Brussels, Belgium	18 300 000 EUR	–	–	0.71% PKP CARGO S.A.

** as at the publication date of this report PKP CARGO S.A. is owner of 100% shares of PS Trade Trans Sp. z o.o. (on 05.02.2015 was concluded the acquisition agreement of 44.44% shares from Trade Trans Invest a.s.)*
*** as at the publication date of this report PKP CARGO S.A. is owner of 100% shares of PKP CARGO International a.s. in liquidation (on 05.02.2015 was concluded the acquisition agreement of 49% shares from Rail Cargo Spedition a.s.)*

Source: Own study

All subsidiaries and affiliated companies are listed in notes no. 13-15 to the Consolidated Financial Statements of PKP CARGO Group for the year ended on 31 December 2014 prepared in accordance with IFRS EU.

3. Business profile of PKP CARGO Group

3.1. Rail freight operation

3.1.1. Position of PKP CARGO Group in the freight market in Poland

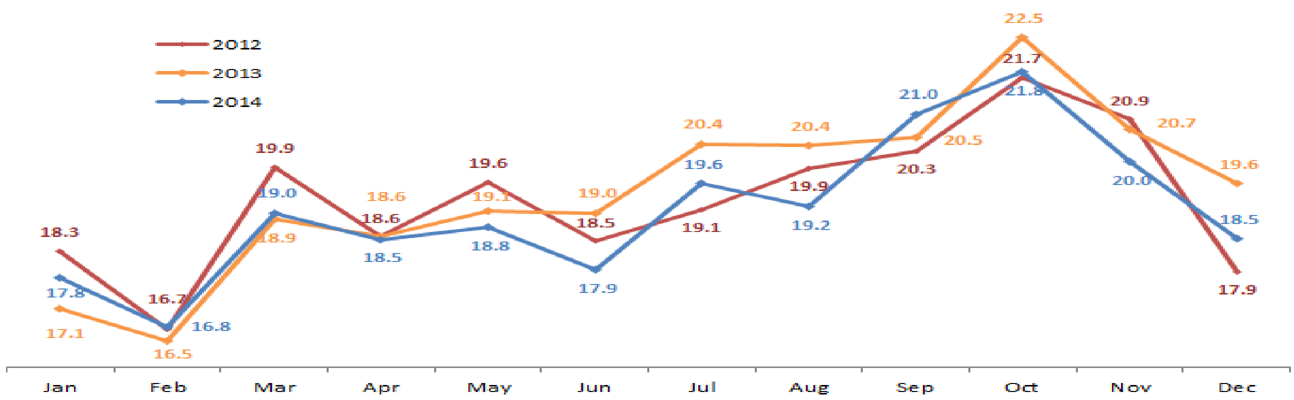
In accordance with Office of Rail Transport (UTK) data, in 2014 228.93 million tons of goods were transported by rail in Poland, and it resulted in slight decline by 1.9% YOY. The beginning of the year was favorable for operators – in the first quarter the freight volume increased by 1.9% YOY. The economy deteriorated from the second quarter. The decrease in transport intensified till August (after 8 months of the year the market results were lower by already 1.6% as compared to the previous year). September 2014 turned out to be very advantageous (the increase in freighted volume by 2.2% YOY), however the positive results were not achieved in last three months, when the freighted by rail mass was lower again as compared to the previous year.

Taking into consideration the freight turnover, volume in 2014 amounted to 50.1 billion tkm, i.e. by 1.5% lower as compared to the last year results – dynamic of freight turnover is comparable to dynamic of freight volume. The dynamic of freight turnover in the particular months shows the similar tendency to the dynamic of the freight volume, however, the freight turnover dynamic is more volatile.

The average haul of freight increased slightly from 218.1 km in 2013 to 218.9 km in 2014 (increase by 0.8 km, i.e. +0.4%).

The slight market decline is due to lower freight carried on the coal market. It was the result of lower Polish coal export due to very low prices of coal on the worldwide markets. According to the estimations, the coal freight by the rail in the first nine months of 2014 decreased by 1.7% in comparison to the corresponding period of 2013. It should be noticed that after the elimination of the coal freight the rail freight market increased by 6.3 % YOY (in accordance to Central Statistical Office (CSO) data of freight turnover[4]).

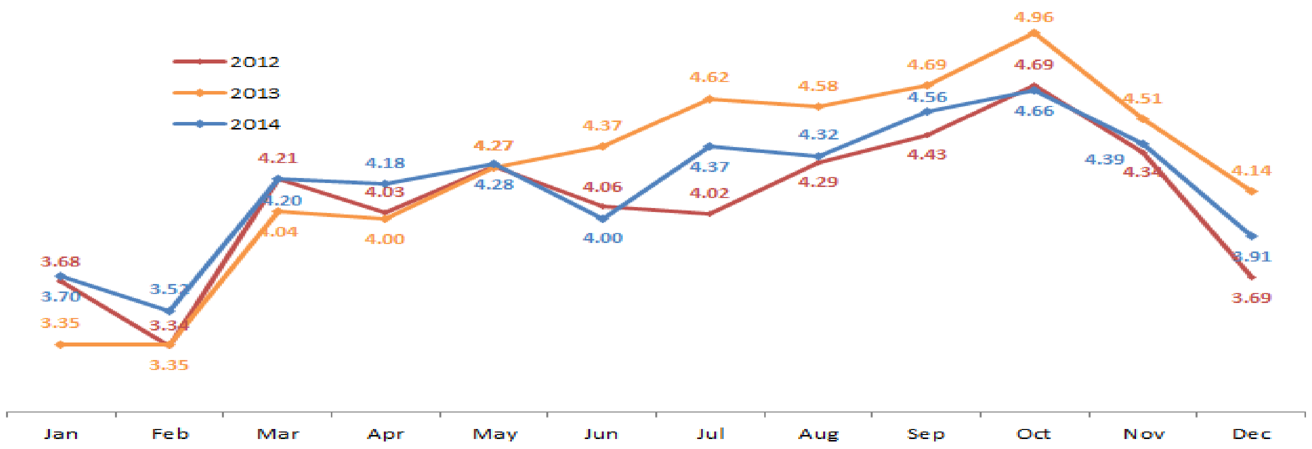
Figure 3 Rail freight volume (in thousands of tons) in given months in 2012 – 2014



Source: Office of Rail Transport

[3] Preliminary data; UTK could change it backwards during the year
[4] Preliminary data; CSO publishes final data in the yearbook "Transport – operation results" in July of the following year after the financial year

Figure 4 Rail freight turnover in Poland (in millions of tkm) in given months in 2012 – 2014



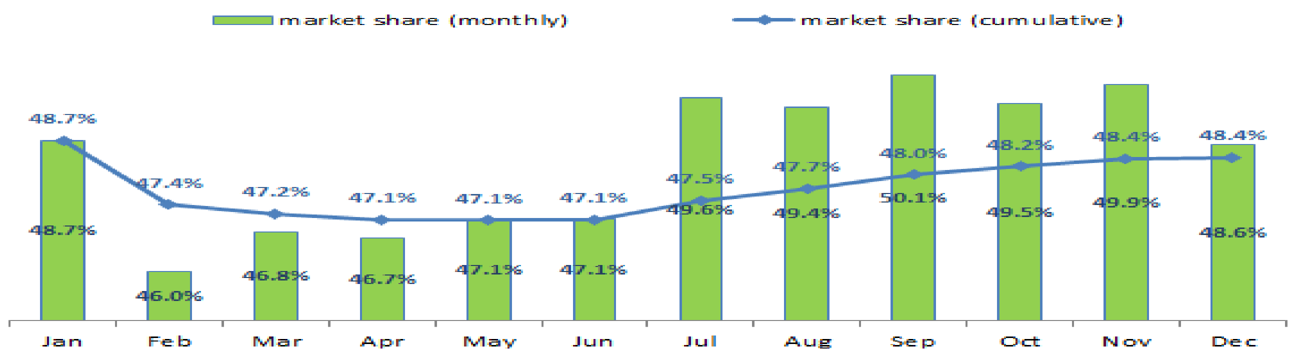
Source: Office of Rail Transport

On the domestic market of the rail freight transport in 2014, besides the PKP CARGO Group, 65 rail operators with the licence to transport goods were rendering the services of rail freight services.

Both in terms of the freight volume, and the freight turnover PKP CARGO Group remains a leader as regards the rail freight transport in Poland. Office of Rail Transport (UTK) stated that in 2014 PKP CARGO Group had 48.37% of the market share in terms of the freight volume, recording decrease by 0.7 of the percentage point as compared to the results of the previous year. At the same time, the share of the Group in terms of the freight turnover amounted to 57.04% and decreased respectively by 2.19 percentage points in comparison to 2013.

The Group's market share in the second half increased in comparison to the first, weaker half. It exceeded 50% level in terms of the freight volume. Among the rail operators being competitors to PKP CARGO Group, the following are the leading carriers: DB Schenker Group, CTL Group, Lotos Kolej and Freightliner PL.
Detailed monthly and increasing shares of PKP CARGO Group in the rail freight market in 2014 are presented on the graph below (freight volume in accordance with UTK).

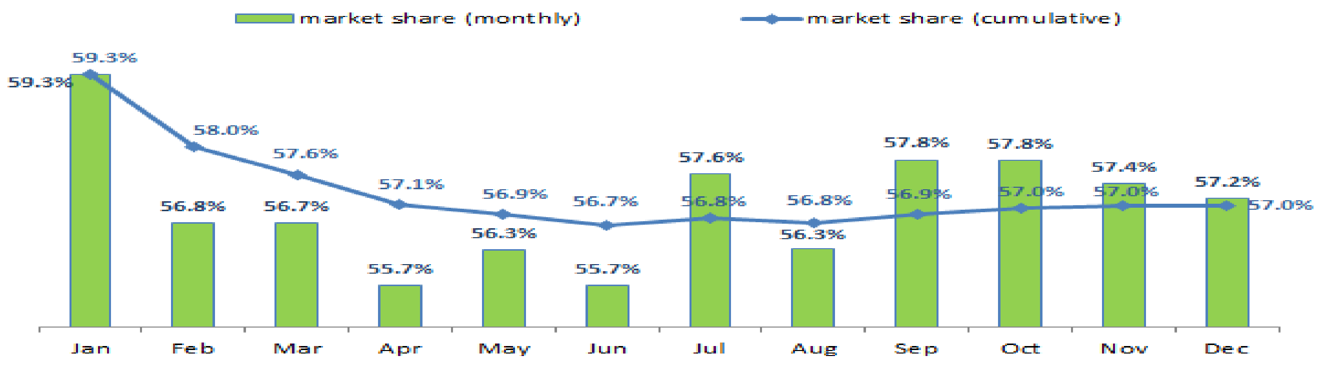
Figure 5 Share of PKP CARGO Group in the freight volume transported in 2014



Source: Office of Rail Transportation; own study

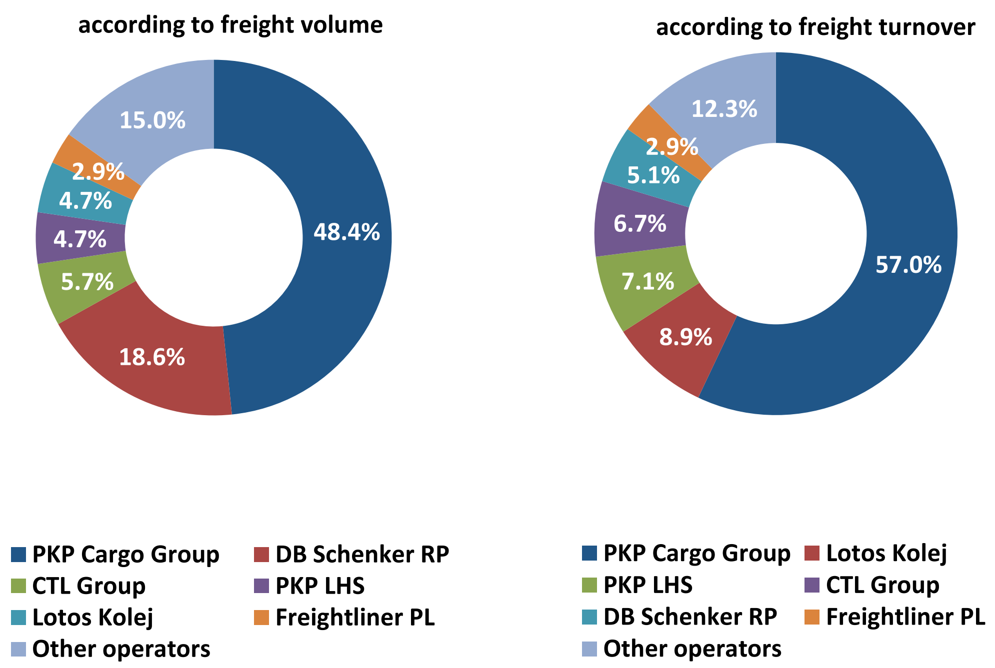
Monthly and increasing shares of PKP CARGO Group in the rail freight market in 2014 are presented on the graph below (freight turnover - UTK).

Figure 6 Share of PKP CARGO Group in the freight turnover performed in 2014



Source: Office of Rail Transport; own study

Figure 7 Market shares of rail operators according to the freight volume and according to the freight turnover performed in 2014



Source: Office of Rail Transport; own study

In 2014 the main competitors based on the freight volume were: DB Schenker Rail Polska (18.6%), CTL Group (5.7%) and PKP LHS (4.7%).

Based on the freight turnover, Lotos Kolej with a share amounting to 8.9% was the vice-leader of the market. PKP LHS took the third place (7.1%), the next place are taken CTL Group with a share amounting to (6.7%).

3.1.2. Rail freight

The principal service provided by the PKP CARGO Group is rail freight performed both in Poland, and abroad, i.e. in countries where it has obtained the licence – in Germany, Czech Republic, Slovakia, Austria, Belgium, Netherlands, Hungary and Lithuania.

In 2014 the rail transport service has been rendered by two Companies from the Group, i.e. PKP CARGO S.A. and PKP CARGO SERVICE Sp. z o.o. (a 100% subsidiary of PKP CARGO S.A.).

In 2014 PKP CARGO Group carried 110.7 million tons and performed freight turnover in the amount of 28.5 billion tkm.

The Group has at its disposal diversified railway rolling stock which makes it possible to transport every type of freight, and in particular solid fuels, aggregates and construction materials, metals and ores, wood and crops as well as chemicals and liquid fuels, and hazardous and oversized goods, and also intermodal goods. PKP CARGO Group provides a full range of transport services, taking into account the whole-train and scattered transport in single wagons or groups of wagons

The principal group of freight carried by the PKP CARGO Group are solid fuels, including mainly the hard coal. They constitute 52% of the volume transported in the 2014 as compared to 53% in 2013, while based on the freight turnover the share of solid fuels amounted to respectively 42% and 44% in 2013.

Transport of solid fuels decreased by -9% YOY as a consequence of the lower demand for hard coal caused by decrease in production of electric energy (the decline by 5.1% YOY). The second important factor influencing the decrease of the coal transport was the decline of export of this raw material due to reduction in prices of the bituminous coal in the world.

As a result of lower demand for freight of coal for export (the freights for the longest distance) there was the decrease of the haul for these commodities (by 10 km YOY). The Group's activities in term of sales of solid fuels transportation services on the domestic market compensated the negative influence of decreased export transportation. As a result, excluding export freight, the Group's freight turnover of the hard coal increased by 9% YOY, taking into account domestic transport, import and transit.

Negative external conditions influencing solid fuels freight, PKP CARGO Group has effectively compensated by the increase of freights in the second largest group of freight, i.e. aggregates and construction materials. The transport share of aggregates in the freight turnover in 2014 amounted to 21% (18% in 2013). It was the result of the increase in freight turnover by 11%. The transport of aggregates and construction materials in the period analysed was characterised by the continued and new infrastructure investments.

The third largest group of freight transported by PKP CARGO Group is metallurgic industry cargo, where the main goods are metals and iron ores. Their share in the freight turnover amounted to 12% in 2014 (14% in 2013). Transport in this group decreased in 2014 mainly in transit from Polish ports to southern neighbouring countries due to reduction in transport of iron ores, used mainly for the production of steel goods.

Table 3 Freight turnover of PKP CARGO Group in Q4 and 2014

	2014	2013	Change 2014-2013	Change 2014-2013	2014	2013	Q4 2014	Q4 2013	Change 2014-2013
	(tkm millions)			*%*	*Share in total (%)*		*(tkm millions)*		*%*
Solid fuels[1]	12 081	13 301	-1 220	-9%	42%	44%	3 275	3 293	-1%
Out of which hard coal	10 675	11 849	-1 174	-10%	37%	39%	2 908	2 918	0%
Aggregates and construction materials [2]	6 137	5 540	597	11%	21%	18%	1 607	1 619	-1%
Metals and ores[3]	3 488	4 365	-877	-20%	12%	14%	835	1 219	-32%
Chemicals[4]	1 901	1 676	225	13%	7%	6%	497	411	21%
Liquid fuels[5]	735	796	-61	-8%	3%	3%	204	199	3%
Timber and agricultural produce[6]	1 693	1 689	4	0%	6%	6%	394	497	-21%
Intermodal transport	1 754	1 835	-81	-4%	6%	6%	433	466	-7%
Other[7]	731	883	-152	-17%	3%	3%	183	215	-15%
Total	**28 520**	**30 085**	**-1 565**	**-5%**	**100%**	**100%**	**7 428**	**7 919**	**-6%**

Source: Own study

Table 4 Freight volume of PKP CARGO Group in Q4 and 2014

	2014	2013	Change 2014-2013	Change 2014-2013	2014	2013	Q4 2014	Q4 2013	Change 2014-2013
	(thousands of tons)			*%*	*Share in total %*		*(thousands of tons)*		*%*
Solid fuels[1]	56 919	59 954	-3 035	-5%	52%	53%	16 150	15 998	1%
Out of which hard coal	51 976	54 969	-2 993	-5%	47%	48%	14 854	14 750	1%
Aggregates and construction materials [2]	21 525	19 820	1 705	9%	19%	17%	5 647	5 718	-1%
Metals and ores[3]	12 292	13 730	-1 438	-10%	11%	12%	2 932	3 589	-18%
Chemicals[4]	5 961	5 868	93	2%	5%	5%	1 491	1 451	3%
Liquid fuels[5]	2 692	3 013	-321	-11%	3%	3%	759	745	2%
Timber and agricultural produce[6]	4 709	4 416	293	7%	4%	4%	1 187	1 309	-9%
Intermodal transport	4 535	4 866	-331	-7%	4%	4%	1 113	1 259	-12%
Other[7]	2 073	2 779	-706	-25%	2%	2%	513	709	-28%
Total	**110 706**	**114 446**	**-3 740**	**-3%**	**100%**	**100%**	**29 792**	**30 778**	**-3%**

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

Source: Own study

The changes of the volume and the structure of goods transported by the PKP CARGO Group influenced significantly in 2014 the freight structure by communication type. The share of domestic transport in the freight turnover increased to the level of 53%. The registered significant increase of domestic transport was caused mainly by the dynamic growth of aggregates and construction materials transportation (by 11% YOY), which were mainly transported as part of the internal communication in Poland. Additional factor determining the higher share of domestic transport was the decline of performed transportation work for coal export which at the same time was reflected in export structure of the Group. Export share in 2014 amounted to 21% (26% in 2013). The transport share of PKP CARGO Group realized in import in terms of freight turnover was 18% (16% in 2013), whereas transit freight in terms of freight turnover was 8% (9% in 2013).

Table 5 Structure of the freight turnover of PKP CARGO Group according to the type of communication in Q4 and 2014

	2014	2013	Change 2014-2013	Change 2014-2013	2014	2013	Q4 2014	Q4 2013	Change 2014-2013
	(tkm millions)			*%*	*Share in total (%)*		*(tkm millions)*		*%*
Domestic	15 209	14 811	398	3%	53%	49%	4 166	4 219	-1%
Export	5 883	7 777	-1 894	-24%	21%	26%	1 451	1 524	-5%
Import	5 165	4 932	233	5%	18%	16%	1 251	1 510	-17%
Transit	2 263	2 565	-302	-12%	8%	9%	560	666	-16%
Total	**28 520**	**30 085**	**-1 565**	**-5%**	**100%**	**100%**	**7 428**	**7 919**	**-6%**

Source: Own study

Table 6 Structure of the freight volume of PKP CARGO Group according to the type of communication in Q4 and 2014

	2014	2013	Change 2014-2013	Change 2014-2013	2014	2013	Q4 2014	Q4 2013	Change 2014-2013
	(thousands of tons)			*%*	*Share in total (%)*		*(thousands of tons)*		*%*
Domestic	69 975	69 326	649	1%	63%	61%	19 621	19 120	3%
Export	18 265	22 204	-3 939	-18%	17%	19%	4 652	4 909	-5%
Import	18 822	18 846	-24	0%	17%	16%	4 658	5 658	-18%
Transit	3 644	4 070	-426	-10%	3%	4%	861	1 091	-21%
Total	**110 706**	**114 446**	**-3 740**	**-3%**	**100%**	**100%**	**29 792**	**30 778**	**-3%**

Source: Own study

Table 7 Average haul of PKP CARGO Group according to the type of communication in Q4 and 2014

	2014	2013	Change 2014-2013	Change 2014-2013	Q4 2014	Q4 2013	Change 2014-2013
	Km			*%*	*Km*		*%*
Domestic	217	214	3	1%	212	221	-4%
Export	322	350	-28	-8%	312	310	1%
Import	274	262	12	5%	269	267	1%
Transit	621	630	-9	-1%	650	610	7%
Total	**258**	**263**	**-5**	**-2%**	**249**	**257**	**-3%**

Source: Own study

3.2. Other services

Traction services

Apart from the transport activity, the Group provides the traction services, i.e. assuring the clients the traction vehicle with the service to perform the rail transport or assuring its readiness e.g. to run the repairs trains, rescue trains etc. The Group uses the periodical surplus of traction vehicles and traction teams to render the services. As part of this operation segment the rail vehicle could be offered (locomotives without the traction teams).

Siding activity

PKP CARGO Group provides a number of near-transport services, including, inter alia, siding services which cover forming trains, shunting services using own railway rolling stock and third parties' railway rolling stock, managing railway traffic on sidings, maintenance of positions using personnel providing siding services and transport. Sidings operated by the Group are the property of third parties and usually combine production plants of the Group clients with the main railway network. The main entity providing aforementioned services is PKP CARGO SERVICE Sp. z o.o.

PKP CARGO SERVICE Sp. z o.o., as part of complex operation of rail sidings, provides its clients with shunting service of the rail sidings, running the railway traffic on the rail sidings, manning positions connected with running the railway traffic on the sidings, leasing the railway rolling stock, diagnostics and ongoing maintenance of the railway infrastructure, drawing up regulations for work of the sidings, commercial service of shipments sent to be transported and periodic training courses for employees.

PKP CARGO SERVICE Sp. z o.o. renders its services for enterprises operating in the mining industry: these are mainly hard coal mines and aggregates mines as well as in the power industry: power plants as well as combined heat and power plants. Based on the data as at 31 December 2014 the Company serves in total 31 sidings.

Reloading activity

PKP CARGO Group develops the reloading activity based on conventional and intermodal reloading terminals belonging to PKP CARGO Centrum Logistyczne Małaszewicze, PKP CARGO Centrum Logistyczne Medyka-Żurawica, PS TRADE TRANS Sp. z o.o. and „CARGOSPED" Sp. z o.o.

On conventional terminals goods are reloaded, of which the following are dominating: hard coal, petroleum and petroleum-derivative products, chemical articles, metals and metal products, wood, wooden chips, chemical fertilisers, ores, cars. PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o. as the only company has a thaw room and the shifting terminal for wagon carts to handle shipments in non-reloading communication. In 2014 goods were reloaded in the greatest amount on terminals belonging to CL Małaszewicze.

The reloading of transport units is carried on five intermodal terminals, four of which are managed by „CARGOSPED" Sp. z o.o., one is operated by PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o. New container terminal in Poznań Franowo was put into operation on 18 December 2013. Till 30 October 2014 the terminal operated within the structures of PKP CARGO S.A. and now it is managed by „CARGOSPED" Sp. z o.o. The reloading point dedicated to intermodal units is PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o.

In 2014 as compared to the same period in 2013 we can observe clear growth in the volume of goods reloaded on conventional terminals by 18.2% and on container terminals by 1.1%.

Intermodal services

PKP CARGO Group provides complex intermodal transport services mainly including rail transport of containers, and also transport of containers on car semitrailers. Moreover the Group offers logistics solutions based on intermodal transport according to the model door-to-door and just-in-time. The Group implements intermodal services mainly as a rail freight carrier and as a container terminals operator.

Forwarding activity

Forwarding services are mainly rendered by companies dependent of PKP CARGO Group, i.e. PS TRADE TRANS Sp. z o.o. (domestic and international forwarding) and „CARGOSPED" Sp. z o.o. (domestic forwarding).

PS TRADE TRANS provides complex logistics services taking advantage of the rail, car, sea and inland water transport by organising transporting, reloading, storing, warehousing, packaging and distributing. Also, the company implements the customs service. „CARGOSPED" Sp. z o.o. specialises in railway freight forwarding as regards transport of aggregate.

Repair activity

Maintaining of the railway rolling stock is rendered by repair points functioning within PKP CARGOTABOR Sp. z o.o. and the structures of Divisions of PKP CARGO S.A. Back-up facilities for the railway rolling stock maintenance of the PKP CARGO Group is competent as regards repairs of wagons, electric locomotives and diesel locomotives. Apart from the railway rolling stock being the property of the PKP CARGO Group, back-up facilities belonging to the Group is also used to repair the railway rolling stock belonging to other owners. In 2014 the Group realized on behalf of external business partners 72 periodic inspections and 226 monitoring inspections of the locomotives, as well as 25 periodic repairs of wagons. Numbers of repairs and periodic inspections carried out in particular periods result from cycles specified in the Maintenance System Documentation (DSU) and a number of the railway rolling stock maintained in technical efficiency in accordance with the demand reported by the commercial division. Apart from planned activities the repair points functioning within the structures of the PKP CARGO Group do ongoing repairs of the railway rolling stock aimed to eliminate defects arising to the railway rolling stock during work.

On 1 July 2014 consolidation took place of activities of companies from the PKP CARGO Group dedicated to overhauls of the railway rolling stock. Currently, competencies in this field are concentrated in PKP CARGOTABOR Sp. z o.o.

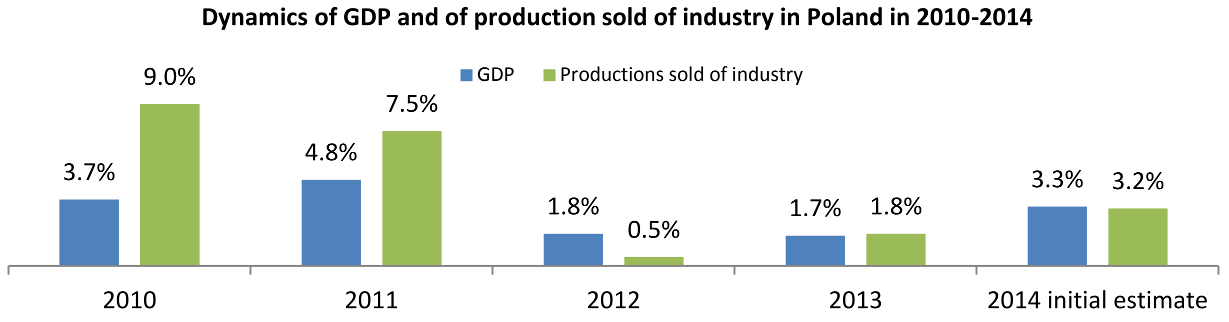
3.3. Macroeconomic situation

Polish economy

PKP CARGO S.A. pursued its operations under a relatively favourable external macroeconomic situation. The pace of economic growth reached the highest level in the last three years which resulted from the growth of domestic consumption and investment demand.

Gross Domestic Product of Polish economy (based on CSO data) was higher by 3.3% in comparison to 2013, the inflation (measured by index CPI) was stable compared to the previous year.

Figure 8 Dynamics of GDP and of production sold of industry in Poland in 2010-2014



Source: CSO [remark: CSO in 2014 adjusted the methodology of GDP calculation to ESA 2010 standards, changed methodology was also used to GDP adjustment from prior years]

Although, in general the positively assessed economic situation caused the growth in production sold, not all significant products are carried by rail transport. The growth in the production sold was recorded in 24 (from 34) industrial sectors, including inter alia metal production (by 6.2%), metal products (by 7.3%), plastic products (by 6.2%) and motor vehicles (by 5.1%). The decline was recorded in coal and lignite sales (by 8.1%) and chemical products (by 1.9%).

Prices of production sold of industry were lower than in 2013 by 1.5% (including mining and extraction by 4.7% and industrial processing by 1.6%).

Based on the CSO estimations, the construction and assembly production was in higher by 3.0% in 2014, whereas the highest increase was observed in the companies, which specialize in land and water engineering (by 8.6%). The decrease was registered in the cubature construction (by 4.0%).

European economy

The economic situation of Poland in the described period was supported by the recorded economic recovery in the majority of countries in Central and Eastern Europe.

In accordance with the report of the National Bank of Poland, in three quarters of 2014 the yearly GDP growth pace in the whole region amounted to 2.9% in comparison to 1.3% in 2013 and thus it was over twice higher than in countries of EU15. However, the Polish, Slovak and Hungarian economies influenced mostly the recorded positive trends from the region.

The positive economy recovery signals were registered also for the German economy, where the GDP growth amounted to 1.5% (in comparison to 0.4% in 2012 and 0.1% in 2013).

Transport

In total, transport of freight in 2014 amounted to 477.2[5] million tons, i.e. by 3.1% more than in 2013 (data from CSO). The increase in transport was observed in car transport and inland water transport; in other types of transport decrease was observed.

In 2014, 227.7[6] million tons of freight were transported (less by 2.1% yoy) by rail, whereas the following changes were recorded in respective communication types:

- domestic transport (decrease by 3%)
- import (increase by 8%)
- export (decrease by 5%)
- transit (decrease by 18%)

[5] in enterprises employing 9 persons or more

[6] preliminary data: CSO publishes the final data in the Yearbook "Transport Results of Operations" in July of the year following the reporting year

Further 188.1 million tons (increase by 12.1%) of freight were transported by road transport, whereas 49.9 million tons of oil and oil products (decline by 1.5%) were carried by the pipelines.

68.9 million tons of cargo were reloaded in the sea ports (increase by 7.2%), where a particular attention should be paid to dynamic growth of container reloading (by 18.3%).

Intermodal transport

The year 2014 confirmed market predictions concerning intermodal transports development. In the three quarters of 2014 the number of transportation units (UTI) increased, which influenced positively rail transportation performance of this product. As a result the growth in number UTI (by 12.8% yoy) as well as the growth of freight volume (by 13.6%) were recorded.

The observed for the last few years dynamic increase of the intermodal transport results from the EU transport policy, which is focused on the cargo reallocation from the road transport to railway transport. In order to support the intermodal transport, the numerous investments (supported by the EU grants) were realized in Poland, which relate to the point infrastructure dedicated to intermodal units services.

Steadily expanded activity of Polish ports, interoperation of network and increasing interests of producers who purpose to containerize their products offered additional support for intermodal transport in 2014.

It should be noticed that freights realized in this technology are supported by the favorable access rate to infrastructure.

The economic situation in main industrial branches, which influence directly the demand for transport services

Due to the characteristics of the railway transport, where the dominant groups of commodities are mass commodities, the volume transported by rail depends substantially on the level of extraction and sales of hard coal, production of metallurgical industry and the range of ongoing infrastructural investments.

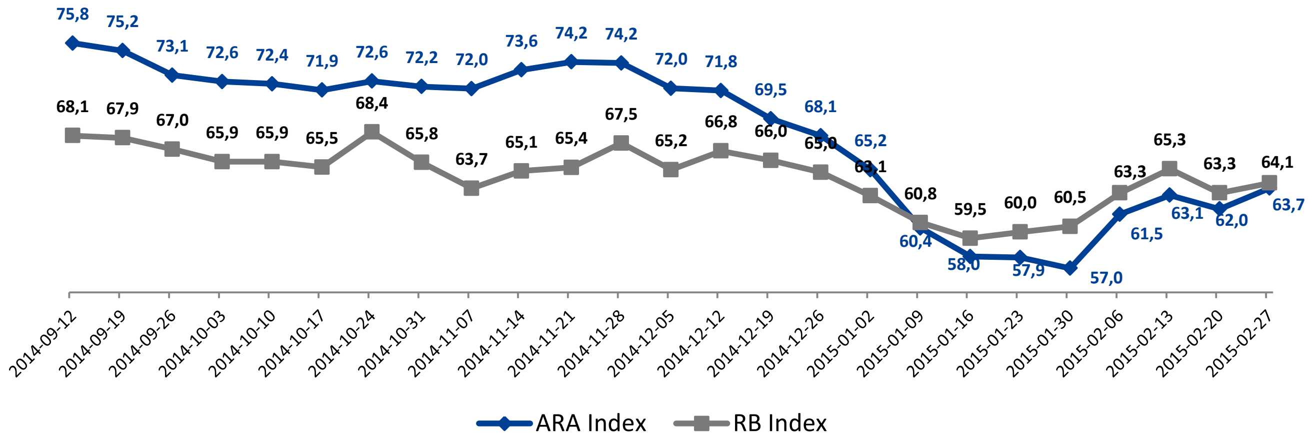
Mining industry

The Polish mining industry in 2014 was still characterised by low demand for hard coal what resulted in the production decline and decrease in sales of the largest mining companies. It should be noted that the unfavourable situation in the Polish mining sector is the effect of overlapping external and internal factors.

Hard coal trade is conducted worldwide and thus the results of the industry depend appreciably on trends and activities of mining companies around the world. Nowadays, the increasing surplus of the resources worldwide is noticed. It is reflected by the trend of stable decreasing price of the raw material. Based on Index ARA, which best illustrates the price of the raw material delivered on the European market, hard coal price achieved 65 dollars per ton at the end of 2014, i.e. the lowest level over the last few years.

Aforementioned low prices of hard coal limited appreciably the export opportunities of the raw material in 2014 which used to be successfully realized by the Polish mining companies.

Figure 9 Coal prices on ARA market in comparison to RB*



*ARA – Amsterdam, Rotterdam and Antwerpen; RB - Richards Bay (RSA):

Source: www.gornictwo.wnp.pl

Regardless of the observed world's coal surplus, the significant factor determining low level of coal sales in 2014 is the decline in electricity production which amounted to 158 496 GWh and was lower by 3.6% yoy. Additionally, the negative influence of the external surrounding in 2014 was intensified by the internal barriers of Polish mining companies, which limited the progress of the restructuring processes in the industry.

Based on data from Industry Development Agency, during 11 months the total coal sales decreased by 9% and amounted to 64.1 million ton, whereas domestic sales recorded the decline by over 7% (to 56.6 million tons yoy). The decline of the export amounted to 23.6% (to 7.6 million tons yoy).

At the end of 2014, hard coal stores at mines decreased and amounted to 8.2 million ton of coal, however compared to the end of November 2013 they are still higher by 1.5 million tons.

<u>Construction industry</u>

According to the preliminary data from CSO, increase in the construction production index in 2014 (in construction companies above 9 employees) amounted to 3.6% YOY. The improvement in economic situation was mainly due to infrastructure investments which were supported by an early start of the construction works thanks to favourable weather conditions in the first quarter of the year.

The aggregate production increased by 20 million – to about 240 million ton, whereas in some regions of Poland the demand increase was over 30%.

In accordance with data from General Administration of Domestic Roads and Motorways in 2014 327.8 km roads were put in service. As a result, the total length of express roads and motorways in Poland increased to 3 025.7 km in comparison to 2 759 km at the end of 2013. The further progress of this segment will be determined by new investments related to the new financial perspective of EU budget. In 2014-2020 Poland will be able to invest 82.5 billion euro from the Union cohesion policy, including about 76.9 billion euro in the operation programs and 4.1 billion euro in infrastructure projects of the European significance.

<u>Metallurgical Industry</u>

According to the preliminary data from CSO raw steel production was 8.8 million tons in 2014 in Poland and therefore increased by 7.3 % in comparison to 2013. It was mainly a result of higher demand from the construction sector which is the primary consumer of metallurgical goods. Total use of steel in Poland in 2014 is estimated at 10.5 million tons (in comparison to 10.3 million tons in 2013).

Consequently, there was a noticeable increase in production and metal manufacture – metal production sold increased by 6.2% and metal goods sold by 7.3%.

In 2014 Polish companies overtook European competitors in terms of production. It was illustrated in the results of the entities running their activity on the Polish market. The activity of Polish industry in 2014 was influenced significantly by the conflict in the Ukraine, where the production limitation of mines, coke plants and ironworks caused the significant barriers for maintaining the required deliveries as well as influenced the prices of imported goods.

The currently observed recovery in the sector, was preceded by a few years of stagnation, which was characterized by significant declines in prices of raw materials and metallurgical industry products. Although the recovery in the metallurgical industry was noticeable from the half of 2013, steel prices declined in the first months of 2014. The similar trends characterized trade in iron, the prices of which reached the lowest levels in 5 years.

3.4. Information about the sales market and supply sources

Main clients

PKP CARGO Group operates in one geographical area – Poland, where the Company's Headquarters are located. Total revenue for all geographical areas (place of clients' headquarters) outside Poland did not exceed 15% of total revenue from sales of the services.

Revenue of the Group from the external clients broken down by the location is described in note no 5.2 "Geographical information" to the Consolidated Financial Statements.

The Group does not provide information about key clients, as revenue from any of the Group's clients individually do not exceed 10% of the total revenue from sales.

Main suppliers

While operating on the transportation market, in terms of the access to the infrastructure, PKP CARGO Group solely depends on the largest supplier of the services offering the access to the railway infrastructure in Poland – PKP Polskie Linie Kolejowe S.A. (PKP PLK). It is the national supplier of majority of railway infrastructure services in Poland. The access to the infrastructure is granted to all carriers, both cargo and passenger ones, in return for an access fee based on the same terms. PKP PLK renders services to PKP CARGO Group which include the access to railway infrastructure and traction infrastructure, dispatching and directing the rail traffic as well as the access to equipment related to the operation of trains. The share of PKP PLK in the costs of supply of the PKP CARGO Group (sense as the sum of the costs of external services and consumption of raw materials and supplies) was 34,2% in 2014.

Furthermore, a significant supplier of the Group remains PKP Energetyka S.A. in terms of traction fuel and traction energy supplies. This supplier specializes in sales and delivery of energy, sales of liquid fuels and delivery of electro-energy services. The share of PKP Energetyka S.A. in the costs of supply of the PKP CARGO Group (sense as the sum of the costs of external services and consumption of raw materials and supplies) was 25,0% in 2014.

3.5. Seasonality / cyclicity of operations

Operations of the PKP CARGO Group do not exhibit any significant or seasonal cyclical trends.

3.6. Information on employment

Data concerning changes to the employment in PKP CARGO Group in 2014 and in the fourth quarter of 2014 in comparison to the same periods in 2013 are presented below.

Table 8 Employment at the end of the reporting period in PKP CARGO Group

Specification	Number of employees, as at:				
	31.12.2014	31.12.2013	30.09.2014	Change from the beginning of the year	Change in Q4
Company	20 830	22 480	21 870	-1 650	-1 040
Subsidiaries	4 130	4 073	4 220	57	-90
Group	**24 960**	**26 553**	**26 090**	**-1 593**	**-1 130**

Source: Own study

Table 9 Average employment in the 2014 and in 2013 in PKP CARGO Group

Specification	average employment in full-time jobs		Change	average employment in persons		Change
	2014	2013	2014-2013	2014	2013	2014-2013
Company	22 010	22 711	-701	22 012	22 713	-701
Subsidiaries	4 175	3 881	294	4 203	3 902	300
Group	**26 185**	**26 591**	**-406**	**26 215**	**26 616**	**-400**

Source: Own study

Table 10 Average employment in Q4 2014 and Q4 2013 in PKP CARGO Group

Specification	average employment in full-time jobs		Change	average employment in persons		Change
	Q4 2014	Q4 2013	2014-2013	Q4 2014	Q4 2013	2014-2013
Company	21 639	22 776	-1 137	21 636	22 780	-1 144
Subsidiaries	4 152	3 966	186	4 177	3 990	187
Group	**25 791**	**26 742**	**-952**	**25 813**	**26 770**	**-957**

Source: Own study

Table 11 Change to the structure of employment in 2014 and 2013 in PKP CARGO Group

Specification	Number of employees, as at:		Change 2014 -2013	Number of employees, as at:	Change 2013 - 2012
	31.12.2014	31.12.2013		31.12.2012	
White collar employees	5 349	5 566	-217	5 786	-220
Blue collar employees	19 611	20 987	-1 376	21 841	-854
Total:	**24 960**	**26 553**	**-1 593**	**27 627**	**-1 074**

Source: Own study

Table 12 Change to the structure of employment in Q4 2014 and in Q4 2013 in PKP CARGO Group

Specification	Number of employees, as at:		Change in Q4 2014	Number of employees, as at:		Change in Q4 2013
	31.12.2014	30.09.2014		31.12.2013	30.09.2013	
White collar employees	5 349	5 464	-115	5 566	5 551	15
Blue collar employees	19 611	20 626	-1 015	20 987	21 267	-280
Total:	**24 960**	**26 090**	**-1 130**	**26 553**	**26 818**	**-265**

Source: Own study

In 2014 the average employment in PKP CARGO Group was reduced by 406 full-time jobs in comparison to 2013. Decrease in the employment was mainly the result of termination of contracts of employment in connection with acquiring the retirement rights.

Average number of employees (in the full-time equivalents) in the Parent Company released from the obligation to perform work amounted to 91 in comparison to 587 in the previous year.

Employment decrease in 2014 in PKP CARGO Group was deeper than it was assumed in the Prospectus of PKP CARGO S.A. prepared in relation to the initial public offering. The decrease results from termination of employment contracts due to retirement that occurred higher than originally assumed in the Parent Company, despite higher level of newly employed in subsidiaries. Increase in employment in subsidiaries resulted primarily from higher volumes of services rendered. In addition, the exemption from the obligation to perform work had an impact on employment at the end of 2014.

Employment optimization process has been continued in 2015.

Information concerning the implementation of the Voluntary Redundancy Program in 2015 in terms of number of employees who joined the program and the related costs is presented in the chapter 4.2.1.

3.7. Investing activities of PKP CARGO Group

3.7.1. Capital expenditure

In 2014 the Group incurred investment expenditures of PLN 560.1 million for additions of tangible fixed assets and intangible assets in the form of purchases, modernisation and the so-called renovation component (scheduled overhauls of rolling stock), which constitutes 154.1% of expenditures for 2013.

In 2014 the Group did not incur foreign capital expenditure on tangible fixed assets and intangible assets.

The majority of capital expenditures in 2014 was allocated to rolling stock, i.e. PLN 506.4 million including mainly scheduled overhauls (numbers of overhouls carried out in particular periods result from cycles specified in the Maintenance System Documentation DSU approved by the UTK and a number of the railway rolling stock maintained in technical efficiency in accordance with the demand on freight market), locomotives modernization (12 items) and purchase of wagons (200 items of wagons to carry containers. Furthermore, capex expenditure on implementation of IT solutions, i.e. purchase of hardware and intangible assets (software) amounted to PLN 22.0 million and on investment constructions – to PLN 18.1 million (including intermodal terminal Poznań Franowo and modernization of rolling stock maintenance facilities in Węgliniec).

A detailed summary of the Group's capital expenditure in 2014 and a comparison to 2013 are presented in the table below.

Table 13 Capital expenditure in PKP CARGO Group in 2014 in comparison to 2013 (PLN thousand)

Investment directions	2014	2013	Absolute change 2014-2013	Pace of changes 2014-2013
Investment construction	18 130	43 432	-25 302	-58.3%
Modernisation of locomotives	48 544	23 345	25 199	107.9%
Purchase of wagons	57 301	18 280	39 021	213.5%
Machines and equipment	9 469	11 301	-1 832	-16.2%
IT	21 972	34 193	-12 221	-35.7%
including intangible assets	13 472	18 843	-5 371	-28.5%
Other	4 163	1 917	2 246	117.2%
Components in repairs:	400 583	231 009	169 574	73.4%
Scheduled overhouls of locomotives	122 495	41 889	80 606	192.4%
Scheduled overhouls of wagons	278 088	189 120	88 968	47.0%
Total	**560 162**	**363 477**	**196 685**	**54.1%**

Source: Own study

Financing structure of capital expenditure on tangible and intangible fixed assets was in 2014 as follows: PLN 354.1 million from the Group's own financial resources, PLN 178.4 million from a credit facility, PLN 2.7 million from leasing and PLN 24.9 million from the Cohesion Fund, received from the Infrastructure and Environment Operational Programme.

Capital expenditure

In addition to above- described capital expenditure on property, plant and equipment and intangible assets, as part of capital investment in 2014, PS TRADE TRANS Sp. z o .o incurred expenses in the amount of PLN 305 thousand in order to acquire:

1. a stake in POL-RAIL s.r.l. constituting 3.23% of the share capital of the company (foreign investment);

2. 139 shares in TRADE TRANS KARYA Sp. z o. o., representing 39.7% of the share capital of the company (domestic investment);
3. 25 shares of PPHU UKPOL Sp. z o. o., constituting 25% of the company share capital (domestic investment).

These expenditures were financed from own resources.

3.7.2. Important events and achievements of investments projects

PKP CARGO Group has the capability to finance the investment projects both using internal resources i.e. the existing and planned cash surplus (from operating activities) as well as external resources including not utilized EIB credit facility of PLN 240 million (credit agreement concluded by the Parent Company on 3 December 2013), investment loan granted by Bank Gospodarstwa Krajowego up to the amount of PLN 515.2 million and basing on new credit facilities and investment loan. The acceptable financial ratios agreed with strategic borrowers allow to significantly increase the scale of financing investment projects with the use of the Group's external funds without the risk of default on the existing credit agreements.

Moreover as at 31 December 2014 in PKP CARGO Group is implemented cash pooling comprising 8 companies from the Group.

It should be noticed that PKP CARGO Group effectively operates the cycle of cash turnover by matching the payment terms of receivables and liabilities. In order to mitigate the risk of money shortage in the short-term, Parent Company – PKP CARGO S.A. secured the overdraft agreement with the limit of PLN 100 million, however the Parent Company does not use the overdraft.

4. Analysis of financial and economic situation of PKP CARGO Group

4.1. Key economic and financial figures

4.1.1. Statement of comprehensive income

Analysis of key economic and financial figures of PKP CARGO Group presented in this chapter includes the presentation adjustment of data for 2014 and 2013. Data for 2013 for presentation purposes have been adjusted by the costs of PLN 209.2 million resulting from the Agreement partially ending the collective dispute of 10 June 2013 between the Trade Unions and PKP CARGO S.A. signed by the parties on 22 August 2013, and also from the Employees' Guarantees Pact signed on 2 September 2013. Data for 2014 for presentation purposes have been adjusted by the effect of provisions of PLN 265.3 million resulting from implemented Voluntary Redundancy Program based on the Resolution no. 423/2014 of the Management Board of PKP CARGO S.A. from 17 November 2014 and the Resolution no. 1363/V/2014 of the Supervisory Board of PKP CARGO S.A. from 27th November 2014. Both amounts were included in costs of the employee benefits.

In 2014, PKP CARGO Group transported 110.7 million tons of the freight volume, i.e. by 3.3% less than in 2013, and performed the freight turnover at the level of 28.5 billion tkm, i.e. by 5.2% less yoy. For details please see Chapter 4.1.2. "Rail freight transport". Total operating revenue of the Group decreased by 11.3% yoy and adjusted total operating expenses by 12.6% yoy. As a result the Group generated in 2014 adjusted profit on operating activities and adjusted net profit higher 7.2% i 17.6% in the amount of PLN 342.4 million and PLN 276.2 million respectively.

Detailed information as regards particular captions in Consolidated Statement of Comprehensive Income have been described in the further part of this Chapter.

The table below presents key economic and financial results of PKP CARGO S.A. in 2014 compared to 2013:

Table 14 Results of PKP CARGO Group in 2014 in comparison to 2013 (PLN thousands)

Item	Specification	2014	2013	Change 2014-2013	Pace of changes 2014/2013	2014 Adjusted*	2013 Adjusted*	Change 2014-2013 Adjusted*	Pace of changes 2014/2013 Adjusted*
1	Total operating revenue	4 257 102	4 797 461	-540 359	-11.3%	4 257 102	4 797 461	-540 359	-11.3%
2	Total operating expenses	4 180 028	4 687 276	-507 248	-10.8%	3 914 697	4 478 116	-563 419	-12.6%
3	**Profit on operating activities**	**77 074**	**110 185**	**-33 111**	**-30.0%**	**342 405**	**319 345**	**23 060**	**7.2%**
4	Financial revenue	33 812	34 333	-521	-1.5%	33 812	34 333	-521	-1.5%
5	Financial expenses	37 577	44 209	-6 631	-15.0%	37 577	44 209	-6 631	-15.0%
6	Share in the profit of equity accounted associates	881	-13 438	14 319	-106.6%	881	-13 438	14 319	-106.6%
7	Profit / (loss) on sales of shares in an associates	-	1 661	-1 661	-	-	1 661	-	-
8	**Profit before tax**	**74 190**	**88 532**	**-14 342**	**-16.2%**	**339 521**	**297 692**	**41 829**	**14.1%**
9	Income tax expense	12 905	23 145	-10 240	-44.2%	63 318	62 885	433	0.7%
10	**Net profit from continued activities**	**61 285**	**65 387**	**-4 102**	**-6.3%**	**276 203**	**234 806**	**41 396**	**17.6%**
11	Net profit (loss) on abandoned activities	-	-	-	-	-	-	-	-
12	**NET PROFIT**	**61 285**	**65 387**	**-4 102**	**-6.3%**	**276 203**	**234 806**	**41 396**	**17.6%**

* Data for 2013 for presentation purposes have been adjusted by the costs of PLN 209.2 million resulting from the Agreement partially ending the collective dispute of 10 June 2013 between the Trade Unions and PKP CARGO S.A. signed by the parties on 22 August 2013, and also from the Employees' Guarantees Pact signed on 2 September 2013.
Data for 2014 for presentation purposes have been adjusted by the effect of provisions of PLN 265.3 million resulting from implemented Voluntary Redundancy Program based on the Resolution no. 423/2014 of the Management Board of PKP CARGO S.A. from 17 November 2014 and the Resolution no. 1363/V/2014 of the Supervisory Board of PKP CARGO S.A. from 27 November 2014.

Source: The Consolidated Financial Statements of PKP CARGO Group for the financial year ended on 31 December 2014 prepared in accordance with IFRS EU

Total operating revenue

Revenue from sales of services constitutes the largest share in the structure of total operating revenue of the Group (97.8% in 2014 and 94.9% in 2013). Revenue from sales of services include: freight services, siding services, traction services, renting the rolling stock, revenue arising from complex operational support services and revenue arising from repair services of railroad fleet. The remaining part of operating revenue of PKP CARGO Group constitutes revenue from sales of goods and materials including sale of steel and iron scrap metal, as well as other operating revenue including among others: sale of non-current assets, change in allowances for receivables and interest from receivables, change of the provisions for liabilities.

Decline in revenue from sales by PLN 350.1 million was caused mainly by lower railway freight in Poland (the chapter "Position of PKP CARGO Group on the railway market"), and particularly lower railway freight of coal due to decline in export of this raw material.

Decline in revenue from sales of goods and materials by PLN 108.9 million, i.e. 66.5% yoy resulted mainly from lower revenue from sales of scrap.

Other operating revenue decreased by PLN 39.7 million, i.e. 49.8% yoy. The decline is the result of high other operating revenue in 2013 caused by the return of the paid penalty of PLN 60.4 million by Office of Competition and Consumer Protection ("OCCP") to PKP CARGO S.A. Due to the fact that the case has been returned to remand by the court of the first instance, the Company has estimated the provision for the possible fine that could be imposed by OCCP. Difference between the fine and the amount of recalculated provision in the amount of PLN 46 million has been recognized as other operating revenue.

Table 15 Operating revenue of PKP CARGO S.A. in 2014 in comparison to 2013 (PLN thousand)

Item	Specification	2014	2013	Change 2014-2013	Pace of changes 2014/2013
1	Revenue from sales of services, including:	4 162 171	4 553 921	-391 751	-8.60%
1.1	*Freight revenue and railway shipping*	*3 791 533*	*4 141 611*	*-350 078*	*-8.45%*
2	Revenue from sales of goods and materials	54 902	163 769	-108 867	-66.48%
3	Other operating revenue	40 029	79 771	-39 742	-49.82%
4	**Total operating revenue**	**4 257 102**	**4 797 461**	**-540 359**	**-11.26%**

Source: The Consolidated Financial Statements of PKP CARGO Group for the financial year ended on 31 December 2014 prepared in accordance with IFRS EU

Operating expenses

In 2014 adjusted operating expenses decreased by PLN 563.4 million, i.e. 12.6% as to PLN 3,914.7 million from PLN 4,478.1 million in 2013.

A significant decline of external services was recorded in 2014. They amounted to PLN 1,319.1 million and were lower by PLN 258.3 million, i.e. 16.4% in comparison to 2013. It is the result of lower freight and lower costs of access to the railway infrastructure due to more effective use of routes and lower unit access rates to the infrastructure applied by PKP Polskie Linie Kolejowe S.A.

Adjusted employee benefits declined by PLN 26 million, i.e. 1.7% yoy. The average employment in 2014 decreased by 406 full-time jobs YOY. The change of employment level was presented in the chapter "Information about the employment".

In 2014 there was also the decrease of consumption of raw materials and supplies by PLN 107.6 million, i.e. 15.1% YOY. This is directly related to the decrease of costs of traction fuel in the Parent Company and the traction energy costs, which was caused by lower freight and the decline of unit fuel and energy prices. At the same time, the consumption of materials used mainly for maintenance of the rolling stock decreased.

The decline of depreciation/amortization and impairment losses by PLN 21.6 million, i.e. 5.6% YOY to the level of PLN 367.2 million in 2014 was mainly the result of creating the property, plant and equipment impairment allowance of PLN 11.9 million in 2013 as well as the decline of depreciation of property, plant and equipment (by PLN 3.0 million, i.e. 0.8% YOY to PLN 350.2 million) and intangible assets (by PLN 5.6 million, i.e. 25.4% YOY to PLN 16.6 million).

In 2014 the cost of merchandise and raw materials sold decreased by PLN 97.5 million, i.e. 71.8% to PLN 38.2 million in relation to decrease in revenue from sales of scrap.

Other operating expenses decreased in 2014 by PLN 34.5 million, i.e. 57.3% to the level of PLN 25.7 million mainly as a result of lower provisions for other penalties (the decline by PLN 19.4 million YOY) as well as lower liquidation costs of non-current and current assets (the decline by PLN 1.8 million YOY).

Table 16 Operating expenses in PKP CARGO Group in 2014 as compared to 2013 (thousand PLN)

Item	Specification	2014	2013	Change 2014-2013	Pace of changes 2014/2013	2014 Adjusted*	2013 Adjusted*	Change 2014-2013 Adjusted*	Pace of changes 2014/2013 Adjusted*
1	Depreciation/amortisation and impairment losses	367 200	388 845	-21 645	-5.6%	367 200	388 845	-21 645	-5.6%
2	Consumption of raw materials and supplies	603 561	711 233	-107 672	-15.1%	603 561	711 233	-107 672	-15.1%
3	External services	1 319 111	1 577 434	-258 323	-16.4%	1 319 111	1 577 434	-258 323	-16.4%
4	Taxes and charges	41 135	37 874	3 261	8.6%	41 135	37 874	3 261	8.6%
5	Employee benefits	1 744 755	1 714 555	30 200	1.8%	1 479 424	1 505 395	-25 971	-1.7%
6	Other expenses by kind	40 341	61 484	-21 143	-34.4%	40 341	61 484	-21 143	-34.4%
7	Cost of merchandise and raw materials sold	38 203	135 670	-97 467	-71.8%	38 203	135 670	-97 467	-71.8%
8	Other operating expenses	25 722	60 181	-34 459	-57.3%	25 722	60 181	-34 459	-57.3%
9	**Total operating expenses**	**4 180 028**	**4 687 276**	**-507 248**	**-10.8%**	**3 914 697**	**4 478 116**	**-563 419**	**-12.6%**

* Data for 2013 for presentation purposes have been adjusted by the costs of PLN 209.2 million resulting from the Agreement partially ending the collective dispute of 10 June 2013 between the Trade Unions and PKP CARGO S.A. signed by the parties on 22 August 2013, and also from the Employees' Guarantees Pact signed on 2 September 2013.
Data for 2014 for presentation purposes have been adjusted by the effect of provisions of PLN 265.3 million resulting from implemented Voluntary Redundancy Program based on the Resolution no. 423/2014 of the Management Board of PKP CARGO S.A. from 17 November 2014 and the Resolution no. 1363/V/2014 of the Supervisory Board of PKP CARGO S.A. from 27 November 2014.

Source: Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2014, prepared in accordance with IFRS EU

Profit on operating activities

As a result of the above-described changes in operating revenue and expenses the adjusted profit on operating activities increased by PLN 23 million, i.e. 7.2% to the level of PLN 342.4 million PLN in 2014.

EBITDA

Adjusted result on operating activities increased by depreciation/amortization and impairment losses defined as EBITDA increased by PLN 1.4 million, i.e. 0.2% to the level of PLN 709.6 million in 2014.

Table 17 Financial activities in PKP CARGO Group in 2014 as compared to 2013 r. (PLN thousand)

Item	Specification	2014	2013	Change 2014-2013	Pace of changes 2014/2013
1	Financial revenue	33 812	34 333	-521	-1.5%
2	Financial expenses	37 577	44 209	-6 632	-15.0%
3	Share in the profit of equity accounted associates	881	-13 438	14 319	-106.6%
4	Profit / (loss) on sales of shares in an associates	0	1 661	-1 661	-100.0%
5	**Profit on financial activities**	**-2 884**	**-21 653**	**18 769**	**-86.7%**

Source: Consolidated Financial Statements of PKP CARGO Group for the year ended 31 December 2014 prepared in accordance with IFRS EU

Financial activities

In 2014 PKP CARGO Group recorded the loss on the financial operation of PLN 2.9 million and thus in comparison to 2013 the result on the financial activities improved by PLN 18.8 million which was mainly due to a lower level of impairment allowance on shares in companies accounted for the equity method

Profit before tax

In 2014 the adjusted profit before tax increased by PLN 41.8 million, i.e. by 14.1% yoy to the level of PLN 339.5 million. Increase in adjusted profit before tax was a result of increase in adjusted operating revenue and increase of profit on financial activities.

Income tax

In 2014 the Group noted the income tax expense of PLN 12.9 million, out of which current tax amounted to PLN -0.3 million, and deferred tax to PLN 9.9 million. Tax calculated for the adjusted gross profit would amount to PLN 63.3 million.

Net profit

In 2014 the Group generated the net profit of PLN 61.3 million. Adjusted net result increased by PLN 41.4 million, i.e. 17.6% and amounted to PLN 276.2 million.

4.1.2. Characteristics of the structure of assets and liabilities

ASSETS

Table 18 Horizontal and vertical analysis of assets (PLN thousand)

	As of 31/12/2014 (audited)	As of 31/12/2013 (audited)	Structure of assets		Pace of changes	
			31/12/2014	31/12/2013		
ASSETS						
Non-current assets						
Property, plant and equipment	4 011 542	3 855 446	71.1%	67.1%	156 096	4.0%
Intangible assets	58 268	61 395	1.0%	1.1%	-3 127	-5.1%
Goodwill	2 712	2 712	0.0%	0.0%	0	0.0%
Investment property	1 362	1 415	0.0%	0.0%	-53	-3.7%
Investments accounted for under the equity method	35 246	38 214	0.6%	0.7%	-2 968	-7.8%
Other long-term financial assets	6 051	6 090	0.1%	0.1%	-39	-0.7%
Other long-term non-financial assets	14 645	1 438	0.3%	0.0%	13 207	919.0%
Deferred tax assets	88 273	83 185	1.6%	1.4%	5 088	6.1%
Total non-current assets	**4 218 099**	**4 049 895**	**74.7%**	**70.5%**	**168 204**	**4.2%**
Current assets						
Inventories	115 298	76 041	2.0%	1.3%	39 257	51.6%
Trade and other receivables	526 149	609 267	9.3%	10.6%	-83 118	-13.6%
Income tax receivables	3 053	2 394	0.1%	0.0%	659	27.5%
Other short-term financial assets	306 383	691 404	5.4%	12.0%	-385 021	-55.7%
Other short-term non-financial assets	28 246	33 355	0.5%	0.6%	-5 109	-15.3%
Cash and cash equivalents	429 178	263 700	7.6%	4.6%	165 478	62.8%
	1 408 307	**1 676 161**	**25.0%**	**29.2%**	**-267 854**	**-16.0%**
Non-current assets held for sale	17 560	17 560	0.3%	0.3%	0	0.0%
Total current assets	**1 425 867**	**1 693 721**	**25.3%**	**29.5%**	**-267 854**	**-15.8%**
Total assets	**5 643 966**	**5 743 616**	**100.0%**	**100.0%**	**-99 651**	**-1.7%**

Source: Consolidated Financial Statements of PKP CARGO Group for the financial year ended 31 December 2014 prepared in accordance with IFRS EU

Non-current assets

The largest share in the structure of total assets have non-current assets which represented 71.1% of total assets as at 31 December 2014 in comparison to 67.1% as at 31 December 2013 (the increase by 4.0 p.p). Means of transport (increase by PLN 186.1 million as at 31 December 2014) remain the most significant item within the balance of property, plant and equipment.

Current assets

Current assets decreased by PLN 267.9 billion, i.e. by 16.0% as at 31 December 2014 in comparison to 31 December 2013. The decrease resulted mainly from a lower by 55.7% balance of other short-term financial assets. The share of current assets in total assets decreased from 29.2% as at 31 December 2013 to 25% as at 31 December 2014.

The largest share in the structure of current assets have trade and other receivables (37.4%), cash and cash equivalents (30.1%) and other short-term financial assets (21.8%).

EQUITY AND LIABILITIES

Table 19 Horizontal and vertical analysis of liabilities and equity (PLN thousand)

	As of 31/12/2014 (audited)	Stan na 31/12/2013 (audited)	Structure of liabilities and equity		Pace of changes	
			31/12/2014	31/12/2013		
EQUITY AND LIABILITIES						
Equity						
Share capital	2 239 346	2 166 901	39.7%	37.7%	72 445	3.3%
Share premium	615 343	692 761	10.9%	12.1%	-77 418	-11.2%
Other items of equity	-51 687	-16 392	-	-0.3%	-35 295	-
Retained earnings	527 670	603 247	9.3%	10.5%	-75 577	-12.5%
Equity attributable to the owners of the Parent Company	**3 330 672**	**3 446 517**	**59.0%**	**60.0%**	**-115 845**	**-3.4%**
Equity attributable to non-controlling interest	63 500	62 377	1.1%	1.1%	1 123	1.8%
Total equity	**3 394 172**	**3 508 894**	**60.1%**	**61.1%**	**-114 722**	**-3.3%**
Non-current liabilities						
Long-term bank loans and credit facilities	208 077	121 558	3.7%	2.1%	86 519	71.2%
Long-term finance lease liabilities and leases with purchase option	190 836	313 136	3.4%	5.5%	-122 300	-39.1%
Long-term trade and other payables	67 982	113 688	1.2%	2.0%	-45 706	-40.2%
Long-term provisions for employee benefits	658 217	592 923	11.7%	10.3%	65 294	11.0%
Other long-term provisions	8 416	22 854	0.1%	0.4%	-14 438	-63.2%
Other long-term financial liabilities	-	-				
Deferred tax provision	2 328	2 577	0.0%	0.0%	-249	-9.7%
Total non-current liabilities	**1 135 856**	**1 166 736**	**20.1%**	**20.3%**	**-30 880**	**-2.6%**
Current liabilities						
Short-term bank loans and credit facilities	92 123	73 217	1.6%	1.3%	18 906	25.8%
Short-term finance lease liabilities and leases with purchase option	127 742	115 790	2.3%	2.0%	11 952	10.3%
Short-term trade and other payables	530 440	675 841	9.4%	11.8%	-145 401	-21.5%
Short-term provisions for employee benefits	334 844	176 461	5.9%	3.1%	158 383	89.8%
Other short-term provisions	24 214	26 127	0.4%	0.5%	-1 913	-7.3%
Other short-term financial liabilities	3 934	306	0.1%	0.0%	3 628	1184.5%
Current tax liabilities	641	244	0.0%	0.0%	397	162.8%
	1 113 938	**1 067 986**	**19.7%**	**18.6%**	**45 952**	**4.3%**
Liabilities directly related to fixed assets classified as intended for sale	-	-				
Total current liabilities	**1 113 938**	**1 067 986**	**19.7%**	**18.6%**	**45 952**	**4.3%**
Total liabilities	**2 249 794**	**2 234 722**	**39.9%**	**38.9%**	**15 072**	**0.7%**
Total equity and liabilities	**5 643 966**	**5 743 616**	**100.0%**	**100.0%**	**-99 650**	**-1.7%**

Source: Consolidated Financial Statements of PKP CARGO Group for the financial year ended 31 December 2014 prepared in accordance with IFRS EU

Equity

The share of equity in total equity and liabilities amounted to 60.1% as at 31 December 2014 compared to 61.1% as at 31 December 2013. Changes in equity resulted mainly from the net profit of PLN 61.3 million and the payment of dividend of PLN 137.5 million.

Non-current liabilities

Non-current liabilities decreased by PLN 30.9 million as at 31 December 2014, i.e. by 2.6%. Thus, their share in total equity and liabilities slightly decreased from 20.3% to 20.1%. Long-term bank loans and credit facilities increased by PLN 86.5 million (71.2%) and long-term finance lease liabilities and lease with purchase option decreased by PLN 122.3 million (39.1%). In 2014 the Group settled all its loan and lease liabilities in accordance with the schedules.

Current liabilities

Current liabilities increased by PLN 46.0 million (i.e. 4.3%) as at 31 December 2014 compared to 31 December 2013. The largest increase was recorded in short-term provisions for employee benefits - the increase by PLN 158.4 million, i.e. by 89.8%, including the recognition of provision of PLN 227.5 million for the Group's liabilities for the Voluntary Redundancy Program.

4.1.3. Selected finanacial and operating ratios

Below are presented significant financial and operating ratios in 2014 and 2013:

Table 20 Selected financial and operating ratios in 2014 in comparison to 2013

Specification	2014	2013	Change 2014-2013	Pace of changes 2014/2013	2014 Adjusted*	2013 Adjusted*	Change 2014-2013 Adjusted*	Pace of changes 2014/2013 Adjusted*
EBITDA margin [1]	10.4	10.4	0.0	0.3%	**16.7**	**14.8**	1.9	12.9%
Net profit margin [2]	1.4	1.4	0.1	5.6%	**6.5**	**4.9**	1.6	32.6%
Index of financial net debt to EBITDA [3]	-0.3	-0.7	0.4	-61.7%	**-0.2**	**0.5**	-0.7	-131.3%
ROA[4]	1.1	1.1	-0.1	-4.6%	**4.9**	**4.1**	0.8	20.7%
ROE[5]	1.8	1.9	-0.1	-3.1%	**7.7**	**6.6**	1.1	16.6%
Average distance covered by 1 locomotive (km a day)[6]	243.9	251.8	-7.9	-3.1%	**243.9**	**251.8**	-7.9	-3.1%
Average train tonnage gross per working locomotive (in tons)[7]	1 481.0	1 465.0	16.0	1.1%	**1 481.0**	**1 465.0**	16.0	1.1%
Average working time of locomotives (hrs. a day)[8]	15.4	15.3	0.1	0.7%	**15.4**	**15.3**	0.1	0.7%
Freight turnover per hired (thousands tkm/hired)[9]	1 089	1 131	-42.2	-3.7%	**1 089**	**1 131**	-42.2	-3.7%

* Data for 2013 for presentation purposes have been adjusted by the costs of PLN 209.2 million resulting from the Agreement partially ending the collective dispute of 10 June 2013 between the Trade Unions and PKP CARGO S.A. signed by the parties on 22 August 2013, and also from the Employees' Guarantees Pact signed on 2 September 2013.
Data for 2014 for presentation purposes have been adjusted by the effect of provisions of PLN 265.3 million resulting from implemented Voluntary Redundancy Program based on the Resolution no. 423/2014 of the Management Board of PKP CARGO S.A. from 17 November 2014 and the Resolution no. 1363/V/2014 of the Supervisory Board of PKP CARGO S.A. from 27 November 2014.

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1. *Calculated as the quotient of the profit from operating activities plus depreciation/amortisation and impairment losses by total operating revenue*100.*
2. *Calculated as the quotient of the net profit and total operating revenue*100.*
3. *Calculated as the quotient of the net financial debt (being the sum of (i) long-term bank loans and credit facilities; (ii) short-term bank loans and credit facilities (iii) long-term finance lease liabilities and leases with purchase option ; (iv) short-term finance lease liabilities and leases with purchase option ; and (v) other short-term financial liabilities, reduced by (i) cash and equivalents thereof; and (ii) other short-term financial assets) and EBITDA (profit on operating activities plus amortisation and deductions on account of revaluation).*
4. *Calculated as the quotient of the net profit and the total assets*100.*
5. *Calculated as the quotient of the net profit and equity*100.*
6. *Calculated as the quotient of vehicle-kilometre (i.e. distance covered by vehicles of the PKP CARGO Group in a given period) and vehicle-days (i.e. the product of the number of active vehicles and the number of calendar days in a given period)*
7. *Calculated as the quotient of the tone-kilometres gross and the train-kilometres in tractive work related to locomotives leading the train (in double traction or working on being pushed in a given period).*
8. *Calculated as the quotient of the vehicle-hours (i.e. the number of working hours vehicles of the PKP CARGO Group in a given period) and the vehicle-days (i.e. the product of the number of active vehicles and the number of calendar days in a given period).*
9. *Calculated as the quotient of the freight turnover performed by the Group by average employment (in full-time jobs) in the Group in a given period.*

Source: Own study

Adjusted EBITDA and net profit margin for 2014 increased compared to 2013 by 1.9 p.p. and 1.6 p.p., respectively. Improvement in these ratios was achieved against a backdrop of falling operational revenue thanks to improvement in Group cost efficiency.

Adjusted ROA and ROE ratios in 2014 increased in comparison to the values of analogous ratios in 2013 by 0. 8 p.p. and by 1.1 p.p., respectively.

A ratio of the net financial debt to EBITDA in 2014 reached the negative value due to a surplus of cash and equivalents and other short-term financial assets over liabilities.

In 2013 average daily mileage of locomotives was 251.8 km/day. In 2014 it fell by 7.9 km/day to the level of 243.9 km/day. Thus, decrease in average daily mileage by 3.1% occurred. The fundamental reason behind it was an increase in closures and operational difficulties on the PKP PLK network.

Average gross mass of a train per locomotive grew from 1465.0 tons in 2013 to 1481.0 tons in 2014, i.e. by 16.0 tons or 1.1%. It was an effect of more efficient use of locomotives and optimisation of the logistic process.

4.1.4. Explanation of differences between forecasts and published results

The Parent Company did not publish financial forecasts under § 5 (1) (25) of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and on conditions under which information required by regulations of a non-member state may be recognised as equivalent (Journal of Laws of 2014, item 133), concerning the results of the Company and the PKP CARGO S.A. Group in 2014.

4.2. Selected events and information concerning the activities of PKP CARGO Group

4.2.1. Information on events materially influencing activity of PKP CARGO Group, including events subsequent to the balance-sheet date

Conclusion of public offering of series C shares and share capital increases

On 25 April 2014 the Management Board of PKP CARGO S.A. informed that the Company obtained the resolution of the National Court Register by the District Court for the Capital City Warsaw in Warsaw, XII Commercial Division of the National Court Register from 25 April 2014. Based on this resolution the change of the Company's statute and the increase of share capital was registered. The change of the statute and share capital increase results from the issuance of series C shares.

Shares of series C were offered only to eligible employees of the PKP CARGO Group. Employees could sign up for shares in the period from 2 December 2013 to 28 February 2014. On 7 March 2014the shares allotment was completed.

The value of the offer amounted to PLN 98,525,336 (1,448,902 series C shares at a nominal price of PLN 68.00 per each). During the subscription shares were allocated to 24,250 eligible employees and 14 inheritors of eligible employees. As a result of above issuance the share capital of the Company amounted to 2,239,345,850 PLN (in words: two billion two hundred thirty-nine million three hundred forty-five thousand eighty-five PLN) and is divided into:

1. 43,338,000 (in words: forty-three million three hundred thirty-eight thousand) bearer shares of series A of nominal value in PLN 50 (in words: PLN fifty) per each;
2. 15 (in words: fifteen) bearer shares of series B in nominal value of PLN 50 (in words: PLN fifty) per each;
3. 1,448,902 (in words: million four hundred forty-eight thousand nine hundred two) registered ordinary shares of series C in nominal value of PLN 50 (in words: PLN fifty) per each.

Changes in the Management Board of PKP CARGO S.A.

On 6 February 2014 the Supervisory Board of the Company appointed Mr. Adam Purwin to the position of President of the Management Board as a result of qualification procedure. Before he was a Member of the Management Board responsible for Finance.

On 17 February 2014 Mr. Sylwester Sigiel resigned from the position of a Member the Management Board responsible for Trade. The resignation was effective from the day of a resolution of the Supervisory Board of the Company on appointment of the new Member of the Management Board responsible for Trade.

On 24 April 2014 the following new Management Board Members were appointed for the following posts:

- Mr. Wojciech Derda - Member of the Management Board responsible for Operations,
- Mr. Jacek Neska - Member of the Management Board responsible for Trade,
- Mr. Dariusz Browarek - Member of the Management Board, Employees representative in the Management Board.

Moreover, Mr. Łukasz Hadyś was appointed effectively on 12 May as a Member of the Management Board responsible for Finance.

Collective dispute

Signed agreements with Trade Unions, parties to Intra-Company Collective Bargaining Agreement (ICBA)

On 9 April 2014 PKP CARGO S.A. signed an agreement ending the collective dispute concerning remuneration, commenced by the trade unions on 10 June 2013. In accordance with the Agreement almost 22 thousand employees were paid one-off bonus of PLN 225 in April 2014, whereas from 1 August 2014 the remuneration raise of PLN 100 per one employee was implemented. Moreover, it was agreed that not less than 500,000 PLN was dedicated for the introduction of appreciation bonuses for management staff excluding employees from the headquarter and divisions, appointed by the Management Board of the Company in the Management by Objectives Program. The Bonuses value was distributed in two tranches in the second half of 2014.

The existence of collective bargaining

In the fourth quarter of the previous year the Management Board of PKP CARGO S.A. led social dialogue with the trade unions being the part of Intra-Company Collective Bargaining Agreement. They directed to the Company their financial, labour and organizational postulates into two separate documents.

PKP CARGO S.A. informed immediately the appropriate Regional Labour Inspector about the collective disputes lasting from 30 October 2014 and from 13 January 2015.

As a result of the partial agreement achieved during the social dialogue the employees of the Company received the gratification for the Railman's Day in higher amount in 2014 (PLN 200 according to the Intra-Company Collective Bargaining Agreement plus additional PLN 200).

On 12 February 2015 the Agreement ending the collective dispute was signed which was effective from 30 October 2014. The agreement includes partial realization of the postulates concerning the gratification paid for the Railman's Day, increase of daily rates for the purchase of preventive and regenerative-reinforcing meals, implementation of allocation and incentive bonus as well as organizational issues.

In terms of collective dispute lasting from 13 January 2015, the Management Board of PKP CARGO S.A. has established social dialogue with the Trade unions concerning the submitted postulates as well as negotiations and mediation aiming on reaching the agreement and solving the conflict.

The resolution of the General Shareholders Meeting on distribution of profit recognized in 2013, resulting from the Separate Financial Statements of PKP CARGO S.A. for the period 01.01.2013 to 31.12.2013

On 12 May 2014, the General Shareholders Meeting (GSM) adopted a resolution on distribution of profit recognized in 2013, resulting from the Separate Financial Statements of PKP CARGO S.A. for the period 01.01.2013-31.12.2013, determining the date of the dividend and the date of the dividend' s payment.

In accordance with the GSM resolution the net profit achieved in 2013 in the amount of PLN 94,083 thousand, resulting from the Separate Financial Statements of PKP CARGO S.A. for the period 01.01.2013-31.12.2013, after the familiarization with the Management Board notion, was allocated to:

1) payment of the dividend in the amount of PLN 86,556 thousand,

2) share premium in the amount of PLN 7,527 thousand.

Additionally, the General Shareholders Meeting decided to allocate PLN 50,939 thousand from retained earnings on the payment of the dividend. The dividend day was established on 20 May 2014 and the dividend payment date on 4 June 2014.

Changes in the organizational structure of PKP CARGO S.A.

On 5 May 2014 the Board of Directors of PKP CARGO S.A. decided to consolidate divisions included in the Company. Changes were introduced on 1 July 2014 as a result of w seven out of ten plants operating so far were created. The structure includes seven plants: Central, Southern, Western, Lower Silesia, Silesian, Eastern and Northern. Additionally, the borders of divisions have been changed .The main assumption to make a decision to accept the new structure of PKP CARGO S.A. was the need to increase effectiveness in managing the Company and the possibility to use its resources optimally.

On 5 May 2014 the Board of Directors of PKP CARGO S.A. passed the resolution no 161/2014 adopting the plan of the new Organizational Regulations of the Company, commencing the process of launching in the Company a new managing system in terms of functional departments (“verticalization”). This project was sent out for consultation with the social party. As a result of the remarks to the Organizational Regulations were notified. On 17 June 2014 the Management Board of PKP CARGO S.A. adopted the resolution no 232/2014 concerning the acceptance of the Organizational Regulations which became effective on 1 July 2014. The changes concern the verticalization of organizational structures by more closely connecting the Central Office with the Plants and by developing functional divisions which are managed by directors of the central office.

Resolutions adopted by Extraordinary General Shareholders Meeting

On 30 July 2014 the Extraordinary General Shareholders Meeting of PKP CARGO S.A. adopted a Resolution on determining the amount of remuneration of Members of the Supervisory Board of PKP CARGO S.A. Full text of the Resolution was published in the current report No. 47/2014, available on the PKP CARGO S.A. website.

On 30 July 2014 the Extraordinary General Shareholders Meeting of PKP CARGO S.A. adopted a Resolution on introducing amendments to the Articles of Association of PKP CARGO S.A. In Article 5(1) point 3 of Company's Articles of Association ("Articles of Association") the numbering of the sub-item a) has been altered to sub-item a 1) and a new sub-item a) has been added as follows:

"a) accounting and booking activities; tax consultancy of PKD – 69.20.Z".

Also, Article 25(3) point 13 has new wording:

"13) giving consent to:

a) acquisition, disposal or establishment of a limited property right by the Company of the Company’s investment property, perpetual usufruct of land or the share in the investment property or in the right of perpetual usufruct by the Company,

b) acquisition, purchase or sale of shares of another company, except for acquisition of shares in the increased share capital of subsidiaries of the Company,

c) purchase or sale of licences or copyrights by the Company,

d) incurring liabilities by the Company and disposal of rights,

e) purchase and sale of non-current assets by the Company

- of the market value equal or exceeding the amount of PLN 20,000,000.00 (twenty million) yet, in the case of concluding contracts for an indefinite period , the contractual value or anticipated value of the Company's performance in a 5-year period is adopted, except for concluding contracts related to the areas of the Company's business specified in § 5(1)(1) of the Articles of Association, including contracts for transport and forwarding services as well as traction and shunting services”.

In Article 27 of the Articles of Association a new Paragraph 8 has been added of the following wording:

"8. All amounts indicated in the Articles of Association are gross amounts."

At the same time the Extraordinary General Shareholders Meeting authorised the Supervisory Board to draw up the uniform text of Company's Articles of Association taking into account of the aforementioned changes.

The above changes to the Company's Articles of Association have been recorded by the District Court for the Capital City of Warsaw, 12th Commercial Department of the National Court Register on 3 October 2014.

The agreement of the potential acquisition by PKP CARGO S.A. of 80% shares of Advanced World Transport BV

On 30 December 2014, PKP CARGO S.A. signed the agreement regarding the acquisition of 80% of shares of the company Advanced World Transport B.V., i.e. second biggest national railway carrier in the Czech Republic, whose operation includes the majority of Central and Southern Europe.

The AWT acquisition is the first acquisition of this type performed by the entity from the Group. The takeover of one of the biggest private carriers in Europe will strengthen the strategic position of PKP CARGO S.A. on the international market and will enable expansion of the activities focused on the development as an international logistics operator.

The transfer of share ownership and the price payment will be concluded after the joint fulfillment (or revoking) of the following conditions precedent: allowing the Company the agreements for the concentration between the Company and AWT from the Czech, Polish, German and Slovak anti-monopoly office; obtaining the confirmation by some companies from AWT Groups from banks and other financial institutions financing the activity of AWT Group that the Transaction accomplishment would not harm the agreements concluded with these institutions; and validation of law right transfer to one segment of the collective shares issued by the company Advanced World Transport, a.s. On 10 February 2015 the Company received the information from Mr. Zdeněk Bakala and The Bakala Trust about the fulfilling one of the conditions precedent concerning the validation of law right transfer to the collective shares segment in Advanced World Transport a.s.

Information on implementation of employment optimization model in PKP CARGO Group

The receipt of required corporate permissions enabled the implementation in the Companies from PKP CARGO Group of the employment's optimization program in the form of Voluntary Redundancy Program. From 29 December 2014 to 15 January 2015, the employees of PKP CARGO S.A. were allowed to apply to join the Voluntary Redundancy Program. The condition to benefit from the program was the permission obtained from the employer. As a result of the verification of employees' declarations, finished on 26 January 2015, the employers have agreed that 3.041 employees of the companies from the Group out of 3.300 all interested could benefit from the Program.

The total value of liabilities resulting from the introduced Program was estimated at PLN 265.3 million. The amount, as a provision for future liabilities from the Program, was accounted for in the books and debited the consolidated profit of PKP CARGO Group for the fourth quarter of 2014.

Employees who received an acceptance of their employers ceased to be hired in companies from PKP CARGO Group since 1 February 2015. Benefits related to the VRP will be paid in two tranches. The first tranche of PLN 228 million was paid together with the salary for January 2015. The second tranche of PLN 38 million will be paid in January 2016.

Preliminary agreement for shares takeover in Pol-Miedź Trans Sp. z o.o.

On 2 February 2015 PKP CARGO S.A. concluded with KGHM Polska Miedź S.A. ("KGHM") and Pol-Miedź Trans Sp. z o.o. ("PMT") the preliminary not-binding agreement for the potential takeover of the shares in PMT by the Company. In terms of the transaction the Company will take over new shares in PMT consisting 49% of the share capital in PMT and entitling to 49% of voting rights on the Shareholders Meeting of PMT. In exchange for it the Company will pass the contribution in kind of locomotives and a monetary contribution. Before closing the transaction KGHM and PMT will extract part of the company from PMT engaged into the operations other than railway transport.

Signing of agreements concerning acquisition of shares by PKP CARGO S.A.

On 5 February 2015 PKP CARGO S.A. signed the agreement regarding the acquisition of:

- 44.44% shares in the share capital of PS Trade Trans Sp. z o.o. from Trade Trans Invest a.s. with its registered office in Bratislava,
- 49% shares PKP CARGO International a.s. in liquidation from Rail Cargo Spedition a.s.

According to the signed agreements, the payment deadline and transfer of shares was concluded on the day of signing the agreement (i.e. 5 February 2015).

The Tax Capital Group

From 1 January 2015 within the Group has been functioning the tax capital group which is being talked about in Art. 1a of the Act from 15 February 1992 about the corporate income tax (Journal of Laws of 2014 item 851 i.e. as amended), under the name: PKP CARGO LOGISTICS – Tax Capital Group (PGK hereinafter referred to). PGK came into existence by entering on 29 September 2014 into the Agreement for establishing the tax capital group, being in force by period of 3 years, to 31 December 2017. PGK includes PKP CARGO S.A as the representing company, "CARGOSPED" Sp. z o.o., PKP CARGO SERVICE Sp. z o.o., PKP CARGOTABOR Sp. z o.o. and CARGOTOR Sp. z o.o.

Sales of the Parent Company's shares

On 24 June 2014 Management Board of PKP CARGO S.A. received the notification from its shareholder Polskie Koleje Państwowe S.A. (PKP S.A.), in which the shareholder informed that, as a result of accelerated book-building process and the block transactions concluded on 18 June 2014 PKP S.A. decreased its exposure from 50.04% to 33.01% of the total number of votes in the Company. Prior to the transaction, the shareholder held 22,411,844 shares, representing 50.04% of the Company's share capital and entitling to 22,411,844 of votes at the General Meeting ("GM"), which accounted for 50.04% of the total number of votes at the GM. After the transaction, PKP S.A. holds 14,784,194 shares of the Company, representing 33.01% of the Company's share capital. These shares entitle to 14,784,194 of the votes at the GM, which accounts for 33.01% of the total number of votes.

On 17 February 2015, the Management Board of PKP CARGO S.A. received the notification send by the European Bank for Reconstruction and Development ("EBRD") that due to the sales of Company's shares in the block transaction on WSE in Warsaw on 11 February 2015, settled on 13 February 2015, EBRD declined its share below 5% of total number of voting rights in General Shareholders Meeting of the Company. Before the transaction EBDR owned 2,286,008 shares of the Company, i.e. 5.1% of the Company's share capital and was entitled to 2,286,008 voting rights at GSM, i.e. 5.1% total number of voting rights. After this transaction EBRD does not own any shares of the Company.

After this transaction EBRD does not own any of the Parent Company's shares.

Other changes regarding the shareholder's structure of PKP CARGO S.A. are presented in chapter 6.4.

Consolidation of companies dedicated to the repair of the railway rolling stock

As of 1 July 2014 the merger of PKP CARGOWAG Sp. z o.o. (the Acquiring Company) and PKP CARGO TABOR – Karsznice Sp. z o.o. (the Acquired Company) has been registered in the NCR. All assets of PKP CARGO TABOR – Karsznice Sp. z o.o. have been transferred to PKP CARGOWAG Sp. z o.o. At the same time name of PKP CARGOWAG Sp. z o.o. was changed and since 1 July 2014 PKP CARGOWAG Sp. z o.o. has been operating under the name of PKP CARGOTABOR Sp. z o.o. with the registered office in Warsaw.

On 1 July 2014 the agreement for sale of the company was concluded between PKP CARGOLOK Sp. z o.o. and PKP CARGOTABOR Sp. z o.o. The subject of the sale is the sale of the business of PKP CARGOLOK Sp. z o.o. to PKP CARGOTABOR Sp. z o.o. (which is understood as the sale of organized units of tangible and intangible assets used to conduct business constituting PKP CARGOLOK Sp. z o.o. within the meaning of Art. 55^1 of the Civil Code) and the takeover of liabilities associated with the business.

Change of name of PKP CARGOLOK Sp. z o.o.

In accordance with the agreement for sale of the company PKP CARGOLOK Sp. z o.o. of 1 July 2014, the name of the company has been changed to: "PKP CARGOTABOR USŁUGI" Sp. z o.o. Change of the company's name was revealed in the National Court Register on 22.10.2014. On the same day changes concerning the subject matter of Company's operations were registered – PKD 38 – Activities connected with the collecting, processing and neutralising of waste; recovery of recyclable materials.

Sales of shares by PS Trade Trans Sp. z o.o.

On 16 September 2014 the agreement for sale of shares was concluded between KTF VIAFER S.A. in liquidation and PS TRADE TRANS Sp. z o.o., under which PS TRADE TRANS Sp. z o.o. (a subsidiary of PKP CARGO S.A.) purchased from KTF VIAFER S.A.

in liquidation shares in POL-RAIL s.r.l., constituting 3.23% of the share capital of this company. As a result of this transaction, PS Trade Trans has 28.23% of shares in POL-RAIL s.r.l.

Furthermore, on 5 February 2015 PS Trade Trans Sp. z o.o. sold shares in Rail Cargo Spedition Gmbh, Trade Trans Terminal SRL and Rail Cargo Service Sp. z o.o.

Moreover, in the analysed period the following events occurred:

Liquidation of subsidiary

On 23 January 2014 the protocol in a form of a notarial deed of the Extraordinary General Meeting ("EGM") of the Slovak subsidiary of the Issuer, i.e. PKP Cargo International was drown up end signed by the President. EGM took place on 17 January 2014. Among others, resolution to dissolve the company and completion of the liquidation as well as appointment of a liquidator was taken in the course of the Extraordinary General Meeting of the company. PKP CARGO S.A. had already held a 51% stake in the share capital of the company. At the same time its activity was irrelevant to the operation of PKP CARGO S.A. and PKP CARGO Group.

Revoking Resolution of the Extraordinary General Shareholders Meeting on determining the principles and the level of remuneration of the President of the Board and Members of the Management Board of PKP CARGO S.A. and the prohibition of their competitive activity.

The Extraordinary General Shareholders Meeting of the Company adopted a Resolution on determining the principles and amounts of remuneration of the President of the Board and Members of the Management Board of PKP CARGO S.A. The whole text of the resolution was published on the website of PKP CARGO S.A.

The adoption of the Management by Objectives Program in PKP CARGO S.A.

On 31 March 2014 the Management Board of the Company adopted a resolution on the adoption of the Management by Objectives Program (MOP) which is a part of incentive system for the management staff of PKP CARGO S.A. MOP is a complex system of rules and actions to improve management efficiency by setting specific targets to be implemented by the management staff at certain levels of management within structures of PKP CARGO S.A., methods of their determination, settlement and evaluation.

The program lists the following three main types of objectives according to the criteria:

- General objectives – goals referring to results of the whole Company,
- Divisions' objectives – targets relating to the results of a specific Division of the Company,
- Individual objectives – goals for the implementation of which individual participants are responsible. The goals are related to the aspects on which they influence by their work and the work of their employees.

Information on the entity authorized to review the interim financial statements of the Parent Company and the PKP CARGO Group

On 27 March 2014 The Supervisory Board of PKP CARGO S.A. adopted a resolution appointing KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa as the entity authorised to conduct a review of interim Separate and Consolidated Financial Statements for the first half of 2014 and the first half of 2015, prepared in accordance with IFRS.

Extension of safety certificates

The Chairman of the Office of Railway Transport issued for the Company PKP CARGO S.A. safety certificate part A no. 1120140006 for a period of five years i.e. it is valid till 24 June 2019 which is an extension of the safety certificate part A no PL 1120090001 dated 25 June 2009 which expired on 24 June 2014.

In respect of international transport, PKP CARGO S.A. received the prolongation of the safety certificates part B in appropriate institutions responsible for safety relevant to the Office of Railway Transport in the following countries: Slovakia prolongation till 21 May 2019, Germany - till 11 May 2019, Austria – till 24 June 2019, Netherlands – till 24 June 2019 and issued on 21 May 2014 indefinite certificate in Lithuania allowing individual transport on railway network of Lithuania with standards of 1,435 mm.

End of negotiations concerning the acquisition of 100% shares in CTL Logistics Sp. z o.o. by PKP CARGO S.A.

PKP CARGO S.A. and European Rail Freight II S.à r.l. (main shareholder of CTL Logistics Sp. z o.o.) did not reach the agreement concerning the terms of acquisition of 100% shares in CTL Logistics Sp. z o.o. by PKP CARGO S.A. and therefore negotiations on this transaction has been ended.

4.2.2. Details of the contracts significant for activities of PKP CARGO Group

Contracts with suppliers

Signing significant contracts with PKP PLK S.A.

On 11 February 2014 the agreement concerning access to rail infrastructure for the transport of commodities covering the 2013/2014 train timetable between PKP CARGO S.A. and PKP Polskie Linie Kolejowe S.A. was signed. The agreement bound the parties until 13 December 2014.

The fees for the use of the railway infrastructure were calculated based on the Price list for the use of railway infrastructure managed by PKP PLK, approved by the decision of President of UTK No. DRRK-WKL-9110-11/2013 of 8 November 2013 and rules of train routes allocation and use of assigned routes by licensed railway carriers under the 2013/2014 train timetable. The estimated value of the Agreement during its term amounts to PLN 728.9 million net (PLN 896.6 million gross).

On 8 January 2015 (after balance-sheet date) the agreement concerning the access to rail infrastructure for the transport of commodities covering the 2014/2015 train timetable between PKP CARGO S.A. and PKP Polskie Linie Kolejowe S.A. was signed. The agreement binds the parties from 14 December 2014 to 12 December 2015.

Fees for the use of rail infrastructure are calculated based on the price list for the use of railway infrastructure managed by PKP PLK, approved by the decisions of President of UTK No. DRRK-WKL.9110.6/2014 of 9 July 2014 and DRRK-WKL.9110.11/2014 of 28 October 2014 and rules of train routes allocation and use of assigned train routes by licensed railway carriers under the 2014/2015 train timetable. Estimated value of the Agreement during its term amounts to PLN 684.7 million net (PLN 842.2 million gross).

The subject of the contract is to provide the Company with the access to the railway infrastructure and train routes managed by PKP PLK for the implementation of the Company's train timetable. Under the contract, PKP PLK renders basic services in the field of the minimum access to train infrastructure which comprises, among others, the preparation of an annual timetable in cooperation with the Company, providing access to train infrastructure in accordance with the assigned train routes, providing traction network devices, managing and maintaining the traffic, and at the request of the Company to provide information regarding train passage as well as rendering basic services connected with access to facilities related to servicing of trains and certain additional services comprising providing of assistance in connection with unusual loads and the preparation and allocation of additional trains.

Signing a significant contract with PKP Informatyka Sp. z o.o.

On 29 May 2014 the Company signed the contract SLA no CFZ/CFT/3930/417/2014/W with PKP Informatyka Sp. z o.o. in terms of infrastructure, maintaining and development of IT systems.

The subject of the agreement is providing by PKP Informatyka to PKP CARGO S.A. the infrastructure services, services connected with maintaining and development of the System in testing, production and development Environment, providing the service on the edge device of PKP Informatyka, in the point of contact of internal nets (Intranets) of PKP CARGO S.A. and PKP Informatyka. The total maximum net value of the agreement for a period of 3 years is PLN 100.5 million.

Contract with clients

Signing a significant contract with companies from ArcelorMittal Group

On 28 April 2014 PKP CARGO S.A. signed annexes to the contracts for the supply of rail trainsport services concluded on 20 April 2011 between PKP CARGO and companies from ArcelorMittal Group: ArcelorMittal Poland S.A., ArcelorMittal Warszawa Sp. z o.o. and ArcelorMittal Ostrava a.s., during the period from 01.07.2011 to 30.06.2014. The estimated value of contracts in the period from 01.07.2014 till 30.06.2017 shall reach PLN 1,007.3 million. The agreement with ArcelorMittal Poland S.A. ("Agreement") has the highest value, estimated at PLN 850.9 million. The subject of the Agreement is to provide rail freight services by the Company to the Client. Yearly volume of carried goods for ArcelorMittal Group shall amount to minimum 11 million tons and during three years it can reach up to 35 million tones.

Signing a contract with ENEA Wytwarzanie S.A.

In July 2014 the Company signed with ENEA two contracts for transport of more than 4.5 million tons of coal in total. Transport shall be provided from mines located in the Śląskie Voivodeship and from Bogdanka in Lublin to the power plant in Kozienice. Contracts are binding until the first half of July 2015.

Signing a contract with companies from Azoty Group

On 16 October 2014 the Company signed a two-year contract for carriage of chemical products, containers and other merchandise for the companies from Azoty Group. It is the continuation and extension of hitherto contracts by adding Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki "Siarkopol". Part of transport is rendered in the system of distributed deliveries.

Significant contract with companies from the Jastrzębska Spółka Węglowa Group

On 7 November 2014 PKP CARGO S.A. signed two annexes to the rail transport agreements with companies from the Jastrzębska Spółka Węglowa Capital Group (JSW CG). The subject of the Agreement is provision of rail freight services by the Company to the Client.

The total estimated value of the future revenues from the agreements concluded or annexed in the last 12 months by the PKP CARGO Group and JSW CG, together with the value of turnover achieved in the last 12 months between PKP CARGO Group and JSW CG reached a level of approx. PLN 340 million.

Loan agreements

Signing a loan agreement with Bank Gospodarstwa Krajowego

On 11 September 2014 the Company concluded an investment loan agreement with Bank Gospodarstwa Krajowego up to the amount of PLN 515.2 million. The loan was granted for financing and/or refinancing modernisation of locomotives and scheduled overhauls of the rolling stock. It is not pledged against the assets of the Parent Company. The repayment date expires on 31 March 2021.

Signing an overdraft agreement

On 2 June 2014 PKP CARGO S.A. signed the overdraft agreement up to PLN 100 million. The ultimate payment deadline is on 1 June 2015.

Conclusion of annexes to loan agreements

On 2 October 2014, the Company signed with the European Investment Bank an annex to the agreement on the investment loan for investments in rolling stock from 3 December 2013 increasing the amount of the loan from PLN 200 million up to the PLN 240 million.

In 2014 PKP CARGO S.A. concluded annexes to investment loans agreements exempting pledges in the form of registered pledges. Details were described in the note no. 25.1 to the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2014.

Moreover, on 18 February 2015 PKP CARGO S.A. concluded with FM Bank PBP S.A. an annex to the investment loan agreement. The subject of this annex is to release the collaterals on assets to repay the loan (registered pledges established on locomotives which are the subject of financing).

4.2.3. Assessment of factors and extraordinary events with a significant impact on the financial results of PKP CARGO Group

Implementation of the Voluntary Redundancy Program

The PKP CARGO Group introduced the Voluntary Redundancy Program for its employees (VRP or Program) to optimize the employment. From 29 December 2014 to 15 January 2015, the employees of PKP CARGO S.A. were allowed to apply to join the Voluntary Redundancy Program. As a result of the verification of declarations of employees, the Company has agreed that 3,041 employees could benefit from the Program. The total value of liabilities resulting from the implemented Program was estimated at PLN 265.3 million. The amount of the provision for future liabilities from VRP has been accounted for in the books and burdened the profit of PKP CARGO Group for the fourth quarter 2014. The employees who received the acceptance of employer ceased to work on 1 February 2015. Payment of benefits related to the VRP will take place in two tranches. The first tranche in the amount of PLN 228 million was paid with the salary for January 2015. The second tranche of PLN 38 million will be paid in January 2016.

Situation on the coal market

Decrease of PLN 350.1 million in freight revenues resulted from decrease in railway transport activities in Poland (chapter 3.1.1), and in particular – less coal freight due to decline in coal exports.

Freight of coal is the basic commodity group of PKP CARGO Group and the situation on the coal market heavily influences the Group’s results and market share. The observed decrease in freight volumes of solid fuels (-9% y/y) reflects a lower demand for coal due to decrease in the production of electricity (decrease of 5.1% y/y). Another important factor affecting the coal transportation was limiting the coal exports due to continued declines in raw material prices on the world markets.

As a result of lower demand for freight of coal for export (the freights for the longest distance) there was the decrease of the haul for these commodities (by 10 km y/y). The activities of the Group aimed at sale of freight services of solid fuels for domestic consumption largely compensated adverse effects of limited coal exports.

As a result, freight turnover of coal for shipments carried out in other (excluding exports) communication groups (domestic transport, import and transit) increased by 9% y/y.

Costs of access to infrastructure

Results of operations of PKP CARGO Group are largely dependent on the amount of charges for access to rail infrastructure. The cost of access to infrastructure stands for about 16% of operating expenses of the Group. The fees for access to infrastructure in Poland were and still are relatively high, particularly as compared to other EU countries. The rates of charges for access to railway infrastructure are calculated by PKP PLK and are subject to approval by the President of the Office of Rail Transport (UTK). In addition, the Group's business is dependent on the condition of the railway infrastructure as a currently-used rail network is of low quality. An intensive program of modernization of the railway network has been carried out. Although ultimately it will result in an improvement in the conditions of use, for the duration of the construction work will cause difficulties and a need for the use of railway traffic detours.

In 2014 a significant decrease in external services was recorded. They reached PLN 1,319.1 million in 2014 and were lower by PLN 258.3 million, i.e. by 16.4% as compared to 2013. The decrease is mainly due to lower costs of access to rail infrastructure due to lower freight turnover, more efficient use of routes and lower unit rates of access to the infrastructure used by PKP Polskie Linie Kolejowe S.A.

Level of energy and fuel prices traction

In 2014 raw materials decreased by PLN 107.6 million, i.e. by 15.1%. The decrease was directly related to the reduction of traction fuel consumption, as well as decrease in the cost of traction energy, which was due to lower freight turnover and a decrease in unit prices of fuel and energy. At the same time consumption of materials used principally for the maintenance of rolling stock also decreased.

Technical regulations for rolling stock

Rolling stock used in rail transport must comply with the relevant standards and technical requirements, which determine the scale of the Group's modernization and repair operations. Level of investment depends directly on the current technical condition of owned rolling stock and the resulting mandatory scheduled overhauls. In 2014 the Group's repair operations remained at high level (higher than in 2013). The Group's capital expenditures on the rolling stock is presented in section 3.7.1

4.2.4. Internal and external factors significant for development of PKP CARGO Group

Economic situation in Europe

Economic situation in 2014 has confirmed a positive economic trend in the EU that occurred in the second half of 2013. This positive outlook has been significantly supported by increase in internal consumption. According to the European Commission, strong estimates of internal consumption and investment reflect the improvement in economic growth in the EU in 2015.

The transport market situation

The year 2015 will be the period of intensive actions in terms of the development of road and railway infrastructure connected with investments financed through the EU grants. The ongoing and planned investments allow to expect to maintain a high level of ore and other construction materials carriage.

In 2015, as a result of real-estate investments, further recovery of steel market and increase in demand of steel products are expected. According to the forecast of the Technology Chamber of Commerce, steel consumption is expected to increase to 11 million tones, further in subsequent years the consumption will increase by 2-3% per year and in 2025 it will reach 13.5-13.8 million tones.

In coming years, dynamic growth is particularly expected in intermodal and automotive markets as a result of new assembly lines. However, it should be noticed that the rail freight market in Poland is one of the most competitive markets in the EU. Although, the PKP CARGO Group still maintains the position of the largest railway commodity carrier, the competitors hold above 40% market shares in terms of volume (data at the end of November).

Situation on the energy raw materials market

Due to the structure of rail freight products, fuel and energy industry remains the most important sector of the economy and its condition and structure will still substantially affect the volume of the Company's carriages and whole railway transport market.

According to the worldwide economy forecasts, in the nearest future it is expected that the oversupply of coal will continue, maintaining associated with it lower price and limiting Polish mining companies in the possibility of selling coal outside the Poland. However, it should be noticed that activities initiated by Polish Government in terms of restructuring of Polish mining industry allow to expect an increase in efficiency of the mining companies and reversed of trends in terms of trade exchange of the Polish coal.

Coal freight is the main cargo group of PKP CARGO Group and the situation on this market influences the results and market share.

Railway infrastructure situation

The activity of PKP CARGO Group depends on the condition of railway infrastructure while utilized railway network is characterized by low quality.

The multiannual railway investment project published by the Transportation Ministry in November 2013 forecasted that investments in the railway infrastructure, extensively financed by the EU, would amount to approx. PLN 24.9 billion in years 2013-2015. However, in 2014 the program objectives were changed due to the change of EU funds structure. As a result of planned modernization of railway lines it is expected to substantially improve technical and operational condition of the railway lines, adopting railway lines to the requirements of trans Europe railway network, increase in interoperability parameters and finally increase the maximum speed of trains.

At the same time intensive program of railway network modernization, although it will ultimately result in the improvement of usage conditions, it will cause difficulties and the need for the use of railway traffic detours during the construction works.

Fees for the infrastructure access

The results of PKP CARGO S.A. are significantly dependent on the amount of fees for access to railway infrastructure. Cost of access to infrastructure contributes 19.1% of operating expenses in the Parent Company.

The level of fees for access to the railway infrastructure in Poland was and still is relatively high, especially in comparison to other EU countries. The fee rates for the access to railway infrastructure are calculated by PKP PLK and approved by the decision of President of UTK. After the reduction of rates for the access to the infrastructure in the price list for the timetable 2013/2014, the cost of access to infrastructure in Poland is still high and constitutes the significant part in railway freight costs and thus acts as an important factor that decrease competitiveness of railway carriage in comparison to road transport.

Technical regulations concerning rolling stock

Rolling stock used in railway transport must comply with the relevant standards and technical requirements, that determine the scale of modernizing and repair operations of the Group. Investments directly related with this depend on the current technical condition of the possessed rolling stock and the mandatory scheduled overhauls resulting from it. In the period of 2014, the repair activities in the Group maintained on high (higher than in the same period of 2013) level.

Optimization processes in the Group

Among the internal factors significant for further development of PKP CARGO Group it should be bring out the stable pursuit to increase the effectiveness and costs optimization by the restructuring and organizational changes of the Group aimed at better and comprehensive client service. Also, the ongoing processes of computerization of the Group's activity spheres are important and have influence on the efficient management of the Group.

Moreover, the Group has been running employment optimization process. In December 2014 the Voluntary Redundancy Program was implemented and thus from 1 February 2015 the labour contracts with 3,041 employees were terminated. Due to the initiatives like VRP or trainings of hundreds of train drivers, PKP CARGO Group manages to successfully carry out generation change in the Group.

Financing the investments

The Group will finance the investments from the investment loans received from the European Investment Bank and from Bank Gospodarstwa Krajowego as well as from other sources. The increase of credit obligations will result in increase in the level of liabilities (short- and long-term) and financial costs.

Acquisition activities

PKP CARGO Group leads acquisition activities which are provided mainly by the Parent Company and were described in the chapter 4.2.5.

4.2.5. Description of business perspectives and the development strategy of PKP CARGO Group at least in the next financial year

Future development activities undertaken by PKP CARGO Group remain consistent with the current strategy of the Group which is focused on the development as the international logistics operator.

The liberalization process of the European rail freight market opened for the Group the possibility of caring out operations in new geographic areas as well as the ability to increase the range of products offered. Additionally, the measures undertaken by the EU and national authorities aimed at the development of the coherent rail freight market and the development of interoperability of railway network, in the opinion of PKP CARGO Group, significantly increase the development potential of the Group. It should be noted that the PKP CARGO Group for several years have actively used the opportunities arising from the liberalization of markets, which is confirmed by the obtained certificates enabling the provision of independent rail freight services in Poland and the other 8 EU countries.

A key element of further international expansion is currently ongoing takeover of one of the largest private rail operators in the EU, i.e. the company AWT focused on the Czech market which is perceived by PKP CARGO Group as very important due to the volume of trade between the Poland and the Czech Republic. The acquisition is treated by PKP CARGO Group as the next step complementing hitherto acquired know-how as a result of organic growth.

The acquisition of 80% shares in AWT by PKP CARGO S.A. will enable PKP CARGO Group to accelerate significantly the operation development in the neighboring countries as well as expand the activities scope for the new countries, where PKP CARGO Group has not been active yet. Additionally, due to the extent of the AWT Group operations, the transaction creates for the Group the possibility of diversification of services portfolio and achievement of numerous synergies in sales, freight management and maintenance of rolling stock.

Regardless of the high activity in terms of development outside Poland PKP CARGO Group intends further development on the Polish market. The Group will continue both ongoing as well as new planned strategic actions aimed at extending the offer and improving service of the logistics processes, and also will analyze potential acquisition opportunities in Poland.

Nowadays, the Parent Company - PKP CARGO S.A. has concluded a preliminary agreement with KGHM Polska Miedź S.A., on the basis of which the Company intends to take over 49% of the shares in Pol – Miedź Trans Sp. z o.o.

For the purpose of the further development of the Group in the area of domestic and international freight, PKP CARGO S.A. completed the acquisitions of shares (44.44%) in the Przedsiębiorstwo Spedycyjne Trade Trans Sp. z o.o and became the only owner.

According to the Management Board of PKP CARGO S.A., there are no circumstances indicating the going concern of the Group in the next year.

4.3. Information about production assets

4.3.1. Rolling stock

Wagons and tractive rolling stock are the main elements of production assets of PKP CARGO Group. Changes in the rolling stock of the Group result directly from activities causing its reduction, such as scrapping of the rolling stock, and activities causing increase of the quantity through the purchase of the rolling stock.

The most important investments impacting on change in quantity of rolling stock in 2014 were modernization of 10 pieces of locomotives SM48 with the reclassification from shunting locomotives to pulling locomotives ST48.

The primary reason of decline in the number of wagons in 2014 was scrapping due to the poor technical condition causing further uselessness. In 2014 the Group realized the agreement for funding from the European Union of a project called "Purchase and delivery of new wagons platforms 80 to carry the container". The project assumed the purchase by PKP CARGO S.A. of 330 platforms 80 of series Sggrss container under an agreement concluded on 25 September 2013 with the contractor selected in an unlimited tender – Europejskie Konsorcjum Kolejowe "Wagon" Sp. z o.o. The first group of 40 wagons was delivered by the manufacturer in 2013. In 2014 210 units were delivered. The remaining wagons will be delivered in the first half of 2015.

The following tables show the structure of locomotives and wagons used broken down by the type of traction and ownership as at 31 December 2014 and 31 December 2013.

Table 21 Structure of locomotives used by PKP CARGO Group by type of traction and ownership

Specification	31.12.2014	31.12.2013	Change 2014-2013
diesel locomotives	1 300	1 298	2
electrical locomotives	1 162	1 162	0
Total	**2 462**	**2 460**	**2**
owned locomotives (including financial lease)	2 451	2 450	1
locomotives in operating leasing or rented	11	10	1
Total	**2 462**	**2 460**	**2**

Source: Own study

Table 22 Structure of wagons used by PKP CARGO S.A. by type of ownership

Specification	31.12.2014	31.12.2013	Change 2014-2013
own wagons (including financial lease)	62 086	63 021	-935
wagons in operating leasing or rented	0	84	-84
Total	**62 086**	**63 105**	**-1 019**

Source: Own study

4.3.2. Land and buildings

In the transport process, taking into consideration the need to ensure adequate maintenance and repair facilities, real estate plays an important role. Most of the real estate used by the Group is used on the basis of lease and rent agreements. The following table presents the change in real estate owned and leased in 2014.

Table 23 Owned and leased real estate by PKP CARGO Group as at 31.12.2014 as compared to 31.12.2013

Specification	31.12.2014	31.12.2013	Absolute change
Own land, perpetual usufruct of land and land leased from other entities [ha]	1 005.82	1 015.62	-9.80
Own buildings, leased and rented from other entities [m^2]	684 945.00	704 576.29	-19 631.29

Source: Own study

Both the reduction in the size of own land and buildings and perpetual usufruct of land of PKP CARGO Group as well as size of leased land and buildings results from verification of the size of the property used by the Parent Company and its subsidiaries and affiliates performed on a current basis.

4.4. General information on the financial position of PKP CARGO Group

4.4.1. Information on incurred and terminated loan agreements

On 02.06.2014 the Parent Company concluded an overdraft agreement that allows the overdraft up to the amount of PLN 100,000,000.00. The loan is available for a period of 12 months.

On 11 September 2014 PKP CARGO S.A. signed an investment loan agreement with Bank Gospodarstwa Krajowego up to the amount of PLN 515,200,000 (WIBOR 1M + margin). The loan is dedicated to finance and / or refinance the modernization of locomotives and scheduled overhauls of rolling stock. The maximum deadline of availability of the last tranche of the loan was set at 31 March 2016. The loan will be repaid no later than five years after the end of the period of credit availability, but not later than 03.31.2021.. The loan is not pledged against the Company's assets.

On 02.10.2014 r. the Parent Company concluded an annex to the investment loan agreement with the EIB, increasing the credit limit by PLN 40,000,000.00 i.e. to PLN 240,000,000.00. The loan will be available for a period of 24 months from the date of signing the agreement (i.e. from 03.12.2013). The repayment date will be adjusted to the financial depreciation period of a-related asset, but no more than 15 years. Each tranche of the loan may be granted in EUR or PLN. The interest rate on the loan - (EURIBOR or WIBOR) + margin.

On 29 October 2014, the Parent Company concluded with mBank S.A. annexes to investment loans agreements exempting pledges in the form of registered pledges (registered pledges on locomotives being the subject of financing).

On 16 December 2014 the Parent Company concluded with Pekao S.A. annex to investment loan agreement exempting pledge in the form of registered pledge (registered pledges on locomotives being the subject of financing).

In 2014 there were no events of defaults of the loan agreement.

The details concerning the Parent Company's bank loans were presented in note No. 25.1 to Consolidated Financial Statements of PKP CARGO Group for the year ended 31 December 2014.

4.4.2. Information on the loans granted

In 2014 PKP CARGO S.A. granted the loan to the company from PKP CARGO Group in the amount of PLN 4,000,000. The loan was granted on the arm's length - WIBOR 1M + margin. The loan was repaid in 2014.

As at 31.12.2014 the liabilities of subsidiaries to PKP CARGO S.A. from the granted loans amounted to PLN 433,251.89.

4.4.3. Information on granted guarantees and received guarantees

Due to the trade contracts concluded for the carriage of goods the Parent Company has commissioned the issue of the bank guarantees for a total amount of PLN 7.71 million.

In 2014 the Parent Company granted to subsidiaries financial sureties in the total amount of PLN 1.11 million.

As at 31 December 2014 PKP CARGO Group had contingent liabilities arising from guarantees and sureties in the total amount of PLN 60,949 thousand. In 2014 this amount included:

• sureties and guarantees granted to subsidiaries in favor of third parties in the amount of PLN 24,518 thousand,

• sureties and guarantees concerning third parties liabilities issued in the normal course of business concerning mainly: performance bonds, custom bonds, bid bonds and payment bonds in the total amount of PLN 36,431 thousand.

Additional information on contingent liabilities is presented in Note 37 to the Consolidated Financial Statements for the year ended 31.12.2014.

4.4.4. Issuances, repurchases and repayments of debt and equity instruments

According to the agreement between the Management Board of PKP CARGO S.A. and trade unions signed on 2 September 2013 on subject of the Employment Guarantees Program (EGP), the Group made the transaction of payment in form of shares. On 2 October 2013 the Extraordinary General Shareholders Meeting adopted resolution of share capital increase by issuance of series C shares, which were acquired in the open subscription. On 7 March 2014, the Management Board allocated shares of series C to eligible employees. In the subscription, the Company allocated 1,448,902 shares of series C at a nominal price of PLN 50 per each.

Issuance of series C shares was registered in the National Court Register by the District Court for the Capital City Warsaw in Warsaw, XII Commercial Division of the National Court Register on 25 April 2014.

4.4.5. Assessment of finance management

The Group effectively manages the cash transactions cycle by matching the payment terms of receivables and debt payment.

The element supporting effective financial management of the Group is the internal financial risk management policy, allowing for optimization of maturity and types of investment instruments and the level of liquidity reserve. Cash surplus generated by the Group is invested in bank deposits with fixed interest rate with maturities up to approx. 6 months. Decisions undertaken in term of bank deposits are based on maximizing the rate of return and the current assessment of the bank financial condition. The structure of assets, including cash and cash equivalents and short-term investments secured the Group's ability to pay liabilities on time.

In order to increase the flexibility of financial liquidity, PKP CARGO Group implemented mechanism of cash concentration management (cash pooling), allowing to reduce costs connected with the use of short-term external finance sources and to maximize financial income in relation to cash surplus. The Group's cash structure indicates that the Parent Company has their largest share, and in 2014 was a natural funder for subsidiaries participating in the cash-pooling mechanism.

In 2014 the Parent Company concluded the agreements for the bank guarantees limits. Based on them there is an opportunity to issue a guarantee on behalf of any company from PKP CARGO Group, allowing, among others, reduction of costs incurred in relation with received guarantees and that receiving of a guarantee is not dependent on the financial condition of the each company.

4.4.6. Structure of major financial deposits or major financial investments within the PKP CARGO Group

Most of the financial investments made by the Group in 2014 were bank deposits, which were concluded for a period of up to 6 months, depending on the liquidity needs of the Group.

4.4.7. Significant risk factors and threats

The risk of economic downturn

The development of the freight market is correlated to the global and domestic economic situation, that is, the development of industry, the rebirth of the activity in international markets and increasing or decreasing production of import-intensive industries, affecting the change in foreign trade, and hence, on the size of the demand for freight. Road transport, perceived by the recipients of transport services as a substitute in the market of land transport, has also an important influence on the development of railway transport.

PKP CARGO Group operates in a sector that is positively correlated with economic growth and macroeconomic situation, while the long-term fluctuations observed in the economy as a whole in the field of production and trade have a strong influence on it. In particular, the dynamics of rail freight turnover in Poland are characterized by a positive correlation with the GDP growth rate.

The Group generates the majority of its revenues from activities related to rail freight transport. Most of the freight turnover is performed in a country, while significant part of freight turnover carried out in Poland is accounted for exports and transit. As a result, the market situation in Poland and in the countries that are Polish major trading partners had and will continue to have a decisive impact on the business and financial results of the Group. The slowdown in GDP growth in Poland, in countries that are Polish major trading partners or in other countries, which are potential markets, may have a negative impact on the demand for its services.

Risk related to the transport market in the major commodity groups

The development of the rail freight market is derived from the dynamics of markets for goods, which use rail transport services. In Poland, this is primarily carbon market, aggregates, coke and refined petroleum products, chemical products and goods transported in containers. The degree of development of the carriage of these goods (especially coal) is also influencing increase in volumes transported by PKP CARGO Group.

The current bad situation in the mining industry is primarily affected by low demand, high supplies of coal, renewable energy competition, oversupply of the raw material and the consequent drop in coal prices. In addition, a decline in electricity prices and a high level of imported coal has an impact on the difficult situation. In 2014 73 million tons of coal were extracted, i.e. 4.5% less YOY. Production sold in respect to exploitation of coal and lignite actually fell by 8.1% YOY.

Risk associated with the Polish rail freight sector

Rail freight market in Poland is one of the most competitive markets in the EU. Due to the liberalization of regulations governing the railways, there are new entities on the market that undertake efforts to take over client service cooperating so far with the PKP CARGO Group. Currently about 60 entities have carrier license in Poland. Although the PKP CARGO Group is still the biggest Polish rail freight operator, competition brings together a total of more than 50% market share in terms of weight transported (in 2014.).

The key players in the rail freight market in Poland are: PKP CARGO Group, DB Schenker Rail Polska, CTL Logistics and Lotos Kolej. The competitive activity includes rail transport of coal and other bulk materials, liquid fuels, chemical and intermodal transport.

Among the potential threats and risks, which may have an impact on reducing the size of freight carried by the Company, are: less demand for steam coal and the changing volume of transshipment to a Polish-Ukrainian border due to the political crisis in Ukraine.

Risk connected with railroad infrastructure

The activities of the PKP CARGO Group is dependent on the condition of the railway infrastructure, owned and managed by PKP PLK, which as compared with railway infrastructures of other, more developed EU countries, such as Germany or France, remains inefficient. Due to the inadequate technical condition, caused, above all, by many years of negligence in modernisation and maintenance of railway lines, the maximum commercial speed on railway lines used in the freight is about 23 km/h, and the throughput of the lines is low. The average commercial speed of freight trains in Poland is two times lower compared to the EU average.

The increase in the number of locations and durations of track closures was recorded in 2014, which directly affect a significant reduction in bandwidth of used lines and stations, having an impact on the rejection of applications for Individual Timetable, extended time of courses and the road of trains, extended stay of trains at stations (start-up and intermediate). There were frequent situations in which the loaded trains could not be brought to a receiving station at the scheduled time, which resulted in a further build-up of delays in empty rolling stock, as well as detainment of trains at cargo points/tracks substation, causing blocking of the tracks and forcing the withdrawal or termination of trains. The closures on the PKP network, affecting the extension of wagons circulations also entailed increased resources need to engage the train and traction. In connection with the information obtained from the PKP PLK it is anticipated that in 2015 similar difficulties will occur in the railway infrastructure.

Risk associated with acquisition activities

In order to complete the transaction related with the acquisition of shares in AWT, it is required to obtain, among others, the necessary approvals for the concentration between the Company and the AWT from the Czech, Polish, German and Slovak competition authorities and obtain confirmation by some AWT Group Companies from banks and other financial institutions to finance the activities of the AWT Group, that closing of the transaction will not constitute a breach of the agreements concluded with this institutions.

The signed sale agreement will be able to be resolved if all precedent conditions are fulfilled (or suspended) before the deadline agreed in the contract. As a result of that, PKP CARGO S.A. would lose one of elements in terms of realization of the Company's Strategy assuming expansion on the European market.

Transaction may not result in expected business and financial results.

Risks associated with the deficiency of trained personnel

Given the increase in the average age of train crews, the Group has undertaken a series of actions aimed at reducing the risk of staff shortages. In 2014, the Parent Company was carrying out the plan of training and recruitment of train crew members, mainly drivers, by improving skills (both types of traction) and broadening the route knowledge. Given these activities, the Company does not expect a risk of significant deficiencies in the traction teams.

The client base of the Group is highly dependent on a limited number of industrial branches and their suppliers

The majority of key clients use services of the Group in order to transport coal, aggregates and construction materials and metals and iron ores. Despite conclusion of long-term contracts by the Group, sometimes with the guaranteed volume of orders, the Group cannot ensure that it would keep its clients in the future or that the volumes indicated in the contracts would be carried entirety. In addition, if key clients are lost, the Group cannot ensure to easily replace them with other clients who would be supplied services on comparable terms.

In addition, the Group's operations may be affected by structural changes in the activities of its key clients, which could lead to creation or development by individual clients of the Group of their own subsidiaries dealing with rail freight. Currently, several major clients of the Group carry out rail freight through their subsidiaries. These subsidiaries may take over a part of the services provided by the Group so that such services are supplied to their parent companies or to other clients and compete with the PKP CARGO Group.

The risk of rising fuel prices

The current fuel price listings are at the lowest point since 5 years. Due to the complicated situation in the Middle East and Ukraine, there is a reasonable risk that they will increase.

Road transport as the growing competition for the Group

Road transport is the greatest competition for rail freight in Poland. Over the recent years, the Polish Government has conducted an intensive programme of modernization of road infrastructure, so that its condition has improved significantly. This has resulted in a reduction of delivery times and reduced the costs of road transport, the competitive advantage of which also lies in the possibility of delivering the cargo "door-to-door", i.e. directly from or to the client without having to change the means of transport. Considering the above, further decrease in the importance of rail freight cannot be excluded.

Financial risks

In the reporting period PKP CARGO Group was exposed to the following types of financial risks:

a) liquidity risk
b) market risk, including:
- currency risk;
- interest rate risk.
c) credit risk

Liquidity risk

The Group is exposed to liquidity risk arising from the relationship between current assets and current liabilities (net current liabilities excluding short-term provisions).

As at 31 December 2014 and 31 December 2013, current liquidity ratio amounted to 1.87 and 1.94 respectively. In order to provide additional sources of cash required to secure financial liquidity, the Parent Company has been using overdraft, investment loans and leasing. In order to optimize the financial costs in PKP CARGO Group there is the system of cash concentration (cash pooling) which includes 8 companies from the Group as at 31.12.2014.

Market risk

PKP CARGO Group is exposed to market risk associated with fluctuations of currency exchange rates and interest rates. The purpose of market risk management is to limit the undesirable influence of changes in the market risk factors on the cash flows and results in the short and medium horizon. The Group manages market risks resulting from the above factors on the basis of internal procedures, which lay down the rules for measurement of individual exposures, parameters and time horizon.

The rules of market risk management are implemented by competent organizational units, under the supervision of the Management Board of the Parent Company. Market risk is managed based on the strategies developed, with partial use of derivatives. Derivatives are used only to reduce the risk of changes in the value of the balance sheet values and the cash flow risk. Transactions are concluded with reliable partners only, who are permitted to participate in transactions as a result of application of internal procedures and signing the relevant documentation.

Currency risk

In 2014 PKP CARGO Group was exposed to foreign exchange risk arising from receivables, liabilities and cash denominated in foreign currencies. Receivables of PKP CARGO Group denominated in foreign currencies are a short-term receivables (up to 1 month), and liabilities denominated in foreign currencies are mostly long-term and short-term lease liabilities.

In respect of the balance-sheet valuation of receivables and payables expressed in foreign currencies, as well as the settlement of accounts in foreign currencies, financial revenues arise both on the receivables and liabilities side (positive exchange differences) as well as financial expenses (negative exchange differences). Financial revenue and expenses fluctuate during the year, which is due to changes in exchange rates.

Due to their long maturity period, short- and long-term lease liabilities denominated in EUR and CHF have the largest share in the financial income and financial costs as well as cause volatility in the result of the Group at the level of financial costs and revenues in respect to unrealized exchange differences.

Short-term receivables denominated in foreign currencies (mainly EUR) amount at the average monthly level of approx. EUR 13 million. The considerable part of short-term receivables consisted of receivables in respect of international freight costs.

Cash flows denominated in EUR were partially hedged by the future transactions, while for the remaining part of cash flows the natural hedging was used.

Cash in foreign currencies deposited in bank accounts results from the maturity mismatch between inflows and outflows, and due to the surplus of inflows over outflows.

In the long term, the valuation risk equals the risk of change in the value of cash flows, and therefore the Group' s cash flows are subject to hedging.

Partial hedging is provided for the EUR/PLN rate due to the fact that revenue from sales in EUR is partly offset by costs in the same currency. The purpose of the use of the Group's foreign exchange risk management transactions is to protect the free net exposure which is exposed to the change in the value of PLN.

In compliance with the current Financial Risk Management Policy, in 2014 the Group applied currency risk management transactions in relation to the currency EUR/PLN pair. Due to the stable exchange rate of the currency pair EUR/CHF in 2014, the foreign exchange risk management transactions were not applied towards them (in accordance with the assumptions resulting from the Group's policy it was considered as a natural hedge).

To hedge the currency risk in 2014 the Group used forward contracts.

As at 31 December 2014, the Group had unsettled forward contracts in the amount of EUR 22,445,000 (including PKP CARGO S.A. EUR 21,250,000 and PS TRADE TRANS Sp. z o.o. EUR 1,195,000).

Interest rate risk

The majority of main financial investments made by the PKP CARGO Group in 2014 consisted of bank deposits, which were placed for a period of up to approx. 5 months, depending on the liquidity needs.

In addition, the Group is exposed to the risk of volatility of cash flows related to interest rate arising from bank loans and leases based on variable interest rates. The value of the interest on financial lease liabilities amounted to PLN 11.8 million in 2014. Interest on lease contracts are charged according to the reference rates increased by the margin of the financing institution. The reference rate for contracts denominated in EUR is the EURIBOR 1M, 3M, 6M, and for contracts denominated in CHF – LIBOR 6M CHF. The interest rate risk for lease contracts is valorisation of leasing instalments in periods of 1 month, 3 months, 6 months, depending on the contract. The value of the interest on credit obligations paid in 2014 amounted to PLN 6.6 million. Interest on loan agreements were calculated according to the WIBOR 1M and 3M reference rates increased by the margin of banks. The interest rate risk for loan agreements is implemented through valorisation of loan instalments in periods of 1 month.

A the same time in accordance with the Group's financial risk management policy, one Company from the Group has applied hedging (IRS).

In 2013 PS TRADE TRANS Sp. z o.o. due to external financing based on variable interest rates has concluded IRS contracts to hedge interest rate fluctuations for loans denominated in PLN appropriately tailored to the intended schedule of payment schedule. As for the lease contracts – in financial year 2013 there was a hedge (via IRS contract as well) a risk of the growth of interest rates related to lease contract for 210 wagons Type TALNS. As at the balance sheet date PS TRADE TRANSE Sp. z o.o. had open position on IRS contracts.

Credit risk

In its commercial activities, the Group sells its services to economic entities with deferred payment, which generates the risk of not receiving the payment from clients for completed services. In order to mitigate the credit risk, the Group manages the risk through effective client creditworthiness assessment procedure. This assessment is carried out for all the clients who use deferred time limit for payments. As part of the internal policy, the Group conditions application of the deferred payment date if the client has acceptable standing and there is a positive history of cooperation.

Receivables from clients are monitored regularly. If there are overdue receivables, the supply of services is ceased in accordance with the procedures in force and debt collection procedures are initiated.

Concentration of the risk associated with trade receivables is limited due to the large number of clients with credit, distributed in different sectors of the economy. Furthermore, in order to reduce the risk of non-recovery of trade receivables, the Group accepts securities from its clients, such as bank/insurance guarantees, assignments from contracts, blockades on bank accounts and bills of exchange.

Credit risk associated with cash and bank deposits is regarded as low. All the entities in which the Group invests free cash operate in the financial sector.

The maximum exposure to credit risk is represented by the balances of trade and other receivables, cash and other financial assets. The exposure is limited by the pledges established by the Group (in the form of i.a. bank/ insurance guarantees, guarantee deposits), which amounted to PLN 6.74 million as at 31.12.2014.

4.4.8. Financial instruments – risk management policies applied by PKP CARGO Group, objectives and methods of risk management

The rules for the management of market risk are followed by designated organisational units under the supervision of the Management Board of the Parent Company. The management of financial risk in PKP CARGO Group is based on strategies developed, with the partial use of derivative instruments (SPOT currency contracts, FORWARD currency contracts and IRS interest rate swaps), which are used solely to hedge the risk of changes in balance-sheet values and the risk of changes in cash flow.

In 2014, the Parent Company did not apply hedge accounting.

The hedge accounting was implemented by PS TRADE TRANS Sp. z o.o. In order to manage the foreign exchange risk the company used financial instruments, mainly Forward contracts, as well as hedging of variable interest rates as a hedge of interest rate fluctuations for his investment credits denominated in PLN for this purpose the interest rate swaps (IRS contracts) were concluded.

4.4.9. Current and forecasted financial situation of PKP CARGO Group

The Group is fully capable of settling its liabilities within the payment terms. The sales activities consider the financial possibilities of the Group.

5. Other information

5.1. Information about PKP CARGO S.A. shares

5.1.1. Issue of shares and utilization of proceeds from the issue

In 2014, PKP CARGO S.A. recorded proceeds from issuance of shares in the amount of PLN 8,800 thousand. Proceeds were related to payments of the Company's subsidiaries within the Employee Guarantee Pact and served to finance a one-off premium in order to cover the acquisition of shares by eligible employees of subsidiaries.

5.1.2. Information of agreements that may affect future change in the proportion of shares held by the current shareholders

PKP CARGO S.A. is not aware of any agreements made by the current shareholders as a result of which changes may take place in future in the proportion of shares held.

5.1.3. The acquisition of own shares

In 2014, PKP CARGO S.A. did not acquire any own shares.

5.1.4. Information on the employee share programme control system

According to the Employee Guarantee Pact and the Agreement on Employee and Social Guarantees for employees of the Companies of the PKP CARGO Group signed on 2 September 2013 by the Management Board and the trade unions operating within its structures, employees of PKP CARGO S.A. and five subsidiaries gained employment guarantees and acquired the entitlement to a one-off monetary benefit (privatisation bonus) on the terms and conditions set forth in the EGP. The above-mentioned benefit takes the form of an employee share programme, as the EGP parties agreed that it would be paid in series C shares with a lock-up for a period of two years from the date of first listing. According to the Information Memorandum related to the public offering of series C shares, subscriptions for PKP CARGO S.A. employee shares started on 2 December 2013. Eligible employees could subscribe for employee shares until 28 February 2014. 22,146, i.e. 99.8 % of eligible PKP CARGO S.A. employees and 2,395, i.e. 99.9% of eligible employees of subsidiaries signed for the shares. On 7 March 2014 the Management Board of PKP CARGO S.A. passed resolution on allotment of 1,448,902 shares to employees.

The programme is managed by the Brokerage of PKO Bank Polski.

In addition, 15% of the funds derived by PKP S.A. from the sale of shares in PKP CARGO S.A. in a public offering conducted on the basis of the Company's prospectus approved by the Polish Financial Supervision Authority on 4 October 2013, was allocated to the PKP Employee Ownership Fund under the Act of 8 September 2000 on the commercialisation, restructuring and privatisation of the state-owned enterprise "Polskie Koleje Państwowe".

5.1.5. Shares held by managing and supervising bodies

Ownership of Company's shares or rights thereto by persons managing the Company in the period from 14 March 2014, i.e. the date of publication of the report for 2013 to the date of this report was as follows:

Table 24 Ownership of PKP CARGO S.A. shares by managing persons

Surname and first name	Shares of PKP CARGO S.A.	
	Number of	Nominal value (PLN)
	as of the date of this report	
Adam Purwin	545	27 250
Jacek Neska	450	22 500
Wojciech Derda	300	15 000
Łukasz Hadyś	300	15 000
Dariusz Browarek	370	18 500
	as of 14.03.2014	
Adam Purwin	545	27 250
Sylwester Sigiel	0	0

Source: Own study

Table 25 Ownership of PKP CARGO S.A. shares by supervising persons

Surname and first name	Shares of PKP CARGO S.A.	
	Number of	Nominal value (PLN)
	as of the date of this report	
Jakub Karnowski	915	45 750
Piotr Ciżkowicz	675	33 750
Krzysztof Czarnota	70	3 500
Kazimierz Jamrozik	70	3 500
Marek Podskalny	70	3 500
Konrad Anuszkiewicz	0	0
Paweł Ruka	0	0
Sławomir Baniak	0	0
Stanisław Knaflewski	0	0
Jacek Leonkiewicz	0	0
Zbigniew Klepacki	0	0
	as of the date of this report	
Jakub Karnowski	503	25 150
Milena Pacia	0	0
Michał Karczyński	0	0
Krzysztof Czarnota	70	3 500
Kazimierz Jamrozik	70	3 500
Marek Podskalny	70	3 500
Konrad Anuszkiewicz	0	0
Paweł Ruka	0	0
Stanisław Knaflewski	0	0
Artur Kawaler	0	0
Danuta Tyszkiewicz	0	0

Source: Own study

Ownership of the Company's shares or rights thereto by persons managing the Company as at 31 December 2014, is identical compared to the state holding on the date of this Report.

The managing and supervising persons, as of the date of this report, do not hold any shares in affiliates of PKP CARGO S.A.

5.1.6. Paid or declared dividends

On 12 May 2014, the General Shareholders Meeting of PKP CARGO S.A. ("GSM") adopted a resolution on distribution of profit recognized in 2013, resulting from the Separate Financial Statements of the Parent Company for the year ended 31 December

2013. In accordance with the GSM resolution net profit achieved in 2013 in the amount of PLN 94,083 thousand was allocated to:

1) payment of the dividend in amount of PLN 86,556 thousand,
2) share premium in the amount of PLN 7,527 thousand.

In addition, the General Shareholders Meeting decided to allocate PLN 50,939 thousand from retained earnings on the payment of the dividend. The dividend day was established on 20 May 2014 and the dividend payment date on 4 June 2014.

5.2. Significant transactions with related parties

PKP CARGO Group did not conclude any transaction in 2014 with related parties on terms other than at arm's length. No such transactions were concluded also after the balance-sheet date.

5.3. Proceedings pending before the court, an authority competent for arbitration proceedings, or before the public authority

Neither PKP CARGO S.A. nor its subsidiaries are parties to proceedings in court, an authority competent for arbitration proceedings, or before the public authority concerning their liabilities or receivables the value of which is at least 10% of the Parent Company's equity.

PKP CARGO S.A. and its subsidiaries are parties to proceedings concerning liabilities or receivables of PKP CARGO S.A. or its subsidiaries the total value of which does not exceed 10% of the Parent Company's Equity.

5.4. Major achievements in research and development

Major achievements in the field of research and development of PKP CARGO S.A. and PKP CARGO Group recorded in 2014 include:

1. Development of concept of new wagons production in Zakład Naprawy Wagonów in Szczecin starting from 2015. The project is in the final stage of analysis and assumes a production of prototype wagon and a series of a 30 wagons in 2015. The target for the following years is to manufacture 500-700 of wagons per year. One of the variants is to run production in close cooperation with a renowned manufacturer of wagons which is Greenbrier Europe Wagons Swidnica S.A. - exchange of experience and joint implementation of tasks.

2. Project of wagons production also assumes an establishment of Ośrodek Szkoleniowy Spawaczy (OSS) at the Zakład Naprawy Wagonów in Szczecin which would ensure high quality of new wagons production. OSS would educate personnel for the PKP CARGO Group and would ensure its personal development of skills and techniques for making bond connections.

3. Start of the second stage of the research in the field of wear and tear of type K composite brake shoe inserts and monoblock wheelsets. The main aim of this research is to confirm that a new profile of wheelsets will reduce their wear and tear, as well as evaluation of different species of composite brake blocks and wheel sets which would support optimization of their purchases.

4. Beginning of cooperation with the Institute of Railway in accordance with the Regulation of the Minister of Infrastructure dated 18 July 2005 in the case of general conditions for railway traffic and signaling (Journal of Law No. 172, item. 1444) in respect to brake performance testing of trains. Changes in regulations will allow to reduce the size of sample.

5. Running tests of fuel additives which may improve the consumption effectiveness. Use of additives will result in reduction of harmful emissions and fuel consumption.

5.5. Information on natural environment issues

Activity of PKP CARGO Group can cause potential damages to the natural environment which is related i.a. to carriage of dangerous goods. The Group is a leader in the consumption of electric energy for traction purposes, therefore the transport of hazardous materials as well as power consumption are important aspects of business and they are subject to annual monitoring reports. Water consumption, quality of wastewater, industrial waste management, fuel consumption for traction and heating purposes are also monitored. The purpose of monitoring is not only that of knowledge possession regarding to the Company's impact on the natural environment by tracking complex measures, but also improvement of emission rates. Year on year, PKP CARGO Group reduces its environmental impact through introduction of targets and tasks aimed at optimization of processes.

Due to payable fees for using the natural environment in 2014, the provision in the amount of PLN 1,824 thousand was created by the Parent Company. Payments made by PKP CARGO S.A. have a downward trend. By analyzing the amount of charges compared to previous years, the decline in fees was recorded mainly for fuel consumption in diesel locomotives because of using new emission benchmarks when calculating charges for all modernized locomotives, achieving significant savings in fuel consumption and as a result of further concentration of locomotive fleet and growth of check-ups periods as well as duration of rolling stock repairs.

In other companies belonging to the Group, the estimated total amount of fees for using the natural environment in 2014 will amount to about PLN 350 thousand. In connection to the repairing of rolling stock activities, the Group is obliged to pay fees, i.a. for putting gas and dust into the air. It is performed by using materials in manufacturing processes (mainly painting materials), fuel combustion in boiler houses and in cars and machines.

The implementation of the Group's strategy is based on the adjustment of its resources and organization to the requirements of a modern transport market in accordance with rules of sustainable development and with compliance to the policy adopted by Integrated Management System (IMS): quality, safety and environmental protection. IMS provides the implementation of environmental policy and is an integral part of the overall business management system. During the process of environmental review (conducted every year) the Group formulates its environmental objectives and targets. The Group assesses its environmental performance annually according to the criteria based on:

- legal requirements and decisions,
- results of the review of the system and internal audits,
- data on the effects relating to current and past activities of PKP CARGO Group

The Group performs an annual review of the environmental aspects, is involved in achieving compliance with the current regulations, has a program of environmental activities and achieves well-measured results of these actions, has qualified staff who takes care of the environmental issues. The staff is equipped with environmental fees calculation software and database of significant environmental aspects which have access to the current regulations and instructions. The Group runs initiatives supporting improvement of environmental awareness of the employees.

5.6. Information on the remuneration of management and supervisory personnel at PKP CARGO S.A.

5.6.1. Value of remuneration and additional benefits

The table below shows the sum of the remuneration and additional benefits of the Member of the Management Board of PKP CARGO S.A. in 2014.

Table 26 Costs incurred by PKP CARGO Group in respect of remuneration and additional benefits of the Members of the Management Board of PKP CARGO S.A. in 2014 (PLN)

Surname and first name	2014
Current Members of the Management Board	
Adam Purwin	816 375
Wojciech Derda	415 080
Łukasz Hadyś	382 102
Jacek Neska	400 124
Dariusz Browarek	400 301
Former Members of the Management Board	
Wojciech Balczun	162 954
Łukasz Boroń	674 492
Marek Zaleśny	219 332
Sylwester Sigiel	778 086

Source: Own study

Remuneration and additional benefits of the former Members of the Management Board include severance pay, bonuses, compensation for non-competition agreements, compensation for unused annual leave.

The table below presents the sum of the remuneration and additional benefits of the Supervisory Board in 2014. This specification included only remuneration of each Member of the Supervisory Board of PKP CARGO S.A.

Table 27 Costs incurred by PKP CARGO Group in respect of remuneration and additional benefits of the Members of the Supervisory Board of PKP CARGO S.A. in 2014 (PLN)

Surname and first name	2014
Current Members of the Supervisory Board	
Jakub Karnowski	72 409
Piotr Ciżkowicz	56 942
Krzysztof Czarnota	77 669
Kazimierz Jamrozik	77 669
Marek Podskalny	77 669
Konrad Anuszkiewicz	77 669
Stanisław Knaflewski	74 215
Paweł Ruka	74 215
Jacek Leonkiewicz	56 942
Sławomir Baniak	18 981
Former Members of the Supervisory Board	
Michał Karczyński	13 818
Artur Kawaler	20 727
Łukasz Górnicki	40 125
Milena Pacia	20 727
Danuta Tyszkiewicz	13818
Jarosław Pawłowski	63 851

Source: Own study

5.6.2. Agreements made between PKP CARGO S.A. and managers, providing for compensation in defined circumstances

The members of the Management Board of PKP CARGO S.A. are employed under management contracts. The rules for compensation in the event of resignation or dismissal from a position without valid reason are specified in the Management Board Member Management Contract in accordance with Resolution No. 3/2014 of the Extraordinary General Meeting of PKP CARGO S.A. dated 26 March 2014 in relation to rules and the level of remuneration of the President and Members of the Management Board of the PKP CARGO S.A. and to the prohibition on competitive activity.

5.7. Information relating to the financial statements

5.7.1. Information relating to the agreement between entities authorized to the audit of financial statements

By Resolution 1272/V/2013 of the Supervisory Board of PKP CARGO S.A. of 17 December 2013, the company KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Warsaw at ul. Chłodna 51, registered under the number 3546, was appointed as the entity authorized to audit the financial statements of PKP CARGO S.A. for the years 2013 - 2015. Agreement relating to the audit of financial information by the KPMG was concluded on 31 January 2014 and include audit of Separate Financial Statements of the PKP CARGO S.A. and Consolidated Financial Statements of the PKP CARGO Group for the years 2013-2015. The agreement on the audit of interim Separate and Consolidated Financial Statements for the first half of 2014 and for the first half of 2015 was concluded with KPMG on 8 May 2014.

Below is presented the remuneration of the entity authorized to the audit of Financial Statements, paid or payable for the Financial Year.

Table 28 Remuneration of the entity authorized to audit of Financial Statements (PLN)

Specification	Year ended 31 December 2014	Year ended 31 December 2013
Obligatory audit of the Financial Statements	129 200	129 200
Obligatory audit of the Consolidated Financial Statements	9 500	9 500
Obligatory audit of the Separated Financial Statements of subsidiaries of the Company	178 950	217 200
Other attestation services	97 250	1 160 187*
Other services	58 300	15 000
Tax consulting services	0	0
TOTAL	**473200**	**1 531 087**

* Other attestation services include remuneration of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. seated in Warsaw for review of Separate and Consolidated Financial Statements for the 1st half-year and 3rd quarter of 2013 (PLN 185 thousand and PLN 40 thousand, respectively), for preparation of initial public offering (PLN 304 thousand) and preparation of comfort letter (PLN 628 thousand), as well as remuneration of KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. seated in Warsaw for verification procedures in relation to Group report for 2013 (PLN 2,850 thousand).
Source: Own study

5.7.2. Principles for the preparation of the annual financial statements

The Consolidated Financial Statements of PKP CARGO Group for the year ended 31 December 2014 were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Committee and approved by the European Union.

The Consolidated Financial Statements of PKP CARGO Group have been prepared on the going concern basis of the companies in the Group in the foreseeable future. At the date of preparation of the Financial Statements, there are no circumstances indicating a threat to the continuation of business of the Group for a period of at least 12 months after the date of the financial statements. The accounting principles (accounting policy) applied in preparing the Consolidated Financial Statements are presented in explanatory notes 3 and 4 to the Consolidated Financial Statements of PKP CARGO Group for the financial year ended 31 December 2014.

5.7.3. Description of unusual items in the Consolidated Financial Statements of PKP CARGO Group

The provision for the Voluntary Redundancy Program (VRP) is an unusual item in the Consolidated Financial Statements of PKP CARGO Group, presented in the context of provisions for the employee benefits. Costs of VRP in the amount of PLN 265.3 million were included in financial result of the financial year ended 31 December 2014 in position of employee benefits expenses.

5.7.4. Description of significant off-balance sheet items in subject, object and value approach

As at 31 December 2014 PKP CARGO Group presented the following significant off-balance sheet items:

- future liabilities of EUR 103.2 million relating to the acquisition by the Parent Company of 60,000 shares ("Shares") in the share capital of Advanced World Transport BV with its registered office in Amsterdam ("AWT") (the "Sale Agreement"),
- future liability for the modernization of the SM-48 locomotives of Parent Company, ranging from PLN 109.2 to 111.9 million, depending on the fulfillment of certain technical conditions,
- off-balance-sheet liabilities due to guarantees and bails of PLN 60.9 million.

Detailed information on off-balance sheet items is described in notes 34 - 36 to the Consolidated Financial Statements.

6. Corporate Governance Statement

6.1 Identification of the set of corporate governance rules to which PKP CARGO S.A. is subject and the locations where the text of these rules is available publicly

Acting in compliance with the § 91 (5) (4) of the Regulation of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and on conditions of recognition of the information required by the laws of a non-member state (Journal of Laws from 2014, item 133), the Management Board of the Company presents the Statement of compliance with the corporate governance rules in 2014.

During the period from the admission of the Company's shares to public trading, i.e. from 28 October 2013, the Company has been subject to the corporate governance rules described in Code of Best Practice for WSE Listed Companies ("Best Practice"), forming Appendix to Resolution of the WSE Supervisory Board No 12/1170/2007 of 4 July 2007, as amended by the following resolutions of the WSE Supervisory Board: No 17/1249/2010 of 19 May 2010 (entered into force on 1 July 2010), No 15/1282/2011 of 31 August 2011 (entered into force on 1 January 2012), No 20/1287/2011 of 19 October 2011 (entered into force on 1 January 2012) and No 19/1307/2012 of 21 November 2012, which entered into force on 1 January 2013.

The text of the Best Practice to which governing the Company is subject is available on the GPW website at (http://www.corp-gov.gpw.pl).

6.2. The extent to which PKP CARGO S.A. deviated from the provisions of the corporate governance rules, identification of those provisions and explanation of the reasons for such deviation

In 2014 the Company complied with all the corporate governance rules expressed in the Code of Best Practice for WSE Listed Companies with the exception of the rules contained in:

Chapter I Recommendation 5 of the Best Practice concerning remuneration policy and the rules for its determination

Failure to comply with the above rule by PKP CARGO S.A., lies in the fact that the policy of remuneration of the Company's management and supervisory bodies does not contain all the elements listed in the European Commission Recommendation of 14 December 2004 on fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC), supplemented by the European Commission Recommendation of 30 April 2009 (2009/385/EC). The Company has not disclosed a remuneration policy statement on the corporate website. The decision on full compliance with the above rule of Best Practice in the future will belong to the Supervisory Board and the General Shareholders Meeting.

In accordance with § 91. (6) (17) of the Regulation of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions of recognition of the information required by the laws of a non-member state (Journal of Laws from 2014, item 133), the Company publishes in the annual report information on the salaries, bonuses and benefits annually for each of the management and supervisory personnel of the Company.

According to § 12 (2) (3) of the Articles of Association of the Company, as long as the share of PKP S.A. is more than 50% of the share capital of the Company and as long as required by mandatory provisions of law, remuneration of the Members of the Management Board is set by the General Shareholders Meeting. If the share of PKP S.A. in the share capital of the Company is 50% or less, the remuneration of Members of the Management Board is determined by resolution of the Supervisory Board. For participation in the work of the Supervisory Board its members shall receive remuneration in accordance with the remuneration policy set by the General Shareholders Meeting.

Chapter I Recommendation 9 of the Best Practice concerning the balanced share of women in performing management and supervisory functions

The Company does not ensure the balanced share of women and men in the Management Board and the Supervisory Board. The Company supports the above recommendation, but a decision on the composition of the Supervisory Board is taken by the General Shareholders Meeting, while the Members of Management Board are appointed in compliance with the rules set forth in the Articles of Association. The Company pursues a policy according to which the Company employs competent, creative persons with relevant professional experience and education without applying the criterion of gender.

Chapter II of Recommendation 1. 9a) of the Best Practice concerning the disclosing by the Company a record of a general shareholders meeting in audio or video format on its corporate website

According to the Management Board, non-application of the principle concerning the disclosing by the Company a record of a general shareholders meeting in audio or video format on its corporate website does not affect the reliability of the Company's information policy or the completeness of significant information furnished to the Shareholder by the Company.

Chapter IV Recommendation 10 of the Best Practice concerning the providing by the Company to the shareholders possibility to participate in general shareholders meeting by means of electronic communication.

The decision of not applying the rule which provides that the Company should ensure, among other things, "real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting", was taken because of risks of a legal and organizational/technical nature which may affect the correct progress of the general meeting while shareholders are provided with such a communication channel.

According to the Management Board,, the rules for participation in general meetings enable the shareholders to effectively exercise all rights attaching to shares and secure the interests of all shareholders.

6.3. Description of the main features of the PKP CARGO S.A.'s internal control and risk management in relations to the process of preparation of Financial Statements and Consolidated Financial Statements

Uniform IFRS accounting principles

The Parent Company, PKP CARGO S.A. has developed and implemented the accounting policy prepared in accordance with the accounting principles as endorsed by the European Union. This document is updated in the event of changes in legislation. The rules contained in this document apply to the Separate Financial Statements of PKP CARGO S.A. and Consolidated Financial Statements of the PKP CARGO Group. Companies subject to consolidation are required to apply accounting policies of PKP CARGO S.A. in the preparation of consolidation reporting packages, which are the basis for preparation of the Consolidated Financial Statements of the PKP CARGO Group.

Uniform consolidation packages for subsidiaries

A uniform model of IFRS reporting packages that are prepared by subsidiaries for the purposes of the Consolidated Financial Statements of the PKP CARGO Group has been adopted. Subsidiaries prepare IFRS reporting packages taking into account differences between the Polish Accounting Principles and the IFRS.

Bookkeeping

The reliability of the financial statements is ensured by the information resulting directly from the books. The Parent Company keeps its accounting records underlying the preparation of financial statements in the computer accounting system SAP. PKP CARGO S.A. updates the accounting system according to changes in regulations and reporting requirements, both internal and external. Access to information systems is limited by the appropriate permissions to authorized employees. In the Company there are IT and organizational solutions that ensure the control of access to the accounting system and that ensure adequate protection and backup of accounting records.

Book closing and financial statement authorisation procedures

Internal procedures have been implemented in the Parent Company and its subsidiaries for the closing of periods, defining the timeline and responsibilities of internal departments for the different record-keeping areas; financial statements are subjected to internal check procedures for completeness and integrity; IFRS reporting packages are signed by the management boards of the subsidiaries, while the IFRS Consolidated Financial Statements are properly authorized and signed by the Management Board of the Company.

Audit Committee Supervision

Within the Supervisory Board of PKP CARGO S.A., the Audit Committee has been established. The Audit Committee, in accordance with the applicable laws and regulations, supervises the preparation of the Consolidated Financial Statements, the financial audit process and also analyses and monitors interim and year-end financial data of the Company and the Group.

Audit and review of the financial statements

Annual Consolidated Financial Statements are audited by the certified auditor, interim Consolidated Financial Statements are reviewed by the certified auditor; opinions and reports on those documents are attached to approved and published financial statements

6.4. Shareholders holding directly or indirectly substantial shareholdings

As at the date of this report, total number of shares was 44 786 917. In accordance with the notifications received by the Company, the tables below show the shareholders holding directly or indirectly substantial shareholdings in the Company.

Table 29 Shareholders' structure of PKP CARGO S.A. as at 31 December 2013

Shareholder	Number of shares	Percentage share in share capital	Number of votes	Percentage share in the total number of votes at GM
PKP S.A.(1)	22 411 844	51.71%	22 411 844	51.71%
ING OFE (2)	2 860 827	6.60%	2 860 827	6.60%
EBRD (3)	2 286 008	5.27%	2 286 008	5.27%
AMPLICO OFE (4)	2 195 842	5.07%	2 195 842	5.07%
Other shareholders	13 583 494	31.34%	13 583 494	31.34%
Total	**43 338 015**	**100.00%**	**43 338 015**	**100.00%**

(1) In accordance with the notice sent by shareholder dated 31 October 2013
(2) In accordance with the notice sent by shareholder dated 08 November 2013
(3) In accordance with the notice sent by shareholder dated 05 November 2013
(4) In accordance with the notice sent by shareholder dated 02 January 2014

Source: Own study

Table 30 Shareholders' structure of PKP CARGO S.A. as at 13 November 2014 and as at 31 December 2014

Shareholder	Number of shares	Percentage share in share capital	Number of votes	Percentage share in the total number of votes at GM
PKP S.A. (1)	14 784 194	33.01%	14 784 194	33.01%
ING OFE (2)	4 738 369	10.58%	4 738 369	10.58%
Morgan Stanley (3)	2 380 008	5.31%	2 380 008	5.31%
AVIVA OFE (4)	2 338 371	5.22%	2 338 371	5.22%
EBRD (5)	2 286 008	5.10%	2 286 008	5.10%
Other shareholders	18 259 967	40.78%	18 259 967	40.78%
Total	**44 786 917**	**100.00%**	**44 786 917**	**100.00%**

(1) In accordance with the notice sent by shareholder dated 24 June 2014
(2) In accordance with the notice sent by shareholder dated 30 June 2014
(3) In accordance with the notice sent by shareholder dated 18 June 2014
(4) In accordance with the notice sent by shareholder dated 13 August 2014
(5) In accordance with the notice sent by shareholder dated 05 November 2013

Source: Own study

On 17 February 2015, the Management Board of the Company received a notification sent by the European Bank for Reconstruction and Development informing that due to the sale of shares in a block transaction concluded on the Warsaw Stock Exchange on 11 February 2015, settled on 13 February 2015, EBRD reduced its share to less than 5% of the total number of votes at the General Meeting of Shareholders. After the transaction, the EBRD does not hold any shares in the Company.

Table 31 The company's shareholder's structure at the date of this report

Shareholder	Number of shares	Percentage share in share capital	Number of votes	Percentage share in the total number of votes at GM
PKP S.A.(1)	14 784 194	33.01%	14 784 194	33.01%
ING OFE (2)	4 738 369	10.58%	4 738 369	10.58%
Morgan Stanley (3)	2 380 008	5.31%	2 380 008	5.31%
Aviva OFE (4)	2 338 371	5.22%	2 338 371	5.22%
Other shareholders	20 545 975	45.88%	20 545 975	45.88%
Total	**44 786 917**	**100.00%**	**44 786 917**	**100.00%**

(1) In accordance with the notice sent by shareholder dated 24 June 2014
(2) In accordance with the notice sent by shareholder dated 30 June 2014
(3) In accordance with the notice sent by shareholder dated 18 June 2014
(4) In accordance with the notice sent by shareholder dated 13 August 2014

Source: Own study

6.5. Holders of securities that confer special control rights and description of such rights

The securities of PKP CARGO S.A. do not confer any special control rights on any shareholder.

6.6. Restrictions in the exercise of voting rights

The right to participate in the General Meeting and the voting right

The shareholder exercises the voting right at General Meetings. According to the Commercial Companies Code, the Company's shareholders may participate in the General Meeting and exercise their voting rights in person or by proxy. A shareholder of the Company intending to participate in the General Meeting by proxy must grant a power of proxy in writing or in electronic form. A form containing the model power of proxy is included by the Company in the notice to convene the General Meeting. In addition, the granting of the power of proxy in electronic form must be notified to the Company with the use of the means of electronic communication stated in the notice to convene the General Meeting. The Company takes appropriate measures to identify the shareholder of the Company and the proxy in order to authenticate the power of proxy granted in electronic form. A detailed description of the authentication of the power of proxy granted in electronic form contains the text of the notice to convene the General Meeting.

The Company's shareholder holding Shares recorded in more than one securities account may establish separate proxies to exercise rights attaching to Shares recorded in each account.

If the proxy representing the shareholder at the General Meeting is a member of the Management Board, member of the Supervisory Board, liquidator, employee of the Company or member of its governing bodies or employee of the Company's subsidiary company or cooperative, the power of proxy must provide for representation at one General Meeting only. The proxy is obliged to disclose to a shareholder of the Company any circumstances indicative of the existence or the possibility of arising of a conflict of interest. In such a case, the granting of a sub-proxy is unacceptable. The proxy referred to above votes in accordance with the instructions given by the shareholder of the Company.

According to § 11 (2) of the Articles of Association each Share carries on one vote at the General Meeting. The Articles of Association restricts the voting rights of shareholders (acting individually or jointly as shareholders being dominant or subsidiary entities) holding more than 10% of the total voting rights at the General Meeting and prohibits the exercise by such shareholders more than 10% of the total voting rights at the General Meeting, with the proviso that the above restriction does not apply to the shareholders who, on the day the General Meeting passes a resolution imposing such restrictions, are authorized to exercise voting rights (also as user) attaching to shares representing more than 10% of the total number of voting rights existing in the Company as well as any other entity that would acquire shares in the Company granted to the shareholders, referred to above, in connection with their liquidation.

According to the provisions of the Article of Association, the restriction of voting rights of shareholders representing more than 10% of total shares in the Company does not expire after the disposal of all shares by PKP S.A., which is not subject to the above restriction. Consequently the restriction of a voting right potentially makes it difficult for a single investor to gain control over the Company even if the share of PKP S.A. in the Company's share capital decreases to nil.

A shareholder of the Company may not, in person or by proxy, or as a proxy of another person, vote on resolutions concerning his liability to the Company on any account, including the granting of discharge or relieving of any obligation to the Company or a dispute between the shareholder and the Company. The above restriction does not apply to voting by a shareholder of the Company as proxy of another shareholder in adopting resolutions concerning himself, referred to above.

6.7. Restrictions on the transfer of ownership of securities of PKP CARGO S.A.

Statutory restrictions of the marketability of shares

The Public Offering Act, the Act on Trading in Financial Instruments and the Commercial Companies Code provide, among other things, for the following restrictions on the marketability of shares:

- the obligation to notify KNF and the Company rests on 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 voting rights in a public company; (ii) held at least 5%, 10%, 15%, 20%, 25%, 33%, $33^1/_3$%, 50%, 75% or 90% of the total number of voting rights in that company, and, as a result of the reduction of such share , has reached 5%, 10%, 15%, 20%, 25%, 33%, $33^1/_3$%, 50%, 75% or 90%, respectively, or less of the total number of voting rights; (iii) has changed the existing holding above 10% of the total number of voting rights by at least 2% of the total voting rights in a public company whose share are admitted to trading on the official stock market (as at the date of the Prospectus, the primary WSE market is such a market); (iv) has changed the share held so far of more than 33% of the total number of voting rights in a public company by at least 1% of total voting rights;
- the obligation to publish a call for subscription for the sale or exchange of share in the case of: (i) acquisition of shares carrying more than 10% or 5% of the total voting rights at the General Meeting, (ii) exceeding the threshold of 33% of total voting rights at the General Meeting, (iii) exceeding the threshold of 66% of total voting rights at the General Meeting;
- a ban on the acquisition or disposal, for one's own or third-party's account, of financial instruments based on confidential information;
- a ban on the acquisition or disposal of financial instruments during the continuance of a closed period by the persons specified in the Act on Trading in Financial Instruments;
- the dominant company, within the meaning of Article 4 (1) (4) of the Commercial Companies Code, has the obligation to notify a subsidiary company about the arising or cessation of dominance relationship within two weeks of the arising of such relationship, failing which the exercise of voting rights attaching to shares of a dominant company representing more than 33% of the share capital of the subsidiary will be terminated.

Apart from the above, there are no other statutory restrictions on the marketability of the Company's shares.

Contractual restrictions of the marketability of shares

Contractual restriction of the marketability of shares concerns shares taken by eligible employees in connection with the right granted to them under EGP. Each eligible employee subscribing for shares was required to sign an agreement restricting the marketability of shares for a period of 2 years from the IPO of the Company on the WSE, i.e. until 30 October 2015. A subscription submitted without signing the above agreement would be null and void, and the eligible employee would lose his entitlement to the privatisation bonus, and consequently also shares. The disposal or charging or shares or any rights attaching to shares before 30 October 2015 will be ineffective to the Company and may render the employee liable for damages.

As per the conditional agreement on guaranteeing subscription of Institutional Investors following the principles of investment underwriting in public offering of PKP CARGO S.A. shares ("Underwriting Agreement") concluded on 8 October 2013 between PKP S.A. and PKP CARGO S.A. and the following entities:

1. Goldman Sachs International,
2. Morgan Stanley & Co. International plc,
3. 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),
4. Dom Inwestycyjny Investors S.A.,
5. IPOPEMA Securities S.A.,
6. Mercurius Dom Maklerski Sp. z o.o.,
7. Raiffeisen Centrobank AG,
8. UniCredit Bank AG, London Branch,
9. UniCredit Bank Austria AG,
10. UniCredit CAIB Poland S.A.,

hereinafter jointly referred to as "Offering Managers", the Company and PKP S.A. were subject to a contractual limit on the transferability of shares and issue of shares, namely:

1. PKP S.A. committed itself towards the Offering Managers that from the closing date of the Underwriting Agreement until the end of the 180 day period since the day of first quotation of the Company's shares on WSE, it will not execute any other transactions that may lead to issuance, offer for sale or issuance, sale or disposing of Company's securities similar to the securities being the Object of the Offering without the written consent of the Global Coordinators (which will not be unreasonably withheld or delayed). The aforementioned restriction does not apply to selling shares by PKP S.A. in response to exchange and tender offers of Company shares to a strategic investor for a price not lower than the one in the Offering.
2. PKP S.A. commited itself towards the Offering Managers that from the closing date of the Underwriting Agreement until the end of the 180 day period since the day of first quotation of the Company's shares on WSE, it will not execute any other transactions that may lead to issuance, offer for sale or issuance, sale or disposing of Company's securities similar to the securities being the Object of the Offering without the written consent of the Global Coordinators (which will not be unreasonably withheld or delayed).

6.8. Rules concerning the appointment and dismissal of managers and their rights

<u>Appointment of Members of the Management Board</u>

The Management Board consists of one to five members, including the President of the Management Board. Members of the Management Board are appointed for a joint three-year term of office. The President of the Management Board and other Members of the Management Board are appointed on the terms set forth in the Articles of Association and in the Rules on the appointment of Members of the Management Board.

The appointment of Members of the Management Board takes place following a qualification procedure solely from among candidates taking part in the qualification procedure who have obtained a positive opinion of the recruitment adviser. The qualification procedure for a Member of the Management Board is prepared and organized by a professional HR consulting firm appointed by resolution of the Supervisory Board of PKP CARGO S.A. Participating in the procedure for the appointment of Management Board Members is the Nomination Committee which exercises ongoing supervision over the qualification procedure for the position of Member of the Management Board, and over the evaluation and appointment of Members of the Management Board.

The Supervisory Board also selects one Member of the Management from among candidates proposed by employees of the Company. This power is vested in connection with Article 4 (4) of the Act of 8 September 2000 on the commercialization, restructuring and privatization of PKP and the provisions of EGP. The candidate should have higher education, at least 5 years' work experience with the PKP Group, and have a clean criminal record. The Rules for the election of candidates for Employees representative in the Management Board are adopted by the Supervisory Board. Failure to appoint a representative of employees to the Management Board is without prejudice to the appointment of the Management Board and effective adoption of resolution by the Board.

In case when the PKP S.A. has 50% or less in the share capital of the Company, PKP S.A. is entitled to exclusively nominate candidates for President of the Management Board. Personal privilege shall be exercised by delivery of a written statement to the Chairman of the Supervisory Board.

Mandates of the President of the Management Board and of other Members of the Management Board expire at the date of the General Meeting approving the financial statements and the Management Board's report on the activities of the Company for the last full financial year of the term of office. The President of the Management Board and other Members of the Management Board may file a written resignation of the position held, submitting it to the Company with a copy for the Supervisory Board for information.

According to § 18 and § 25 (3) (2) of the Articles of Association, the Management Board of PKP CARGO S.A. is authorized, with the consent of the Supervisory Board, on the terms laid down in the Commercial Companies Code, to pay the shareholders advances on account of dividend planned for the end of the financial year.

Managers do not have any rights to make decisions on the issue or redemption of shares.

6.9. Rules for the amendment of the Articles of Association of PKP CARGO S.A.

An amendment of the Articles of Association requires a resolution of the General Meeting passed by absolute majority of votes. Moreover, the passing of a resolution on the amendment of § 14 (6), § 26 (3) or (4) and § 27 (7) of the Articles of Association requires a Resolution of the General Meeting passed by the majority of four-fifths of votes in the presence of shareholders representing three-fourths of the Company's share capital.

Amendments to the Articles of Association are effected subject to their approval by the General Meeting and their registration by the competent court. The Supervisory Board is authorized under §25 (3) (11) to agree consolidated wording of the Articles of Association after the court decision on registration becomes final.

Amendments made to the Articles of Association in 2014:

On 30 July 2014 the Extraordinary General Meeting of PKP CARGO S.A. adopted Resolution No. 6/2014 on the amendment of the Company's Articles of Association. The amendments contained in the resolution concerned the addition of the object of business of the Company and changes in the competence of the Supervisory Board. The amendments made were registered by the District Court for the Capital City of Warsaw. Pursuant to § 25 (3) (11) of the Articles of Association of PKP CARGO S.A., the Supervisory Board of PKP CARGO S.A. passed Resolution No. 1354/V/2014 of the Supervisory Board of PKP CARGO S.A. dated 28 August 2014 concerning consolidated wording of the Articles of Association of PKP CARGO S.A.

6.10. Procedures of the General Meeting and its essential powers, and description of shareholder's rights and the method of their exercise

The General Meeting of the Company operates under the Commercial Companies Code, the Articles of Association (in particular, §10-§13) and the Rules of Procedure of the General Meeting. Shareholders have the right to participate and exercise voting rights at the General Meeting in person or by proxy.

The General Meeting is valid irrespective of the number of shares represented.

Resolutions of the General Meeting are passed by ordinary majority, except resolutions for the adoption of which the provisions of the Commercial Companies Code or the Articles of Association provide for more stringent requirements for a resolution to be passed, with the proviso that the passing of a resolution to amend § 14 (6), §26 (3) or (4) and § 27 (7) of the Articles of Association requires a Resolution of the General Meeting passed by the majority of four-fifths of votes in the presence of shareholders representing three-fourths of the share capital of the Company.

Voting at the General Meeting is open. Voting by ballot is held in elections and on motions for dismissal of members of the Company's governing bodies or the Company's liquidators, or on calling them to account, as well as in other personnel-related matters. Besides, voting by ballot must be held if requested by at least one of the shareholders present or represented at the General Meeting.

According to the Rules of Procedure of the General Meeting, both open voting and voting by ballot can be performed with the use of electronic devices, subject to consent of the General Meeting. The General Meeting may pass a resolution to waive voting by ballot in matters related to the selection of a committee appointed by the General Meeting.

Deliberations of the General Meeting are conducted by the Chair who takes care of its efficient progress in accordance with the agenda of the meeting adopted. The Chair resolves rules-of-the-house matters. Without the General Meeting's consent it is not allowed to remove or change the sequence of items on the agenda.

The General Meeting of PKP CARGO S.A. is opened by the Chair of the General Meeting appointed by the Management Board. If the President of the Management Board does not designate the Chair of the General Meeting before the appointed meeting commencement time, the provisions of Article 409 §1 of the Commercial Companies Code will apply, after which the Chair of the meeting will be selected from among the persons authorized to participate in the meeting. The Chair of the General Meeting will be elected by absolute majority of votes cast in voting by ballot.

The Extraordinary General Meeting may be convened by a shareholder whose share in total votes in the Company exceeds 33%. In such a case the shareholder convening the Extraordinary General Meeting designates the Chair of the General Meeting.

The General Meeting adopts the Rules of Procedure of the General Meeting, defining in detail the manner in which the debate will be held. The draft Rules of Procedure of the General Meeting is proposed by the Management Board. Participation in the

General Meeting is allowed with the use of electronic communication channels provided that the notice to convene a given General Meeting provides information of such option.

6.11. Composition and changes in composition during the last financial year and description of the activities of management, supervisory or administration bodies of PKP CARGO S.A. and their committees

MANAGEMENT BOARD

The Management Board of PKP CARGO S.A. with its registered office in Warsaw operates under the applicable laws and regulations, in particular:

1) The Act of 15 September 2000 - Commercial Companies Code (Journal of Laws No. 94, item 1037, as amended);
2) The Act of 8 September 2000 on the commercialization, restructuring and privatization of the state-owned enterprise "Polskie Koleje Państwowe" (Journal of Laws No 84, item 948, as amended);
3) The Articles of Association of PKP CARGO S.A. adopted by Resolution No 1354/V/2014 of the Supervisory Board of PKP CARGO S.A. dated 28 August 2014;
4) The Rules of Procedure of the Management Board of PKP CARGO S.A. adopted by Resolution No 428/2014 of the Management Board of PKP CARGO S.A. dated 20 November 2014;
5) Other internal regulations.

Powers of the Management Board

The Management Board manages the affairs and assets of the Company and represents it in relations with third parties. The remit of the Management Board includes all activities which are not reserved for the General Meeting and the Supervisory Board of the Company. Resolutions of the Management Board are passed by absolute majority of votes of those present at the meeting, with at least a half of the number of Members of the Management Board attending. Declarations of intent may be made by the President of the Management Board acting solely or two Members of the Management Board acting jointly or a Member of the Management Board acting jointly with a commercial attorney.

Procedures of the Management Board

Detailed procedures of the Management Board are described in the Rules of Procedure of the Management Board. The Rules of Procedure are adopted by the Management Board and approved by the Supervisory Board. According to the provisions of the Rules of Procedure of the Management Board, the Management Board takes decisions in the form of resolutions. Resolutions of the Management Board are passed by absolute majority of those present, with at least half of the Members of the Management Board attending, and can be passed only if all Members of the Management Board have been duly informed about the Management Board meeting. According to the Rules of Procedure, in case of an equal number of votes "for" and "against", including any abstentions, the President of the Management Board has the casting vote. Meetings of the Management Board are held at least once a week. In cases when it is particularly justified, the meetings of the Management Board can be held at a later date, but not later than during 14 days from the date of previous meeting.

According to the Rules of Procedure of the Management Board, in the event of conflict of interests between the Company and a member of the Management Board, spouse, relative by consanguinity or affinity (up to the second degree) or other person to whom the Management Board member is personally related, the member of the Management Board should immediately inform the other Members of the Management Board of such conflict, and in the case of the President of the Management Board also the Supervisory Board, and refrain from participating in the discussion and from voting on a resolution on a matter involving a conflict of interests, and may demand that this be recorded in the minutes of the meeting of the Management Board.

Table 32 Composition of the Management Board of PKP CARGO S.A. for the period from 1 January 2014 to the date of this report

Surname and first name	Role served	Period of service in the role from	to
Adam Purwin	Member of the Management Board, responsible for Finance	25.02.2013	5.02.2014
	Acting as a President of the Management Board	18.11.2013	5.02.2014
	President of the Management Board	6.02.2014	to date
Sylwester Sigiel	Member of the Management Board, responsible for Trade	13.03.2013	23.04.2014 (resignation)
Wojciech Derda	Member of the Management Board, responsible for Operations	24.04.2014	to date
Jacek Neska	Member of the Management Board, responsible for Trade	24.04.2014	to date
Dariusz Browarek	Member of the Management Board, employees representative in the Management Board	24.04.2014	to date
Łukasz Hadyś	Member of the Management Board, responsible for Finance	12.05.2014	to date

Source: Own study

Adam Purwin – President of the Management Board

He graduated with a degree in law from the University of Białystok. He gained professional experience working for over 15 years in major financial institutions in Poland, managing projects in corporate banking, financing of leading Polish and CEE companies, as well as in M&A transactions. He started his professional career with BRE Bank and Bank Pekao S.A., to continue with PKO BP – Poland's largest bank, where he dealt with development projects and corporate group oversight. At Bank Gospodarstwa Krajowego, he developed competence in structured finance and Polish exports promotion. He also managed investment banking projects for international institutions.

In 2012, he was appointed Managing Director at PKP S.A., with responsibilities in the area of privatisation and corporate governance of a few dozen of companies from PKP Group. He also supervised the implementation of corporate governance and modern management methods for subsidiaries, establishing strategies and objectives for their respective management boards. He was an author the privatisation strategy for PKP CARGO S.A. and prepared the privatisation process of Polskie Koleje Linowe. In February 2013, he assumed the duties of the Member of the Management Board of PKP CARGO S.A., responsible for Finance and, as the IPO team head, went on to prepare the Company for the public offering 9 months later. The effort culminated in the stock exchange debut in October 2013. This was one of the largest recent IPOs, totaling PLN 1.4 bn. Since November, he was President of the Management Board of PKP CARGO S.A. and, on 6 February, following a competitive process, he was appointed by the Supervisory Board as President of the Management Board of PKP CARGO S.A.

Jacek Neska – Member of the Management Board, responsible for Trade

Experienced manager, specialised in the management of large organisations. Working for Polish and international businesses for 20 years, he has been involved in projects to develop effective organisational structures, as well as to design and implement commercial strategies. He gained professional experience as a manager of Arthur Andersen, the international consulting company, where he coordinated a number of projects in the transport, telecommunications and power sectors. One of the key projects he was involved in was PKP's transition from a state-owned company into a joint-stock company, and the establishment of the PKP Group. He also worked for private equity funds, such as Innova Capital and Enterprise Investors, where he sat on management boards of their portfolio companies.

In 2006-2012, he served as President of the Management Board of Lotos Oil S.A., the largest Polish manufacturer of oils and lubricants. At the same time, in 2008-2009, he served as the General Director's Representative for Commerce at Lotos Group, supervising all areas of commercial and logistics operations of the Group, and building efficient sales structures. Jacek Neska joined PKP CARGO S.A. in December 2013, and since then has been responsible for the sales process optimisation and client base extension. On 24 April 2014, he was appointed by the Supervisory Board, following a competitive process, as Member of the Board, responsible for Trade of PKP CARGO S.A.

Wojciech Derda – Member of the Management Board, responsible for Operations

A dynamic and competent manager, he gained experience with Ernst & Young and in the PKP Group. Since the start of his professional career, he has been involved with broadly understood optimisation processes, closely linked with the financial aspects of business operations. He prepared and implemented optimisation processes for the largest Polish and international enterprises for over 10 years. He was responsible for the development of management information systems, financial models supporting decision-making processes and design of new organisational structures.

In 2012, he joined PKP S.A. as the Managing Director responsible for Operation and Controlling. He successfully managed organisational structure change projects, the development of the PKP Purchasing Group, he subsequently directed, as well as centralisation of controlling, finance and accounting, staffing and debt recovery processes. From December 2013, he worked for PKP CARGO S.A. as Managing Director responsible for Operations. On 24 April 2014, he was appointed by the Supervisory Board, following a competitive process, as Member of the Board responsible for Operations at PKP CARGO S.A.

Łukasz Hadyś – Member of the Management Board, responsible for Finance

Certified auditor, graduate of the Cracow University of Economics, with a degree in IT and econometrics as well as accounting, also Advanced Management Program on Koźmiński University. He began his professional career with the audit department of Ernst & Young in 2001, where he audited financial statements and provided advisory services to major Polish and multinational groups.

In 2012-2014, he worked for PGNiG Group, initially as Member of the Management Board of Karpacka Spółka Gazownictwa Sp. z o.o. and subsequently, since March 2013, as a Member of the Management Board responsible for Finance at Polska Spółka Gazownictwa Sp. z o.o. His responsibilities in PGNiG Group companies included management and oversight of purchasing, controlling, accounting, tariffs, debt recovery, finance and assets. He also participated in the consolidation of distribution operations, preparation of the company's strategy and implementation of the management information model. In 2008-2012, Łukasz Hadyś served as Director of the Finance and Accounting Department at Tauron Dystrybucja S.A., managing accounting, finance and controlling areas, as well as developing efficiency improvement projects for the company and the group.

Dariusz Browarek – Member of the Management Board, Employees representative in the Management Board

In 2004, he graduated from the Faculty of Law and Administration at the University of Warmia and Mazury in Olsztyn and completed a post-graduate course in human resources management at the Gdańsk University of Technology. Before his academic education, he graduated from the Secondary Technical School of Railway Engineering in Olsztyn.

He has been involved in staff-related matters in the railway industry for over 30 years as an active trade union and community activist. He has been working for PKP CARGO S.A. since the company's formation. He worked at the Main Locomotive Depot in his home town of Olsztyn, then for the Rolling Stock Depot

CARGO in Olsztyn and, following the restructuring process, for the Northern Division of PKP CARGO S.A. in Gdynia, employed as inspector for defense and proprietary information protection. For a number of years, he presided over his company's trade union organisation belonging to the railway trade union under the name Związek Zawodowy Kolejarzy RP in Gdańsk. He served two terms as the deputy president of the Federation of PKP Trade Unions (Federacja Związków Zawodowych Pracowników PKP), with his tenure having expired in April 2014. He was also responsible for the operations of the company Centrum Szkolenia Federacji ZZP PKP (the Federation's training center). Until April 2014, he also represented PKP staff interests sitting on the Council of Investors of the PKP Staff Property Fund. He was actively involved in negotiations with employers, regarding the Social Safety Net Accords for the employees of PNI, and the Social Safety Net Accord for PKP CARGO. For many years now, he has been providing opinions on amendments to laws relating to railway transport as attendee of the Parliamentary Infrastructure Committee meetings. On 24 April 2014, following a competitive process, he was appointed by the Supervisory Board of PKP CARGO as Member of the Management Board, Employee Representative. He supports the Management Board of PKP CARGO S.A. in building an effective dialogue with social partners.

On 6 February 2014, the Supervisory Board of the Company, having conducted a qualification process, appointed Mr. Adam Purwin to the position of President of the Management Board of PKP CARGO S.A.

On 17 February 2014, Mr. Sylwester Sigiel resigned from the position of a Member of the Management Board responsible for Trade, effective from the day of a resolution of the Supervisory Board of the Company on appointment of the new Member of the Management Board responsible for Trade.

On 26 February 2014, the Supervisory Board of PKP CARGO S.A. passed a resolution to initiate the qualification procedure for the following positions:

- Member of the Management Board, responsible for Finance,
- Member of the Management Board, responsible for Operations,
- Member of the Management Board, responsible for Trade,
- Employees representative in the Management Board of PKP CARGO S.A.

The qualification procedure was conducted under the Rules of Procedure for the appointment of Members of the Management Board of PKP CARGO S.A. and the Rules of Procedure for the election of candidates for Employees representative in the Management Board of PKP CARGO S.A. and the appointment of employees representatives in the Supervisory Board of PKP CARGO S.A. and the procedure for their dismissal.

The recruitment procedure was completed in April 2014, appointing the following Members of the Management Board on 24 April 2014:

- Mr. Jacek Neska – as a Member of the Management Board, responsible for Trade – the period of service in the role from 24 April 2014,
- Mr. Wojciech Derda – as a Member of the Management Board, responsible for Operations – the period of service in the role from 24 April 2014,
- Mr. Łukasz Hadyś – as a Member of the Management Board, responsible for Finance – the period of the service in the role form 12 May 2014,
- Mr. Dariusz Browarek – as a Member of the Management Board – Employees representative in the Management Board – the period of service in the role from 24 April 2014.

The internal allocation of responsibilities and the roles served by the Management Board members in 2014 were as follows:

1) President of the Management Board – the responsibilities of the President of the Management Board include the management of the work of the Management Board and the current activities of the Company and, in particular, matters related to:

    - business strategy,
    - business security and internal audit.

    The special powers of the President of the Management Board include the performance of defense-related responsibilities in the Company resulting from regulations on the general defense obligation.

2) Member of the Management Board, responsible for Finance – the responsibilities of the Member of the Management Board responsible for Finance include taking care of the rational management of the Company and the supervision of the management of particular areas of the Company's operations, particularly in the area:

- financial management,
- purchases and sales of assets.

The special powers of the Member of the Management Board responsible for Finance include fulfillment of obligations under the regulations on accounting, taxes and insurance in the name of PKP CARGO S.A.

3) Member of the Management Board, responsible for Trade – the responsibilities of the Member of the Board responsible for Trade include taking care of the appropriate level of sales and client relations management and supervision of certain areas of the Company's operations, particularly in the field of:
    - sales policy,
    - selling freight services.
4) Member of the Management Board, responsible for Operations – the responsibilities of the Member of the Board responsible for Operations include supervision over the management of certain areas of the Company, in accordance with the powers set out in a separate resolution of the Board:
    - carriage directing,
    - transport organizations.

Commercial powers of attorney granted and revoked

In 2013, joint commercial powers of attorney were in effect for:

- Mr. Ireneusz Wasilewski – Resolution of the Management Board No. 324/2012 passed by the Management Board of PKP CARGO S.A. on 17.07.2012,
- Mr. Witold Bawor – Resolution of the Management Board No. 325/2012 passed by the Management Board of PKP CARGO S.A. on 17.07.2012,
- Mr. Grzegorz Kiczmachowski – Resolution of the Management Board No. 585/2013 passed by the Management Board of PKP CARGO S.A. on 05.12.2013,
- Mr. Wojciech Derda – Resolution of the Management Board No. 586/2013 passed by the Management Board of PKP CARGO S.A.on 05.12.2013.

and in 2014 joint commercial power of attorney was granted to:

- Mr. Grzegorz Kiczmachowski – Resolution of the Management Board No. 2/2014 adopted by the Management Board of PKP CARGO S.A. on 07.01.2014,
- Mr. Arkadiusz Pokropski – Resolution of the Management Board No. 170/2014 adopted by the Management Board of PKP CARGO S.A. on 06.05.2014.

On 28 April 2014 in accordance with Article 371 §(5) of the Commercial Companies Code, Mr. Dariusz Browarek – Member of the Management Board canceled the power of attorney granted to Mr. Jacek Neska and Mr. Wojciech Derda.

On 12 February 2015, in accordance with Article 371(5) of the Commercial Companies Code, Mr. Jacek Neska – Member of the Management Board canceled the power of attorney granted to Mr. Witold Bawor.

On 6 March 2015, in accordance with Article 371 §(5) of the Commercial Companies Code, Mr Łukasz Hadyś – Member of the Management Board canceled the power of attorney granted to Mr. Grzegorz Kiczmachowski.

SUPERVISORY BOARD

According to the Articles of Association of PKP CARGO S.A. (Resolution No 6/2014 of the Extraordinary General Meeting of PKP CARGO S.A. with its registered office in Warsaw of 30 July 2014), the Supervisory Board consists of 11 to 13 members (including the Chairman and Vice Chairman of the Supervisory Board) appointed for a joint term of office. The Supervisory Board is appointed and dismissed by the General Shareholders Meeting, subject to the provisions of § 19 (2) and (3) of the Articles of Association of PKP CARGO S.A.

Resolutions of the Supervisory Board can be passed only if all Members of the Supervisory Board have been duly informed including the Chairman of the Supervisory Board about the Supervisory Board meeting and at least a half of the number of Members of the Supervisory Board attending. Resolutions of the Supervisory Board of passed by absolute majority. In the case of an equal number of votes "for" and "against", including any abstentions, the Chairman of the Supervisory Board has the casting vote.

Table 33 Composition of the Supervisory Board of PKP CARGO S.A. from the period from 1 January 2014 to the date of this report

No.	Surname and first name	Role served	Period of service in the role from	to
1	Jakub Karnowski	Chairman of the Supervisory Board	24.05.2012	to date
2	Michał Karczyński	Vice Chairman of the Supervisory Board	01.02.2010; 28.07.2011 (appointed as Vice Chairman); 24.05.2012 – for 5th term; 24.10.2012 (appointed as Vice Chairman)	25.04.2014
3	Milena Pacia	Member of the Supervisory Board	25.02.2013; 26.05.2014 (appointed as Vice Chairman)	27.06.2014
4	Artur Kawaler	Member of the Supervisory Board	16.08.2007; 24.05.2012 - for 5th term	29.07.2014
5	Danuta Tyszkiewicz	Member of the Supervisory Board	21.07.2011 ; 24.05.2012 - for 5th term	25.04.2014
6	Krzysztof Czarnota	Member of the Supervisory Board	06.07.2006; 24.05.2012 - for 5th term	to date
7	Marek Podskalny	Member of the Supervisory Board	06.07.2006; 24.05.2012 - for 5th term	to date
8	Kazimierz Jamrozik	Member of the Supervisory Board	24.05.2012	to date
9	Konrad Anuszkiewicz	Member of the Supervisory Board	13.12.2013	to date
10	Stanisław Knaflewski	Member of the Supervisory Board	17.12.2013	to date
11	Paweł Ruka	Member of the Supervisory Board	17.12.2013	to date
12	Jarosław Pawłowski	Member of the Supervisory Board	26.04.2014	18.02.2015
13	Łukasz Górnicki	Member of the Supervisory Board	26.04.2014	24.10.2014
14	Piotr Ciżkowicz	Member of the Supervisory Board Vice Chairman of the Supervisory Board	29.07.2014 (appointed as Vice Chairman 31.07.2014)	to date
15	Jacek Leonkiewicz	Member of the Supervisory Board	29.07.2014	to date
16	Sławomir Baniak	Member of the Supervisory Board	24.11.2014	to date
17	Zbigniew Klepacki	Member of the Supervisory Board	19.02.2015	to date

Source: Own study

AUDIT COMMITTEE OF THE SUPERVISORY BOARD

The Audit Committee of PKP CARGO S.A. is appointed by the Supervisory Board of PKP CARGO S.A. It is composed of three members of the Supervisory Board, including at least two members of the Supervisory Board meeting the criteria of independence and appointed in the manner described in § 20 and 21 of the Articles of Association. Members of the Committee are appointed for a period corresponding to the duration of the term of office of the Supervisory Board. The responsibilities of the Audit Committee include, in particular: supervision of the organizational unit dealing with internal audit, monitoring the financial reporting process, monitoring financial audit activities, monitoring the independence of the certified auditor and the entity authorized to audit financial statements, recommending to the Supervisory Board the entity authorized to audit financial statements for the purposes of auditing the Company's accounts, etc.

Table 34 Composition of the Audit Committee of the Supervisory Board of PKP CARGO S.A. for the reporting period from 1 January 2014 to the date of this report

No.	Surname and first name	Role served	Period of service in the role from	to
1	Artur Kawaler	Chairman of the Committee	21.09.2012	06.02.2014
2	Milena Pacia	Member of the Committee	26.02.2013	06.02.2014
3	Paweł Ruka	Chairman of the Committee	06.02.2014	to date
4	Stanisław Knaflewski	Member of the Committee	06.02.2014	to date
5	Konrad Anuszkiewicz	Member of the Committee	06.02.2014	to date

Source: Own study

NOMINATION COMMITTEE

The Nomination Committee is appointed by the Supervisory Board of PKP CARGO S.A. It is composed of three members of the Supervisory Board, including at least one member of the Supervisory Board meeting the criteria of independence and appointed in the manner described in § 20 and 21 of the Articles of Association. Members of the Committee are appointed for a period corresponding to the duration of the term of office of the Supervisory Board. The Nomination Committee organises and exercises ongoing supervision over the qualification procedures for Management Board positions and over the process of assessment and appointment of Members of the Management Board.

Table 35 Composition of the Nomination Committee of the Supervisory Board of PKP CARGO S.A for the reporting period from 1 January 2014 to the date of this report

No.	Surname and first name	Role served	Period of service in the role	
			from	to
1	Stanisław Knaflewski	Chairman of the Committee	17.12.2013	to date
2	Jakub Karnowski	Member of the Committee	17.12.2013	to date
3	Milena Pacia	Member of the Committee	17.12.2013	27.06.2014
4	Jacek Leonkiewicz	Member of the Committee	31.07.2014	to date

Source: Own study

This Consolidated Report has been authorized by the Management Board of PKP CARGO S.A. on 11 March 2015

Adam Purwin
President of the Management Board

Jacek Neska
Member of the Management Board

Łukasz Hadyś
Member of the Management Board

Wojciech Derda
Member of the Management Board

Dariusz Browarek
Member of the Management Board

STATEMENT

of the Management Board of PKP CARGO S.A. on the compliance of the Consolidated Financial Statement of the PKP CARGO Capital Group for the year ended 31 December 2014 and the Management Board's report on the operation of the PKP CARGO Capital Group for the year 2014

I, the undersigned, hereby represent that to the best of my knowledge, the Consolidated Financial Statement the PKP CARGO Capital Group for the year ended on 31 December 2014, and the comparable data have been drawn up in observance of the applicable accounting standards and that they truly, reliably and clearly represent the asset-related and financial standing of the PKP CARGO Capital Group, as well as its financial result.

I also represent that the Management Board's report on the operation of the PKP CARGO Capital Group in 2014 presents a true picture of the growth, achievements and standing of the PKP CARGO Capital Group, as well as a description of the key threats and risks.

Management Board Members

Adam Purwin
President of the Board

Jacek Neska
Board Member

Łukasz Hadyś
Board Member

Wojciech Derda
Board Member

Dariusz Browarek
Board Member

Warszawa, dnia 11 March 2015

STATEMENT

of the Management Board of PKP CARGO S.A. on the choice of the entity authorized to audit Consolidated Financial Statement of the PKP CARGO Capital Group for the year ended 31 December 2014

I, the undersigned, hereby represent that the entity authorized to audit annual consolidated financial statements, auditing the Consolidated Financial Statement of the PKP CARGO Capital Group for the year ended on 31 December 2014, has been appointed in observance of the rule of law, and that the said entity, as well as the certified auditors performing the audit, met the requirements that need to be fulfilled in order to issue an impartial and independent opinion on the annual consolidated financial statement audited, in line with the applicable regulations and professional standards.

Management Board Members

Adam Purwin
President of the Board

Jacek Neska
Board Member

Łukasz Hadyś
Board Member

Wojciech Derda
Board Member

Dariusz Browarek
Board Member

Warszawa, dnia 11 March 2015

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