ANNUAL REPORT FOR 2018

PKP CARGO CAPITAL GROUP
Consolidated annual report for 2018

PKPCARGO

Dear Stakeholders,

The previous year was a very good period for the PKP CARGO Group. I would even dare to say that it was the best year in the Group's history. This was due to both high levels of transport indicators and outstanding financial performance. Our performance indicators demonstrate that we are improving the efficiency of our core business, as the Group's revenue growth rate is greater than the rate of growth in its expenses. Thus, I can proudly say that I successfully deliver on the promises that I made when I assumed the position of President of the PKP CARGO S.A. Management Board to strengthen the Company's market position and improve its financial performance.

A breakthrough event for the PKP CARGO Group was the adoption of its strategy for the years 2019-2023 with an outlook to 2038. This is a fundamental document for our organization that keeps us on track in terms of our development directions. Our objectives are to strengthen the PKP CARGO Group's position as the largest rail operator in Poland and to become the market leader in the region covered by the Three Seas Initiative and on the European section of the New Silk Road. I am sure that we have the capacity to achieve these objectives. This capacity will be additionally solidified by our planned acquisitions on international markets. One example of such expansion was the purchase by AWT in December 2018 of the Slovenian company Primol-Rail. The deal has opened up new prospects for us, including the possibility of developing transport services to and from the port of Koper, one of the largest ports in the Adriatic Sea.

The adoption of the strategy is of enormous importance to us also for the reason that we have departed from the short-term approach focused on solving ad hoc problems. We now see the transport market in the long-term perspective and we are preparing for changes that rail transport will face in 5, 10 or 20 years. And our analyses suggest that the PKP CARGO Group must undergo a comprehensive change resulting from the conclusion that we will not only perform the role of a rail carrier but will also become a logistics operator. This is what the market expects from us as our clients demand comprehensive door-to-door types of services. This gives rise to the growing significance of enterprises that are capable of satisfying such requirements.

Market trends also suggest that the importance of intermodal transport will continue to increase. Even though the share of bulk cargo, including hard coal, in our total freight turnover will for a long time remain the largest item, the share of intermodal transport will keep increasing steadily. For this reason, we are investing heavily in this branch of transport. Last year, we also obtained EU funding for the purchase of five multi-system locomotives and nearly 1,200 intermodal platforms. The new rolling stock will bolster our transport capacity in the coming years and, as a consequence, will contribute significantly to the achievement of PKP CARGO's strategic plans.

Development entails the need to invest in innovative solutions that will help us improve our customer service and make better use of our resources. This means, for instance, investment in digitalization, application of artificial intelligence solutions at certain stages of the service provision process and acquisitions of modern rolling stock. Last year, PKP CARGO got involved in two projects that are innovative on a European scale. The first such project is the construction of a hydrogen-powered locomotive, which will be executed in partnership with Jastrzębska Spółka Węglowa and H. Cegielski – Fabryka Pojazdów Szynowych [Rail Vehicle Factory]. The second project is the construction of an autonomous locomotive in cooperation with Pesa and Instytut Pojazdów Szynowych "Tabor" ["Rolling Stock" Institute of Rail Vehicles].

It will not be possible to achieve our plans without the involvement of our employees. Keeping this in mind, we will continue making efforts to constantly improve working conditions for our personnel and create the right conditions for their professional development. These are some of the key priorities that we have adopted in our strategy and will do our best to pursue. We can also be proud of the level of social dialog carried out in PKP CARGO, as proven by the successful completion of last year's negotiations with trade unions on wage increases and bonuses for the results generated by the Group in 2018. The Management Board's good cooperation with employees is a driver of PKP CARGO's success. I am sure that we will be able to keep up these high standards in the future as well.

The year 2019 is ahead of us. It will certainly be a period of new challenges. We will do our best to cope with them in a manner enabling the PKP CARGO Group to generate transport and financial results that will be even better than in 2018 to the satisfaction of the market and our shareholders.

Czesław Warsewicz, President of the PKP CARGO S.A. Management Board

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

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

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

Opinion

We have audited the year-end consolidated financial statements of the group, where the parent company is PKP CARGO SA ("the Parent Company") ("the Group"), which comprise the consolidated statement of profit or loss and other comprehensive income for the period from 1 January to 31 December 2018, the consolidated statement of financial position as at 31 December 2018, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, as well as notes to the consolidated financial statements including a description of significant accounting methods and other explanations ("the consolidated financial statements").

In our opinion, the accompanying consolidated financial statements:

- give a true and fair view of the Group's financial position as at 31 December 2018, as well as of its financial result and cash flows for the year then ended, in accordance with the applicable International Financial Reporting Standards as adopted by the European Union, as well as the adopted accounting methods (policies);
- are consistent, in content and in form, with the applicable laws and regulations and with the Parent Company's Statute.

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

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing adopted by the National Council of Certified Auditors as National Standards on Auditing ("NSA") and in compliance with the Act on Certified Auditors, Audit Firms and on Public Supervision ("the Certified Auditors Act" – 2017 Journal of Laws, item 1089 with subsequent amendments) and Regulation (EU) No. 537/2014 of 16 April 2014 on specific requirements regarding statutory audit of public interest entities ("Regulation EU" – OJ L 158). Our responsibilities under those standards are further described in the *Responsibilities of the Auditor for the Audit of the Consolidated Financial Statements* section of this report.

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

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

Key Audit Matters

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

1. Valuation of rolling stock
Key audit matter
In its consolidated financial statements the Group lists PLN 3.997 million in rolling stock, constituting 58,7% of its assets as at 31 December 2018. The matter has been classified as a risk of material misstatement due to the high percentage of rolling stock in the Group's assets and the significant effect of management's judgment on the values of assets disclosed in the consolidated financial statements. An impairment test performed on the assets of the AWT group showed the need to write down the value of rolling stock by the amount of PLN 51,2 million, whereas an impairment test performed on the Parent Company's assets showed no impairment.
Disclosures in the financial statements
The details of the Group's accounting policies on the valuation of property, plant and equipment, including the methods used to perform impairment write downs and calculate depreciation charges, are disclosed in Note 5.1 to the consolidated financial statements.
Audit procedures performed in response to the risk
In response to the identified risk, we applied the following audit procedures: a) checked for changes in the Group's approach to estimating property, plant and equipment write downs, determining depreciation rates and calculating the residual value of rolling stock compared to the previous year; obtained and analyzed relevant documentation, b) verified the impairment tests performed by the Parent Company and the AWT group by assessing the correctness and completeness of the disclosures relating to the tests made in the consolidated financial statements and evaluating the validity of the test assumptions and final conclusions, c) checked if the valuation models were consistent with IAS 36 "Impairment of Assets", d) checked the feasibility of forecasts by comparing the realized values with the earlier forecasts, e) assessed the effect of subsequent events on the estimates made as at the balance sheet date.

2. Provisions for employee benefits

Key audit matter

In its consolidated financial statements as at 31 December 2018 the Group presents provisions for employee benefits in the amount of PLN 707 million, which constitutes 10,3% of its total liabilities and equity. The provisions have been classified as a key audit area due to their significant effect on the consolidated financial statements.

Disclosures in the financial statements

The Group has made disclosures relating to provisions for employee benefits in Note 7.4 to the consolidated financial statements.

Audit procedures performed in response to the risk

In response to the identified risk, we applied the following audit procedures:

a) analyzed the reports on the actuarial valuation of the provisions for employee benefits,
b) evaluated the credentials of the companies that prepared the actuarial valuation reports,
c) analyzed the key assumptions used in the valuation of the provisions, including the discount rates,
d) analyzed the effect of departures from key assumptions (discount rate, increase in wages, increased employment) on the value of the provisions,
e) assessed the accuracy and completeness of the disclosures made in the consolidated financial statements.

3. Contingent liabilities

Key audit matter

In its consolidated financial statements the Group lists contingent liabilities relating to court proceedings resulting from claims filed against companies from the Group. The proceedings include claims filed by two vendors against the Parent Company for the payment of damage compensation in the amount of PLN 101 million for acts of unfair competition that one of the vendors alleges the Parent Company practiced in the years 2010-2015, as well as for the repayment of lost benefits, credibility and good name in connection with the non-extension of a sub-lease concluded between the Parent Company and the other vendor.

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

Disclosures in the financial statements

The Group has made disclosures relating to contingent liabilities in Note 7.4 to the consolidated financial statements.

Audit procedures performed in response to the risk

Our audit procedures included:

a) familiarizing ourselves with the current state of affairs,
b) obtaining the standpoints of the Group’s legal advisors on the risk that the outcome of the disputes will be unfavorable for the Group,
c) assessing whether the disclosures made in the consolidated financial statements are consistent with the provisions of IAS 37 “Provisions, Contingent Liabilities and Contingent Assets”.

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

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

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

The Parent Company's Management and members of the Parent Company's Supervisory Board are required to ensure that the consolidated financial statements meet the requirements of the Accounting Act of 29 September 1994 ("the Accounting Act" – 2019 Journal of Laws, item 395 with subsequent amendments). Members of the Parent Company's Supervisory Board are responsible for overseeing the financial reporting process.

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

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

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

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

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

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

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

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

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

Other Information, Including Report on Activities

Other information comprises the report on the Group's activities for the financial year ended 31 December 2018 ("the Report on Activities") along with the Statement of Compliance with Rules of Corporate Governance and Report on Non-financial Information referred to in Article 49b par. 1 of the Accounting Act, which constitute separate sections of the Report on Activities.

Responsibilities of the Parent Company's Management and Supervisory Board

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

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

Responsibilities of the Auditor

Our opinion on the consolidated financial statements does not cover the Report on Activities. In connection with our audit of the consolidated financial statements, our responsibility is to read the Report on Activities and, in doing so, consider whether it is materially inconsistent with the consolidated financial statements or with our knowledge obtained during the audit, or otherwise appears to be materially misstated. If based on the work we have performed, we find a material misstatement of the Report on Activities, we are required to state this fact in our auditor's report. In accordance with the requirements of the Certified Auditors Act, it is also our responsibility to issue an opinion whether the Report on Activities has been prepared in accordance with binding regulations, and whether it is consistent with the information presented in the consolidated financial statements. We are also required to issue an opinion whether the Statement of Compliance with Rules of Corporate Governance contains the required information.

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

Opinion on the Report on Activities

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

- has been prepared in accordance with Article 49 of the Accounting Act and par. 71 of the Minister's of Finance Decree of 29 March 2018 on the current and periodic information reported by the issuers of securities and on the conditions for recognizing as equally valid the information required by the regulations of a state that is not a member state (the "Current Information Decree" – 2018 Journal of Laws, item 757);
- is consistent with the information presented in the consolidated financial statements.

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

Opinion on the Statement of Compliance with Rules of Corporate Governance

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

Report on Non-financial Information

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

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

Report on Other Legal and Regulatory Requirements

Declaration on the Provision of Non-audit Services

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

Appointment of the Auditor

We were appointed as auditors of the Group's consolidated financial statements in a resolution passed by the Parent Company's Supervisory Board on 30 June 2016. We have audited the Group's consolidated financial statements continually since the financial year ended 31 December 2016, i.e. for 3 consecutive years.

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

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

represented by the engagement partner

Signed with a qualified electronic signature

Leszek Kramarczuk
Certified Auditor No. 1920

Signed with a qualified electronic signature

Dr. André Helin
Managing Partner
Certified Auditor No. 90004

Warsaw, 20 March 2019

PKPCARGO

Consolidated financial statements of **PKP CARGO CAPITAL GROUP** for the financial year ended 31 december 2018

Prepared in accordance with IFRS
As endorsed by the European Union

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

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2018	2017	
Revenues from contracts with customers	5,183.0	4,689.1	*Note 2.1*
Consumption of traction electricity and traction fuel	(615.1)	(544.8)	*Note 2.2*
Services of access to infrastructure	(732.0)	(717.6)	
Transport services	(463.1)	(450.6)	
Other services	(529.6)	(450.6)	*Note 2.2*
Employee benefits	(1,651.4)	(1,510.3)	*Note 2.2*
Other expenses	(298.9)	(297.3)	*Note 2.2*
Other operating revenue and (expenses)	14.1	(17.6)	*Note 2.3*
Operating profit without depreciation (EBITDA)	**907.0**	**700.3**	
Depreciation, amortization and impairment losses	(629,4)	(546.9)	*Note 2.2*
Profit on operating activities (EBIT)	**277,6**	**153.4**	
Financial revenue and (expenses)	(42.0)	(37.7)	*Note 2.4*
Share in the profit / (loss) of entities accounted for under the equity method	3.7	0.8	*Note 5.2*
Result on the sale of shares in entities accounted for under the equity method	4.5	-	
Profit before tax	**243.8**	**116.5**	
Income tax	(59.9)	(34.8)	*Note 3.1*
NET PROFIT	**183.9**	**81.7**	
OTHER COMPREHENSIVE INCOME			
Measurement of hedging instruments	(23.4)	27.9	*Nota 6.1*
Income tax	4.4	(5.3)	
FX differences resulting from translation of financial statements	16.5	(0.6)	
Total other comprehensive income subject to reclassification in the financial result	**(2.5)**	**22.0**	
Actuarial profits / (losses) on post-employment benefits	(13.2)	(36.9)	*Note 5.7*
Income tax	2.5	7.0	
Total other comprehensive income not subject to reclassification in the financial result	**(10.7)**	**(29.9)**	
Total other comprehensive income	**(13.2)**	**(7.9)**	
TOTAL COMPREHENSIVE INCOME	**170.7**	**73.8**	
Net profit attributable to the shareholders of the parent company	183.9	81.7	
Total other comprehensive income attributable to shareholders of the parent company	170.7	73.8	
Earnings per share (PLN per share)			
Weighted average number of ordinary shares	44,786,917	44,786,917	
Basic and diluted earnings per share	**4.11**	**1.82**	

The data for the 12 months ended 31 December 2017 have been restated as described in **Notes 1.3, 1.4** and **1.5** to these Consolidated Financial Statements.

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31/12/2018	31/12/2017	01/01/2017	
ASSETS				
Rolling stock	3,997.0	3,750.4	3,734.6	*Note 5.1*
Other property, plant and equipment	949.9	937.6	966.0	*Note 5.1*
Investments in entities accounted for under the equity method	47.3	53.6	58.2	*Note 5.2*
Trade receivables	0.7	1.8	2.2	
Other assets	56.7	70.4	91.7	*Note 5.5*
Deferred tax assets	135.6	137.7	111.5	*Note 3.1*
Total non-current assets	**5,187.2**	**4,951.5**	**4,964.2**	
Inventories	161.7	148.5	121.2	*Note 5.3*
Trade receivables	684.6	687.0	613.8	*Note 5.4*
Bank deposits over 3 months	201.1	253.8	-	
Other assets	124.4	88.1	57.0	*Note 5.5*
Cash and cash equivalents	447.3	516.8	755.9	*Note 4.4*
Total current assets	**1,619.1**	**1,694.2**	**1,547.9**	
TOTAL ASSETS	**6,806.3**	**6,645.7**	**6,512.1**	
EQUITY AND LIABILITIES				
Share capital	2,239.3	2,239.3	2,239.3	*Note 4.2*
Supplementary capital	628.2	619.3	618.7	*Note 4.2*
Other items of equity	(44.2)	(1.6)	5.7	
FX differences resulting from translation of financial statements	75.8	59.9	60.5	
Retained earnings	584.4	400.3	319.2	
Total equity	**3,483.5**	**3,317.2**	**3,243.4**	
Debt liabilities	1,156.5	1,403.7	1,414.5	*Note 4.1*
Trade payables	0.5	1.3	1.3	
Investment liabilities	109.8	-	0.6	*Note 5.6*
Provisions for employee benefits	591.5	575.7	542.1	*Note 5.7*
Other provisions	20.5	22.5	26.4	*Note 5.8*
Deferred tax liability	88.5	107.4	106.7	*Note 3.1*
Other liabilities	1.8	0.3	1.0	*Note 5.9*
Total long-term liabilities	**1,969.1**	**2,110.9**	**2,092.6**	
Debt liabilities	270.5	297.7	376.0	*Note 4.1*
Trade payables	499.4	445.9	376.0	
Investment liabilities	177.6	79.1	45.8	*Note 5.6*
Provisions for employee benefits	115.5	108.5	103.5	*Note 5.7*
Other provisions	56.9	59.7	25.0	*Note 5.8*
Other liabilities	233.8	226.7	249.8	*Note 5.9*
Total short-term liabilities	**1,353.7**	**1,217.6**	**1,176.1**	
Total liabilities	**3,322.8**	**3,328.5**	**3,268.7**	
TOTAL EQUITY AND LIABILITIES	**6,806.3**	**6,645.7**	**6,512.1**	

The data as at 31 December 2017 and 1 January 2017 have been restated as described in **Notes 1.3, 1.4** and **1.5** to these Consolidated Financial Statements.

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Supplementary capital	Other items of equity			FX differences resulting from translation of financial statements	Retained earnings	Total equity	
			Profits / (losses) on measurement of equity instruments at fair value	Actuarial profits / (losses) on post-employment benefits	Measurement of hedging instruments				
1/01/2018 (audited)	**2,239.3**	**619.3**	**-**	**(15.7)**	**20.5**	**59.9**	**411.4**	**3,334.7**	
Corrections of prior period errors	-	-	-	(6.4)	-	-	(11.1)	**(17.5)**	*Note 1.4*
Changes resulting from the implementation of IFRS 9	-	-	(12.9)	-	-	-	9.1	**(3.8)**	*Note 1.3*
1/01/2018 (restated)	**2,239.3**	**619.3**	**(12.9)**	**(22.1)**	**20.5**	**59.9**	**409.4**	**3,313.4**	
Net result for the financial year	-	-	-	-	-	-	183.9	**183.9**	
Other comprehensive income for the financial year (net)	-	-	-	(10.7)	(19.0)	16.5	-	**(13.2)**	
Total comprehensive income	-	-	-	(10.7)	(19.0)	16.5	183.9	**170.7**	
Other changes for the financial year	-	8.9	-	-	-	(0.6)	(8.9)	**(0.6)**	
31/12/2018	**2,239.3**	**628.2**	**(12.9)**	**(32.8)**	**1.5**	**75.8**	**584.4**	**3,483.5**	
1/01/2017 (audited)	**2,239.3**	**618.7**	**-**	**13.5**	**(2.1)**	**60.5**	**330.3**	**3,260.2**	
Corrections of prior period errors	-	-	-	(5.7)	-	-	(11.1)	**(16.8)**	*Note 1.4*
1/01/2017 (restated)	**2,239.3**	**618.7**	**-**	**7.8**	**(2.1)**	**60.5**	**319.2**	**3,243.4**	
Net result for the financial year	-	-	-	-	-	-	81.7	**81.7**	
Other comprehensive income for the financial year (net)	-	-	-	(29.9)	22.6	(0.6)	-	**(7.9)**	
Total comprehensive income	-	-	-	(29.9)	22.6	(0.6)	81.7	**73.8**	
Other changes for the financial year	-	0.6	-	-	-	-	(0.6)	**-**	
31/12/2017	**2,239.3**	**619.3**	**-**	**(22.1)**	**20.5**	**59.9**	**400.3**	**3,317.2**	

The data for the 12 months ended 31 December 2017 have been restated as described in **Notes 1.3, 1.4** and **1.5** to these Consolidated Financial Statements.

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

CONSOLIDATED CASH FLOW STATEMENT

	2018	2017	
Cash flow from operating activities			
Profit before tax	**243.8**	**116.5**	
Adjustments			
Depreciation, amortization and impairment losses	629.4	546.8	*Note 2.2*
(Profits) / losses on interest, dividends	18.3	24.8	
Received / (paid) interest	4.3	3.1	
Received / (paid) income tax	(75.8)	(55.3)	
Movement in working capital	78.4	1.6	*Note 4.5*
Other adjustments	(35.4)	(36.9)	*Note 4.5*
Net cash from operating activities	**863.0**	**600.7**	
Cash flow from investing activities			
Expenditures on the acquisition of non-financial non-current assets	(719.7)	(511.1)	
Proceeds from the sale of non-financial non-current assets	25.1	9.1	
Proceeds from the sale of entities measured by the equity method	12.2	-	
Proceeds from dividends received	2.4	5.2	
Inflows / (outflows) on bank deposits over 3 months	53.0	(253.0)	
Other inflows / (outflows) from investing activities	15.0	9.8	
Net cash from investing activities	**(612.0)**	**(740.0)**	
Cash flow from financing activities			
Payments on financial lease liabilities	(46.7)	(59.6)	*Note 4.1*
Proceeds from bank loans and borrowings	0.3	366.3	*Note 4.1*
Repayment of bank loans and borrowings	(248.6)	(255.2)	*Note 4.1*
Interest paid on financial lease liabilities and bank loans and borrowings	(31.4)	(34.2)	*Note 4.1*
Transactions with non-controlling interests	-	(114,7)	
Other inflows / (outflows) financing activities	3.5	2.0	
Net cash from financing activities	**(322.9)**	**(99.4)**	
Net increase / (decrease) in cash and cash equivalents	(71.9)	(238.7)	
Cash and cash equivalents as at the beginning of the reporting period	516.8	755.9	*Note 4.4*
Impact exerted by FX rate movements on the cash balance in foreign currencies	2.4	(0.4)	
Cash and cash equivalents as at the end of the reporting period, including:	**447.3**	**516.8**	*Note 4.4*
restricted cash	*39.6*	*35.4*	*Note 4.4*

The data for the 12 months ended 31 December 2017 have been restated as described in **Notes 1.3, 1.4** and **1.5** to these Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General information

1.1 Key information about the Group's business

Information about the Parent Company

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

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

The composition of the Parent Company's management and supervisory bodies and the Parent Company's shareholding structure as at 31 December 2018 were presented in the Management Board Report on the Activity of the PKP CARGO Group for the financial year 2018 in **Chapters 9.11** and **9.4**, respectively.

Information about the Group

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

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

The duration of individual Group companies is unlimited.

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

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

The detailed information about the subsidiaries consolidated using the full method as at 31 December 2018 and 31 December 2017 is as follows:

Item	Name of the subsidiary	Place of registration and business	Percent of shares held by the Group	
			31/12/2018	31/12/2017
1	PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	Małaszewicze	100.0%	100.0%
2	PKP CARGO Centrum Logistyczne Medyka - Żurawica Sp. z o.o.	Żurawica	100.0%	100.0%
3	PKP CARGO SERVICE Sp. z o.o.	Warsaw	100.0%	100.0%
4	PKP CARGO CONNECT Sp. z o.o.	Warsaw	100.0%	100.0%
5	PKP CARGOTABOR Sp. z o.o.	Warsaw	100.0%	100.0%
6	PKP CARGOTABOR USŁUGI Sp. z o.o.	Warsaw	100.0%	100.0%
7	CARGOTOR Sp. z o.o.	Warsaw	100.0%	100.0%
8	CARGOSPED Terminal Braniewo Sp. z o.o.	Braniewo	100.0%	100.0%
9	AWT CE s.r.o.	Prague	100.0%	100.0%
10	Advanced World Transport a.s.	Ostrava	100.0%	100.0%
11	AWT ROSCO a.s.	Ostrava	100.0%	100.0%
12	AWT Čechofracht a.s.	Prague	100.0%	100.0%
13	AWT Rekultivace a.s.	Havířov-Prostřední Suchá	100.0%	100.0%
14	AWT Rail HU Zrt.	Budapest	100.0%	100.0%

On 9 September 2018, Czech court registered the transformation of the Dutch company Advanced World Transport B.V. with its registered office in Amsterdam into the Czech company AWT CE s.r.o. with its registered office in Prague. This means that Advanced World Transport B.V. has terminated its legal existence in the Netherlands. The AWT Group's parent company is currently AWT CE s.r.o.

The detailed information about the remaining subsidiaries from the Group as at 31 December 2018 and 31 December 2017 is as follows:

Item	Name of the subsidiary	Place of registration and business	Percent of shares held by the Group	
			31/12/2018	31/12/2017
15	ONECARGO Sp. z o.o.	Warsaw	100.0%	100.0%
16	ONECARGO CONNECT Sp. z o.o.	Warsaw	100.0%	100.0%
17	Transgaz S.A.	Zalesie near Małaszewicze	64.0%	64.0%
18	Trade Trans Finance Sp. z o.o.	Warsaw	100.0%	100.0%
19	PKP CARGO CONNECT GmbH	Hamburg	100.0%	100.0%
20	PPHU "Ukpol" Sp. z o.o.	Werchrata	100.0%	100.0%
21	AWT Rail SK a. s.	Bratislava	100.0%	100.0%
22	AWT DLT s.r.o.	Kladno	100.0%	100.0%
23	AWT Trading s.r.o.	Petřvald	100.0%	100.0%
24	AWT Rekultivace PL Sp. z o.o.	Český Těšín	100.0%	100.0%
25	RND s.r.o.	Olomouc	51.0%	51.0%
26	PRIMOL-RAIL d.o.o.	Grčarevec	80.0%	-

On 6 December 2018, Advanced World Transport a.s. acquired an 80% stake in the Slovenian company PRIMOL-RAIL d.o.o.

Unconsolidated subsidiaries, shares in associates and interests in joint ventures accounted for under the equity method are presented in **Note 5.2**.

1.2 Basis for drawing up the Consolidated Financial Statements

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

These Consolidated Financial Statements for the year ended 31 December 2018 have been prepared on the assumption that the Company will continue to be a going concern in the foreseeable future. As at the preparation date of the Financial Statements, there are no circumstances indicating any substantial doubt about the Group's ability to continue as a going concern operations for the period of at least 12 months of the date of the financial statements.

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

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

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

The Group's accounting principles described in individual notes were applied in a continuous manner to all presented periods, except for changes resulting from the entry into force of IFRS 9, as described in Note 1.3. The accounting principles, material estimates and judgments for the key items of the consolidated financial statements were presented in individual notes to these Consolidated Financial Statements.

Note	Title	Amount recognized in the consolidated financial statements		Accounting policy	Material estimates and judgments
		2018	2017		
2.1	Revenues from contracts with customers	5,183.0	4,689.1	X	X
2.2	Operating expenses	(4,919.5)	(4,518.1)		
2.3	Other operating revenue and (expenses)	14.1	(17.6)		
2.4	Financial income and (expenses)	(42.0)	(37.7)		
3.1	Income tax	(59.9)	(34.8)	X	X
5.1	Rolling stock	3,997.0	3,750.4	X	X
5.1	Other property, plant and equipment	949.9	937.6	X	X
5.2	Investments in entities accounted for under the equity method	47.3	53.6		
5.5	Other assets	181.1	158.5	X	
5.3	Inventories	161.7	148.5	X	
5.4	Trade receivables	685.3	688.8	X	X
4.4	Cash and cash equivalents	447.3	516.8	X	
4.2	Equity	3,483.5	3,317.2	X	
4.1	Debt liabilities	1,427.0	1,701.4	X	
5.6	Investment liabilities	287.4	79.1	X	
5.7	Provisions for employee benefits	707.0	684.2	X	X
5.8	Other provisions	77.4	82.2	X	
5.9	Other liabilities	235.6	227.0	X	
7.4	Contingent liabilities	244.8	259.3	X	X

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

1.2 Basis for drawing up the Consolidated Financial Statements (cont.)

Consolidation rules

The Consolidated Financial Statements comprise the standalone financial statements of the Parent Company and its controlled entities (subsidiaries) for the financial year ended on 31 December 2018 and 31 December 2017. The financial statements of the subsidiaries, after taking into consideration adjustments introduced to make them compliant with EU IFRS, are prepared for the same reporting period as the statements of the Parent Company, based on uniform accounting principles applied for transactions and similar economic events.

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

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

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

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

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

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

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

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

1.3 Applied International Financial Reporting Standards platform

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

In the opinion of the Parent Company's Management Board, the following standards have exerted a significant impact on these Consolidated Financial Statements:

- **IFRS 9 "Financial Instruments"** – applicable to annual periods beginning on or after 1 January 2018. The key amendments introduced by the new standard pertain to:
  1) Changes of the rules of classification and valuation of financial assets which are based on the entity's business model for managing the assets and the cash flow characteristics. The existing categories of financial assets have been replaced with new ones, i.e. carried out at:
     - amortized cost,
     – fair value through other comprehensive income,
     – fair value through profit or loss.

  The amended standard imposes an obligation to carry shares in unlisted companies in fair value and significantly reduces the existing possibility of carrying assets at cost.
  2) Introduction of a new model for assessment of impairment of financial assets which replaces the concept of incurred losses with the concept of expected credit losses.
  3) Hedge accounting model.

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

1.3 Applied International Financial Reporting Standards platform (cont.)

Impact on consolidated financial statements:

The entry of IFRS 9 into force has affected these Consolidated Financial Statements of the Group as described below.

Change in the principles of classification and measurement of financial assets

The Group has taken advantage of the IFRS 9 transition provisions allowing for refraining from the restatement of comparative data as regards the changes regarding classification and valuation and impairment of financial assets. Accordingly, it has restated its data as at the date of the first application of IFRS 9, that is 1 January 2018, which means that data for 2017 and 2018 are incomparable with each other, because they were prepared under different accounting policies. The change in the principles of classification has cause changes in the classification of financial assets in the Group's financial statements. Instruments previously classified into the loans and receivables category in accordance with the applicable business model are held for the purpose of collecting contractual cash flows. They satisfy the conditions of classification into assets carried at amortized cost, hence the entry of IFRS 9 into force has not caused a change in the principles of their valuation. Shares held by the Group in companies not listed on active markets were carried at purchase price less impairment losses, if any. In accordance with IFRS 9, investments in equity instruments are measured at fair value. As provided for by the adopted amendments to the accounting policy, the effect of measurement is recognized in other comprehensive income. Presented below are the changes in the classification and measurement of financial assets in connection with entry of IFRS 9 into force.

IAS 39			IFRS 9			
Financial assets by category and class	**Valuation method**	**31/12/2017**	**Financial assets by category and class**	**Valuation method**	**1/01/2018**	**Impact of the change**
Hedging financial instruments			**Hedging financial instruments**			
Derivatives	at fair value through other comprehensive income	12.1	Derivatives	at fair value through other comprehensive income	12.1	-
Available-for-sale financial assets			**Financial assets measured at fair value through other comprehensive income**			
Shares in unlisted companies	at cost less impairment losses	7.3	Investments in equity instruments	at fair value through other comprehensive income	6.2	(1.1)
Loans and receivables			**Financial assets measured at amortized cost**			
Trade receivables	at amortized cost	688.8	Trade receivables	at amortized cost	685.5	(3.3)
Receivables from sale of non-current assets	at amortized cost	0.1	Receivables from sale of non-current assets	at amortized cost	0.1	-
Loans granted	at amortized cost	1.1	Loans granted	at amortized cost	1.1	-
Bank deposits over 3 months	at amortized cost	253.8	Bank deposits over 3 months	at amortized cost	253.8	-
Cash and cash equivalents	at amortized cost	516.8	Cash and cash equivalents	at amortized cost	516.8	-

As at 31 December 2017 the Group, as part of shares in unlisted companies, presented mainly the value of the shares in Euroterminal Sławków Sp. z o.o. in the amount of PLN 6 million.
As a result of the first application of IFRS 9, the Group measured the fair value of shares in Euroterminal Sławków Sp. z o.o. The fair value of this shares was calculated as PLN 4.9 million.
In the statement of financial position, the effects of the measurement of investments in equity instruments are presented as other items of equity.
As at the date of the first application of IFRS 9, the Group restated the data resulting from the Consolidated Financial Statements for the financial year ended 31 December 2017 as follows:

– the effects of measurement of shares in Euroterminal Sławków Sp. z o.o. at fair value as at 1 January 2018 in the amount of PLN 1.1 million decreased other assets and other items of equity,
– the impairment loss on investment in equity instruments recognized in previous periods in the amount of PLN 11.8 million increased retained earnings and decreased other items of equity.

1.3 Applied International Financial Reporting Standards platform (cont.)

Model for the assessment of impairment of financial assets

The new financial asset impairment model implemented by the Group is based on an analysis of the expected credit losses on trade receivables. The determined amount of the additional impairment loss on trade receivables resulting from implementation of IFRS 9 amounts to PLN 3.3 million.

The implementation of IFRS 9 has not affected the impairment of other financial instruments of a debt nature.

Changes resulting from the application of IFRS 9 in respect of the model for the assessment of impairment of financial assets are reflected as at 1 January 2018 as follows:

– trade receivables decreased by PLN 3.3 million,
– deferred tax assets increased by PLN 0.6 million,
– retained earnings decreased by PLN 2.7 million.

Impairment losses on trade receivables were determined in accordance with IFRS 9, as described in **Note 5.4**.

Other financial assets of a debt nature are characterized by low credit risk. Moreover, because the calculation of impairment revealed an insignificant amount of the impairment loss, the Group chose not to recognize it.

Hedge accounting

The changes in hedge accounting in the case of the Group pertained mainly to documentation issues and hence the entry of IFRS 9 into force in this area has not impacted the Group's asset or financial standing.

The effect of implementation of IFRS 9 as at the day of its first application, i.e. as at 1 January 2018, is presented in **Note 1.5**.

- **IFRS 15 "Revenue from Contracts with Customers"** – applicable to annual periods beginning on or after 1 January 2018. This standard has replaced IAS 18 "Revenues" and IAS 11 "Construction Contracts" and the related interpretations. The fundamental principle of the new standard provides for recognition of the revenues in the financial statements in such a way as to show the transfer of goods or services to customers in the amount that reflects the amount of the remuneration (i.e. payment) which the Group expects to receive in return for such goods or services. In accordance with the new regulations a revenue occurs at the time when control over the goods or services passes on to the customer. The standard has introduced a 5-step approach to revenue recognition:

1) Identify the contracts with customers, which are understood as parties which concluded a contract with the entity to purchase goods or services, resulting from ordinary activity of the entity, in exchange for consideration.
2) Identify the performance obligations in the contract.
3) Determine the transaction price. Determining the transaction price, in addition to the base consideration , one should consider such other components as: variable consideration , non-pecuniary consideration which should be carried at fair value, factors associated with financing the price (by the seller or buyer) e.g. discount resulting from a time difference between the performance of the obligation and the payment for its performance or amounts paid in connection with performance of the obligations of the contract.
4) Allocate the transaction price to the performance obligations in the contract. The best basis to determine the individual price is the price for which the entity may separately sell the given good or service.
5) Recognize revenue when (or as) the entity satisfies a performance obligation. The performance obligation is recognized as satisfied upon transfer of the control over the goods or services subject to the agreement to the customer.

Impact on consolidated financial statements:

- **IFRS 15 "Revenue from Contracts with Customers" –** since the Group generates revenues primarily from the provision of rail transport services, the entry of IFRS 15 into force has chiefly affected transportation agreements. As a result of completed works, it has been concluded that the commercial agreements contain a variable consideration component resulting from:

  – the possibility of imposing penalties on the client in connection with its failure to meet the contractual provisions pertaining to transportation of a specified freight volume during the term of the agreement,
  – the possibility of imposing a penalty on the Group by the client in the event of failure to transport the ordered freight volume.

Previously, these penalties have been presented as other operating revenues or other operating expenses depending on the nature of the penalty. According to the new standard, these penalties are treated as a component of contracts with customers. Based on IFRS 15 Annex C item 3a the Management Board of the Parent Company has decided that the standard will be implemented retrospectively in accordance with the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, with the possibility of taking into account the instructions contained in clause C5. The application of this approach did not result in an adjustment of the Group's equity as at the date of its first application of IFRS 15. In accordance with the previously applied accounting principles, the following items were recognized in the period from 1 January 2017 to 31 December 2017:

– in other operating revenues, debit notes and provisions for penalties imposed on clients in the amount of PLN 2.1 million,
– in other operating expenses, provisions for penalties charged by the customer in the amount of PLN 5.6 million.

In line with the aforementioned changes, the Group has restated its comparative data. Presented in **Note 1.5** is the restatement of comparative data. Information disclosed in the additional explanatory notes to the Consolidated Financial Statements was restated as appropriate.

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

1.3 Applied International Financial Reporting Standards platform (cont.)

- **Clarifications to IFRS 15 "Revenue from Contracts with Customers"** – applicable to annual periods beginning on or after 1 January 2018. The improvement has provided additional clarifications concerning certain requirements and has introduced an additional exemption for entities introducing IFRS 15 "Revenue from Contracts with Customers".

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

Standard / Interpretation	Effective date
Amendments to IFRS 2 "Share-based payments"	1 January 2018
Amendments to IFRS 4 "Insurance contracts"	1 January 2018
Amendments to IFRS (cycle 2014-2016) – IFRS 1 and IAS 28	1 January 2018
IFRIC 22 Interpretation – Foreign currency transactions and advance consideration	1 January 2018
Amendments to IAS 40 "Investment property"	1 January 2018

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

In the opinion of the Parent Company's Management Board, IFRS 16 "Leases", applicable to annual periods beginning on or after 1 January 2019, will have a significant impact on the Consolidated Financial Statements of the PKP CARGO Group. In accordance with the new standard, the lessee recognizes the right to use an asset and lease liability. The right to use an asset is treated like other non-financial assets and amortized accordingly. Lease liabilities are initially carried at current value of the lease payments payable during the lease term, discounted by the lease rate, if it is not difficult to determine it. If such rate cannot be easily determined the lessee applies the marginal interest rate.

Impact on consolidated financial statements:

- **IFRS 16 "Leases"** – The Group has conducted a preliminary analysis of the impact of IFRS 16 on the accounting principles used. The analysis has shown that the Group's financial statements will have to recognize material assets and liabilities resulting from operating leases, lease or rent and perpetual usufruct rights to land.
  The most significant lease contracts pertain to real properties serving as rolling stock repair points and cargo loading points, considered by the Group as strategic for its operations. Other lease contracts for the most part pertain to those rolling stock components and other buildings and real properties that are not considered strategic by the Group. Moreover, presented as lease contracts under IFRS 16 will also be those contracts that pertain to the right of perpetual usufruct of land in the case of which the Group pays fees in return for their use.
  The Parent Company's Management Board plans to implement the standard retrospectively in accordance with IFRS 16 Annex C item 5b, by presenting as at 1 January 2019 the combined effect of the application of this standard by adjusting the opening balance of retained earnings, without restating the comparative data. The Group chose not to apply the standard earlier. Applying IFRS 16 for the first time, the Group plans to apply the following practical solutions permitted by the standard, including:
  – application of a single discount rate to the measurement of the portfolio of leases with relatively similar characteristics,
  – adjustment of the value of the right to use assets by the amount of the provision for onerous contracts recognized in accordance with IAS 37 directly before the date of first application of IFRS 16,
  – the use of post-factual knowledge and experience in determining the term of the lease if the contract contains options for renewal or termination,
  – not recognizing the right to use assets and liabilities for short-term lease contracts. Agreements for which the remaining term of the lease as at 1 January 2019 is shorter than 12 months,
  – exclusion of initial direct costs from the measurement of assets on account of rights to use assets as at 1 January 2019.

  The following are additional simplifications that will be applied by the Group to contracts to which it is the lessee party:
  – not recognizing the right to use lease assets and liabilities for contracts pertaining to assets of low initial unit value (IT equipment, furniture, office equipment, etc.),
  – not separating leasing and non-leasing components for lease contracts for selected classes of the underlying asset.

  The Group intends to present its rights to the use of assets in a separate statement of financial position. This line item will also include assets used under current finance lease agreements in accordance with IAS 17 and the perpetual usufruct right to land. Moreover, the Group will recognize lease receivables arising from sublease contracts providing for the use of assets that are recognized as finance lease contracts.

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

1.3 Applied International Financial Reporting Standards platform (cont.)

Summary of the expected impact

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

	31/12/2018	Impact of the changes	1/01/2019
ASSETS			
Rolling stock	3,997.0	(165.4)	3,831.6
Other property, plant and equipment	949.9	(50.0)	899.9
Right to use assets	-	1,009.7	1,009.7
Lease receivables	-	7.4	7.4
Other assets	56.7	(9.4)	47.3
Deferred tax assets	135.6	(0.2)	135.4
Total non-current assets	**5,187.2**	**792.1**	**5.979,3**
Lease receivables	-	0.4	0.4
Total current assets	**1,619.1**	**0.4**	**1,619.5**
TOTAL ASSETS	**6,806.3**	**792.5**	**7,598.8**
EQUITY AND LIABILITIES			
Retained earnings	584.4	0.8	585.2
Total equity	**3,483,5**	**0.8**	**3,484.3**
Debt liabilities	1,156.5	707.6	1,864.1
Other provisions	20.5	(1.3)	19.2
Total long-term liabilities	**1,969.1**	**706.3**	**2,675.4**
Debt liabilities	270.5	101.5	372.0
Trade payables	499.4	(13.7)	485.7
Other provisions	56.9	(2.4)	54.5
Total short-term liabilities	**1,353.7**	**85.4**	**1,439.1**
Total liabilities	**3,322.8**	**791.7**	**4,114.5**
TOTAL EQUITY AND LIABILITIES	**6,806.3**	**792.5**	**7,598.8**

The application of IFRS 16 will also affect the structure of the statement of profit or loss and other comprehensive income in 2019 and in subsequent years. Based on its analysis, the Group estimates that in 2019 its operating result will increase by PLN 17 million, EBITDA by PLN 118 million and the profit before tax will decrease by PLN 12 million. This analysis has been prepared on the basis of contracts effective as at 31 December 2018 and is based on certain assumptions that are material on that date, in particular with respect to:

- the actual period of validity of the agreements concluded for an indefinite term and the resulting useful life of the right to use assets;
- discount rate used for the measurement of the lease liabilities;

The lease periods applied for the purposes of estimation of the value of lease liabilities, broken down into underlying asset classes, were as follows:

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

The lease period in contracts for the perpetual usufruct right to land is defined as the period remaining until the date to which these rights have been granted unless the circumstances require the adoption of a longer or shorter period. The lessee's marginal rates applied for the purposes of estimation of the value of lease liabilities ranged from 1.16% to 4.29%. The diversification of the rates was a result of the following factors having been taken into account:

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

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

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

1.3 Applied International Financial Reporting Standards platform (cont.)

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

Amount of future minimum lease payments under non-cancellable operating leases	**190.7**
Operating lease liabilities recognized as at 31 December 2018 as trade payables	**10.4**
Finance lease liabilities recognized as at 31 December 2018	**95.2**
Adjustments	**866.6**
Extension and termination options which the Group is highly likely to exercise	816.6
Exemptions for short-term leases and leases of assets with a low initial value	(24.3)
Perpetual usufruct right to land	74.2
Other	0.1
Lease liabilities recognized as at 31 December 2018, adjusted	**1,162.9**
Discount	(258.6)
Lease liabilities as at 1 January 2019	**904.3**
including the effect of recognition under IFRS 16	809.1

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

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

Standard / Interpretation	Effective date
Amendments to IFRS 9 "Financial Instruments" – Prepayment features with negative compensation	1 January 2019
Interpretation of IFRIC 23 – Uncertainty over income tax treatments	1 January 2019
Amendments to IAS 28 "Investments in associates and joint ventures"	1 January 2019
Amendment to IAS 19 "Employee benefits"	1 January 2019

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

IFRS as approved by the EU do not currently differ materially from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following standards, their amendments and interpretations, which as at 31 December 2018 have not yet been approved by the EU and have not entered into effect: In the opinion of the Parent Company's Management Board, the EU's endorsement of the following standards will not trigger the need to modify significantly the accounting policies applied by the Group:

Standard / Interpretation	Effective date
Amendments to IFRS (cycle 2015-2017) – IFRS 3, IFRS 11, IAS 12 and IAS 23	1 January 2019
Amendments to references to the IFRS Framework	1 January 2020
Amendments to IFRS 3 "Business combinations" – Definition of a business	1 January 2020
Amendments to IAS 1 "Presentation of financial statements" and IAS 8 "Accounting policies, changes in accounting estimates and errors"	1 January 2020
IFRS 17 "Insurance contracts"	1 January 2021

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

1.4 Corrections of prior period errors

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

The effect of restatement of the statement of financial position and the statement of profit or loss and other comprehensive income is described in **Note 1.5**. Information disclosed in the additional explanatory notes to the Consolidated Financial Statements was restated as appropriate.

1.5 Restatement of comparative data

Presented below is the effect of the correction of errors from previous periods and the effect of implementation of IFRS 9 and IFRS 15 on the corresponding financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	2017 (audited)	Penalties resulting from sales agreements (IFRS 15)	Corrections of prior period errors	2017 (restated)
Revenues from contracts with customers	4,692.7	(3.6)	-	4,689.1
Employee benefits	(1,508.7)	-	(1.6)	(1,510.3)
Other operating revenue and (expenses)	(21.2)	3.6	-	(17.6)
Operating profit without depreciation (EBITDA)	**701.9**	**-**	**(1.6)**	**700.3**
Profit on operating activities (EBIT)	**155.0**	**-**	**(1.6)**	**153.4**
Financial income and (expenses)	(39.3)	-	1.6	(37.7)
Profit before tax	**116.5**	**-**	**-**	**116.5**
NET PROFIT	**81.7**	**-**	**-**	**81.7**
OTHER COMPREHENSIVE INCOME				
Actuarial profits / (losses) on post-employment benefits	(36.1)	-	(0,8)	(36,9)
Income tax	6.9	-	0.1	7.0
Total other comprehensive income not subject to reclassification in the financial result	**(29.2)**	-	**(0.7)**	**(29.9)**
Total other comprehensive income	**(7.2)**	**-**	**(0.7)**	**(7.9)**
TOTAL COMPREHENSIVE INCOME	**74.5**	**-**	**(0.7)**	**73.8**

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

1.5 Restatement of comparative data (cont.)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31/12/2017 (audited)	Corrections of prior period errors	31/12/2017 (restated)	Effect of the implementation of IFRS 9		1/01/2018
				Measurement of investments in equity instruments	Model for impairment of financial assets	
ASSETS						
Other assets	70.4	-	70.4	(1.1)	-	69.3
Deferred tax assets	133.6	4.1	137.7	-	0.6	138.3
Total non-current assets	**4,947.4**	**4.1**	**4,951.5**	**(1.1)**	**0.6**	**4,951.0**
Trade receivables	687.0	-	687.0	-	(3.3)	683.7
Total current assets	**1,694.2**	**-**	**1,694.2**	**-**	**(3.3)**	**1,690.9**
TOTAL ASSETS	**6,641.6**	**4.1**	**6,645.7**	**(1.1)**	**(2.7)**	**6,641.9**
EQUITY AND LIABILITIES						
Other items of equity	4.8	(6.4)	(1.6)	(12.9)	-	(14.5)
Retained earnings	411.4	(11.1)	400.3	11.8	(2.7)	409.4
Total equity	**3,334.7**	**(17.5)**	**3,317.2**	**(1.1)**	**(2.7)**	**3,313.4**
Provisions for employee benefits	558.6	17.1	575.7	-	-	575.7
Total long-term liabilities	**2,093.8**	**17.1**	**2,110.9**	**-**	**-**	**2,110.9**
Provisions for employee benefits	104.0	4.5	108.5	-	-	108.5
Total short-term liabilities	**1,213.1**	**4.5**	**1,217.6**	**-**	**-**	**1,217.6**
Total liabilities	**3,306.9**	**21.6**	**3,328.5**	**-**	**-**	**3,328.5**
						-
TOTAL EQUITY AND LIABILITIES	**6,641.6**	**4.1**	**6,645.7**	**(1.1)**	**(2.7)**	**6,641.9**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	1/01/2017 (audited)	Corrections of prior period errors	1/01/2017 (restated)
ASSETS			
Deferred tax assets	107.6	3.9	111.5
Total non-current assets	**4,960.3**	**3.9**	**4,964.2**
TOTAL ASSETS	**6,508.2**	**3.9**	**6,512.1**
EQUITY AND LIABILITIES			
Other items of equity	11.4	(5.7)	5.7
Retained earnings	330.3	(11.1)	319.2
Total equity	**3,260.2**	**(16.8)**	**3,243.4**
Provisions for employee benefits	525.6	16.5	542.1
Total long-term liabilities	**2,076.1**	**16.5**	**2,092.6**
Provisions for employee benefits	99.3	4.2	103.5
Total short-term liabilities	**1,171.9**	**4.2**	**1,176.1**
Total liabilities	**3,248.0**	**20.7**	**3,268.7**
TOTAL EQUITY AND LIABILITIES	**6,508.2**	**3.9**	**6,512.1**

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

1.5 Restatement of comparative data (cont.)

CONSOLIDATED STATEMENT OF CASH FLOWS

	2017 (audited)	Corrections of prior period errors	2017 (restated)
Cash flow from operating activities			
Profit before tax	**116.5**	**-**	**116.5**
Adjustments			
Movement in working capital	0.8	0.8	1.6
Other adjustments	(36.1)	(0.8)	(36.9)
Net cash on operating activities	**600.7**	**-**	**600.7**
Net increase / (decrease) in cash and cash equivalents	(238.7)	-	(238.7)
Cash and cash equivalents as at the beginning of the reporting period	755.9	-	755.9
Impact exerted by FX rate movements on the cash balance in foreign currencies	(0.4)	-	(0.4)
Cash and cash equivalents as at the end of the reporting period	**516.8**	**-**	**516.8**

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

2.1 Revenues from contracts with customers

Accounting policy applied

The Group recognizes revenue from contracts with customers in such a manner as to reflect the transfer of promised goods or services to the customer in the amount corresponding to the consideration expected to be payable to the Group in return. Revenue from contracts with customers is disclosed at fair value of the payment received or due less VAT, refunds, rebates and discounts.

Revenues are recognized upon (or during) fulfilment of the obligation to make the performance through the provision of the promised good or service (i.e. asset) to the customer.

Revenue from sales of services is recognized in the statement of profit or loss and other comprehensive income over time, because the customer receives and at the same time benefits from the performance provided by the Group as it is being provided. The Group is of the opinion that this condition is fulfilled, because the work performed by it to date would not have to be substantially re-performed by another entity if it were to complete the remaining portion of the obligation toward the customer.

Revenue from sales of materials is recognized in the statement of profit or loss and other comprehensive income when the customer obtains control over the asset in question. The moment of the transfer of control is the same as the moment when the significant risk and benefits resulting from their ownership were transferred. In the case of commission contracts, revenue is not recognized at the time of delivery to the intermediary but when the asset is transferred to the end customer.

The Group does not apply payment terms or advance payments exceeding 12 months, hence the contracts do not contain a material financing element.

Variable consideration

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

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

Contract assets

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

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

2.1 Revenues from contracts with customers (cont.)

Accounting policy applied

Contract liabilities

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

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

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

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

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

Structure of revenues from contracts with customers

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

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

The data for the 12 months ended 31 December 2017 in this note have been restated in connection with the retrospective application of IFRS 15, as described in **Note 1.3** to these Consolidated Financial Statements.

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

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

2.1 Revenues from contracts with customers (cont.)

2017	Group of entities related to the biggest external counterparty	PKP Group related parties	State Treasury related parties	Others	Total
Revenue from rail transportation and freight forwarding services	508.5	8.3	857.0	2,568.4	3,942.2
Revenue from other transportation activity	-	0.5	2.0	165.4	167.9
Revenue from siding and traction services	-	17.1	89.9	132.9	239.9
Revenue from transhipment services	-	-	1.0	81.3	82.3
Revenue from reclamation services	-	0.6	-	76.4	77.0
Revenue from sales of goods and raw materials	-	2.5	-	49.3	51.8
Revenue from lease of assets and other revenue	2.2	9.8	15.1	100.9	128.0
Total	**510.7**	**38.8**	**965.0**	**3,174.6**	**4,689.1**
Revenue recognition date					
At a point of time	-	2.5	-	73.7	76.2
Over a period	510.7	36.3	965.0	3,100.9	4,612.9
Total	**510.7**	**38.8**	**965.0**	**3,174.6**	**4,689.1**

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

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

	31/12/2018			31/12/2017		
	Rail sidings	Reclamation services	Total	Rail sidings	Reclamation services	Total
up to 1 year	48.6	41.6	90.2	34.0	3.0	37.0
1 to 3 years	54.8	15.9	70.7	30.4	1.6	32.0
over 3 years	-	0.5	0.5	3.2	-	3.2
Total	**103.4**	**58.0**	**161.4**	**67.6**	**4.6**	**72.2**

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

Geography

The Group defines the geographical territory of business as the location of the registered office of the service recipient, and not as the country of the service provision. Poland is the key geographic area of the Group's activity.

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

	2018	2017
Poland	3,658.4	3,326.7
Czech Republic	626.4	589.2
Germany	293.9	242.3
Slovakia	159.1	115.5
Italy	70.5	83.2
France	50.6	50.7
Other countries	324.1	281.5
Total	**5,183.0**	**4,689.1**

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

	2018	2017
Poland	4,310.7	3,984.0
Czech Republic	727.7	804.8
Other countries	4.9	12.6
Total	**5,043.3**	**4,801.4**

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

2.1 Revenues from contracts with customers (cont.)

Information on key customers

In the financial year ended 31 December 2018, the Group's revenue from any single Group client did not exceed 10% of the total revenues from agreements with clients. In the financial year ended 31 December 2017, sales to one group exceeded 10% and accounted for 10.9% of the total revenue from contracts with customers.

Assets from contracts with customers

	2018	2017
As at the beginning of the reporting period	**43.6**	**27.8**
Recognition of revenue before the payment due date	37.2	43.6
Reclassification to receivables	(43.7)	(27.8)
As at the end of the reporting period	**37.1**	**43.6**

Liabilities from contracts with customers

	2018	2017
As at the beginning of the reporting period	**5.2**	**10.2**
Recognition of revenues:		
From the opening balance of liabilities from contracts with customers	(5.2)	(10.2)
From liabilities from contracts with customers recognized during the period	-	(6.9)
Payment received or due in advance	1.6	12.1
As at the end of the reporting period	**1.6**	**5.2**

2.2 Operating expenses

Consumption of traction electricity and traction fuel

	2018	2017
Consumption of traction fuel	(210.6)	(170.1)
Consumption of traction electricity	(404.5)	(374.7)
Total	**(615.1)**	**(544.8)**

Other services

	2018	2017
Repair services	(64.9)	(53.3)
Rent and fees for the use of real properties and rolling stock	(216.6)	(168.9)
Telecommunications services	(6.4)	(7.5)
Legal, consulting and similar services	(16.1)	(22.7)
IT services	(44.2)	(45.2)
Maintenance and operation services for facilities and fixed assets	(32.1)	(30.0)
Transhipment services	(20.0)	(21.7)
Reclamation services	(75.0)	(51.2)
Other services	(54.3)	(50.1)
Total	**(529.6)**	**(450.6)**

Employee benefits

	2018	2017
Payroll	(1,246.2)	(1,137.5)
Social security expenses	(266.0)	(244.6)
Expenses for contributions to the Company Social Benefits Fund	(22.3)	(24.4)
Other employee benefits during employment	(40.9)	(41.0)
Post-employment benefits	(6.6)	(6.0)
Movement in provisions for employee benefits	(69.4)	(56.8)
Total	**(1,651.4)**	**(1,510.3)**

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

2.2 Operating expenses (cont.)

Other expenses

	2018	2017
Consumption of non-traction fuel	(22.5)	(21.6)
Consumption of electricity, gas and water	(36.7)	(38.0)
Consumption of materials	(106.2)	(100.4)
Taxes and charges	(27.6)	(39.0)
Cost of goods and raw materials sold	(45.1)	(39.1)
Business trips	(33.5)	(32.1)
Other	(27.3)	(27.1)
Total	**(298.9)**	**(297.3)**

Depreciation, amortization and impairment losses

	2018	2017
Depreciation of rolling stock	(461.7)	(479.5)
Depreciation of other property, plant and equipment	(80.3)	(77.2)
Amortization of intangible assets	(16.8)	(17.5)
Recognized / (reversed) impairment losses:		
Rolling stock	(69.0)	27.5
Other property, plant and equipment	(1.6)	(0.2)
Total	**(629.4)**	**(546.9)**

2.3 Other operating revenue and (expenses)

Other operating revenue and (expenses)

	2018	2017
Profit on disposal		
Profit on sales of non-financial non-current assets	5.8	6.9
Reversed impairment losses		
Trade receivables	14.8	5.2
Other		
Penalties and compensations	18.2	17.0
Reversal of other provisions	3.3	6.2
Interest on trade and other receivables	5.6	4.2
Net result on FX differences on trade receivables and payables	2.1	-
Other	4.7	4.4
Total other operating revenue	**54.5**	**43.9**
Impairment losses recognized		
Trade receivables	(11.8)	(11.4)
Other		
Penalties and compensations	(8.4)	(12.5)
Costs of liquidation of non-current and current assets	(4.5)	(3.6)
Other provisions	(8.2)	(20.5)
Net result on FX differences on trade receivables and payables	-	(7.4)
Other	(7.5)	(6.1)
Total other operating expenses	**(40.4)**	**(61.5)**
Other operating revenue and (expenses)	**14.1**	**(17.6)**

The data for the year ended 31 December 2017 have been restated in connection with the retrospective application of IFRS 15, as described in **Note 1.3** and **1.5** to these Consolidated Financial Statements.

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

2.4 Financial revenue and (expenses)

Financial revenue and (expenses)

	2018	2017
Interest income	10.6	10.0
Dividend income on shares and stocks	0.3	0.3
Other		
Profit on sales of shares and stocks	5.0	-
Net result on FX differences	-	5.1
Other	0.1	4.8
Total financial revenue	**16.0**	**20.2**
Interest expenses	(33.3)	(36.3)
Other		
Settlement of the discount on provisions for employee benefits	(19.4)	(19.1)
Net result on FX differences	(1.6)	-
Other	(3.7)	(2.5)
Total financial expenses	**(58.0)**	**(57.9)**
Financial revenue and (expenses)	**(42.0)**	**(37.7)**

The data for the 12 months ended 31 December 2017 have been restated in connection with the correction of errors from previous periods, as described in **Notes 1.4** and **1.5** to these Consolidated Financial Statements.

3. Notes on taxation

3.1 Income tax

Accounting policy applied

The income tax of the reporting period includes current and deferred income tax. The current tax burden is calculated on the basis of the tax result for the given reporting period. The tax result differs from the accounting gross profit due to exclusion of revenue which temporarily is not subject to taxation, expenses which temporarily do not represent tax deductible revenue and those expenses and revenue that will not be subject to taxation. Tax burden is calculated based on the tax rates applicable in the given financial year.

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

Deferred income tax assets and liabilities are subject to set-off in the case of existence of an enforceable legal title to set off deferred tax assets against deferred tax liabilities, and provided that such deferred tax assets and liabilities pertain to income tax charged by the same tax authorities if it is intended to settle the balances in net amounts.

The Tax Group

On 29 September 2016, the companies of the PKP CARGO Group signed an agreement on the establishment of a tax group (hereinafter referred to as the "Tax Group") for the period of three fiscal years starting from 1 January 2017. The Tax Group consists of:

- PKP CARGO S.A. as the company representing the Tax Group,
- 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.,
- PKP CARGO CONNECT Sp. z o.o.

according to EU IFRS (in millions of PLN)

3.1 Income tax (cont.)

PKP CARGO S.A. is the parent of the Tax Group and represents the Tax Group with respect to the obligations provided for in the CIT Act and the Tax Ordinance Act.

In accordance with the CIT Act, the tax groups are treated as separate CIT payers. Thus, the companies of the Tax Group lose their separate identity for the purposes of CIT for the benefit of the Tax Group as a whole. The taxable income of the Tax Group shall consist of the Tax Group total income calculated as surplus of the total amount of income of all companies of the Tax Group over the sum of their losses. The individual identity of the Tax Group pertains solely to corporate income tax, and should not be understood as tantamount to a separate legal identity. Also, it does not affect the payment of any other taxes.

The companies of the Tax Group must meet a number of requirements such as, inter alia, appropriate value of equity, share of the Tax Group representative in equities of the Tax Group companies, lack of tax arrears, achieving specific level of profitability and execution of transactions with companies out of the Tax Group on an arm’s length basis only. Any breach of the above requirements shall entail dissolution of the tax group and loss of its tax payer status. As at 31 December 2018, the Tax Group satisfied the above requirements.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

The Group recognizes deferred tax assets assuming that the future taxable income will enable utilization of such deferred tax assets. According to the long-term financial forecasts developed by the Group, these assets are not impaired as at the balance sheet date. A future deterioration of the tax results might lead to this assumption becoming unfounded.

Income tax recognized in profit / loss

	2018	2017
Current income tax		
Current tax liability	(70.0)	(58.2)
Adjustments posted in the current year relating to tax from previous years	(1.6)	(0.1)
Deferred tax		
Deferred income tax of the reporting period	11.7	23.5
Income tax recognized in profit / loss	**(59.9)**	**(34.8)**

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

Deferred income tax recognized in other comprehensive income

	2018	2017
Deferred tax on the measurement of hedging instruments	4.4	(5.3)
Deferred tax on actuarial earnings / (losses) pertaining to employee benefits	2.5	7.0
FX differences from translation of the balance of deferred income tax recognized in other comprehensive income	(2.4)	0.3
Deferred income tax recognized in other comprehensive income	**4.5**	**2.0**

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

3.1 Income tax (cont.)

Reconciliation of the effective tax rate

	2018	2017
Profit before tax	**243.8**	**116.5**
Income tax expense at 19%	(46.3)	(22.1)
Tax effect of revenue which does not constitute revenue within the meaning of tax regulations, including:		
Reversal of non-tax provisions and impairment losses	0.4	0.4
Valuation under the equity method	0.7	0.2
Valuation of the liabilities arising out put option	-	0.9
Recovered VAT	1.7	0.8
Other	0.6	0.5
Tax effect of non-deductible expenses arising from tax regulations, including:		
PFRON disability fund	(4.8)	(4.4)
Establishment of non-tax provisions and impairment losses	(0.2)	(1.4)
Permanent differences in expenses related with property, plant and equipment	(5.4)	(3.3)
Representation expenses	(0.9)	(0.8)
Penalties and compensations	(1.2)	(1.0)
Value added tax and other public law liabilities	(1.1)	(1.8)
IT expenses above the limit	(2.3)	-
Other	(3.3)	(1.3)
Effect of tax losses used in a period in which deferred tax was not recognized	**3.6**	**-**
Effect of the establishment/(reversal) of a deferred tax asset charge on tax losses	**(0.9)**	**(1.1)**
Effect of application of various tax rates	**(0.1)**	**(0.3)**
Adjustments disclosed in the current year with reference to past years' tax	**(0.4)**	**(0.1)**
Income tax recognized in profit / loss	**(59.9)**	**(34.8)**
Effective tax rate	**24.6%**	**29.9%**

The corporate income tax rate effective in Poland in the years 2017 - 2018 amounted to 19%. In the case of the AWT Group companies, the relevant tax rates were as follows: 19% in the Czech Republic and 10% in Hungary.

Balance of deferred tax assets and liabilities

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

	31/12/2018	31/12/2017
Deferred tax assets	135.6	137.7
Deferred tax liabilities	(88.5)	(107.4)
Total	**47.1**	**30.3**

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

3.1 Income tax (cont.)

Movements in deferred tax before the set-off

2018	31/12/2017 (audited)	Corrections of prior period error and effect of the implementation of IFRS 9	1/01/2018 (restated)	Recognized in profit or loss	Recognized in other comprehensive income	FX differences resulting from translation of deferred tax balance	31/12/2018
Temporary differences relating to deferred tax (liabilities) / assets:							
Non-financial non- current assets	(144.1)	-	(144.1)	13.4	-	(2.7)	**(133.4)**
Other provisions and liabilities	9.5	-	9.5	1.2	-	0.1	**10.8**
Inventories	(1.9)	-	(1.9)	(2.2)	-	-	**(4.1)**
Trade receivables	4.1	0.6	4.7	(1.1)	-	-	**3.6**
Provisions for employee benefits	125.7	4.1	129.8	1.6	2.5	0.1	**134.0**
Other	(4.3)	-	(4.3)	0.2	4.4	-	**0.3**
Unused tax losses	37.2	-	37.2	(1.4)	-	0.1	**35.9**
Total	**26.2**	**4.7**	**30.9**	**11.7**	**6.9**	**(2.4)**	**47.1**

As at 31 December 2018, deferred tax assets on account of tax losses for use in future periods represented loss of the Parent Company in the amount of PLN 139.7 million and of the subsidiaries in the amount of PLN 48.4 million. It will be possible to deduct tax losses in the amount of PLN 167.1 million within five fiscal years following the end of operation of the Tax Group. Other tax losses may be deducted within five fiscal years following the establishment of the Tax Group. According to the Parent Company Management Board, the risk as at 31 December 2018 that it will be impossible to realize the above assets is low.

2017	1/01/2017 (audited)	Corrections of prior period error	1/01/2017 (restated)	Recognized in profit or loss	Recognized in other comprehensive income	FX differences resulting from translation of deferred tax balance	31/12/2017
Temporary differences relating to deferred tax (liabilities) / assets:							
Non-financial non- current assets	(183.0)	-	(183.0)	38.6	-	0.3	**(144.1)**
Other provisions and liabilities	17.4	-	17.4	(7.9)	-	-	**9.5**
Inventories	0.9	-	0.9	(2.8)	-	-	**(1.9)**
Trade receivables	3.8	-	3.8	0.3	-	-	**4.1**
Provisions for employee benefits	118.5	3.9	122.4	0.4	7.0	-	**129.8**
Other	2.5	-	2.5	(1.5)	(5.3)	-	**(4.3)**
Unused tax losses	40.8	-	40.8	(3.6)	-	-	**37.2**
Total	**0.9**	**3.9**	**4.8**	**23.5**	**1.7**	**0.3**	**30.3**

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

3.1 Income tax (cont.)

Tax loss not recognized in calculation of deferred tax assets

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

	31/12/2018	31/12/2017
AWT CE s.r.o.	20.2	59.1
AWT a.s.	-	27.4
AWT Rail HU Zrt.	22.1	17.9
AWT Cechofracht a.s.	9.2	-
PKP CARGOTABOR USŁUGI Sp. z o.o.	7.5	7.5
CARGOSPED Terminal Braniewo Sp. z o.o.	1.6	1.6
Total	**60.6**	**113.5**

In the financial year ended 31 December 2018, in connection with the registration of a change in the registered office of AWT CE s.r.o., the company lost the possibility of settling tax losses in the amount of PLN 43.2 million.

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

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

Expiration dates of the tax losses to which deferred tax assets were not applied as at 31 December 2017

Year	2018	2019	2020	2021	2022	2023 and later on	Total
Unused tax losses	2.2	20.9	19.9	36.7	12.5	21.3	**113.5**

4. Notes on debt, liquidity management and equity management

4.1 Reconciliation of debt liabilities

Accounting policy applied

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

The Group classifies lease agreements as finance lease if, under the concluded agreement, basically all the potential benefits and risk attributable to holding of a leased object are incurred by the lessee. Any other types of lease are treated as operating lease.

Lease payments are divided into interest part and lease liability reduction, in order to obtain fixed periodic interest rate for the remaining balance of the liability in every period. Financial expenses are referred directly to the profit and loss statement unless they may be assigned directly to relevant assets – in such case, they are capitalized.

The Group's debt liabilities consist of the following two main categories: bank loans and borrowings and finance leases. Loan agreements were entered into mainly for the purposes of financing the investment and acquisition plan. The agreements were entered into for a period in excess of 5 years. The repayment of contracted obligations resulting from the executed loan agreements is made in PLN, EUR and CZK. As at 31 December 2018, the Group was using the main rolling stock components, vehicles and IT hardware under the finance lease agreements in effect. The agreements that are currently in effect were concluded for the term from 3 to 10 years in PLN, EUR and CZK. The collateral established to secure the repayment of liabilities is described in **Note 7.5**.

Items in foreign currencies

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

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

4.1 Reconciliation of debt liabilities (cont.)

31/12/2017	In the functional currency – PLN	In foreign currency		Total
		EUR	CZK	
Bank loans and borrowings	967.3	546.3	48.7	**1,562.3**
Finance leases	64.1	67.3	7.7	**139.1**
Total	**1,031.4**	**613.6**	**56.4**	**1,701.4**
Variable-interest-rate liabilities	1,030.5	523.4	48.7	**1,602.6**
Fixed-interest-rate liabilities	0.9	90.2	7.7	**98.8**
Total	**1,031.4**	**613.6**	**56.4**	**1,701.4**

Reconciliation of debt liabilities

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

2017	Bank loans and borrowings	Finance leases	Other	Total
1/01/2017	**1,471.4**	**200.4**	**118.7**	**1,790.5**
Obtained debt	366.3	3.9	-	**370.2**
Transaction costs	1.7	-	-	**1.7**
Accrual of interest	28.1	6.1	-	**34.2**
Payments under debt, including:				
Repayments of the principal	(255.2)	(59.6)	-	**(314.8)**
Interest paid	(28.1)	(6.1)	-	**(34.2)**
Transaction costs	(1.7)	-	-	**(1.7)**
Profits / (losses) from revaluation of liability on account of the put option for non-controlling interest	-	-	(4.7)	**(4.7)**
Settlement of the “put” option for non-controlling interest	-	-	(114.0)	**(114.0)**
FX valuation	(19.5)	(5.7)	-	**(25.2)**
FX differences resulting from translation of foreign entities	(0.7)	0.1	-	**(0.6)**
31/12/2017	**1,562.3**	**139.1**	**-**	**1,701.4**
Long-term	1,312.6	91.1	-	**1,403.7**
Short-term	249.7	48.0	-	**297.7**
Total	**1,562.3**	**139.1**	**-**	**1,701.4**

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

4.1 Reconciliation of debt liabilities (cont.)

Net debt

	31/12/2018	31/12/2017
Bank loans and borrowings	1,331.8	1,562.3
Finance leases	95.2	139.1
Total debt	**1,427.0**	**1,701.4**
Cash and cash equivalents	(447.3)	(516.8)
Deposits above 3 months	(201.1)	(253.8)
Total net debt	**778.6**	**930.8**
EBITDA	907.0	700.3
Net debt / EBITDA	**0.9**	**1.3**

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

Unused credit lines

Type of loan	Bank Name	Period of availability	Currency of the contract	31/12/2018	31/12/2017
Investment loan	European Investment Bank	19/07/2020	EUR	70.7	68.5
Overdraft	Bank Polska Kasa Opieki S.A.	25/05/2018	PLN	-	100.0
Overdraft	PKO Bank Polski S.A.	15/07/2019	PLN	0.7	1.0
Overdraft	Bank Polska Kasa Opieki S.A.	24/05/2019	PLN	100.0	-
Total				**171.4**	**169.5**

On 24 May 2018, an overdraft facility agreement was entered into by the Parent Company with Bank Polska Kasa Opieki S.A. for up to PLN 100 million. The facility will be available for a period of 12 months until 24 May 2019, with an option to extend the availability period by an additional 12 months, i.e. until 24 May 2020.

Breach of the terms and conditions of the loan agreements

As at 31 December 2018, there were no breaches of any loan agreements.

4.2 Equity and capital management policy

Accounting policy applied

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

Share capital

	31/12/2018	31/12/2017
The share capital consists of:		
Ordinary shares – fully paid up and registered	2,239.3	2,239.3

As at 31 December 2018 and 31 December 2017, the share capital consisted of common shares with a par value of PLN 50 each. Fully paid up ordinary shares with a par value of PLN 50 are equivalent to one vote at the shareholder meeting and carry the right to a dividend.

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

4.2 Equity and capital management policy (cont.)

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

In the financial years ended 31 December 2018 and 31 December 2017, there were no movements in the share capital of the Parent Company.

Supplementary capital

	31/12/2018	31/12/2017
Share premium (agio)	201.3	201.3
Distribution of profit (established pursuant to statutory regulations)	56.2	48.7
Distribution of profit (established in excess statutory value)	230.7	229.3
Capital formed from retirement of shares	140.0	140.0
Total	**628.2**	**619.3**

Pursuant to the requirements of the Commercial Company Code, entities with the status of joint-stock companies are obligated to establish supplementary capital to cover losses. Transfers to supplementary capital should be at least 8% of the earnings for a given financial year as stated in the Company's standalone financial statements, until the amount of capital reaches at least one third of the entity's share capital. The use of supplementary capital is decided upon by the Shareholder Meeting, however the portion of the supplementary capital representing one third of the share capital may only be used to cover a loss shown in the standalone financial statements and must not be set aside for other purposes. The amount to be divided among the shareholders may be increased by undistributed earnings from previous years and amounts transferred from the supplementary capital established from earnings.

Agio is the share premium of the Parent Company transferred to supplementary capital without possibility of paying the dividend.

The capital established from retirement of shares was created as a result of reduction of the Parent Company's share capital in 2013 earmarked for coverage of losses.

In the financial year ended 31 December 2018, changes in the Group's supplementary capital resulted from a resolution of 13 June 2018 adopted by the Ordinary Shareholder Meeting of PKP CARGO S.A. in the matter of a partial allocation to supplementary capital of the net profit generated in 2017 of PLN 7.5 million, and a resolution of 29 June 2018 adopted by the Ordinary Shareholder Meeting of PKP CARGO SERVICE Sp. z o.o. in the matter of a partial allocation to supplementary capital of the net profit generated in 2017 of PLN 0.8 million and resolution of 29 May 2018 adopted by the Ordinary Shareholder Meeting of CARGOSPED Terminal Braniewo Sp. z o.o. in the matter of a partial allocation of the 2017 net profit of PLN 0.6 million to supplementary capital.

Retained earnings

The Group's retained earnings include:
a) profit or loss of the current year,
b) undistributed earnings and uncovered losses from previous years,
c) differences attributable to transition to EU IFRS.

On 13 June 2018, the Ordinary Shareholder Meeting of PKP CARGO S.A. adopted a resolution on the distribution of the net profit earned in 2017 of PLN 94.0 million as follows:
a) allocate PLN 7.5 million to increase the supplementary capital,
b) allocate PLN 86.5 million to cover losses carried forward.

As at 1 January 2018, the line item "retained earnings" has been restated in connection with the implementation of IFRS 9 and correction of previous period errors, as described in **Notes 1.3, 1.4** and **1.5** to these Consolidated Financial Statements.

As at the moment of approval of these Consolidated Financial Statements, the Parent Company's Management Board has not adopted any resolution on the distribution of net profit generated in 2018.

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

4.2 Equity and capital management policy (cont.)

Equity management

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

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

	31/12/2018	31/12/2017
Total liabilities	3,322.8	3,328.5
Total balance sheet	6,806.3	6,645.7
Total debt ratio	49%	50%

4.3 Liquidity risk management

The Group may be exposed to liquidity risk following from the ratio of current assets to short-term liabilities. To ensure an additional source of funds required to secure its short-term liquidity the Group had current account overdraft facilities. Additionally, to secure its long-term liquidity, the Group used investment loans and leases (financing of capital expenditures). As at 31 December 2018, the Group had in aggregate unused credit facilities in the amount of PLN 171.4 million.

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

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

31/12/2017	Contractual maturities from the end of the reporting period				Total (no discount)	Carrying amount
	Below 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years		
Debt liabilities	92.0	234.9	936.2	549.6	**1,812.7**	**1,701.4**
Trade payables	445.8	-	1.3	-	**447.1**	**447.2**
Investment liabilities	79.0	0.1	-	-	**79.1**	**79.1**
Derivatives	0.2	0.1	-	-	**0.3**	**0.3**
Total	**617.0**	**235.1**	**937.5**	**549.6**	**2,339.2**	**2,228.0**

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

4.4 Cash and cash equivalents

Accounting policy applied

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

Structure of cash and cash equivalents

	31/12/2018	31/12/2017
Cash on hand and on bank accounts	204.6	172.1
Bank deposits up to 3 months	242.7	344.7
Total	**447.3**	**516.8**
including restricted cash	*39.6*	*35.4*

The decrease in the value of bank deposits with a maturity of up to 3 months was attributable mainly to the repayment of liabilities on account of the purchase of non-financial non-current assets. Detailed information in this respect is presented in the consolidated statement of cash flows. The Group estimated the provisions for cash and deposits, based on the probability of default, determined using external ratings of banks keeping the cash / deposits and publicly available information from credit rating agencies on the probability of default. The Group chose not to recognize an impairment loss due to its immateriality. Restricted cash included mostly cash accumulated on bank accounts kept for tender deposits, guarantees and the split-payment mechanism.

4.5 Notes to the statement of cash flows

Movement in working capital

2018	Movement in statement of financial position	Effect of the implementation of IFRS 9	Movement in tax settlements	Net cash flow from investing activities	Net cash flow from financing activities	Other	Net cash flow from operating activities (movement in working capital)
Inventories	(13.2)	-	-	5.4	-	-	(7.8)
Trade receivables	3.5	(3.3)	-	(1.4)	-	(0.3)	(1.5)
Other assets	(22.6)	(1.1)	2.9	7.5	-	(18.4)	(31.7)
Provisions	18.0	-	-		-	-	18.0
Trade payables	52.7	-	-	-	-	0.1	52.8
Investment liabilities	208.3	-	-	(173.3)	-	-	35.0
Other liabilities	8.6	-	1.3	8.8	(5.1)	-	13.6
Total	**255.3**	**(4.4)**	**4.2**	**(153.0)**	**(5.1)**	**(18.6)**	**78.4**

2017	Movement in statement of financial position	Movement in tax settlements	Net cash flow from investing activities	Net cash flow from financing activities	Other	Net cash flow from operating activities (movement in working capital)
Inventories	(27.3)	-	30.4	-	-	3.1
Trade receivables	(72.8)	-	(4.7)	-	(0.8)	(78.3)
Other assets	(9.8)	(2.7)	6.7	-	(29.8)	(35.6)
Provisions	69.4	-	-	-	-	69.4
Trade payables	69.9	-	-	-	0.1	70.0
Investment liabilities	32.7	-	(32.9)	-	-	(0.2)
Other liabilities	(23.8)	(0.3)	2.0	(4.7)	-	(26.8)
Total	**38.3**	**(3.0)**	**1.5**	**(4.7)**	**(30.5)**	**1.6**

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

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

Other adjustments

	2018	2017
Actuarial profits / (losses) on employee benefits recognized in other comprehensive income	(13.2)	(36.9)
Measurement of hedging instruments	(8.4)	12.7
(Profit) / loss on the sale and liquidation of non-financial non-current assets	(3.2)	(4.6)
Result on the sale of entities measured by the equity method	(4.5)	-
(Profit) / loss on investing activities	(4.1)	0.2
FX differences resulting from translation of financial statements	0.3	0.4
Other	(2.3)	(8.7)
Other adjustments in the cash flow statement	**(35.4)**	**(36.9)**

Non-cash transactions

In the 12-month period ended 31 December 2018 and 31 December 2017, major non-financial transactions concerning investing and financial activity which were not reflected in the cash flow statement were as follows:

- Offsetting mutual settlements

In 2018, the Group offset trade receivables with liabilities arising from the purchase of non-financial non-current assets. The total amount of offsets in 2018 amounted to PLN 1.4 million, whereas in 2017 it was PLN 4.7 million.

- Liquidation of rolling stock

When it is decided to liquidate a rolling stock component, its residual value is posted in the item of inventories. In 2018, the residual value of fixed assets reclassified to inventories was PLN 5.4 million, compared to PLN 30.4 million in 2017.

- Purchase of asset components in the form of finance lease

In the 12-month period ended 31 December 2018, the Group, under executed finance lease agreements, purchased fixed assets worth PLN 0.8 million. In the 12-month period ended 31 December 2017, the value of fixed assets acquired under finance lease agreements was PLN 3.4 million.

5. Notes to the statement of financial position

5.1 Rolling stock and other property, plant and equipment

Accounting policy applied

Under property, plant and equipment, the Group recognizes rolling stock, real properties (land, buildings and structures) and other items of property, plant and equipment. Property, plant and equipment are measured at purchase price or production cost reduced by depreciation and impairment losses. The initial value of property, plant and equipment consists of their acquisition cost or cost of production, along with any import duties, non-refundable purchase taxes, less any rebates and discounts, plus any costs directly attributable to preparing the asset for its intended use and, if applicable, the costs of external financing, less any subsidies. Government subsidies are recognized as reduction of the assets' value at the moment when it is reasonably certain that they will be obtained and that all the necessary conditions will be met.

Assets used based on a finance lease agreement (where all the risks and benefits are in principle transferred onto the Group) are treated as the Group's assets and measured at fair value at the moment of purchase but not higher than the current value of minimum lease fees.

Construction-in-progress is presented in the statement of financial position at the production cost reduced by recognized impairment losses.

An item of property, plant and equipment is removed from the statement of financial position at the moment of sale or when no economic benefits are expected from its use. When it is decided to derecognize an item of property, plant and equipment, its book value is recognized in the profit or loss of the period in which the decision was taken, except for rolling stock items, whose residual values, when it is decided to derecognize them, are posted in the item of inventories.

Within rolling stock items, the Group identifies and separates all the material elements, or components, making up the given asset with different economic useful lives. The material components of freight cars and locomotives distinguished by the Group comprise the main part of the rolling stock item and the repair / periodic inspection part. In addition, the residual value (scrap value) is established for the rolling stock items.

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

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

Accounting policy applied

Repairs and inspections

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

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

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

Residual value of rolling stock

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

Depreciation of property, plant and equipment

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

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

Freehold land and rights of perpetual usufruct of land are not subject to depreciation.

The estimated useful lives and residual values are verified at the end of each reporting period (with a prospective application of any changes in estimates).

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

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

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

Accounting policy applied

Impairment of property, plant and equipment

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

MATERIAL VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

Economic useful lives of fixed assets

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

Residual value of the rolling stock

As at 31 December 2018, the Group verified the residual value of its rolling stock. As a result of this verification, the Group decided to update the residual value of its rolling stock without valid technical railworthiness certificates, yet this change did not have a material impact on the value of the impairment loss on rolling stock. In respect of the other rolling stock items, the Group did not update their residual value, because the change did not have a material impact on the Group’s financial statements in the current period or in the subsequent periods.

Impairment of non-current assets

In the second quarter of 2018, certain redundant rolling stock assets were identified as part of the optimization processes executed in the AWT Group. After the analysis and taking into account the effects of the optimization processes an impairment loss on the redundant rolling stock assets was recognized in the amount of PLN 18 million.
As at 31 December 2018, the Group performed impairment tests with respect to two cash-generating units defined at the level of assets of the Parent Company and the AWT Group. The main indications of potential impairment of the Group’s selected assets were:

- the market value of the Group’s net assets continued to be lower than their carrying amount,
- significant uncertainty as to the implementation of the approved restructuring plan for the main business partner of the AWT Group and the observed changes on the Czech rail market.

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

PKP CARGO S.A.

The recoverable value of analysed assets was determined on the basis of their estimated useful value using the net discounted cash flows method, in line with detailed financial projections developed for 2019-2028. In the opinion of the Parent Company’s Management Board, adopting financial projections for more than five years is reasonable because the property, plant and equipment used by the Parent Company have a considerably longer economic useful lives. Presented below are the key assumptions affecting the estimate of the value in use of the tested cash-generating units:
a) in the whole period covered by the detailed projection, the compound annual growth rate (CAGR) of operating revenue will be at 2.8% in real terms,
b) in the whole period covered by the detailed projection, capital expenditures will achieve annual operating revenue of 13.2% in real terms,
c) the after-tax weighted average capital cost (WACC) level will be at 6.03% in real terms,
d) after the detailed projection period, the growth of future cash flows was assumed at 0.0% in real terms.

Since the recoverable amount determined as a result of the test exceeded the carrying amount of the assets tested as at 31 December 2018, the Parent Company recognized no impairment loss for the assets.

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

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

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

AWT GROUP

The recoverable value of analysed assets was determined on the basis of their estimated useful value using the net discounted cash flows method, in line with detailed financial projections developed for 2019-2028. In the opinion of the Group, adopting financial projections for more than five years is reasonable, because the property, plant and equipment used by the AWT Group have considerably longer useful lives and such projections enable a better depiction of the impact of expected changes in the Czech coal and rail market on the Group's performance.

The key assumptions affecting the estimation of the value in use of the tested cash-generating unit were as follows:

a) the cash-generating unit was considered to be all owned by the AWT Group, used mainly to service customers on the Czech rail market,

b) the first three years of the forecast are based on the approved financial plans, for the years 2022-2028 a compound annual growth rate (CAGR) of 3.8% has been assumed in nominal terms (with a 2% projected inflation rate),

c) the after-tax weighted average cost of capital (WACC) in the detailed projection period will be at a level of 7.30% in nominal terms (5.20% in real terms). The WACC calculation takes into account a premium for specific risk, including that related to the main customer undergoing a restructuring process,

d) the increase in remunerations in the residual period was on the level of 0.15% in real terms; no increase was assumed for other parameters.

As at 31 December 2018, following an impairment test, the Group recognized an impairment loss in the amount of PLN 51.2 million. Presented below is the estimated amount of impairment loss as at 31 December 2018 when changing only the following key parameters and keeping the other assumptions on a fixed level:

	AWT Group	
	- 0.3 p.p.	+ 0.3 p.p.
WACC	(41,9)	38.1
Growth after the detailed projection period	23.6	(25.9)

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

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

Movement in rolling stock and other property, plant and equipment

2018	Rolling stock	Other property, plant and equipment					
		Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
1/01/2018	**6,024.6**	**914.6**	**405.9**	**100.5**	**39.5**	**41.2**	**1,501.7**
Increases / (decreases):							
Acquisition	-	-	-	-	-	885.8	**885.8**
Finance leases		-	0.8	-	-		**0.8**
Settlement of fixed assets under construction	786.7	27.5	26.9	3.0	2.2	(846.3)	**(786.7)**
Grant for non-current assets	-	-	-	-	-	(9.2)	**(9.2)**
Sales	(27.5)	(0.9)	(1.1)	(6.1)	-	-	**(8.1)**
Liquidation	(332.1)	(0.8)	(1.9)	(0.2)	(0.1)	(0.1)	**(3.1)**
FX differences	19.5	3.3	0.9	1.0	0.1	0.5	**5.8**
Other	-	-	0.6	-	(0.6)	-	**-**
31/12/2018	**6,471.2**	**943.7**	**432.1**	**98.2**	**41.1**	**71.9**	**1,587.0**
Accumulated depreciation and amortization							
1/01/2018	**2,129.5**	**195.7**	**270.7**	**60.4**	**31.6**	**-**	**558.4**
Increases / (decreases):							
Depreciation	461.7	38.8	32.1	6.4	3.0	-	**80.3**
Sales	(5.7)	(0.3)	(1.0)	(6.0)	-	-	**(7.3)**
Liquidation	(326.0)	(0.6)	(1.6)	(0.2)	(0.1)	-	**(2.5)**
FX differences	3.9	0.5	0.3	0.2	-	-	**1.0**
Other	-	-	0.6	-	(0.6)	-	**-**
31/12/2018	**2,263.4**	**234.1**	**301.1**	**60.8**	**33.9**	**-**	**629.9**
Accumulated impairment							
1/01/2018	**144.7**	**2.7**	**0.3**	**-**	**-**	**2.7**	**5.7**
Increases / (decreases):							
Recognition	69.0	0.1	1.4	-	-	0.1	**1.6**
Sales	(3.4)	-	-	-	-	-	**-**
Liquidation	(0.6)	-	-	-	-	(0.1)	**(0.1)**
FX differences	1.1	-	-	-	-	-	**-**
31/12/2018	**210.8**	**2.8**	**1.7**	**-**	**-**	**2.7**	**7.2**
Net value							
1/01/2018	**3,750.4**	**716.2**	**134.9**	**40.1**	**7.9**	**38.5**	**937.6**
including finance lease	*246.1*	-	*10.8*	*7.0*	-	-	*17.8*
31/12/2018	**3,997.0**	**706.8**	**129.3**	**37.4**	**7.2**	**69.2**	**949.9**
including finance lease	*165.4*	-	*4.4*	*3.9*	-	-	*8.3*

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

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

2017	Rolling stock	Other property, plant and equipment					
		Real properties	Technical machinery and equipment	Means of transport	Other fixed assets	Fixed assets under construction	Total
Gross value							
1/01/2017	**5,824.8**	**905.1**	**381.6**	**100.7**	**39.9**	**44.3**	**1,471.6**
Increases / (decreases):							
Acquisition	-	-	-	-	-	552.4	**552.4**
Finance leases	0.5	-	2.4	1.0	-	-	**3.4**
Settlement of fixed assets under construction	500.7	20.6	27.0	3.1	1.9	(553.3)	**(500.7)**
Grant for non-current assets	-	-	-	-	-	(2.2)	**(2.2)**
Sales	(0.7)	(1.6)	(1.2)	(3.8)	(0.2)	-	**(6.8)**
Liquidation	(293.0)	(5.4)	(2.8)	(0.4)	(0.3)	(0.1)	**(9.0)**
FX differences	(3.5)	(1.0)	(0.2)	-	-	-	**(1.2)**
Other	(4.2)	(3.1)	(0.9)	(0.1)	(1.8)	0.1	**(5.8)**
31/12/2017	**6,024.6**	**914.6**	**405.9**	**100.5**	**39.5**	**41.2**	**1,501.7**
Accumulated depreciation and amortization							
1/01/2017	**1,895.8**	**168.0**	**241.4**	**57.8**	**31.2**	**-**	**498.4**
Increases / (decreases):							
Depreciation	479.5	34.8	32.8	6.9	2.7	-	**77.2**
Sales	(0.2)	(0.2)	(0.9)	(3.7)	(0.2)	-	**(5.0)**
Liquidation	(241.4)	(3.5)	(2.6)	(0.4)	(0.4)	-	**(6.9)**
FX differences	(0.2)	(0.1)	-	(0.1)	-	-	**(0.2)**
Other	(4.0)	(3.3)	-	(0.1)	(1.7)	-	**(5.1)**
31/12/2017	**2,129.5**	**195.7**	**270.7**	**60.4**	**31.6**	**-**	**558.4**
Accumulated impairment							
1/01/2017	**194.4**	**4.3**	**0.3**	**-**	**-**	**2.6**	**7.2**
Increases / (decreases):							
Recognition	-	-	-	-	-	0.2	**0.2**
Derecognition	(27.5)	-	-	-	-	-	**-**
Liquidation	(20.2)	(1.6)	-	-	-	(0.1)	**(1.7)**
FX differences	(2.0)	-	-	-	-	-	**-**
31/12/2017	**144.7**	**2.7**	**0.3**	**-**	**-**	**2.7**	**5.7**
Net value							
1/01/2017	**3,734.6**	**732.8**	**139.9**	**42.9**	**8.7**	**41.7**	**966.0**
including finance lease	*310.3*	-	*8.6*	*9.4*	-	-	***18.0***
31/12/2017	**3,750.4**	**716.2**	**134.9**	**40.1**	**7.9**	**38.5**	**937.6**
including finance lease	*246.1*	-	*10.8*	*7.0*	-	-	***17.8***

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

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

As at 31 December 2018 and 31 December 2017, the carrying amount of rolling stock without valid technical railworthiness certificates, for which the Group recognized an impairment loss, was PLN 367.0 million and PLN 350.0 million, respectively.

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

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

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

5.2 Investments in entities accounted for under the equity method

Detailed information on the entities accounted for under the equity method

	Nature of relationship with the Parent Company	Percent of shares held by the Group		Carrying amount	
		31/12/2018	31/12/2017	31/12/2018	31/12/2017
COSCO Shipping Lines (POLAND) Sp. z o.o.	associate	20.0%	20.0%	0.8	0.5
Pol - Rail S.r.l	-	-	50.0%	-	8.4
Terminale Przeładunkowe Sławków - Medyka Sp. z o.o.	joint venture	50.0%	50.0%	19.5	18.9
Transgaz S.A.	subsidiary	64.0%	64.0%	6.3	6.3
Trade Trans Finance Sp. z o.o.	subsidiary	100.0%	100.0%	8.1	7.9
Rentrans Cargo Sp. z o.o.	associate	29.0%	29.3%	8.1	7.9
PPHU “Ukpol” Sp. z o.o.	subsidiary	100.0%	100.0%	-	-
PKP CARGO CONNECT GmbH	subsidiary	100.0%	100.0%	1.0	0.5
AWT Rail SK a. s.	subsidiary	100.0%	100.0%	3.5	3.2
Total				**47.3**	**53.6**

Investments in entities accounted for under the equity method

	2018	2017
As at the beginning of the reporting period	**53.6**	**58.2**
Sale of shares	(8.5)	-
Share in the profit / (loss) of entities measured by the equity method	3.7	0.8
Movement in equity on account of dividends	(2.1)	(4.9)
Recognition of entities accounted for under the equity method	-	0.1
FX differences resulting from translation of financial statements	0.6	(0.6)
As at the end of the reporting period	**47.3**	**53.6**

On 14 December 2018, members of the PKP CARGO Group sold all their stakes in POL-RAIL S.r.l., as a result of which the company ceased to be a related party of the Group.

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

5.2 Investments in entities accounted for under the equity method (cont.)

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

	31/12/2018	31/12/2017
Non-current assets	33.4	40.3
Current assets	113.1	130.4
Total assets	**146.5**	**170.7**
Long-term liabilities	0.3	3.1
Short-term liabilities	53.1	62.2
Total liabilities	**53.4**	**65.3**
Net assets	**93.1**	**105.4**
Group's shares in the net assets of the entities accounted for under the equity method	47.3	53.6
Total revenues	326.7	287.0
Net result for the financial year	10.5	4.8
Group's shares in the result of the entities accounted for under the equity method	3.7	0.8
Group's shares in the comprehensive income of the entities accounted for under the equity method	3.7	0.8

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

5.3 Inventories

Accounting policy applied

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

Structure of inventories

	31/12/2018	31/12/2017
Strategic inventories	31.4	28.5
Rolling stock during liquidation	20.7	29.7
Other inventories	114.1	95.3
Impairment losses	(4.5)	(5.0)
Net inventories	**161.7**	**148.5**

List of changes in impairment losses for inventories

	2018	2017
As at the beginning of the reporting period	**5.0**	**7.3**
Recognition	0.4	0.8
Reversal	-	(0.8)
Utilization	(0.9)	(2.3)
As at the end of the reporting period	**4.5**	**5.0**

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

5.4 Trade receivables

Accounting policy applied

Accounting policy applied since 1 January 2018

The Group applies a simplified approach, as permitted by IFRS 9, and measures its impairment losses in an amount equal to credit losses expected throughout the lifetime of trade receivables.
The probability of incurred credit losses was estimated on the basis of the historical analysis of recoverability of the balances of trade receivables in specific aging ranges.
For this purpose, the indicators of default by counterparties for each aging range were estimated, in accordance with the table breaking down the aging structure of trade receivables.
Impairment losses are calculated by taking into account the rates of default and the amount of unpaid receivables as at the balance sheet date for each interval in the aging structure.
Moreover, the Group recognizes impairment losses on an individual basis in cases where an objective proof exists that the Group will be unable to recover the amounts due.

Accounting policy applied until 31 December 2017

Under the previous accounting policy, the following items were recognized:

a) specific impairment losses:
- receivables from debtors in liquidation or bankruptcy - up to 100% of their value,
- receivables from debtors whose application for bankruptcy was rejected - up to 100% of their value,
- receivables from debtors involved in settlement or composition proceedings - up to 100% of their value,
- receivables disputed by the debtor - up to 100% of their value,
- receivables from debtors involved in recovery proceedings - up to 100% of their value,
- receivables claimed in court - up to 100% of their value;

b) general impairment losses:
- receivables overdue from 6 to 12 months - up to 50% of their value,
- receivables overdue for more than 12 months - up to 100% of their value.

The amount of the impairment loss for receivables is the difference between the current book value and the recoverable value, which is lower. An impairment loss on trade receivables is presented under other operating expenses.

MATERIAL VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

The calculation and measurement of impairment losses on trade receivables and assets arising from contracts with customers is an area that requires estimation. Expected credit losses are calculated on the basis of an individual assessment of the recoverability of a given receivable and taking into account the model applied by the Group to estimate its counterparty default ratio. Impairment losses determined on a case by case basis require judgment of whether the receivable in question will be repaid by the counterparty, taking into account the established security and settlements made, if any. Such judgment is made by the Group companies' debt collection unit. The model of estimation of the counterparty default ratio applied by the Group is based on a simplified impairment loss matrix for each aging range based on the expected credit losses throughout the lifetime of the receivables. The estimation of the expected credit losses is based on a method that makes use of expected counterparty default ratios calculated on the basis of historical data for the years 2015-2018 obtained from financial and accounting systems. The calculation of impairment losses on receivables is presented in the following tables.

Structure of trade receivables and other receivables

	31/12/2018	31/12/2017
Trade receivables	840.7	844.8
Impairment loss on receivables	(155.4)	(156.0)
Total	**685.3**	**688.8**
Non-current assets	0.7	1.8
Current assets	684.6	687.0
Total	**685.3**	**688.8**

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

5.4. Trade receivables (cont.)

Reconciliation of impairment losses on trade receivables

Impairment losses on trade receivables	31/12/2018 lifetime expected credit losses without impairment	31/12/2018 lifetime expected credit losses with impairment	31/12/2018 Total	31/12/2017
Balance at the beginning of the reporting period according to IAS 39	**-**	**156.0**	**156.0**	**152.9**
Adjustment on the initial application of IFRS 9	3.3	-	3.3	-
Balance at the beginning of the reporting period according to IFRS 9	**3.3**	**156.0**	**159.3**	**152.9**
Recognition	-	11.8	11.8	11.4
Reversal	(0.3)	(14.5)	(14.8)	(5.2)
Utilization	-	(3.6)	(3.6)	(1.7)
FX valuation	-	0.6	0.6	(1.2)
FX differences resulting from translation of financial statements	-	2.1	2.1	(0.2)
As at the end of the reporting period	**3.0**	**152.4**	**155.4**	**156.0**

Movement in the carrying amount of gross trade receivables

2018	Gross trade receivables without impairment	Gross trade receivables with impairment	Total
As at the beginning of the reporting period	**685.1**	**159.7**	**844.8**
Recognized	6,410.0	0.1	**6,410.1**
Interest accrued	3.0	0.1	**3.1**
Written off	-	(3.6)	**(3.6)**
Repaid	(6,407.2)	(11.5)	**(6,418.7)**
Transferred	(8.8)	8.8	**-**
FX valuation	(0.6)	0.9	**0.3**
Fx differences resulting from translation of financial statements	2.9	1.8	**4.7**
As at the end of the reporting period	**684.4**	**156.3**	**840.7**

Age analysis of trade receivables

	31/12/2018			1/01/2018			31/12/2017		
	Gross	Expected credit losses	Net	Gross	Expected credit losses	Net	Gross	Impairment allowance	Net
Non-overdue receivables	613.3	(1.9)	611.4	608.1	(3.5)	604.6	608.1	(1.8)	606.3
Overdue receivables									
from 0 to 30 days	47.3	(0.3)	47.0	59.4	(1.0)	58.4	59.4	-	59.4
from 31 to 90 days	16.7	(0.7)	16.0	15.8	(1.1)	14.7	15.8	(0.8)	15.0
from 91 to 180 days	6.2	(1.5)	4.7	4.8	(1.1)	3.7	4.8	(0.8)	4.0
from 181 to 365 days	6.5	(2.9)	3.6	6.1	(4.7)	1.4	6.1	(4.7)	1.4
over 365 days	150.7	(148.1)	2.6	150.6	(147.9)	2.7	150.6	(147.9)	2.7
Total	**840.7**	**(155.4)**	**685.3**	**844.8**	**(159.3)**	**685.5**	**844.8**	**(156.0)**	**688.8**

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

5.5 Other assets

Accounting policy applied

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

Structure of other assets

	31/12/2018	31/12/2017
Financial assets		
FX forwards	3.5	12.1
Shares in unlisted companies	6.8	7.3
Other	-	1.1
Non-financial assets		
Costs settled over time		
Prepayments for purchase of electricity	31.2	23.4
Lease rents	12.3	12.8
Insurance	7.4	7.9
IT services	4.2	-
Other costs settled over time	6.2	4.1
Other	1.6	3.2
Other receivables		
VAT settlements	65.2	37.3
Income tax receivables	3.0	0.1
Other	5.0	5.3
Intangible assets		
Licenses	28.5	39.9
Other intangible assets	0.2	0.2
Intangible assets during adjustment	6.0	3.8
Total	**181.1**	**158.5**
Non-current assets	56.7	70.4
Current assets	124.4	88.1
Total	**181.1**	**158.5**

As at 31 December 2017, impairment loss on the value of shares in unlisted companies was PLN 11.8 million. As at 31 December 2018, these shares were measured at fair value. Accordingly, no impairment losses on the value of shares in unlisted companies were recognized. The movement in the impairment loss on investments in shares is the effect of the first-time application IFRS 9, as described in **Note 1.3** to these Consolidated Financial Statements.

5.6 Investment liabilities

Accounting policy applied

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

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

5.6 Investment liabilities (cont.)

Structure of investment liabilities

	31/12/2018	31/12/2017
Liabilities on the purchase of rolling stock	234.3	51.5
Liabilities on the purchase and modernization of real properties	18.1	9.9
Other	35.0	17.7
Total	**287.4**	**79.1**
Long-term liabilities	109.8	-
Short-term liabilities	177.6	79.1
Total	**287.4**	**79.1**

5.7 Provisions for employee benefits

Accounting policy applied

The Group provides its employees with long-term benefits during their employment (jubilee awards) as well as benefits after expiration of the tenure of their employment (pension and disability severance benefits, transportation services and benefits from the Company Social Benefits Fund (ZFŚS) for old age and disability pensioners, post-mortem benefits). Jubilee awards are paid out to the employees after working for specified number of years. Pension and disability severance benefits are paid out as lump sum when the employee retires or begins to collect disability benefits. The amount of retirement and disability severance pays and jubilee awards depends on the number of years of service and the employee's average remuneration. Post-mortem benefits are paid out after the employee's death. The Group is establishing provisions for future liabilities arising out of the foregoing virtues to assign the costs to the respective periods. The employees are also vested with the right to receive benefits after their employment in the form of social benefits from the Company Social Benefits Fund and train fare discounts. In its statement of financial position, the Group recognizes the foregoing benefits at the current value of the liability as at the date ending the reporting period.

The amount of long-term benefits during the employment period and benefits after the employment period is calculated by an independent actuarial firm using the forecasted individual benefits method. The current value of liability on that account is determined through discounting the estimated future cash expenditures – using the interest rates based on market interest rates for government bonds. The costs of defined benefit plans for which the employee is eligible during his/her ongoing employment is recognized in the result as costs of employee benefits, except when it is recognized as costs of creating an asset component and reflects the growth of liabilities on account of defined benefits attributable to work performed by the employees in the current period. The costs of past employment are recognized directly in the financial result. The net interest cost is calculated through application of the discount rate to the net value of liability on account of specified financial expenses and it is presented in the financial expenses. Actuarial earnings and losses resulting from adjustments of actuarial assumptions ex post and changes to actuarial assumptions are referred to equity through other comprehensive income in the period in which they arose. In case of jubilee awards, they are referred to the costs of the period.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

As at 31 December 2018 and 31 December 2017, the actuarial valuation of provisions for employee benefits for the Polish Group companies was based on the following assumptions:

	Valuation as at	
	31/12/2018	31/12/2017
	%	%
Discount rate	3.0	3.25
Assumed average annual growth of the base for calculation of provisions for retirement and disability severance pays and jubilee awards	up to 3.0	up to 3.5
Assumed growth of the price of transportation benefits	up to 2.5	up to 2.5
Assumed average annual growth of the base for calculation of provisions for Company Benefits Fund	3.5 - 5.0	3.3 - 5.0
Weighted average employee mobility ratio	1.7 - 8.2	1.1 - 10.0

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

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

5.7 Provisions for employee benefits (cont.)

Sensitivity analysis of provisions for employee benefits

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

	31/12/2017	Discount rate		Salary growth ratio		Employee mobility ratio	
		+0.30 pp.	-0.30 pp.	+0.25 pp.	-0.25 pp.	+0.25 pp.	-0.25 pp.
Jubilee awards	288.0	(4.1)	4.3	3.5	(3.4)	(3.7)	3.7
Retirement and disability severance benefits	174.6	(3.1)	3.2	2.7	(2.6)	(2.7)	2.7
Post-mortem benefits	7.1	(0.1)	0.2	0.1	(0.1)	(0.1)	0.1
Company Social Benefits Fund	143.5	(5.6)	6.0	5.2	(5.0)	(0.8)	0.8
Transportation benefits	33.8	(1.3)	1.4	1.3	(1.1)	(0.2)	0.3
Total	**647.0**	**(14.2)**	**15.1**	**12.8**	**(12.2)**	**(7.5)**	**7.6**

Movement in provisions for employee benefits

	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total provisions
1/01/2018 (audited)	**166.8**	**143.5**	**33.8**	**7.1**	**274.2**	**37.2**	**662.6**
Corrections of prior period errors	7.8	-	-	-	13.8	-	**21.6**
1/01/2018 (restated)	**174.6**	**143.5**	**33.8**	**7.1**	**288.0**	**37.2**	**684.2**
Current service cost	5.7	1.9	1.6	0.2	11.2	-	**20.6**
Interest expenses	4.8	4.7	1.1	0.2	8.6	-	**19.4**
Actuarial (profits) / losses recognized in other comprehensive income	27.3	(12.5)	(2.7)	1.1	-	-	**13.2**
Actuarial (profits) / losses recognized in the statements of profit or loss	-	-	-	-	37.2	-	**37.2**
Recognition of provisions	-	-	-	-	-	30.9	**30.9**
Reversal of provisions	-	-	-	-	-	(19.3)	**(19.3)**
Benefits paid out	(16.6)	(7.4)	(1.0)	(0.7)	(41.1)	(12.6)	**(79.5)**
FX differences	-	-	-	-	0.1	0.2	**0.3**
31/12/2018	**195.8**	**130.2**	**32.8**	**7.9**	**304.0**	**36.3**	**707.0**
Long-term provisions	169.1	125.3	31.7	6.6	258.8	-	**591.5**
Short-term provisions	26.7	4.9	1.1	1.3	45.2	36.3	**115.5**
Total	**195.8**	**130.2**	**32.8**	**7.9**	**304.0**	**36.3**	**707.0**

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

5.7 Provisions for employee benefits (cont.)

	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total provisions
1/01/2017 (audited)	**153.2**	**128.6**	**33.3**	**6.9**	**268.9**	**34.0**	**624.9**
Corrections of prior period errors	7.0	-	-	-	13.7	-	**20.7**
1/01/2017 (restated)	**160.2**	**128.6**	**33.3**	**6.9**	**282.6**	**34.0**	**645.6**
Current service cost	5.3	1.7	0.6	0.1	11.0	-	**18.7**
Interest expenses	4.8	4.5	1.2	0.2	8.4	-	**19.1**
Actuarial (profits) / losses recognized in other comprehensive income	21.0	15.4	(0.2)	0.7	-	-	**36.9**
Actuarial (profits) / losses recognized in the statements of profit or loss	-	-	-	-	29.8	-	**29.8**
Recognition of provisions	-	-	-	-	-	26.7	**26.7**
Reversal of provisions	-	-	-	-	-	(18.4)	**(18.4)**
Benefits paid out	(16.7)	(6.7)	(1.1)	(0.8)	(43.8)	(5.1)	**(74.2)**
31/12/2017	**174.6**	**143.5**	**33.8**	**7.1**	**288.0**	**37.2**	**684.2**
Long-term provisions	150.9	137.8	32.5	6.3	248.2	-	**575.7**
Short-term provisions	23.7	5.7	1.3	0.8	39.8	37.2	**108.5**
Total	**174.6**	**143.5**	**33.8**	**7.1**	**288.0**	**37.2**	**684.2**

Items recognized in the result in reference to employee benefits programs

	31/12/2018	31/12/2017
Employee benefits	(69.4)	(56.8)
Financial expenses	(19.4)	(19.1)
Total recognized in the result before tax	**(88.8)**	**(75.9)**

Actuarial (profits) / losses

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

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

5.7 Provisions for employee benefits (cont.)

2017	change of demographic assumptions	change of financial assumptions	other amendments	Total
Actuarial (profits) / losses - post-employment benefits				
Retirement and disability severance benefits	0.1	2.7	18.2	21.0
Company Social Benefits Fund	1.4	5.3	8.7	15.4
Transportation benefits	0.4	1.2	(1.8)	(0.2)
Post-mortem benefits	(0.2)	0.1	0.8	0.7
Actuarial (profits) / losses - other long-term benefits				
Jubilee awards	(0.4)	3.3	26.9	29.8
Total	**1.3**	**12.6**	**52.8**	**66.7**

Analysis of maturities of paid out employee benefits

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

31/12/2017	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total
up to 1 year	23.7	5.7	1.3	0.8	39.8	37.2	108.5
1 to 5 years	53.2	23.8	5.0	2.7	128.0	-	212.7
over 5 years	97.7	114.0	27.5	3.6	120.2	-	363.0
Total	**174.6**	**143.5**	**33.8**	**7.1**	**288.0**	**37.2**	**684.2**

The average maturity of employee benefits in the Parent Company was 10.3 years as at 31 December 2018. The Parent Company's share in the value of the Group's provisions for employee benefits, as measured using actuarial methods, is approx. 90%.

5.8 Other provisions

Accounting policy applied

Provisions are established if the Group is subject to an existing legal or usually expected obligation attributable to future events and when it may be reasonably expected that the fulfilment of this obligation will cause the outflow of cash and the amount of such obligation may be credibly estimated. The recognized amount of provisions reflects the most precise possible estimate of the amount that must be used to settle the ongoing liability as at the balance sheet date, taking into account the risk and uncertainty related to that liability. If provisions are measured using the method of estimated cash flows necessary to settle a current liability, its carrying amount corresponds to the value of those flows at the given moment (if the effect of cash in time is significant). If it is likely that a portion or all the economic benefits, required for settlement of provisions, may be recovered from a third party, such receivables shall be recognized as an asset component if the likelihood of recovering that amount is adequately high and may be credibly estimated.

If it is impossible to unequivocally determine whether the present liability exists, for example in the event of a court case, the Group shall establish reserves for such events if it concludes that after taking into account all the available evidence, such liability is more likely to exist as at the balance sheet date than it is not. If the present liability is more likely not to exist that it is to exist as at the balance sheet date, the Group shall disclose the information on the contingent liability unless it is unlikely that there will be the outflow of the means entailing economic benefits.

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

5.8 Other provisions (cont.)

Structure of other provisions

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

2017	Provision for penalties imposed by anti-monopoly authorities	Provision for land reclamation	Provision for VAT liabilities	Provision for onerous contracts	Other provisions	Total
1/01/2017	**16.4**	**4.9**	**-**	**8.2**	**21.9**	**51.4**
Recognition	1.0	0.1	22.3	15.8	10.1	**49.3**
Reversal	-	-	-	-	(6.2)	**(6.2)**
Utilization	(3.2)	-	-	(7.3)	(1.8)	**(12.3)**
31/12/2017	**14.2**	**5.0**	**22.3**	**16.7**	**24.0**	**82.2**
Long-term provisions	14.2	4.2	-	3.8	0.3	**22.5**
Short-term provisions	-	0.8	22.3	12.9	23.7	**59.7**
Total	**14.2**	**5.0**	**22.3**	**16.7**	**24.0**	**82.2**

Provision for penalties imposed by anti-monopoly authorities

As at 31 December 2018, this item included:

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

In 2018, the movement in provisions was due to the administrative procedure initiated in October 2016 by the Czech Antimonopoly Office against AWT Čechofracht a.s. in connection with the suspicion of involvement in a cartel arrangement in 2004-2010. As a result of the progress of the procedure and analysis of its current status, the Group decided to establish a provision of PLN 1.2 million for a potential penalty, which was subsequently changed to PLN 0.6 million.

As regards the provision for the penalty imposed by UOKiK, on 15 October 2018 the Court of Competition and Consumer Protection issued a judgment in which it dismissed the Parent Company's appeal and upheld in its entirety the contested decision. Accordingly, in the financial year ended 31 December 2018, no circumstances emerged that would make it necessary to update the established provision of PLN 14.2 million.

Provision for land reclamation

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

Provision for onerous contracts

As at 31 December 2017, this provision represented the amount of the anticipated loss for two procurement agreements for which the inevitable costs of fulfilling the resulting duties were higher than the predicted benefits achievable under those agreements. As a result of the performance of these agreements in the financial year ended 31 December 2018, the amount of PLN 12.9 million of the provision was utilized.

Provision for VAT liabilities

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

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

5.8 Other provisions (cont.)

Other provisions

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

According to the Parent Company's Management Board, the amount of other provisions as at 31 December 2018, and as at 31 December 2017, constitutes the best estimate of the amount that will likely have to be paid. The estimate is based on the management's best knowledge, the experience to date and other factors which are considered to be the most reasonable in the given situation.

5.9 Other liabilities

Accounting policy applied

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

Structure of other liabilities

	31/12/2018	31/12/2017
Financial liabilities		
FX forwards	0.2	-
Other	-	0.3
Other liabilities		
Liabilities arising out of collateral (deposits, bid bonds, guarantees)	36.9	42.1
Public law settlements	86.9	78.3
Settlements with employees	95.2	87.3
Received grants	2.6	6.0
Other settlements	7.0	3.1
VAT settlements	6.5	8.3
Short-term tax liabilities	0.3	1.6
Total	**235.6**	**227.0**
Long-term liabilities	1.8	0.3
Short-term liabilities	233.8	226.7
Total	**235.6**	**227.0**

6. Financial instruments and principles of financial risk management

Accounting policy applied

Accounting policy effective since 1 January 2018

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

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

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

Accounting policy applied

Financial assets carried at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met:

a) the financial asset is held within a business model whose objective is achieved by holding financial assets in order to collect contractual cash flows;

b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

In this category, the Group classifies mainly:

a) trade receivables,

b) bank deposits over 3 months,

c) cash and cash equivalents.

The differences in the accounting policy pertaining to impairment losses on trade receivables are described in **Note 5.4**.

As at 1 January 2018 and 31 December 2018, the Group did not have any financial assets of a debt nature measured at fair value through other comprehensive income or measured at fair value through profit or loss.

Investments in equity instruments

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

Financial liabilities

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

a) financial liabilities at fair value through profit or loss;

b) liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies,

c) financial guarantee contracts,

d) commitments to provide a loan at a below-market interest rate,

e) contingent consideration recognized by an acquirer in a business combination to which IFRS 3 applies.

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

Accounting policy effective until 31 December 2017

As at 31 December 2017, the Group presented the following categories under other financial assets:

a) Loans and receivables

Loans and receivables are non-derivative financial instruments with constant or foreseeable payments, not listed in an active market. The Group included in loans and receivables: cash and cash equivalents, bank deposits with maturity longer than three months, trade receivables and receivables from the sale of non-financial non-current assets. Loans and receivables are carried at amortized cost using the effective interest rate method, taking into account impairment, except for those assets where the discount effect is immaterial.

b) Available-for-sale financial assets

In the Group, available-for-sale financial assets included capital investments not listed on an active market, which were measured at cost minus impairment losses.

In addition to changes resulting from differences in the classification of financial assets, changes in the methodology for recognizing impairment losses on trade receivables and changes in the measurement of equity instruments in other entities, there have been no other significant differences in the accounting policy effective since 1 January 2018 that would affect these Consolidated Financial Statements.

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

6.1 Financial instruments

Categories and classes of financial instruments

Financial assets by categories and classes	Note	31/12/2018	Financial assets by categories and classes	31/12/2017
Hedging financial instruments			**Hedging financial instruments**	
Derivatives	*Note 5.5*	3.5	Derivatives	12.1
Financial assets measured at fair value through other comprehensive income			**Available-for-sale financial assets**	
Investments in equity instruments	*Note 5.5*	6.8	Shares in unlisted companies	7.3
Financial assets measured at amortized cost			**Loans and receivables**	
Trade receivables	*Note 5.4*	685.3	Trade receivables	688.8
Receivables on account of sale of non-financial non-current assets		-	Receivables on account of sale of non-financial non-current assets	0.1
Loans granted		-	Loans granted	1.1
Bank deposits over 3 months		201.1	Bank deposits over 3 months	253.8
Cash and cash equivalents	*Note 4.4*	447.3	Cash and cash equivalents	516.8
Total		**1,344.0**		**1,480.0**

Financial liabilities by categories and classes	Note	31/12/2018	31/12/2017
Hedging financial instruments			
Derivatives	*Note 5.9*	0.2	0.3
Bank loans and borrowings	*Note 4.1*	468.1	494.3
Financial liabilities measured at amortized cost			
Bank loans and borrowings	*Note 4.1*	863.7	1,068.0
Trade payables		499.9	447.2
Investment liabilities	*Note 5.6*	287.4	79.1
Financial liabilities excluded from the scope of IFRS 9 / IAS 39	*Note 4.1*	95.2	139.1
Total		**2,214.5**	**2,228.0**

Impairment losses on shares in unlisted companies and trade receivables are described in **Notes 5.4** and **5.5** to these Consolidated Financial Statements, respectively.

Hedge accounting

In the period from 1 January 2018 to 31 December 2018, the Group applied hedge accounting to its cash flows. The purpose of the hedging activity was to mitigate the impact of the FX risk within the EUR/PLN currency pair on future cash flows. The hedged item is a highly probable cash flow denominated in EUR.

As at 31 December 2018, the following hedging instruments were established by the Parent Company:

- investment loans denominated in EUR. The hedged cash flows will be realized until August 2031. As at 31 December 2018, the nominal amount of the hedging instrument was EUR 108.9 million, which is an equivalent of PLN 468.1 million,
- in forward foreign exchange contracts. The hedged cash flows will be realized until December 2020. As at 31 December 2018, the value of assets and liabilities on account of the measurement of the hedging instrument was PLN 3.5 million and PLN 0.2 million, respectively.

This item also includes measurement of hedging instruments in a subsidiary in the form of forward foreign exchange contracts on the EUR/PLN currency pair, hedging future cash flows. The hedged cash flows will be realized until November 2019. As at 31 December 2018, the value of the assets on account of measurement hedging instruments was PLN 0.3 million.

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

6.1 Financial instruments (cont.)

Fair value hierarchy

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

	31/12/2018		31/12/2017
	Level 2	Level 3	Level 2
Assets			
Derivatives – forward FX contracts	3.5	-	12.1
Investments in equity instruments – shares in unlisted companies	-	6.8	-
Liabilities			
Derivatives – forward FX contracts	0.2	-	-
Derivatives – IRS contracts	-	-	0.3

Measurement methods for financial instruments carried at fair value

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

b) Investments in financial instruments
This line item includes mainly shares in Euroterminal Sławków Sp. z o.o. worth PLN 4.9 million, the value of which was measured by an independent adviser using the modified Swiss method. The Swiss method is a mixed measurement method as it combines the asset value aspect with the ability to generate future cash flows. According to the Swiss method, the value of the enterprise is calculated as the weighted average of the values determined by the asset-based approach and the income-based approach. This method attaches a greater weight (twice as large) to the value determined by the income-based approach. The adoption of the Swiss method is justified on the grounds that Euroterminal Sławków Sp. z o.o. has a moderate ability to generate profits in the future but owns significant assets in the form of land plots and real properties.

c) IRS contracts
The fair value of interest rate swaps was determined on the basis of discounted future cash flows on account of executed transactions based on the difference between the forward price and the transaction price. The fair value was calculated and discounted by the bank according to WIBOR 1M.

d) Other financial instruments
For the category of financial instruments which are not carried at fair value as at the balance sheet date, the Group does not disclose fair value because the fair values of these financial instruments as at 31 December 2018 and 31 December 2017 were not materially different from their values presented in the statement of financial position.

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

	2018	2017
As at the beginning of the reporting period (audited)	**-**	**118.7**
Changes resulting from the implementation of IFRS 9	6.2	-
As at the beginning of the reporting period (restated)	**6.2**	**118.7**
Purchase of shares	1.0	-
Sale of shares	(0.4)	-
(Profit) / loss on revaluation	-	(4.7)
Settlement of the “put” option for non-controlling interest	-	(114.0)
As at the end of the reporting period	**6.8**	**-**

Data as at 1 January 2018 have been restated in connection with the implementation of IFRS 9, as described in **Note 1.3** and **1.5** to these Consolidated Financial Statements.

In the financial year ended 31 December 2018 and 31 December 2017, there were no transfers between levels 2 and 3 of the fair value hierarchy.

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

6.1 Financial instruments (cont.)

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

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

In the period of 12 months ended 31 December 2018, the effect of settling cash flow hedge accounting adjusted the value of revenue from contracts with customers in the amount of PLN 7.3 million and financial expenses in respect of interest on finance lease liabilities in the amount of PLN (0.3) million.

In the period of 12 months ended 31 December 2018, the change in the measurement of hedging financial instruments recognized in other comprehensive income included a change in the measurement of derivatives in the amount of PLN (8.5) million and bank loans in the amount of PLN (14.9) million, recognized as part of the hedge accounting applied by the Group.

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

6.1 Financial instruments (cont.)

2017	Hedging financial instruments	Available-for-sale financial assets	Loans and receivables	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IAS 39	Total
Dividends and profit-sharing	-	0.3	-	-	-	-	**0.3**
Interest income / (expense)	(1.2)	-	14.1	-	(28.7)	(6.1)	**(21.9)**
FX differences	0.7	-	(16.1)	-	6.6	5.7	**(3.1)**
Impairment losses / revaluation	0.1	-	(6.3)	4.7	-	-	**(1.5)**
Transaction costs related to loans	-	-	-	-	(1.7)	-	**(1.7)**
(Profit) / loss on the sale of investments	-	(0.2)	-	-	-	-	**(0.2)**
Effect of settlement of cash flow hedge accounting	8.0	-	-	-	-	-	**8.0**
Gross profit / (loss)	**7.6**	**0.1**	**(8.3)**	**4.7**	**(23.8)**	**(0.4)**	**(20.1)**
Movement in revaluation	27.9	-	-	-	-	-	**27.9**
Other comprehensive income	**27.9**	**-**	**-**	**-**	**-**	**-**	**27.9**

In the period of 12 months ended 31 December 2017, the effect of settling cash flow hedge accounting adjusted the value of revenue from contracts with customers in the amount of PLN 8.9 million and financial expenses in respect of interest on finance lease liabilities in the amount of PLN (0.9) million.

In the period of 12 months ended 31 December 2017, the change in the measurement of hedging financial instruments recognized in other comprehensive income included a change in the measurement of derivatives in the amount of PLN 12.7 million and bank loans in the amount of PLN 15.2 million, recognized as part of the hedge accounting applied by the Group.

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

6.1 Financial instruments (cont.)

Offsetting financial assets

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

31/12/2017	Gross value of recognized financial assets	Net value of financial assets presented in the statement of financial position	Associated values not in the statement of financial position – received cash collateral	Net value
Trade receivables	688.8	688.8	(5.4)	683.4
Total	**688.8**	**688.8**	**(5.4)**	**683.4**

Offsetting financial liabilities

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

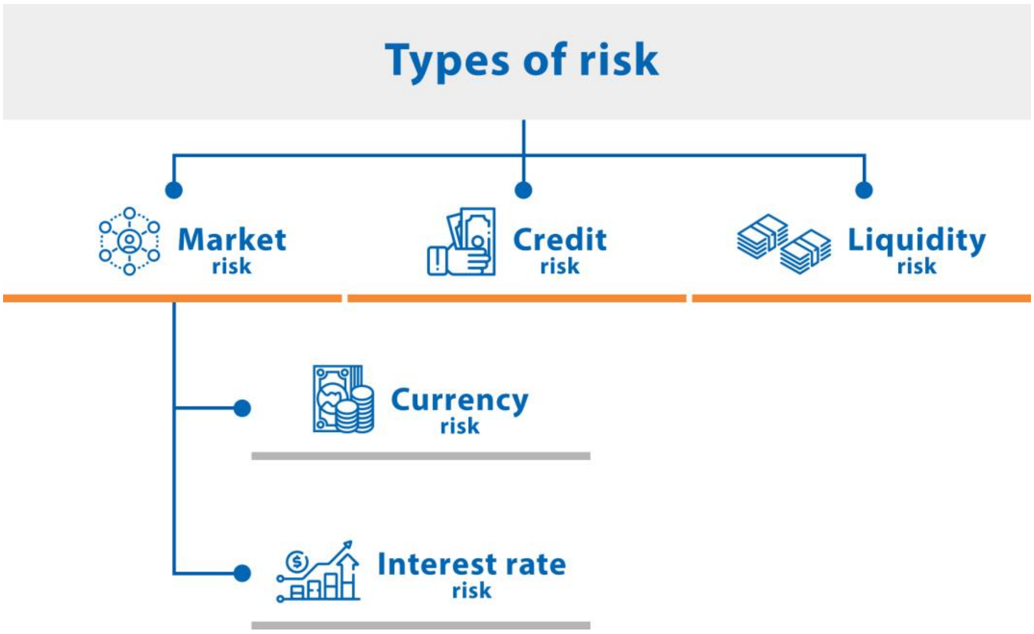
31/12/2017	Gross value of recognized financial liabilities	Net value of financial liabilities presented in the statement of financial position	Associated values not offset in the statement of financial position – provided cash collateral	Net value
Trade payables	447.2	447.2	(1.5)	445.7
Total	**447.2**	**447.2**	**(1.5)**	**445.7**

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

6.2 Objectives and principles of financial risk management

Objectives and principles of financial risk management

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



Market risk

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

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

Foreign exchange risk management

As at 31 December 2018, the Group was exposed to foreign exchange risk concerning for the most part trade receivables, loan liabilities and lease liabilities denominated in foreign currencies.

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

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

For the EUR/PLN exchange rate, there is partial natural hedging due to the fact that sales revenues in EUR are partly balanced out by costs in the same currency. The FX risk management transactions used by the Group are aimed at hedging the net free position exposed to change of the value in PLN. As part of its hedge accounting policy, the Group used applied forward transactions for the currency pair EUR/PLN in 2017-2018 and established hedging relationships between cash flows arising from bank loans denominated in EUR and future highly probable cash flows arising from operating activities denominated in EUR.

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

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

Items in foreign currencies

31/12/2018	Total value of items in PLN	EUR/PLN		CZK/PLN		CHF/PLN	
		in a foreign currency	in PLN	in a foreign currency	in PLN	in a foreign currency	in PLN
ASSETS							
Non-current assets							
Other assets – forward FX contracts (1)	0.8	16.9	0.8	-	-	-	-
Current assets							
Trade receivables	202.9	29.8	128.3	440.4	73.7	0.2	0.9
Other assets – forward FX contracts (1)	2.7	45.5	2.7	-	-	-	-
Cash and cash equivalents	125.7	14.0	60.1	392.2	65.6	-	-
Total	**332.1**	**106.2**	**191.9**	**832.6**	**139.3**	**0.2**	**0.9**
EQUITY AND LIABILITIES							
Long-term liabilities							
Debt liabilities	526.3	110.2	473.6	314.8	52.7	-	-
Other liabilities	0.7	0.1	0.4	1.9	0.3	-	-
Short-term liabilities							
Debt liabilities	71.4	16.1	69.1	14.0	2.3	-	-
Trade payables	165.5	14.8	63.8	588.9	98.5	0.8	3.2
Other liabilities – forward FX contracts (1)	0.2	8.8	0.2	-	-	-	-
Total	**764.1**	**150.0**	**607.1**	**919.6**	**153.8**	**0.8**	**3.2**
Net currency item	**(432.0)**	**(43.8)**	**(415.2)**	**(87.0)**	**(14.5)**	**(0.6)**	**(2.3)**

31/12/2017	Total value of items in PLN	EUR/PLN		CZK/PLN		CHF/PLN	
		in a foreign currency	in PLN	in a foreign currency	in PLN	in a foreign currency	in PLN
ASSETS							
Non-current assets							
Other assets – forward FX contracts (1)	2.6	19.2	2.6	-	-	-	-
Current assets							
Trade receivables	212.8	33.6	140.0	434.9	71.0	0.5	1.8
Other assets:							
forward FX contracts (1)	9.5	37.9	9.5	-	-	-	-
other assets	1.1	0.3	1.1	-	-	-	-
Cash and cash equivalents	163.1	21.8	90.9	442.1	72.1	-	0.1
Total	**389.1**	**112.8**	**244.1**	**877.0**	**143.1**	**0.5**	**1.9**
EQUITY AND LIABILITIES							
Long-term liabilities							
Debt liabilities	576.4	125.4	523.1	326.6	53.3	-	-
Short-term liabilities							
Debt liabilities	93.6	21.7	90.5	18.9	3.1	-	-
Trade payables	187.9	21.6	90.0	580.9	94.8	0.9	3.1
Total	**857.9**	**168.7**	**703.6**	**926.4**	**151.2**	**0.9**	**3.1**
Net currency item	**(468.8)**	**(55.9)**	**(459.5)**	**(49.4)**	**(8.1)**	**(0.4)**	**(1.2)**

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

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

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

Sensitivity to FX risk

The Group is exposed mainly to the foreign exchange risk regarding the currency pairs EUR/PLN, CHF/PLN and CZK/PLN in connection with its operating and financing activities. Deviations in exchange rates were calculated on the basis of the average volatility of each currency exchange rate in the period under analysis. Sensitivity of financial Instruments to foreign exchange risk has been calculated as the difference between the original carrying amount of the financial Instruments and their potential value while assuming changes to foreign exchange rates. The tables below present the Group's exposure to foreign exchange risk in 2017-2018.

31/12/2018	value of the item in PLN	Currency risk							
		EUR/PLN				CZK/PLN		CHF/PLN	
		impact on the result		impact on other comprehensive income		impact on other comprehensive income		impact on the result	
		+6%	-6%	+6%	-6%	+4%	-4%	+9%	-9%
ASSETS									
Non-current assets									
Other assets – forward FX contracts	0.8			(4.4)	4.4	-	-	-	-
Current assets									
Trade receivables	202.9	7.2	(7.2)		-	2.9	(2.9)	0.1	(0.1)
Other assets – forward FX contracts	2.7	-	-	(11.8)	11.8	-	-	-	-
Cash and cash equivalents	125.7	3.6	(3.6)	-	-	2.6	(2.6)	-	-
EQUITY AND LIABILITIES									
Long-term liabilities									
Debt liabilities	526.3	(2.8)	2.8	(25.6)	25.6	(2.1)	2.1	-	-
Other liabilities	0.7	-	-	-	-	-	-	-	-
Short-term liabilities									
Debt liabilities	71.4	(1.6)	1.6	(2.5)	2.5	(0.1)	0.1	-	-
Trade payables	165.5	(3.8)	3.8	-	-	(3.9)	3.9	(0.3)	0.3
Other liabilities – forward FX contracts	0.2	-	-	(2.3)	2.3	-	-	-	-
Total gross effect		**3.1**	**(3.1)**	**(46.6)**	**46.6**	**(0.6)**	**0.6**	**(0.2)**	**0.2**

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

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

31/12/2017	value of the item in PLN	Currency risk							
		EUR/PLN				CZK/PLN		CHF/PLN	
		impact on the result		impact on other comprehensive income		impact on other comprehensive income		impact on the result	
		+5%	-5%	+5%	-5%	+5%	-5%	+5%	-5%
ASSETS									
Non-current assets									
Other assets – forward FX contracts	2.6	-	-	(7.3)	(7.3)	-	-	-	-
Current assets									
Trade receivables	212.8	7.0	(7.0)	-	-	3.5	(3.5)	0.1	(0.1)
Other assets:									
forward FX contracts	9.5	-	-	(12.0)	12.0				
other assets	1.1	0.1	(0.1)	-	-	-	-	-	-
Cash and cash equivalents	163.1	4.5	(4.5)	-	-	3.6	(3.6)	-	-
EQUITY AND LIABILITIES									
Long-term liabilities									
Debt liabilities	576.4	(1.7)	1.7	(22.7)	22.7	(2.7)	2.7	-	-
Short-term liabilities									
Debt liabilities	93.6	(1.7)	1.7	(2.8)	2.8	(0.2)	0.2	-	-
Trade payables	187.9	(4.5)	4.5	-	-	(4.7)	4.7	-	-
Total gross effect		**3.7**	**(3.7)**	**(44.8)**	**44.8**	**(0.5)**	**0.5**	**0.1**	**(0.1)**

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

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

FX forward transactions

To manage the foreign exchange risk in 2018 and 2017, FX forward transactions were applied on the EUR/PLN currency pair (sale and purchase of currency).

List of unrealized FX forward contracts

As at 31 December 2018

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

As at 31 December 2017

Company	Transaction type	Transaction date	Contract settlement date	Currency pair	Amount in the base currency	Amount in the volatile currency	Fair value of assets
BZ WBK	forward	06/2016 - 10/2017	01/2018 - 10/2019	EUR/PLN	2.6	11.5	0.7
mBANK	forward	11/2016 - 12/2017	01/2018 - 12/2019	EUR/PLN	12.9	56.9	2.1
Pekao	forward	06/2016 - 10/2017	01/2018 - 10/2019	EUR/PLN	15.1	67.0	3.4
PKO BP	forward	05/2016 - 12/2017	01/2018 - 12/2019	EUR/PLN	20.9	93.6	4.8
RCB	forward	10/2016 - 11/2016	01/2018 - 11/2018	EUR/PLN	1.0	4.5	0.3
Credit Agricole	forward	01/2017 - 12/2017	07/2018 - 12/2019	EUR/PLN	4.6	20.5	0.8
Total					**57.1**	**254.0**	**12.1**

Interest rate risk management

As at 31 December 2018, the Group is exposed to the risk of volatility of interest rate cash flows following from bank loans and lease agreements based on variable interest rates. Interest on lease agreements was accrued according to the reference rates increased by the financing party's margin. The reference rate for lease contracts denominated in EUR is EURIBOR 6M, and for agreements signed in PLN the reference rate is WIBOR 1M. Interest on loan agreements was accrued at the WIBOR 1M and 3M, EURIBOR 3M and PRIBOR 3M reference rates plus the banks' margins. Interest rate risk in loan and leasing agreements is executed through revaluation of instalments in monthly, quarterly and semi-annual periods, depending on the agreement.

Until May 2018, the Group used interest rate risk management transactions (IRS) to hedge against fluctuations of interest rates for some of the finance lease liabilities.

The cash held by the Group as at 31 December 2018 was mainly in the form of fixed rate bank deposits which were concluded with time horizons depending on the Group's liquidity needs. In future periods, as a result of changes in the deposit interest rates, the cash position may be exposed to interest rate risk.

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

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

Financial instruments by interest rate type

Financial assets	31/12/2018	31/12/2017		
		Interest rate		Total
	at a fixed interest rate	at a fixed interest rate	at a variable interest rate	
Loans granted	-	0.8	0.3	**1.1**
Bank deposits	201.1	253.8	-	**253.8**
Cash and cash equivalents	447.3	516.8	-	**516.8**
Total	**648.4**	**771.4**	**0.3**	**771.7**

Financial liabilities	31/12/2018			31/12/2017		
	Interest rate		Total	Interest rate		Total
	at a fixed interest rate	at a variable interest rate		at a fixed interest rate	at a variable interest rate	
Derivatives	-	-	**-**	0.3	-	**0.3**
Debt liabilities	75.6	1,351.4	**1,427.0**	98.8	1,602.6	**1,701.4**
Liabilities on the purchase of fixed assets	235.1	-	**235.1**	0.6	-	**0.6**
Total	**310.7**	**1,351.4**	**1,662.1**	**99.7**	**1,602.6**	**1,702.3**

Interest rate fluctuation sensitivity

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

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

31/12/2017	Value of the item in PLN	Interest rate risk					
		WIBOR		EURIBOR		PRIBOR	
		impact on the result		impact on the result		impact on the result	
		+ 50 bps	- 50 bps	+ 50 bps	- 50 bps	+ 50 bps	- 50 bps
ASSETS							
Other assets	0.3	-	-	-	-	-	-
EQUITY AND LIABILITIES							
Long-term liabilities							
Debt liabilities	1,332.0	(4.2)	4.2	(2.3)	2.3	(0.3)	0.3
Short-term liabilities							
Debt liabilities	269.8	(1.0)	1.0	-	-	-	-
Total gross effect		**(5.2)**	**5.2**	**(2.3)**	**2.3**	**(0.3)**	**0.3**

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

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

Credit risk management

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

	31/12/2018	31/12/2017
Trade receivables	685.3	688.8
Cash and cash equivalents	447.3	516.8
Bank deposits over 3 months	201.1	253.8
Other financial assets	-	1.1
Total	**1,333.7**	**1,460.5**

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

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

Structure of trade receivables in terms of entity types

	31/12/2018	31/12/2017
Group of entities related to the biggest external counterparty	7.4%	8.8%
PKP Group related parties	0.8%	0.7%
Other State Treasury related parties	25.6%	22.3%
Other entities	66.2%	68.2%
Total	100.0%	100.0%

In addition, to reduce the risk of problems with recovery of trade receivables, the Group accepts from its customers securities in the form of, among others: receivables insurance, bank / insurance guarantees, assignment of contracts, blockage on bank accounts, and promissory notes. As at 31 December 2018, 12.0% of trade receivables were secured.

The credit risk associated with cash and bank deposits is perceived as low. All entities in which the Group invests free cash operate in the financial sector. These include domestic banks, foreign banks and branches of foreign banks with a high creditworthiness. The concentration of risk involving cash and bank deposits with a maturity longer than 3 months is presented in the table below.

Bank	Credit rating agency	Rating	31/12/2018
Bank A	Fitch	A-	27.9%
Bank B	Moody's	A2	21.9%
Bank C	Moody's	Baa1	15.5%
Bank D	Moody's	Baa1	7.9%
Bank E	Moody's	Baa2	7.8%
Bank F	Moody's	A2	7.7%
Other			11.3%
Total			**100.0%**

7. Other notes

7.1 Related party transactions

Transactions with the State Treasury and its other related parties

In the financial year ended 31 December 2018 and the financial year ended 31 December 2017, the State Treasury was an upper level parent entity for the PKP CARGO Group. Accordingly, all companies owned by the State Treasury (directly or indirectly) are the Group's related parties and are presented separately as PKP Group related parties and other State Treasury related parties. In these Consolidated Financial Statements, the Management Board of the Parent Company has disclosed transactions with significant related parties identified as such according to the best knowledge of the Management Board.

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

7.1 Related party transactions (cont.)

In the financial years ended 31 December 2018 and 31 December 2017, there were no transactions effected between the PKP CARGO Group and the State Treasury or other entities related to the State Treasury which would be significant due to a non-standard scope or amount. In the periods covered by these Consolidated Financial Statements, the Group's most important clients among other parties related to the State Treasury were members of the following groups: ENEA, JSW, PGE, Azoty and PGG. In the periods covered by these Consolidated Financial Statements, there were no purchase transactions with other entities related to the State Treasury with any material value.

Transactions with PKP Group related parties

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

	2018		31/12/2018	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent Company (PKP S.A.)	0.4	71.1	1.4	9.6
Subsidiaries/co-subsidiaries – unconsolidated	9.2	14.4	2.6	1.5
Associates	1.7	0.3	-	-
Other PKP Group related parties	12.9	721.3	1.9	63.3

	2017		31/12/2017	
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
Parent Company (PKP S.A.)	0.4	68.5	1.3	8.0
Subsidiaries/co-subsidiaries – unconsolidated	9.5	15.3	1.2	1.6
Associates	2.5	0.5	0.2	-
Other PKP Group related parties	26.4	692.4	2.5	60.9

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

Loans granted to / received from related parties

	31/12/2018	31/12/2017
Loans granted to related parties	-	1.1
Loans received from related parties	1.4	1.3

Remunerations of key management personnel

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

Remunerations of Management Board members	Parent Company		Subsidiaries	
	2018	2017	2018	2017
Short-term benefits	2.4	2.4	6.5	8.8
Post-employment benefits	0.5	1.1	3.1	0.8
Termination benefits	0.1	0.4	0.1	0.3
Total	**3.0**	**3.9**	**9.7**	**9.9**

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

7.1 Related party transactions (cont.)

Remunerations of Supervisory Board Members	Parent Company		Subsidiaries	
	2018	2017	2018	2017
Short-term benefits	1.0	1.1	1.2	1.5
Total	**1.0**	**1.1**	**1.2**	**1.5**

Remunerations of other members of the key management personnel	Parent Company		Subsidiaries	
	2018	2017	2018	2017
Short-term benefits	6.4	6.2	20.8	19.3
Post-employment benefits	0.7	1.1	1.2	0.5
Termination benefits	0.1	0.5	0.2	0.1
Total	**7.2**	**7.8**	**22.2**	**19.9**

In the financial year ended 31 December 2018 and 31 December 2017, the members of the key management personnel of the Parent Company and the PKP CARGO Group subsidiaries did not enter into any loan and guarantee transactions with the Group.

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

7.2 Operating lease agreements

Group as a lessee

As at 31 December 2018, the Company's operating lease agreements comprised mainly agreements pertaining to lease of real properties, freight wagons and locomotives. Key real estate lease agreements are concluded for long-term periods with the possibility of early termination within specified contractual deadlines. The term of the lease agreements for freight wagon and locomotives lasts until 2019-2023, depending on the agreement.

The Group presents, as future minimum leasing fees, the fees which it is obligated to pay during the termination notice period for such agreements if the agreement provides for such an option.

Leasing fees as cost of the period

	2018	2017
Minimum leasing fees	160.2	126.4
Fees received under sub-lease (subleasing)	(4.8)	(2.4)
Total	**155.4**	**124.0**

Future minimum leasing fees under non-cancellable operating leases

	2018	2017
Up to 1 year	109.0	71.9
From 1 year to 5 years	79.6	66.4
Over 5 years	2.1	7.1
Total	**190.7**	**145.4**

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

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

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

	31/12/2018	31/12/2017
Contractual liabilities on account of the acquisition of non-financial non-current assets	538.4	23.9
Total	**538.4**	**23.9**

As at 31 December 2018, the value of the Group's future investment liabilities included mainly liabilities resulting from:

- a contract entered into with NEWAG S.A. for modernization of 60 SM48 locomotives to be performed by May 2021. The contract is currently underway and as at 31 December 2018 its outstanding contractual value was PLN 260.7 million,
- a contract entered into with Pojazdy Szynowe PESA Bydgoszcz S.A. to conduct level five maintenance repairs of 38 ST44 locomotives with a total value of PLN 176.3 million, to be performed from January 2019 to September 2020,

The remaining part of the Group's investment liabilities consisted mainly of a PLN 47.4 million contract for the purchase of wagons, contracts for repairs and periodic inspections of wagons for PLN 27.6 million and a contract for the expansion of the transhipment terminal in Pasków for PLN 19.7 million.

On 28 January 2019, the Parent Company entered into an annex with a consortium of Siemens Mobility Sp. z o.o. and Siemens Mobility GmbH for the exercise of the option specified in the contract and the Parent Company's right to increase the deliverable by 5 brand new Siemens VECTRON multi-system locomotives with the provision of auxiliary services. 3 locomotives are scheduled to be delivered by July 2019 and 2 locomotives are scheduled to be delivered by January 2020. The total estimated net value of the annex is approx. EUR 26 million, an equivalent of PLN 111.8 million.

7.4 Contingent liabilities

Accounting policy applied

In compliance with the Group's accounting policy, a contingent liability is:
a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or
b) a present obligation that arises from past events but is not recognized in the statement of financial position or in the statement of profit or loss and other comprehensive income, because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

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

Structure of contingent liabilities

	31/12/2018	31/12/2017
Guarantees issued on the Group's order	125.0	130.1
Other contingent liabilities	119.8	129.2
Total	**244.8**	**259.3**

Guarantees issued on the Group's order

As at 31 December 2018, the Group included in contingent liabilities guarantees issued by banks and insurance companies at the request of PKP CARGO Group companies. This line item comprises mainly commercial contract performance bonds, tender deposits and customs guarantees.

Other contingent liabilities

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

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

7.5 Collateral for repayment of liabilities

Assets constituting collateral for repayment of liabilities

As at 31 December 2018 and 31 December 2017 the Group had assets which constituted collateral for repayment of liabilities. The assets secure mainly correct performance of facility agreements. The amounts of the collateral are limited to the amount of the loan liability as at the balance sheet date.

Carrying amount of assets securing repayment of liabilities

	31/12/2018	31/12/2017
Other property, plant and equipment	281.8	285.5
Inventories	0.6	0.6
Trade receivables	75.9	53.0
Cash	4.4	0.9
Total	**362.7**	**340.0**

7.6 Subsequent events

On 4 January 2019, the Parent Company entered into agreements with members of the PGE Group for the transport of coal and limestone sorbents with a total maximum weight of 16.7 million tons. The agreements were entered into for the period from 1 January 2019 to 31 December 2021. The estimated maximum net value of the agreements during their term of validity is PLN 541.2 million.

More information on subsequent events date is provided in **Note 7.3** to these Consolidated Financial Statements.

Other subsequent events are described in the Management Board Report on the Activity of the PKP CARGO Group for the financial year 2018 in **Chapter 6.1.**

7.7 Approval of the financial statements

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

Parent Company's Management Board

Czesław Warsewicz
President of the Management Board

Leszek Borowiec
Management Board Member

Grzegorz Fingas
Management Board Member

Witold Bawor
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 20 March 2019

PKPCARGO

Management Board's report of the activities of **PKP CARGO CAPITAL GROUP** in 2018

PKP CARGO S.A.

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

This document comprises the Report of the Management Board of PKP CARGO S.A. ("Company", "Parent Company") on the Activity of the PKP CARGO Group ("Group") in 2018. The document comprises also a report on the activity of the Parent Company.

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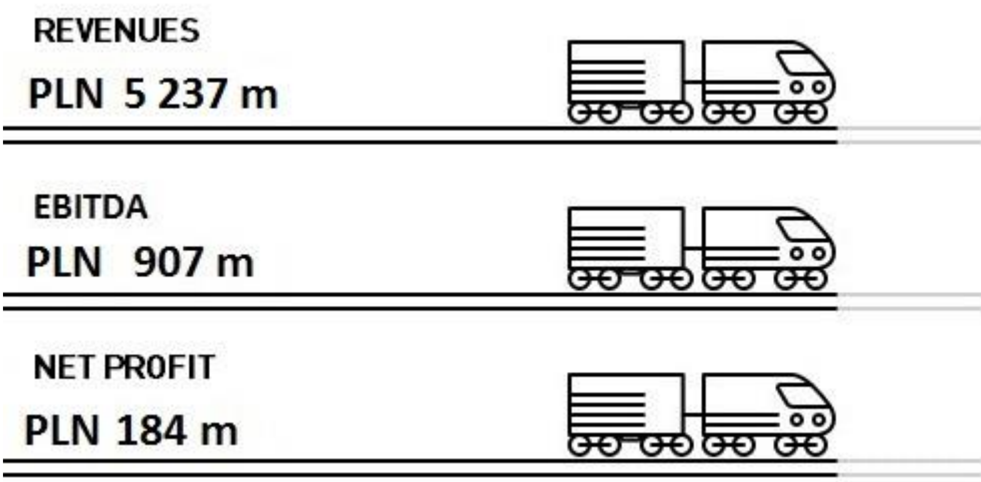
1. Introduction

Dear Stakeholders,

In 2018, the PKP CARGO Group's revenues exceeded PLN 5 billion. EBITDA was PLN 907 million and net profit reached almost PLN 184 million.

This was our record performance in terms of revenues since our IPO on the Warsaw Stock Exchange in 2013 and was generated chiefly owing to the transported freight volume of nearly 122 million tons. Other indicators were also very impressive: capital expenditures exceeded PLN 894 million, while EBITDA reached PLN 907 million and was even PLN 2 million higher than forecasted. We also recorded a very high increase in net profit: from approximately PLN 82 million in 2017 to almost PLN 184 million in 2018.

We also solidified our position as the leader of the rail freight transport market in Poland and improved our credibility in the eyes of market players and shareholders.

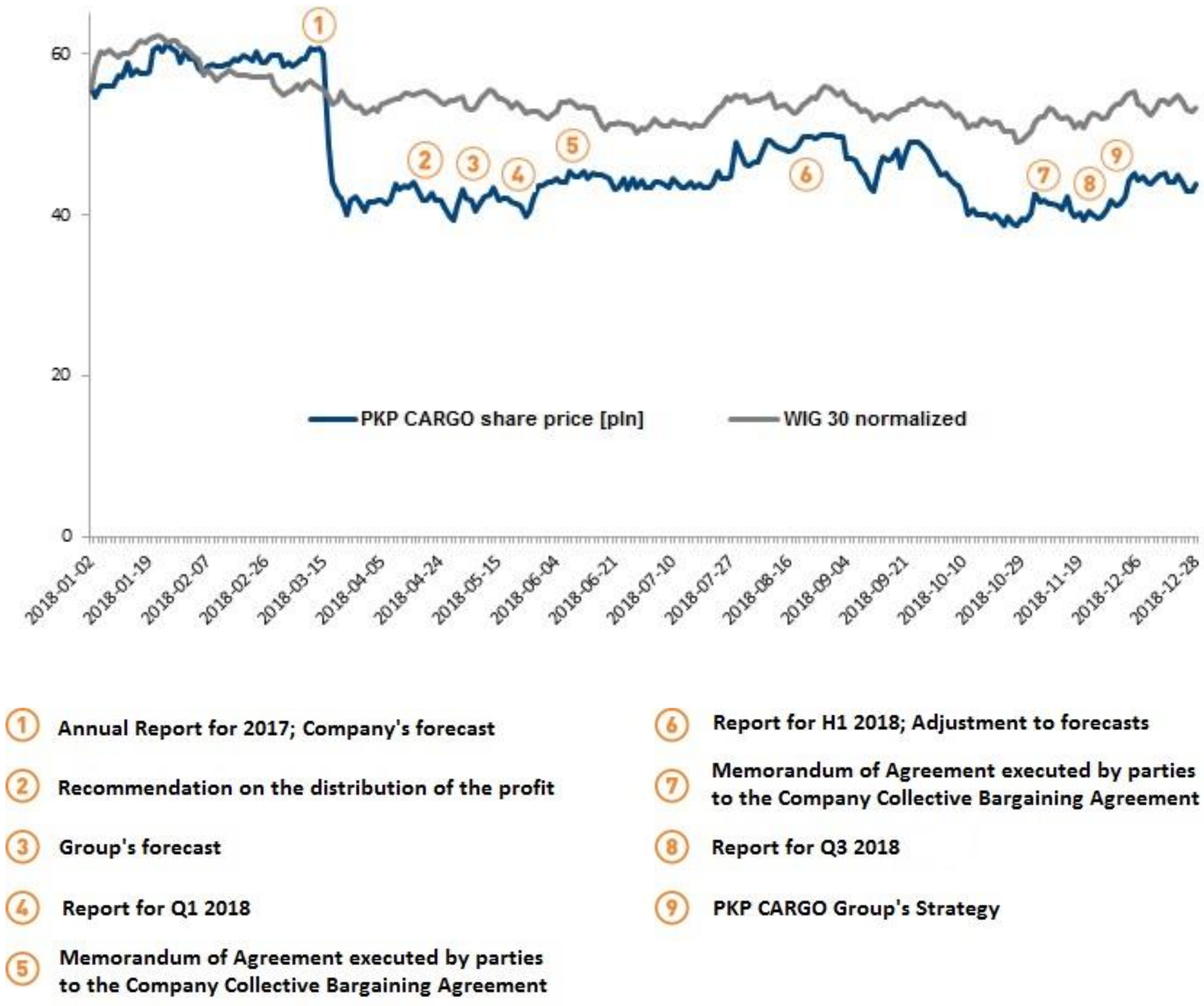


2. Investor Relations

To the Company's best knowledge, 9 recommendations were issued in 2018 for PKP CARGO S.A. stock. The target price of the Company's shares, according to valuations in 2018, oscillated between PLN 48.5 and PLN 68.0.

The following chart presents the stock exchange quotes for PKP CARGO S.A. in 2018.

Figure 1 Stock exchange quotes for PKP CARGO S.A. in 2018



Source: Proprietary material

From 2 January 2018, which was the first trading day in 2018, to 28 December 2018, which was the last trading day in 2018, the price of PKP CARGO S.A. stock fell 21.5%. In the same period, the WIG 30 index comprising 30 biggest and the most liquid companies from the WSE main market, being a price index where PKP CARGO S.A. has been listed since 2 December 2015, decreased 14.2%.

From the date of Company's IPO at the WSE, i.e. 30 October 2013, to 31 December 2018 the average price of PKP CARGO S.A. stock was PLN 62.39, reaching the maximum (PLN 93.89) and the minimum (PLN 28.99) on 9 April 2014 and 23 May 2016, respectively.

PKP CARGO S.A.'s shares are listed in the most important stock exchange indices published by the WSE, including such indices as: WIG, WIG TR, WIG 30, WIG 30 TR, mWIG40, INVESTORMS, and since November 2014, also in the foreign index MSCI SMALL CAP, published by a US company, MSCI Barra.

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

As part of its stock exchange reporting activities, PKP CARGO S.A. published 38 current reports in 2018.

In 2018, PKP CARGO S.A., seeking to ensure the highest standards in the area of investor relations, conducted numerous events targeted at the investor community. Representatives of PKP CARGO S.A. participated in domestic and foreign conferences and roadshows organized by professional capital market institutions.

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

On a monthly basis, the Company distributes a PKP CARGO S.A. investor relations newsletter to a group of interested analysts and investors as well as its own Management Board Members, Supervisory Board Members and employees, containing useful data, including macroeconomic, transport and market-related data, information on the Company's performance and achievements as well as a summary of last month's most important events in the life of PKP CARGO S.A.

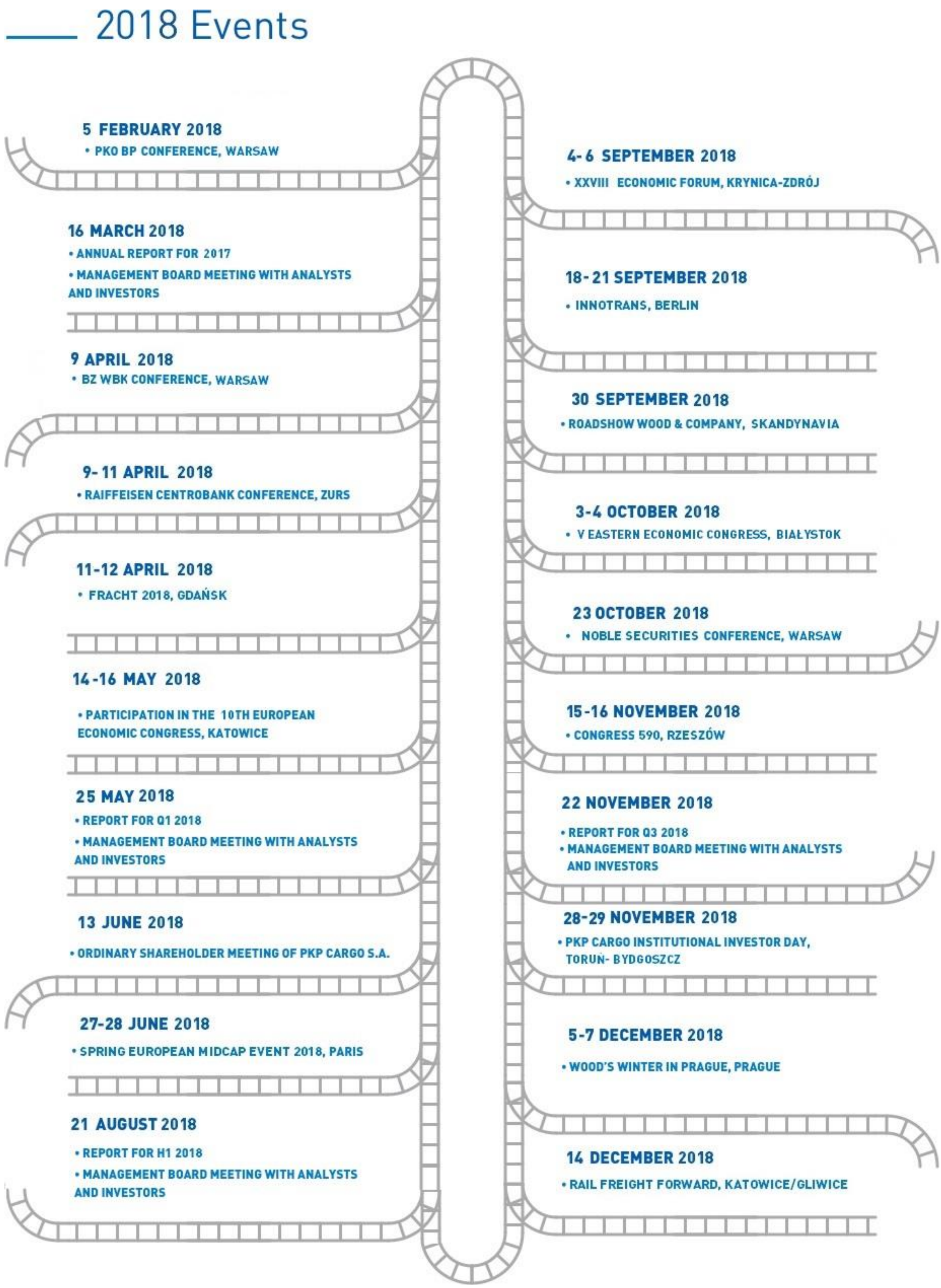
On 28-29 November 2018, PKP CARGO S.A. held the fourth edition of the "Investor Day" targeted at stock exchange analysts and institutional investors. During the "Investor Day", participants has the opportunity to visit, among other places, the modern locomotive painting facility located in Bydgoszcz operated by the Northern Unit of PKP CARGO S.A.

The high level of PKP CARGO S.A.'s investor relations was confirmed by the awards and recognitions received – for the high quality of communication with the market and fulfillment of information and reporting duties the Company was again awarded the prestigious title "Transparent Company of the Year".

As part of the Company's continuous efforts aimed at improving the quality of its investor services, in 2019 PKP CARGO S.A. intends to continue its activities and develop communication tools in the area of investor relations.

The chart below presents a timeline demonstrating key events and activities which occurred in 2018.

Figure 2 Major events and activities in 2018



Source: Proprietary material

3. Organization of the PKP CARGO Group

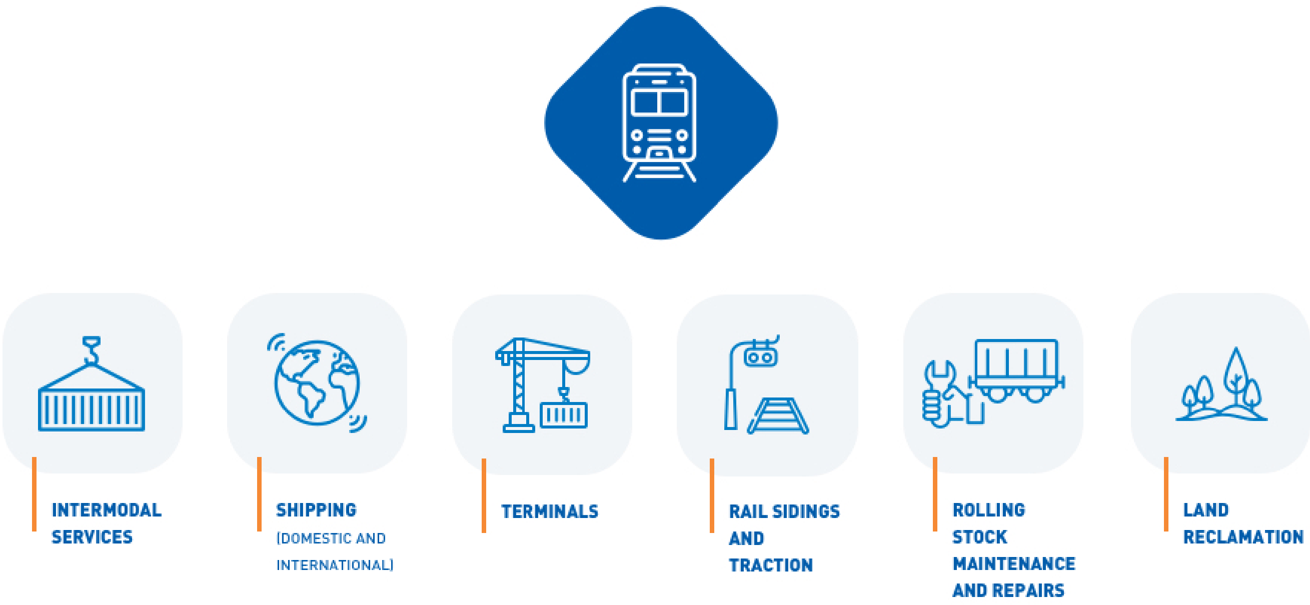
3.1 Highlights on the Company and the PKP CARGO Group

The PKP CARGO Group is the biggest in Poland and one of the biggest rail freight operators in the European Union ("EU"). The Group's development is focused on enhancing and extending its operations in terms of its product range and geographic area. At present, the Group is the leader on the Polish market (according to the Office of Rail Transport – UTK[1]) and it is the second largest operator on the Czech market (according to SZDC[2]).

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

Poland	Czech Republic	Germany	The Netherlands	Austria	Slovakia	Hungary	Lithuania	Slovenia

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



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

3.2 Consolidated entities

The Consolidated Financial Statements for the financial year ended on 31 December 2018 encompass PKP CARGO S.A. and 14 subsidiaries consolidated by the full method:

Table 1 Subsidiaries consolidated by the full method

Company name	Core business
PKP CARGO SERVICE Sp. z o.o.	Comprehensive handling of rail sidings, rail freight transport and maintenance of rail infrastructure.
PKP CARGOTABOR Sp. z o.o.	Repair and maintenance of rolling stock and physical liquidation of rail cars and locomotives, repairs of electrical machinery and wheel sets as well as weighing and adjustment of rolling stock.
PKP CARGOTABOR USŁUGI Sp. z o.o.	Collection, treatment and disposal of waste and recovery of raw materials. As at the delivery date of the report, the company does not conduct any operating activity.
PKP CARGO CENTRUM LOGISTYCZNE MAŁASZEWICZE Sp. z o.o.	Transshipment, storage, segregation, packaging, crushing and a variety of other border services. The company owns terminals that facilitate the transshipment of bulk and unit cargo, including containers.
PKP CARGO CENTRUM LOGISTYCZNE MEDYKA-ŻURAWICA Sp. z o.o.	Transshipment, storage, segregation, packaging, crushing and a variety of other border services. The company has the ability to offer rail gauge switching services and as the only company on the country's eastern border has a 6-chamber thaw room.
CARGOSPED TERMINAL BRANIEWO Sp. z o.o.	Transshipment of goods and buying and selling of coal. The company is a direct importer of coal from Russia and it is active in wholesale and retail sales in this area.
CARGOTOR Sp. z o.o.	Managing track and service infrastructure (rail sidings and track systems) along with the requisite plant and buildings, making infrastructure available to rail operators on commercial terms.
PKP CARGO CONNECT Sp. z o.o.	Freight forwarding and logistics services in Poland and abroad. The company provides comprehensive logistics services using rail and vehicle, marine and inland water transportation by organizing transport, transshipment, storage, warehousing, packaging and distribution. Customs clearance services to clients of the Group.
Advanced World Transport CE s.r.o.	The parent company in the AWT Group discharging the function of the holding company.
Advanced World Transport a.s.	Comprehensive handling of rail freight transport (Czech Republic, Slovakia and Poland), rail freight forwarder in the whole Central and Eastern European region, manages an intermodal terminal located in the community of Paskov and it offers comprehensive services to make deliveries and pick-ups by road transport ("last mile").
AWT Rosco a.s.	Provision of rolling stock necessary for the AWT Group's transportation companies to perform transportation services. The company's operations entail the rental of rail cars and the cleaning of rail and automobile cisterns.
AWT Cechofracht a.s.	International freight forwarding services.
AWT Rekultivace a.s.	Construction engineering business, including management and revitalization of post-industrial areas (including mining areas), demolition works, management of waste treatment facilities, elimination of underground mining pits, decontamination of soil, etc.
AWT Rail HU Zr	Rail transport services and rail siding handling services in Hungary on the basis of its own rail operator's license.

Additionally, a list of companies accounted for under the equity method is presented in **Note 5.2** of the Consolidated Financial Statements for the financial year ended 31 December 2018.

3.3 Organizational structure of PKP CARGO S.A.

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

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

Company's Head Office

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

Units

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

The Units of the Company are as follows:

- PKP CARGO S.A. Central Unit of the Company,
- PKP CARGO S.A. Lower Silesian Unit of the Company
- PKP CARGO S.A. Southern Unit of the Company
- PKP CARGO S.A. Northern Unit of the Company
- PKP CARGO S.A. Silesian Unit of the Company
- PKP CARGO S.A. Eastern Unit of the Company
- PKP CARGO S.A. Western Unit of the Company

3.4 Changes to the Company's basic management principles

In 2018, no changes were made to the basic management principles.

3.5 Description of changes in the Group's organization

In 2018, the following changes were made to the structure of capital ties:

- the ruling on the liquidation and deletion of AWT Rail PL Sp. z o.o. in liquidation from the register of commercial undertakings of the National Court Register became final and non-appealable, meaning that the company's existence as a legal person has been terminated.
- the Czech company AWT Čechofracht a.s. sold its 22% stake in the share capital of ČD Logistics a.s., as a result of which AWT Čechofracht ceased to be a related party of PKP CARGO S.A.
- AWT B.V. sold a 100% equity stake in AWT Rail HU Zrt. to AWT a.s.
- the Czech court registered the transformation of the Dutch company AWT B.V. with its registered office in Amsterdam into the Czech company AWT CE s.r.o. with its registered office in Prague. Accordingly, AWT B.V. has terminated its legal existence in the Netherlands. The AWT Group's parent company is currently AWT CE s.r.o.
- AWT a.s. acquired an 80% stake in the Slovenian company PRIMOL-RAIL d.o.o.
- PKP CARGO S.A. and PKP CARGO CONNECT sold all their shares in POL-RAIL S.r.l., as a result of which AWT Čechofracht ceased to be a related party of PKP CARGO S.A.

3.6 Information on capital ties of PKP CARGO

As at 31 December 2018, the PKP CARGO Group comprised of PKP CARGO S.A. as its parent company and 26 subsidiaries.

In addition, the Group held stakes in 3 associated entities and 1 joint venture.

The figure below presents the organizational links between PKP CARGO S.A. and other entities as at 31 December 2018:

Figure 3 Structure of equity links of PKP CARGO S.A. as at 31 December 2018

Source: Proprietary material

Figure 4 Structure of the AWT Group as at 31 December 2018

Source: Proprietary material

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

4.1 Macroeconomic environment

Polish economy

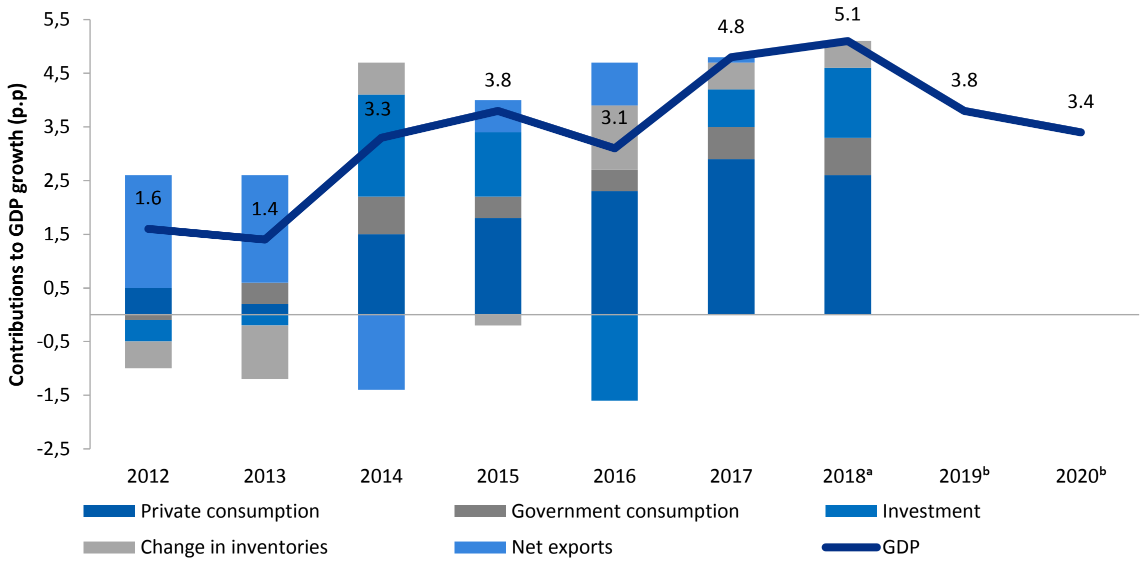
Even though Poland currently ranks among the fastest-growing economies in the European Union, the country's economy has already passed the peak of the current business cycle. As a consequence, the coming quarters are expected to bring a gradual slowdown in the rate of growth of Poland's GDP3.

▪ As a result, the average annual rate of economic growth was 5.1% compared to 4.8% in 2017, the highest since 2007. In values adjusted for the impact of seasonal factors, GDP increased in Q4 2018 in real terms by 0.5% qoq compared to 1.6% qoq in Q3[4].

The key factors driving the rate of GDP growth in Poland in 2018 were as follows:

- private consumption, which increased by an average of 4.5% yoy compared to 4.9% yoy in 20175.
- gross fixed capital formation whose rate of growth accelerated to 7.3% yoy from 3.9% yoy in 20176.
- the impact of net exports remained neutral for the rate of GDP growth (having contributed 0.0 p.p. to GDP growth).

Figure 5 Real GDP growth rate in Poland in 2012-2018, together with its decomposition, and 2019-2020 forecasts – data not adjusted for seasonality



a – preliminary estimate published by the Central Statistical Office – January 2019.
b – median forecast according to the Macroeconomic Survey of the National Bank of Poland – December 2018; data without decomposition
Source: Proprietary material based on the data of the Central Statistical Office of Poland and the National Bank of Poland

Following the results of the National Bank of Poland's macroeconomic survey ran in December 2018, economists excpect a gradual deceleration of GDP growth in Poland in 2019-2020 (3.8% in 2019 and 3.4% in 2020) caused by the electricity price increases scheduled for 2019-2020 and the forecasted continued decline in the GDP growth rate in the euro area, where the economic recovery reached its local peak in 2017. Symptoms of the decelerating rate of growth of the Polish economy, albeit from a high level, include a lower rate of growth in industrial production, deteriorating consumer sentiments and a decline in the rate of growth in employment in the corporate sector.

In the coming quarters, analysts who participated in the survey also expect a gradual acceleration of consumer price inflation (CPI) in Poland to an average level of 2.0% yoy in 2019.

[3] Puls Biznesu
[4] Central Statistical Office of Poland
[5] Central Statistical Office of Poland
[6] Central Statistical Office of Poland

Czech economy

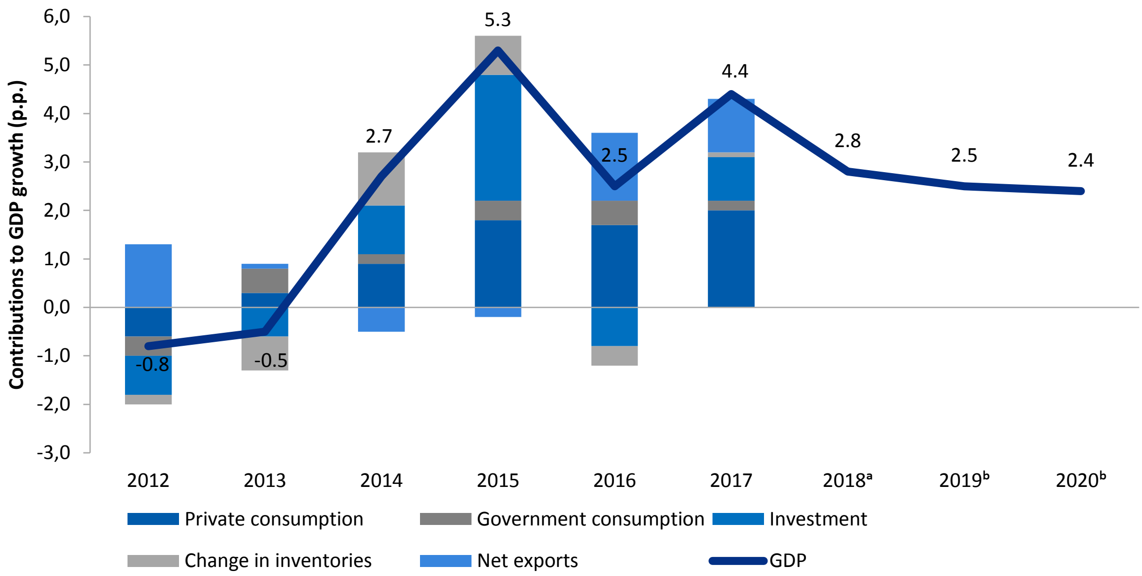
Seasonally adjusted GDP growth rate in the Czech Republic stabilized in Q3 2018 at the same level that it reached in Q2 and stood at 2.4% yoy, the lowest since the end of 2016[7]. In terms of seasonally unadjusted values, the rate of GDP growth in the Czech Republic dropped from 2.6% yoy in Q2 to 2.4% yoy in Q3 2018. According to the estimates published by the Czech Ministry of Finance, in all of 2018 the average annual GDP growth rate should, in turn, reach 2.8% yoy compared to 4.4% yoy in 2017[8].

Compared to Q2 2018, a lower rate of growth on a yoy basis was recorded in Q3 for each of the significant components of GDP: private and public consumption, investments and exports. The following factors continued to be advantageous to the rate of economic growth:

- private consumption, whose rate of growth decreased gradually during the year from 4.4% yoy in Q1 to 3.1% yoy in Q3 2018[9].
- investments, which in Q3 2018 improved by 9.0% yoy (compared to 8.6% yoy in Q2 2018).[10]

On the other hand, what adversely affected the GDP growth in the Czech Republic in Q3 2018 was the balance of foreign trade (net exports).

Figure 6 Real GDP growth rate in the Czech Republic in 2012-2017, together with its decomposition, an estimate for 2018, with its decomposition, and 2019-2020 forecasts – data not adjusted for seasonality



a Estimate of the Czech Republic's Ministry of Finance – January 2019, data with estimated decomposition
b Forecast of the Czech Republic's Ministry of Finance – January 2019, data without decomposition

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

In the coming quarters one should expect a gradual decrease in the GDP growth rate in the Czech Republic to the average level of 2.5% yoy in 2019 and 2.4% yoy in 2020.[11] The major factor of the economic growth will remain to be domestic demand, including in particular consumption of households as well as capital expenditures of private and public companies. On the other hand, what will affect adversely the GDP growth rate is net exports, whose contribution to the growth will remain negative.[12] Analysts from the Czech Ministry of Finance also forecast that in 2019, the rate of consumer price inflation (CPI) will remain stable at the 2018 level, amounting on average to 2.1%, followed by a decrease to the level of 1.6% in 2020.

[7] Czech Statistical Office
[8] Czech Republic's Ministry of Finance, seasonally adjusted data
[9] Czech Statistical Office
[10] Czech Statistical Office
[11] Czech Republic's Ministry of Finance
[12] Czech Republic's Ministry of Finance

Industry in Poland

In 2018, total industrial production sold[13] was at the average level of 5.8% yoy, which is lower than in 2017 (+6.2% yoy). In Q4 2018, the industrial sector in Poland grew at the average rate of +5.4% yoy compared to +5.3% yoy in Q3. The end of the year, however, brought a strong deterioration of the economic situation in the sector and the growth rate of industrial production adjusted by the number of business days in December was at a level of 3.1% yoy, which is the lowest from December 2016.[14]

Among the most significant branches of industry, owing to the specific nature of the PKP CARGO Group's transport services, the highest growth in industrial output sold in 2018 was recorded in the production of: metal products (+9.7% yoy), coke and refined petroleum products (+9.3% yoy), products made from other mineral non-metallic raw materials (+8.2% yoy), wood and wood products (+6.4% yoy), metals (+3.7% yoy) and chemicals and chemical products (+3.0% yoy). Compared to the first 9M of 2018, though, most of these industries recorded a lower growth rate yoy in Q4 of year. At the same time, in 2018, a decrease in the output sold by -0.2% yoy was recorded for the hard coal and lignite mining industries[15]

Compared to 9M 2018, the economic situation in the industrial sector deteriorated in Q4 2018, as evidenced by the following selected observations:

- a strong decrease in PMI (Purchasing Managers' Index), a business tendency indicator, which in Q4 was 49.2 points compared to 51.6 points in Q3 and 53.9 points in H1 2018. The level of index below the threshold of 50.0 points was simulataneously tantamount to technical recession in the industrial processing sector. In December 2018, PMI was 47.6 points, i.e. it had been at the lowest level since April 2013, when the Polish economy faced a high economic slowdown.[16]
- deterioration of the overall business climate indicator in the industrial sector calculated by the Central Statistical Office of Poland down to an average level of 5.4 points in Q4 (from 10.3 points in Q3 and 16.2 points in H1 2018).[17]

Other factors significantly affecting the condition of the industries of key importance from the PKP CARGO Group' point of view in Q4 and in the whole of 2018 included:

Mining industry

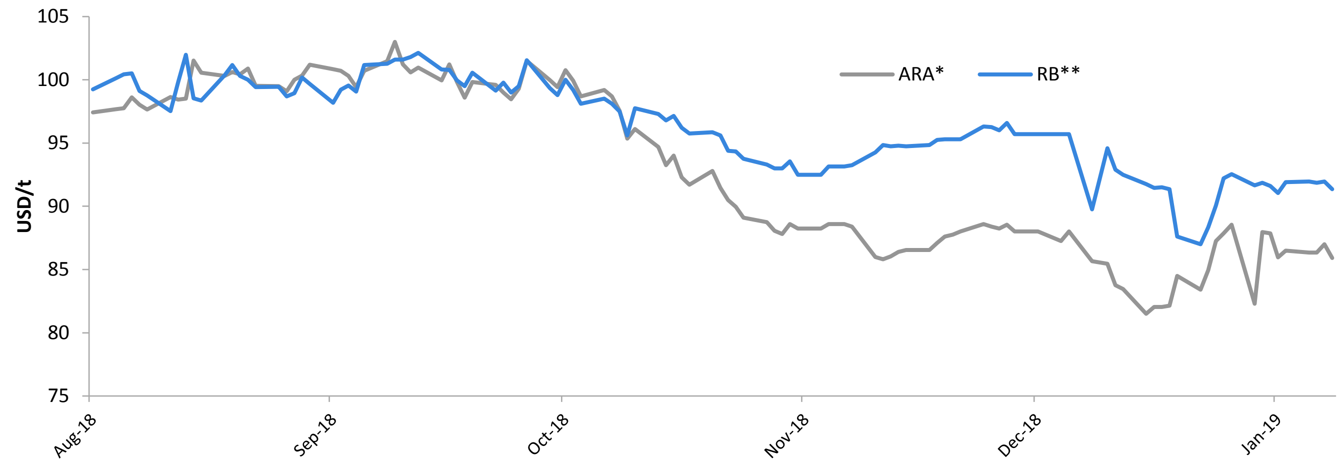
- in 2018, a fall in the hard coal output by 2.1 million tons yoy, i.e. by -3.2% yoy (production at the level of 63.4 million tons compared to 65.5 million tons in 2017 and 70.4 million tons in 2016). In Q4 2018, a decrease in the coal output by 3.0% yoy down to the level of 16.1 million tons, primarily because of December, which was a month with certainly the lowest production in 2018 (a decrease of -5.2% yoy). In last year's December, the absolute production of the raw material (4.7 million tons) reached probably the lowest level in history.[18]
- a systematic decline in the sales of hard coal yoy continuing from the summer of 2017 (except for the period July-August 2018). In 2018, the sales fell by 3.8 million tons yoy, i.e. by 5.7% yoy (it was 62.5 million tons compared to 66.3 million tons the year before and 73.1 million tons in 2016). Sales of hard coal w December 2018 reached the lowest level from February 2015 (4.8 million tons).[19]
- an increase in the level of inventories stockpiled in storage yards – as at the end of 2018, the inventories were 2.4 million tons compared to 1.7 million tons at the end of December 2017 and 1.5 million tons in January 2018. In December 2018, the amount of coal in storage yeards was higher by 58.2% than in January 2018.[20]
- increase in hard coal imports in the first 11 months of 2018 by 60.2% yoy to 17.9 million tons, predominantly from Russia (+64.9% yoy to 12.4 million tons).[21]
- increase in the average annual coal price in ARA ports up to USD 92.4/t in 2018 from USD 84.2/t in 2017 (+9.6% yoy). In Q4 2018, the average ARA coal price fell by -0.4% yoy and -6.1% qoq down to USD 92.9/t.[22]
- an increase in the average annual values of indices for commercial and industrial power industries in Poland in 2018. Hard coal for power industry was on average more expensive by 16.4% than the year before (PSCMI 1 was PLN 239.51/t, while it was PLN 205.69/t in 2017). Hard coal for heating industry was more expensive year on year by 22.45%

[13] enterprises employing more than 9 persons
[14] Central Statistical Office of Poland
[15] Central Statistical Office of Poland
[16] Markit IHS
[17] Central Statistical Office of Poland
[18] Industrial Development Agency (ARP)
[19] Industrial Development Agency (ARP)
[20] Industrial Development Agency (ARP)
[21] Eurostat
[22] Wirtualny Nowy Przemysł [Virtual New Industry]

(the average value of PSCMI 2 was PLN 294.75/t in 2018, while it was PLN 240.72/t in 2017). Compared to 2016, the index for CHP plants rose by 49.66%). At the same time, Q4 2018 brought stabilization of price ratios for the Polish coal (index for commercial and industrial power industries in Q3 2018 was PLN 243.9/t and in Q4 it rose slightly by 0.5%, reaching PLN 245.2/t).[23]

- increase in the share of hard coal in the national energy mix (+3.2 p.p. yoy in Q4 and in total +1.7 p.p. yoy in the whole of 2018).[24]

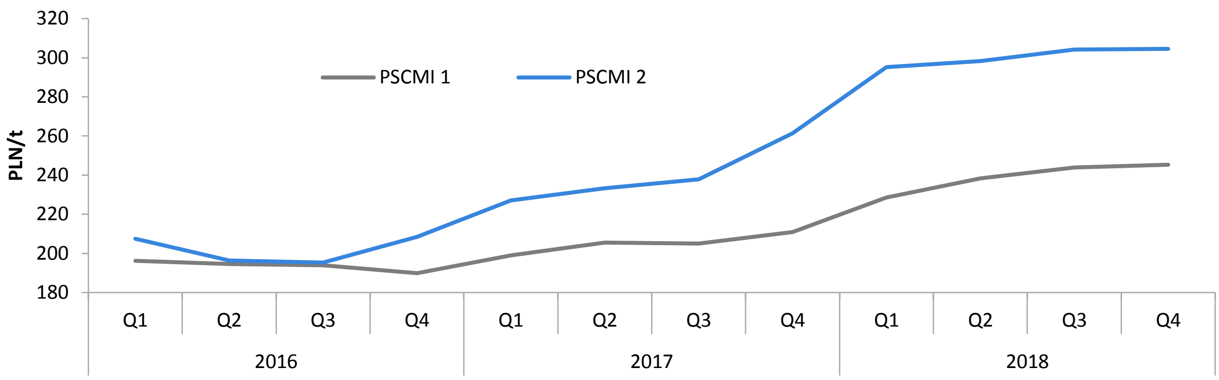
Figure 7 Current and historical values of coal price indices on the European ARA* vs. RB** markets



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

Source: Proprietary material based on Virtual New Industry data

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



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

Construction industry

- a considerable increase in construction and assembly production[25] on average by 17.9% yoy in 2018, compared to a 12.1% growth in 2017. An increase in the construction and assembly production in 2018 was recorded in all the sections of the construction industry (including by 22.0% yoy in companies specializing in building civil and marine engineering facilities, by 18.8% yoy in companies specializing in erecting buildings and by 10.3% yoy in companies performing for the most part specialized construction works).[26]

[23] Industrial Development Agency (ARP)
[24] Polskie Sieci Elektroenergetyczne
[25] Enterprises employing more than 9 people, Central Statistical Office of Poland
[26] Central Statistical Office of Poland

- dynamic growth of infrastructural investments within the framework of "National Road Construction Program" and the "National Railway Program" coupled with higher spending by local governments on public facilities in the pre-election period. In 2018, construction output in motorways, expressways and streets increased 23.7% yoy, while construction output in rail infrastructure increased 37.0% yoy.[27]

Steel industry

- increase in steel production in the world in 2018 by 78.8 million tons, that is 4.6% yoy.
- a fall in steel production in the European Union in 2018 by 0.3% yoy to the level of PLN 168.1 million tons.
- reduction of the average crude steel production in 2018 by Polish steel mills by -1.9% yoy. At the same time, there was an increase in the volume of hot-rolled products (+3.6% yoy) and an increase in the output of steel pipes (+1.0% yoy). Q4 brought a decreased production for all the steel industry products mentioned above, including crude steel (-0.8% yoy), hot-rolled products ((-2.6% yoy) and steel pipes (-2.4% yoy).[28]
- good financial performance of the industry in 2018; an increase in actual revenues from sales of metals to PLN 60.8 billion (+3.7% yoy) and in total revenues from sales of metal products to PLN 104.4 billion (+9.7% yoy). In Q4, revenues of the companies rose by PLN 14.6 billion (+6.3% yoy) and PLN 26.6 billion (+7.7% yoy) respectively.[29]
- an increase in coke production in Poland in 2018 (+0.9% yoy), with a decrease in the production in Q4 (-1.9% yoy).[30]
- in 2018, the Polish economy used a record quantity of steel (about 15 million tons), while demand for steel products in Poland grew by approx. 10% yoy.[31] The major factor that contributed to it was good economic situation in steel-intensive branches of industry, including in particular construction industry, because of large infrastructural investments being performed. Nearly three fourths of the demand were satisfied by imports. For 2019, it is forecasted that further increase in steel consumption will be maintained, with domestic production simultaneously reverting to levels from 2017. The further increase in the demand for steel will be driven mainly by the planned expansion of the network of motorways and expressways as well as investments supporting modernization of railway routes.[32]

Industry in the Czech Republic

Industry in the Czech Republic

In 2018, industrial production in the Czech Republic increased on average by 3.0% yoy, compared to 6.5% yoy in 2017.[33] The annual growth rate of the industrial sector in the Czech Republic has been thus the lowest since 2013. In Q4 the Czech industrial sector grew at a rate of 3.6% yoy. The growth in output in Q4 was driven chiefly by the industrial processing sector (+3.9% yoy) and, to a lesser extent, by the water, gas and energy supply sector (+3.1% yoy). Compared to the similar period of 2017, however, mining production and extraction of raw materials dropped (-3.1% yoy), especially hard coal and brown coal (-7.2% yoy).[34]

In Q4 2018, volumes of new orders yoy for the industrial sector also rose fastest from the beginning of the year (+4.6% yoy). In the whole 2018, new orders in industry, however, grew at the slowest rate since 2012 (+3.7% yoy), to which the dominant contributing factor was the growth of export orders, the weakest since the global financial crisis in 2009 (+3.9% yoy). The decrease in the number of orders for the industrial sector from abroad was a direct result of the economic slowdown observed in the euro area countries (the main trade partner of the Czech Republic).

A possible deterioration of the standing of the industrial sector in the Czech Republic over the coming months is however suggested by the most recent values of PMI, a business tendency indicator. In Q4 2018, the index fell to the average level of 51.3 points.[35] In December 2018, the index was 49.7, which means that it was, for the first time since July 2016, below the level of 50.0 points.

The activities of the PKP CARGO Group companies on the Czech market are focused on the transport of hard coal, coke, aggregates and other construction materials as well as intermodal transport (in particular automotive products). As a result,

[27] Central Statistical Office of Poland
[28] Central Statistical Office of Poland
[29] Central Statistical Office of Poland
[30] Central Statistical Office of Poland
[31] Metallurgical Chamber of Industry and Commerce
[32] Metallurgical Chamber of Industry and Commerce
[33] Czech Statistical Office
[34] Czech Statistical Office
[35] Markit IHS

the situation in related sectors of the industry (mining, construction, steel industries and the production of motor vehicles) translates directly into the volume of goods available for transport by the entities of the PKP CARGO Group. In Q4 and the whole 2018, factors significantly affecting the condition of the above industries included:

- continuing downward trend in hard coal output (in 2018, the average decrease by -18.0% yoy to the level of 4.5 million tons)[36]
- a decrease in lignite extraction by -0.4% yoy down to 39.2 million tons (because of, among other things, poor results in Q1 and Q4, i.e. drops by 3.9% yoy and 4.0% yoy respectively).
- a dynamic increase in the output of the steel sector – in 2018, the volume of crude steel output increased 9.1% yoy to 5.0 million tons compared to 4.6 million tons in 2017.
- a very high growth rate in construction and assembly output, which in 2018 increased by 8.4% yoy, which is the highest rate from 2004. In that period, total construction output increased 8.6% yoy and engineering construction output increased 8.0% yoy.[37] At the same time, only in Q4 2018, the growth rate of the construction sector was 4.7% yoy, which is the lowest level from the beginning of the year.
- a further slight growth in output of the automotive sector compared to the historically high levels from 2017 – in 2018, the Czech manufacturers made 1,444.4 thousand vehicles of all types (passenger, trucks, buses and motorcycles), i.e. up 1.6% vs. 2017.

4.2 Freight transportation activity

4.2.1 Rail transport market in Poland

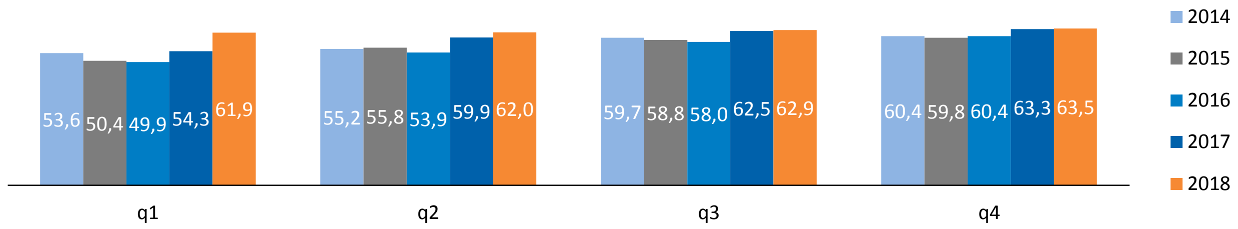
In 2018, there were 71 active rail operators on the rail transport market in Poland (including PKP CARGO S.A. and PKP CARGO SERVICE Sp. z o.o.). In this period, they carried a total of 250.2 million tons of cargo (+4.3% yoy) and achieved freight turnover of 59.6 billion tkm (+8.8% yoy). This is certainly the highest result since the time of global financial crisis in 2008 – freight volume transported by railway increased compared to 2017 by 10.4 million tons yoy. The average distance of the cargo transport was a parameter that increased considerably from 229 km in 2017 to 238 km (+4.3% yoy) compared to 2018.[38] The highest growth rate on the freight market was in Q1 2018 (+14.0% in freight volume and +18.4% yoy in freight turnover). In next quarters, however, the growth rate slowed down because in Q2, it was only +3.5% yoy in freight volume and +8.0% yoy in freight turnover, and in Q3 2018, +0.7% yoy in terms of volume and +6.1% yoy in terms of turnover. In Q4, the trend strengthened, i.e. the growth rate was +0.3% yoy in freight volume and +4.2% yoy in freight turnover.

In the analyzed period, there was a clear increase yoy in the cargo volumes transported by railway, especially in the categry of construction materials for performing the largest infrastructural investments as well a dynamic development of intermodal transport. The major components of the growth of transport in 2018 included:[39]

- increased transport of aggregates (+16.2% yoy to 51.2 million tons), resulting from intensification of infrastructural investments under the "National Road Construction Program in 2014-2023 (with an outlook to 2025)" and the "National Railway Program to 2023" co-financed with EU structural funds as well as from considerable investments in public facilities by local governments. Intensification of public facilities was also reflected in the growth rate of gross fixed capital formation, which in Q3 2018 reached the level of 9.9% yoy;
- increased transport of hard coal (+2.1% yoy to 87.5 million tons) owing to the strong demand from the commercial power industry, the heating sector and private consumers;
- an increase in the transported volumes of iron ores (growth by 6.8% yoy to 10.6 million tons, metal ores and metal products (growth by 7.9% yoy to 9.4 million tons), or a total growth of 7.3% yoy to 20.0 million tons). This follows from the large demand from steel-intensive branches of industry in Poland and abroad (including construction industry);
- increased intermodal transport (+13.5% yoy to 12.2 million tons[40]) owing to a high growth in transshipment volumes in seaports and intensification of transports from China as part of the New Silk Road ("NSR").

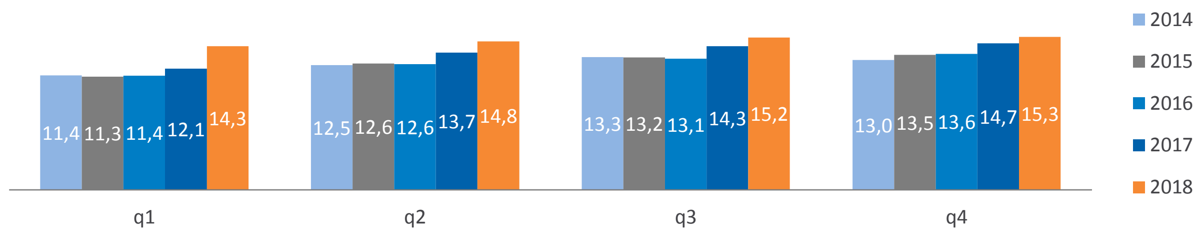
[36] Ministry of Industry and Trade of the Czech Republic
[37] Czech Statistical Office
[38] Office of Rail Transport
[39] Central Statistical Office of Poland – data for the first 11 months of 2018
[40] Office of Rail Transport – data for January-September 2018.

Figure 9 Rail freight volumes in Poland (in million tons) in individual quarters of 2014-2018



Source: Office of Rail Transport

Figure 10 Rail freight turnover in Poland (billion tkm) broken down by quarter in 2014-2018

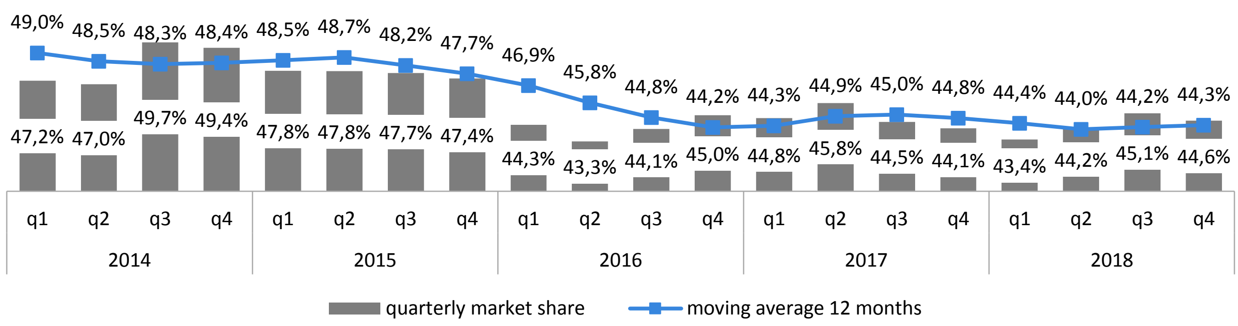


Source: Office of Rail Transport

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

In 2018, the PKP CARGO Group retained the first place on the rail transport market in Poland, achieving a 44.3% market share (-0.5 p.p. yoy) in terms of freight volume and a 48.5% market share in terms of freight turnover (-3.1 p.p. yoy). The respective shares of PKP CARGO S.A. were 43.6% (-0.7 p.p. yoy) and 48.3% (-3.1 p.p. yoy).[41] On the other hand, in Q4 2018, the PKP CARGO Group's share was 44.6% (+0.5 p.p. yoy) in terms of freight volume and 49.1% (-1.5 p.p. yoy) in terms of freight turnover.

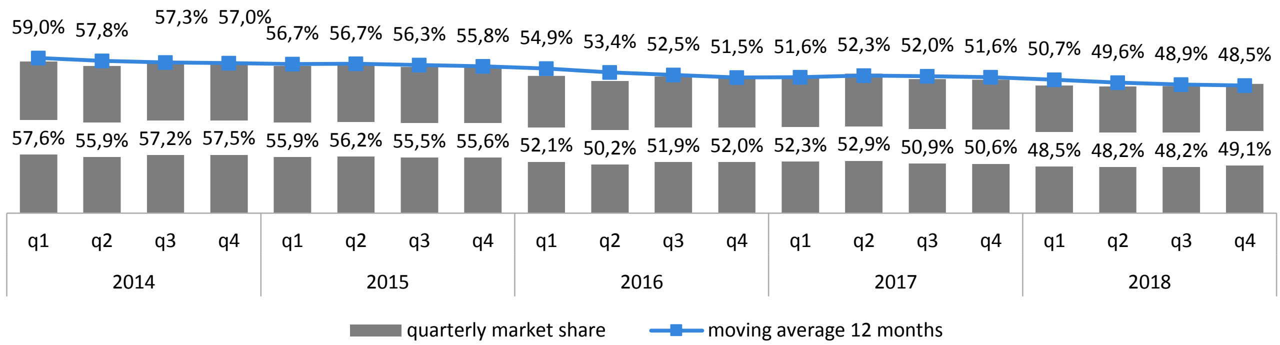
Figure 11 Share of the PKP CARGO Group total freight volume in Poland in 2014-2018



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

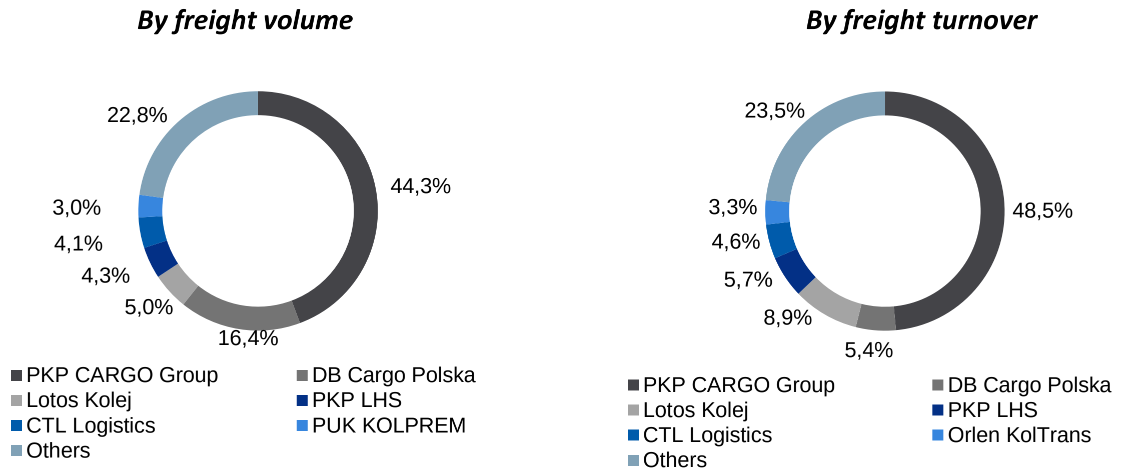
[41] Office of Rail Transport

Figure 12 Share of the PKP CARGO Group in total freight turnover in Poland in 2014-2018



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

Figure 13 Market shares of the largest rail operators in Poland in 2018 by freight volume and freight turnover



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

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

The competitive operators transported in total 139.4 million tons of cargo (+5.2% yoy), with the most transported by DB Cargo Polska (41.1 million tons or -4.2% yoy), Lotos Kolej (12.5 million tons or -6.3% yoy) and PKP LHS (10.7 million tons or +6.5% yoy). On the other hand, freight turnover of the PKP CARGO Group's competitors stood at 30.7 billion tkm (+15.8% yoy), most of which was generated by Lotos Kolej (5.3 billion tkm or -0.4% yoy), PKP LHS (3.4 billion tkm or +8.8% yoy) and DB Cargo Polska (3.2 billion tkm or +10.4% yoy).[42] The increase in freight turnover recorded by competing rail operators resulted predominantly from the extension of their average haul. In 2018, it was 220.3 km, or longer by 20.1 km (+10.1% yoy).

A steady growth in the market share in 2018 (both in terms of freight volume and freight turnover) was recorded mainly by small carriers (whose unit market shares do not exceed 2.0%). The combined market share of these rail operators was 18.3% (+1.5 p.p. yoy) in terms of freight volume and 16.1% (+1.8 p.p. yoy) in terms of freight turnover.

The PKP CARGO Group's biggest competitors (with unit shares greater than 4%), such as DB Cargo Polska, Lotos Kolej, PHP LHS and CTL Logistics, last year experienced a decrease in their combined market share to 29.8% (-1.7 p.p. yoy) in terms of freight volume and to 24.7% yoy (-0.6 p.p. yoy) in terms of freight turnover. In both these categories, a significant yoy drop in the market share was suffered by the market's runner-up companies, namely in terms of freight volume, DB Cargo Polska (-1.5 p.p. yoy) and Lotos Kolej (-0.6 p/p.p. yoy) and in terms of freight turnover, Lotos Kolej (-0.8 p.p. yoy).

[42] Office of Rail Transport

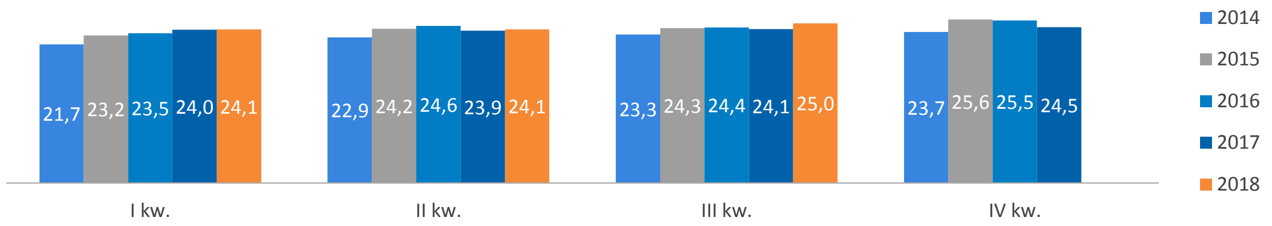
4.2.3 Rail freight transport market in the Czech Republic

For the first 3 quarters of 2018, in the Czech Republic, a total of 435.6 million tons of goods were transported by all means of transport (+4.6% yoy), and the completed freight turnover was 45.7 billion tkm (-4.0% yoy).[43] The freight turnover decreased because of the drop in the average haul (-8.7% yoy down to 107.1 km). The major factor that contributed to it was road transport (where the average haul declined from 105.0 km in the period of 9M 2017 to 92.5 km in the corresponding period of 2018, or down by -11.9% yoy).

Among the branches of the freight transport sector in the Czech Republic in the period of January-September 2018, road transport prevailed, with its market share in terms of freight volume increasing by +0.7 p.p. yoy up to 80.7%. Because of the decrease in the average haul in road transport, its market share in terms of freight turnover decreased in the period by -1.6 p.p. yoy down to 68.9%.

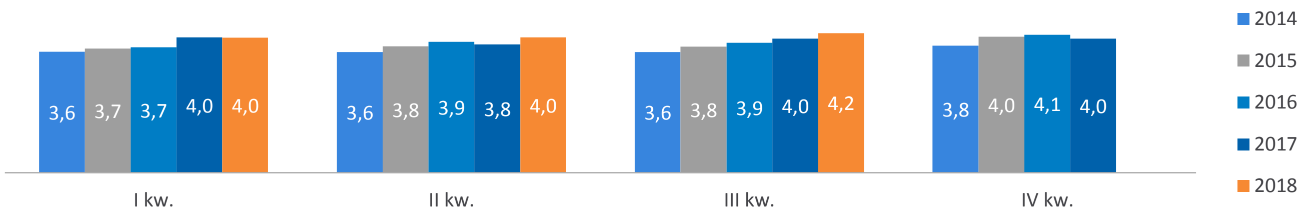
From January to September 2018, freight turnover in rail transport was 12.2 billion tkm (up +3.1% yoy) owing to the increase in freight volume to 73.2 million tons (+1.6% yoy) coupled with a concurrent increase in the average haul to 166.9 km (+1.5% yoy). This translated into an greater share of total rail transport in terms of freight turnover by 1.8 p.p. yoy to 26.7% and a decrease in terms of freight volume by 0.5 p.p. yoy to 16.8%. From among the land means of freight transport in the Czech Republic, rail transport is most frequently chosen for long distance transport, which is shown by the highest average haul, much greater than in the case of road or pipeline transport.

Figure 14 Quarterly rail freight transport in the Czech Republic by freight volume in 2014-2018 (million tons)



** data for Q4 2018 will be available at the turn of Q1 2019.*
Source: Proprietary material based on data published by the Ministry of Transport of the Czech Republic

Figure 15 Quarterly rail freight transport in the Czech Republic by freight turnover in 2014-2018 (billion tkm)



** data for Q4 2017 will be available at the turn of Q1 and Q2 2018.*
Source: Ministry of Transport of the Czech Republic

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

According to information published by SŽDC, the railway infrastructure manager, there are currently 104 rail operators on the Czech rail transport market with a license for the carriage of cargo, including the following PKP CARGO Group companies: PKP CARGO S.A. and Advanced World Transport a.s. (AWT)44.

In 2018, AWT transported a total of 10.5 million tons of cargo (-2.1% yoy) and achieved a freight turnover of 1.2 billion tkm (+4.8% yoy). The freight turnover of the whole rail freight market in the Czech Republic increased in 2018 to a greater degree than AWT's freight turnover, which resulted in AWT's yoy loss of 0.4 p.p. of the market share to 7.6%.

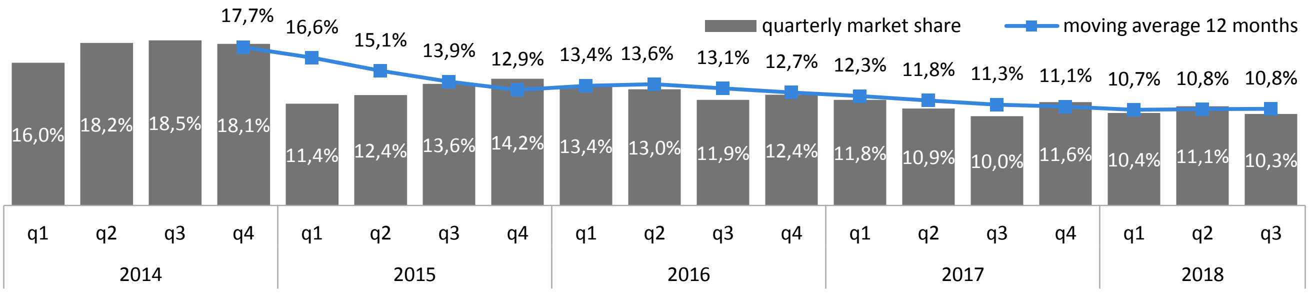
The major factor causing the decrease in AWT's transports was a drop in the transported volumes of hard coal by 7.1% yoy to the level of 4.0 million tons, resulting from the process of restructuring carried out in Czech hard coal mines.45 As a result, the

[43] Ministry of Transport of the Czech Republic
[44] SŽDC
[45] own statistics prepared by AWT a.s.

activities of AWT aim to replace hard coal gradually by cargo from other cargo categories to reduce the company's dependence on the condition of the hard coal mining sector.

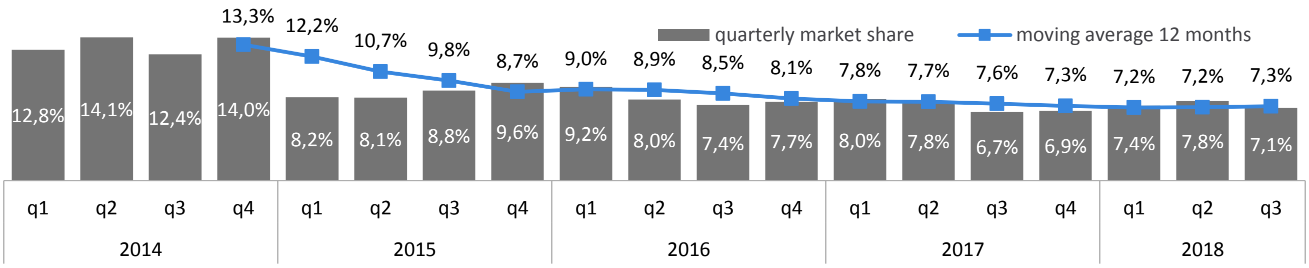
The share of the raw material in the company's total transports dropped to 38.1% in 2018 from 40.1% in 2017. At the same time, in 2018, transports that increased most were of such cargo categories as intermodal (+74.9% yoy to 1.5 million tons) or other cargo (+19.5% yoy to 0.6 million tons).[46]

Figure 16 AWT a.s.'s quarterly market shares in total freight volume in the Czech Republic in 2014-2018*



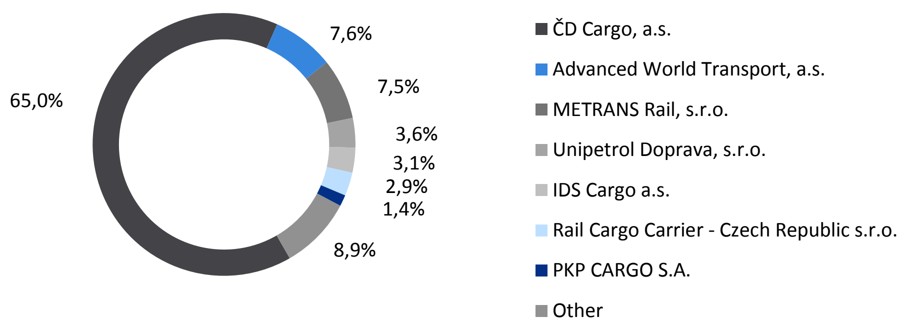
** data for Q4 2018 will be available at the turn of Q1 2019.*
Source: Proprietary material based on data from the Czech Ministry of Transport and AWT a.s.

Figure 17 AWT a.s.'s quarterly market shares in total freight turnover in the Czech Republic in 2014-2018*



** data for Q4 2018 will be available at the turn of Q1 2019.*
Source: Proprietary material based on data from the Czech Ministry of Transport and AWT a.s.

Figure 18 Market shares of the biggest rail operators by operational freight turnover in the Czech Republic in 2018 (btkm)



Source: SŽDC (Czech manager of rail infrastructure)

In 2018, ČD Cargo a.s. not only remained the leader of the rail freight transport market in the Czech Republic but also increased its market share by freight turnover by 1.5 p.p. against 2017. Last year, the market significance of METRANS Rail s.r.o. also improved (+0.4 p.p. yoy), the rail operator which, in the wake of the declining market share of AWT a.s. (-0.4 p.p. yoy), is now close to reaching the AWT's market share in terms of freight turnover. A slight increase in the shares of 0.2 p.p. yoy was also

[46] own statistics prepared by AWT a.s.

recorded by Rail Cargo Carrier - Czech Republic s.r.o. rail operator. The other operators of rail freight transports on the Czech market listed by SŽDC recorded declining market shares on a yoy basis in 2018. The share of PKP CARGO S.A. fell 0.5 p.p. yoy to 1.4%.47 This resulted mainly from the decrease in hard coal transports to Slovakia because of the reduced coal extraction by OKD. In 2018, there was an increase in transports of ores in transit from Ukraine and transports from Świnoujście to the Czech Republic. Intermodal transport also increased, first of all in transit between Slovakia and Russia as well as from/to Italy. The volume of transported wood and wood products also grew, mainly owing to the completion of new transports in transit from ports to Slovakia.[48]

4.2.5 The Company's and the PKP CARGO Group's rail transport

The data on the transport activity conducted by the PKP CARGO Group for 2014-2018 comprise consolidated data for PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and the AWT Group. The transport business in 2018 was conducted by 5 members of the Group. After the acquisition of an equity stake in AWT B.V. (the contract signed on 31 December 2014), 3 rail operators (AWT a.s., AWT Rail HU Zrt., AWT Rail SK a.s.) were added to the operators already being members of the PKP CARGO Group.

In 2019 Primol Rail d o.o. (80% of shared owned by AWT a.s.) received Certificate B, which means it gained a licence for rail freight in Slovenia.

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

Table 2 PKP CARGO Group's freight turnover for 2014-2018

Item	2018	2018 PKP CARGO share	2017*	2016*	2015*	2014*	Change 2018/2017	
		%	(million tkm)					%
Solid fuels[1]	10,931	94.7%	11,515	12,542	13,593	12,181	-584	-5.1%
of which hard coal	9,313	96.9%	10,155	11,070	12,387	10,757	-842	-8.3%
Aggregates and construction materials[2]	7,185	99.1%	5,882	4,636	5,261	6,142	1,303	22.1%
Metals and ores[3]	3,732	98.3%	4,027	3,436	3,757	3,698	-295	-7.3%
Chemicals[4]	2,204	94.7%	2,357	2,078	2,019	1,913	-154	-6.5%
Liquid fuels[5]	1,165	79.0%	1,340	1,091	839	781	-175	-13.0%
Timber and agricultural produce[6]	1,384	81.8%	1,764	1,562	1,660	1,733	-381	-21.6%
Intermodal transport	4,072	90.4%	3,235	2,474	2,031	1,832	836	25.8%
Other[7]	718	91.9%	891	703	679	667	-173	-19.4%
Total	**31,390**	**94.4%**	**31,011**	**28,521**	**29,839**	**28,947**	**379**	**1.2%**

** Because freight services by ferry are no longer separated from the distinct commodity markets and are added to the line item "other", data for 2014-2017 are updated.*
Source: Proprietary material

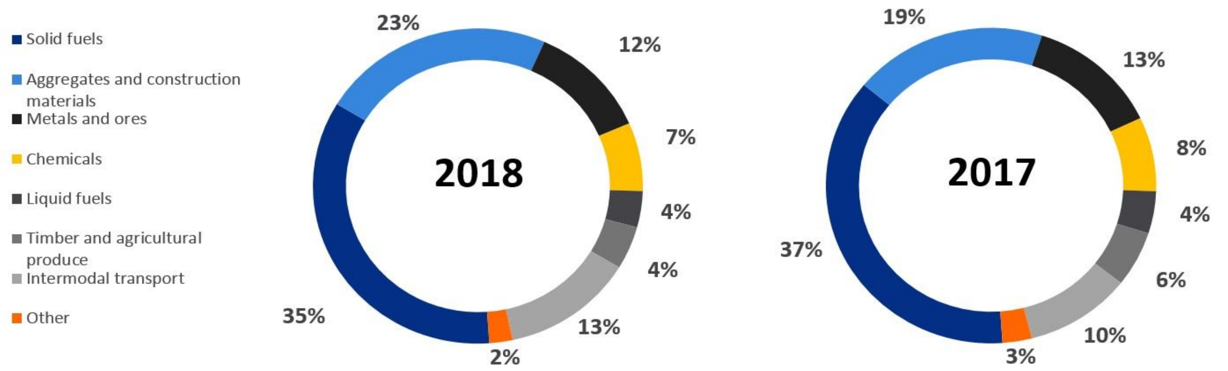
Table 3 PKP CARGO Group's freight turnover in Q4 of 2014-2018

Item	Q4 2018	Q4 2018 PKP CARGO share	Q4 2017*	Q4 2016*	Q4 2015*	Q4 2014*	Change Q4 2018/ Q4 2017	
		%	(million tkm)					%
Solid fuels[1]	2,889	94.3%	2,924	3,339	3,926	3,307	-35	-1.2%
of which hard coal	2,437	96.2%	2,589	2,971	3,629	2,938	-153	-5.9%
Aggregates and construction materials[2]	1,760	99.0%	1,644	1,368	1,256	1,609	116	7.0%
Metals and ores[3]	931	98.5%	1,010	825	1,003	879	-79	-7.8%
Chemicals[4]	524	94.3%	581	525	484	500	-56	-9.7%
Liquid fuels[5]	320	83.7%	309	272	255	210	10	3.4%
Timber and agricultural produce[6]	374	88.0%	491	477	445	406	-117	-23.8%
Intermodal transport	1,146	91.0%	889	721	593	451	258	29.0%
Other[7]	161	95.3%	229	180	185	162	-68	-29.7%
Total	**8,105**	**94.6%**	**8,076**	**7,707**	**8,148**	**7,525**	**29**	**0.4%**

** Because freight services by ferry are no longer separated from the distinct commodity markets and are added to the line item "other", data for 2014-2017 are updated.*
Source: Proprietary material

[47] SŽDC
[48] PKP CARGO S.A.'s own statistics

Figure 19 Share of freight turnover completed by the PKP CARGO Group in each commodity segment in 2018 and 2017



Source: Proprietary material

Table 4 PKP CARGO's freight volume in 2014-2018

Item	2018	2018 PKP CARGO share	2017*	2016*	2015*	2014*	Change 2018/2017	
		%	(000s tons)					%
Solid fuels[1]	56,594	87.0%	57,674	59,768	63,285	56,919	-1,080	-1.9%
of which hard coal	51,162	89.2%	51,750	53,690	57,847	51,976	-588	-1.1%
Aggregates and construction materials[2]	26,014	92.2%	22,161	18,173	19,898	21,526	3,853	17.4%
Metals and ores[3]	12,603	97.6%	13,032	11,315	12,378	12,356	-429	-3.3%
Chemicals[4]	6,791	91.5%	6,985	6,309	5,860	5,979	-194	-2.8%
Liquid fuels[5]	3,913	94.7%	4,534	3,042	3,001	2,692	-620	-13.7%
Timber and agricultural produce[6]	3,994	86.8%	4,525	4,385	4,733	4,782	-530	-11.7%
Intermodal transport	9,245	85.5%	7,605	6,473	5,173	4,536	1,640	21.6%
Other[7]	2,719	81.1%	2,626	2,030	1,929	1,917	94	3.6%
Total	**121,874**	**89.5%**	**119,141**	**111,495**	**116,257**	**110,706**	**2,733**	**2.3%**

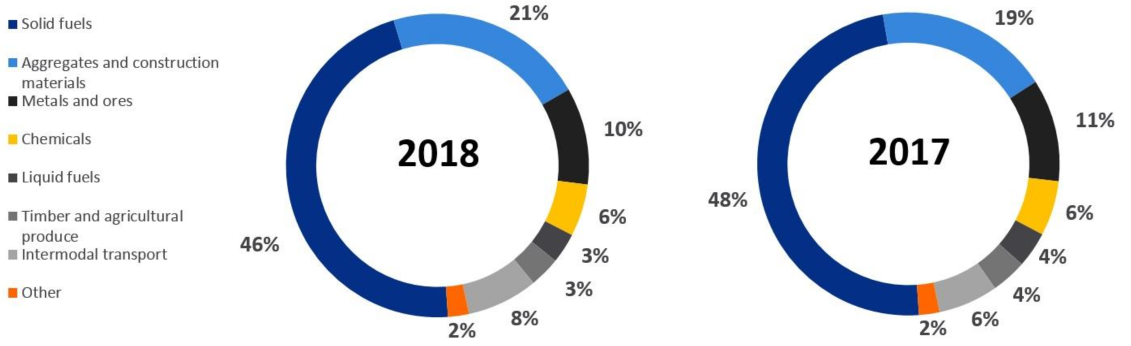
** Because freight services by ferry are no longer separated from the distinct commodity markets and are added to the line item "other", data for 2014-2017 are updated.*
Source: Proprietary material

Table 5 PKP CARGO Group's freight volume in Q4 of 2014-2018

Item	Q4 2018	Q4 2018 PKP CARGO share	Q4 2017*	Q4 2016*	Q4 2015*	Q4 2014*	Change Q4 2018/ Q4 2017	
		%	(000s tons)					%
Solid fuels[1]	14,505	86.3%	14,795	16,078	18,726	16,150	-290	-2.0%
of which hard coal	13,069	88.0%	13,223	14,520	17,182	14,854	-154	-1.2%
Aggregates and construction materials[2]	6,411	92.1%	6,252	5,464	5,008	5,647	159	2.5%
Metals and ores[3]	3,149	96.7%	3,296	2,996	3,009	2,947	-147	-4.5%
Chemicals[4]	1,620	92.9%	1,780	1,606	1,431	1,496	-160	-9.0%
Liquid fuels[5]	1,078	97.9%	951	843	870	759	126	13.3%
Timber and agricultural produce[6]	1,135	90.2%	1,301	1,222	1,265	1,212	-166	-12.8%
Intermodal transport	2,634	85.8%	2,017	1,853	1,549	1,113	617	30.6%
Other[7]	692	80.8%	699	545	518	467	-7	-1.0%
Total	**31,223**	**89.2%**	**31,092**	**30,607**	**32,375**	**29,792**	**132**	**0.4%**

** Because freight services by ferry are no longer separated from the distinct commodity markets and are added to the line item "other", data for 20114-2017 are updated.*
Source: Proprietary material

Figure 20 Share of freight volume transported by the PKP CARGO Group in each commodity segment in 2018/2017



Source: Proprietary material

In 2018 PKP CARGO Group realised rail freight with average distance of 258 km (-1,0% yoy), and an average disctace covered by PKP CARGO S.A. trains in 2018 was 272 km (-0,8% yoy).

Table 6 Average haul of the PKP CARGO Group in 2014-2018

Item	2018	2017*	2016*	2015*	2014*	Change 2018/2017	
	(km)						%
Solid fuels[1]	193	200	210	215	214	-7	-3.3%
of which hard coal	182	196	206	214	207	-14	-7.2%
Aggregates and construction materials[2]	276	265	255	264	285	11	4.1%
Metals and ores[3]	296	309	304	304	299	-13	-4.2%
Chemicals[4]	325	337	329	345	320	-13	-3.8%
Liquid fuels[5]	298	295	359	280	290	2	0.7%
Timber and agricultural produce[6]	346	390	356	351	362	-44	-11.2%
Intermodal transport	440	425	382	393	404	15	3.5%
Other[7]	264	339	346	352	348	-75	-22.2%
Total	**258**	**260**	**256**	**257**	**261**	**-3**	**-1.0%**

** Because freight services by ferry are no longer separated from the distinct commodity markets and are added to the line item “other”, data for 20114-2017 are updated.*
Source: Proprietary material

Table 7 Average haul of the PKP CARGO Group in Q4 in 2014-2018

Item	Q4 2018	Q4 2017*	Q4 2016*	Q4 2015*	Q4 2014*	Change Q4 2018/Q4 2017	
	(km)						%
Solid fuels[1]	199	198	208	210	205	2	0.8%
of which hard coal	186	196	205	211	198	-9	-4.8%
Aggregates and construction materials[2]	275	263	250	251	285	12	4.4%
Metals and ores[3]	296	306	275	333	298	-11	-3.5%
Chemicals[4]	324	326	327	339	334	-2	-0.8%
Liquid fuels[5]	297	325	322	293	276	-28	-8.7%
Timber and agricultural produce[6]	329	377	390	352	335	-48	-12.7%
Intermodal transport	435	440	389	383	406	-5	-1.2%
Other[7]	232	327	331	358	347	-95	-29.0%
Total	**260**	**260**	**252**	**252**	**253**	**0**	**-0.1%**

** Because freight services by ferry are no longer separated from the distinct commodity markets and are added to the line item “other”, data for 20114-2017 are updated.*
Source: Proprietary material

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

Key factors affecting the volume of transport in various cargo categories in 2018:

SOLID FUELS

- lower volume of coal exports – a result of a significant reduction in total export freight volumes and changes in the supply directions in overland exports;
- lower yoy production and sales of hard coal;
- increase in electricity generation in hard coal-fired commercial power plants;
- increase in hard coal imports;
- enactment of anti-smog legislation;
- copious track closures caused by renovation of major railway routes;
- decrease in the average commercial speed in Poland translating into an extended rolling stock circulation;
- increase in the price of steam coal and heating coal.

AGGREGATES AND CONSTRUCTION MATERIALS

- intensification of road construction projects in Poland under the National Road Construction Program;
- greater demand for transport of aggregates to concrete-mixing plants and bituminous mass production plants;
- execution of railway capital expenditure projects co-financed with European funds from the financial perspective for 2014-2020 as part of the National Railway Program;
- higher construction and assembly output in Poland, including the construction of civil and water engineering facilities;
- increase in the average haul of cargo as a result of changes in the structure of freight routes;
- limitations related to the capacity of rail lines.

METALS AND ORES

- the lower freight turnover is a result of the shorter average haul of cargo – a change in the structure of freight routes;
- decrease in freight volume caused by lower ore transport – lower imports of iron ore and lower volumes of slag from steel mills;
- overhaul of the great furnace at Arcelor Mittal steel plant – lower demand for raw materials for production;
- decrease in the volume of transported metals – including lower volumes in export and transit carriage due to a weaker demand for steel (exports to Germany, Hungary and Turkey and in transit to the Czech Republic).

INTERMODAL TRANSPORT

- development of transit connections and handling of cargo connections on the China-Europe-China route within the framework of the "New Silk Road";
- higher percentage of cargo that used to be transported in conventional ways and is now transported in containers (e.g. wood – in the form of timber shavings, timber chips, bituminous coal, automotive parts, paper);
- transport between seaports and terminals located in the country's interior;
- increase in the number of trains operated on the Group's own traction in Germany, the Czech Republic and Slovakia.

CHEMICALS

- higher quantum of transported hydrocarbons in imports from the East and exports to Bosnia, Hungary, Italy;
- decrease in the quantum of transported fertilizers in exports compensated by an increase in the transports in imports.

LIQUID FUELS

- takeover by competitive rail operators of a portion of transport orders from freight forwarders;
- distribution of biofuels by its producer in road tankers, bypassing rail transport;
- change in the supply logistics at the PKP CARGO Group's largest client in this segment (due to changes resulting from the current demand and supply situation);
- reversal in Q4 2018 of the downward trend observed in previous quarters of 2018, resulting from an growth in demand for fuels on the domestic market.

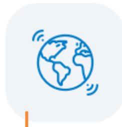

TIMBER AND AGRICULTURAL PRODUCE

- dwindling imports from Belarus compensated by higher volumes in domestic transport and imports via seaports (shorter hauls);
- higher exports of timber from windbreaks to Romania, Slovakia and Hungary;
- lower transport volumes of agricultural products: significantly lower volumes of grain exports via seaports, absence of rape imports from Hungary, suspension of rail transport of maize in imports from Ukraine, completion of one of the contracts for transporting grain by the AWT Group.

4.3 Other services

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

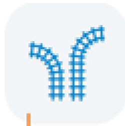
Freight forwarding services – the offering consists of comprehensive logistics services using vehicle, marine and inland water transport incorporating transshipment, storage, warehousing and packaging. The Group also offers customs handling. The comprehensive transport solutions designed and implemented by the Group (3PL solutions) are an additional strength of its services. Freight forwarding services are provided chiefly by PKP CARGO CONNECT Sp. z o.o. and AWT Čechofracht a.s.


FORWARDING SERVICES

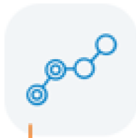
Traction services and locomotive lease services – services which involve the provision of a traction unit along with a train crew (traction services) or the crew itself to perform a railway transport operation. As part of this activity, traction rolling stock can also be made available (locomotives without train crews). Such services are provided on the Polish market and abroad (Czech Republic).


TRACTION SERVICES AND LOCOMOTIVE LEASE SERVICES

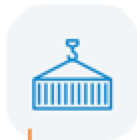
Comprehensive siding services – entailing, without limitation, train formation, maneuvering services, rail traffic management on sidings, loading and unloading, warehouse management, conservation and ongoing maintenance of point infrastructure. PKP CARGO SERVICE Sp. z o.o. and AWT a.s. are the main entities providing these services. Traffic management on sidings is offered in Poland, the Czech Republic and Hungary;


COMPREHENSIVE SIDING SERVICES

Transshipment services – provided on the basis of conventional and intermodal transshipment terminals owned by PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o., PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o., PKP CARGO CONNECT Sp. z o.o. and its subsidiaries and AWT a.s.


TRANSSHIPMENT SERVICES

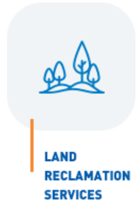
Intermodal logistics services – the Group takes care of all the elements of the logistics chain, including: rail transport, road transport, transshipment and storing intermodal units. This activity is based on a network of intermodal terminals. Within the Group, PKP CARGO CONNECT Sp. z o.o. is the company specializing in, and dedicated to, comprehensive intermodal transport service. The service of constantly monitoring the traffic of intermodal trains called "Track and Trace" implemented by AWT brings added value to the Group's offer.


INTERMODAL LOGISTIC SERVICES

Rolling stock repairs – maintenance of rolling stock is provided mainly by PKP CARGOTABOR Sp. z o.o. Additionally, selected repair and maintenance work is also done in the facilities situated in the structures of the Units of PKP CARGO S.A. and by AWT a.s.


ROLLING STOCK REPAIRS

Land reclamation services – the service offering in this area consists of managing and revitalizing post-industrial sites (including mining areas), performing demolition works, managing waste treatment facilities, eliminating underground mining pits and de-contaminating soil. Additionally, the Group offers services in the area of civil engineering. The land reclamation activity is carried out by AWT Rekultivace a.s. and AWT Rekultivace PL sp. z o.o., chiefly in the Czech Republic in the vicinity of Ostrava where mining waste deposits are located



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

The Parent Company Management Board does not evaluate the Group's performance and does not make decisions concerning allocation of resources to groups of services provided account being taken of the structure of revenue from sale of services presented in the Consolidated Financial Statements. Therefore, the specific service groups may not be treated as the Group's operating segments.

4.4 Information on selling markets and sources of supply.

Key clients

The Company operates in one principal geographic area, i.e. Poland, where its registered offices are also located. Total revenues for all geographic areas outside Poland in 2018 and 2017 did not exceed 13% of total revenues from agreements with clients. There is no single geographic area (outside of Poland) which generates more than 5% of revenues from agreements with clients.

In the period ended 31 December 2018, sales to the Arcelor Mittal Group represented 10.8% of total revenues from agreements with clients, while in the period ended 31 December 2017 they represented 13.7%.

The Group defines the geographical territory of business as the location of the registered office of the service recipient, and not as the country of the service provision. Poland is the key geographic area of the Group's activity.

In the financial year ended 31 December 2018, the Group's revenue from any single Group client did not exceed 10% of the total revenues from agreements with clients. In the year ended 31 December 2017, sales to the Arcelor Mittal Group represented 10.9% of total revenues from agreements with clients.

Note 2.1 to the Consolidated Financial Statements and Note 2.1 to the Standalone Financial Statements present the Group's revenues generated by external clients by geographic area.

Key suppliers

As they operate on the freight transport market, both the PKP CARGO Group and Parent Company are dependent on the largest supplier of access services to rail infrastructure in Poland, namely PKP Polskie Linie Kolejowe S.A. (PKP PLK). This company is a domestic supplier that provides access to the prevalent portion of rail infrastructure in Poland in accordance with the price list approved annually by the President of the Office of Rail Transport. This infrastructure is made available for a fee on the same terms to all carriers offering passenger and cargo rail transport. PKP PLK renders services to the PKP CARGO Group that include the provision of access to rail infrastructure, the provision of access to traction network equipment, the directing and carrying of traffic and access to train handling equipment. PKP PLK's percentage of procurement costs in 2018 (meaning the sum of the costs of external services and of the consumption of raw materials and supplies) was 37.1% in the PKP CARGO S.A., while it was 43.6% in the Group.

Moreover, the Group's main supplier for traction fuel and traction energy is PKP Energetyka S.A. This supplier specializes in selling and supplying electricity, selling liquid fuels and providing electrical energy-related services. PKP Energetyka S.A.'s percentage of procurement costs in 2018 (meaning the sum of the costs of external services and of the consumption of raw materials and supplies) was 27.6% in the PKP CARGO S.A., while it was 19.8% in the Group.

4.5 Headcount

Information concerning movements in headcount in the PKP CARGO Group and PKP CARGO S.A. in 2014-2018 is provided below.

Table 8 Headcount in 2013-2018 in the PKP CARGO Group and PKP CARGO S.A. (active employees only)

Item	Headcount as at:						Change YTD
	31/12/2018	31/12/2017	31/12/2016	31/12/2015	31/12/2014	31/12/2013	
PKP CARGO Group	**23,643**	**23,253**	**23,144**	**23,805**	**24,960**	**26,553**	**390**
including: PKP CARGO S.A.	*17,308*	*17,043*	*17,429*	*17,979*	*20,830*	*22,480*	*265*

Source: Proprietary material

Table 9 Average headcount in FTEs in 2014-2018 in the PKP CARGO Group and PKP CARGO S.A. (active employees only)

Item	Average headcount in FTEs					Change 2018-2017
	12 months	12 months	12 months	12 months	12 months	
	2018	2017	2016	2015	2014	
PKP CARGO Group	**23,385**	**23,278**	**23,441**	**24,375**	**26,185**	**107**
including: PKP CARGO S.A.	*17,135*	*17,177*	*17,698*	*18,484*	*22,010*	*-42*

Source: Proprietary material

Table 10 Average headcount in persons in 2014-2018 in the PKP CARGO Group and PKP CARGO S.A. (active employees only)

Item	Average headcount in persons					Change 2018-2017
	12 months	12 months	12 months	12 months	12 months	
	2018	2017	2016	2015	2014	
PKP CARGO Group	**23,431**	**23,305**	**23,465**	**24,407**	**26,215**	**126**
including: PKP CARGO S.A.	*17,146*	*17,182*	*17,702*	*18,486*	*22,012*	*-36*

Source: Proprietary material

Table 11 Change in the headcount structure in 2013-2018 in the PKP CARGO Group and PKP CARGO S.A. (active employees only)

Item	Headcount as at:						Change YTD
	31/12/2018	31/12/2017	31/12/2016	31/12/2015	31/12/2014	31/12/2013	
White-collar positions – the Group	**5,379**	**5,281**	**5,272**	**5,324**	**5,349**	**5,566**	**98**
including: PKP CARGO S.A.	*3,886*	*3,805*	*3,825*	*3,863*	*4,462*	*4,706*	*81*
Blue-collar positions – the Group	**18,264**	**17,972**	**17,872**	**18,481**	**19,611**	**20,987**	**292**
including: PKP CARGO S.A.	*13,422*	*13,238*	*13,604*	*14,116*	*16,368*	*17,774*	*184*
Total	**23,643**	**23,253**	**23,144**	**23,805**	**24,960**	**26,553**	**390**
including: PKP CARGO S.A.	*17,308*	*17,043*	*17,429*	*17,979*	*20,830*	*22,480*	*265*

Source: Proprietary material

A comparison of 2018 with 2017 reveals a growth in the average headcount in the PKP CARGO Group by 107 FTEs (a decline by 42 FTEs in PKP CARGO S.A. alone). The growth ensues from increased headcount in PKP CARGOTABOR, which in 2018 performed an increased number of rolling stock repair jobs for, among others, PKP CARGO.

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

4.6.1 Capital expenditures

PKP CARGO S.A.

In 2018, the Company incurred capital expenditures for the acquisition of property, plant and equipment and intangible assets in the form of procurement, modernization and the overhaul component (periodic repairs of P4 and P5 rolling stock and P3 periodic inspections[49]) of PLN 828.4 million, which was 62.1% higher than the actuals in 2017. Of these, capital expenditures outside of Poland, i.e. for purchase of Sammns series platform wagons, were PLN 9.7 million.

The biggest part of capital expenditures in the Company in 2018 was allocated for the execution of investment tasks associated with the rolling stock, mainly for repairs and periodic inspections of the rolling stock (the number of periodic repairs and periodic inspections performed in individual periods is derived from the cycles specified in the Maintenance System Documentation (DSU) of the rolling stock approved by the Office of Rail Transport and the quantum of rolling stock maintained as fit for operation as required for the provision of transportation services), purchase of DRAGON 2 locomotives (3 units), modernization of locomotives (25 units), purchase of Sammns series platform wagons (17 pieces) and the acquisition of used EAOS series coal wagons (10 pieces) – for a total amount of PLN 795.6 million (i.e. 96.0% of the capital expenditures). Moreover, the Company incurred capital expenditures in the IT area, in particular to purchase hardware and ICT equipment along with intangible assets (software) for the total amount of PLN 12.2 million (chiefly for the roll-out of IT systems and the purchase of hardware and servers), for investment construction in the amount of PLN 13.1 million, namely the construction and modernization of buildings, in particular workshop facilities, and the construction and modernization of water supply and sewage removal networks and central heating network, reconstruction of track systems and the acquisition of machinery and equipment and workshop and office fit-out in the amount of PLN 7.5 million.

Table 12 Capital expenditures in PKP CARGO S.A. in 2014 – 2018 (PLN millions)

Item	2018	2017	2016	2015	2014	Change 2018-2017	Change 2018-2017 %
Investment construction activity	13.1	5.5	4.5	19.9	11.1	7.6	138.2%
Purchase of traction vehicles	43.4	53.0	199.4	0.0	0.0	-9.6	-18.1%
Locomotive upgrades	146.3	64.2	35.4	69.6	48.3	82.1	127.9%
Purchase of wagons	11.1	12.5	0.0	20.1	57.2	-1.4	-11.2%
Workshop machinery and equipment	6.8	4.3	2.8	6.0	5.9	2.5	58.1%
ICT development	12.2	14.5	16.5	32.3	20.6	-2.3	-15.9%
Other	0.7	0.5	2.2	5.5	2.7	0.2	40.0%
Components in overhaul, including:	594.8	356.7	185.0	283.6	433.2	238.1	66.8%
Repairs and periodic inspections of locomotives	*160.2*	*76.5*	*45.0*	*137.8*	*125.2*	*83.7*	*109.4%*
Repairs and periodic inspections of wagons	*434.6*	*280.2*	*140.0*	*145.8*	*308.0*	*154.4*	*55.1%*
Total	**828.4**	**511.2**	**445.8**	**437.0**	**579.0**	**317.2**	**62.1%**

Source: Proprietary material

The funding mix of capital expenditures towards property, plant and equipment and intangible assets was as follows: PLN 827.9 million of own funds and PLN 0.5 million of EU grants.

Moreover, the capital expenditures incurred in 2018 for purchase of Sammns series platform wagons of PLN 9.7 million and financed with own funds will be entirely refinanced in 2019 with a designated subsidy.

PKP CARGO Group

In 2018, the Group incurred capital expenditures for the acquisition of property, plant and equipment and intangible assets in the form of procurement, modernization and the overhaul component (periodic repairs of P4 and P5 rolling stock and P3 periodic inspections) as well as intangible assets of PLN 894.1 million, which was 59.1% higher than the actuals in 2017.

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

Capital expenditures incurred by subsidiaries, excluding PKP CARGO S.A., according to their standalone financial statements totaled PLN 104.5 million and were 27.3% higher than in 2017. In 2018, the subsidiaries allocated the majority of capital expenditures to the execution of investment projects related to rolling stock (i.e. periodic P4 and P5 repairs of rolling stock, periodic P3 inspections and modernization of locomotives – for the total amount of PLN 42.9 million or 41.1% of all capital expenditures). Moreover, the subsidiaries incurred expenditures on investment construction activity in the amount of PLN 35.0 million (chiefly to modernize container terminals and buildings and to repair tracks and storage yards), on the purchase and modernization of machinery and equipment in the amount of PLN 19.5 million, on computerization in the amount of PLN 4.3 million and on the purchase of office equipment and vehicles in the amount of PLN 2.8 million.

Table 13 Capital expenditures in the PKP CARGO Group in 2014 – 2018 (PLN million)

Item	2018	2017	2016	2015	2014	Change 2017-2018	Change 2018-2017 %
Investment construction activity	48.1	32.1	19.1	28.1	18.1	16.0	50.0%
Purchase of traction vehicles	43.8	53.0	200.2	0.0	0.0	-9.2	-17.4%
Locomotive upgrades	147.9	67.0	40.5	70.4	48.5	80.9	120.7%
Purchase of wagons	11.1	13.3	0.0	20.1	57.3	-2.2	-16.5%
Wagon upgrades	0.0	1.7	3.6	1.6	0.0	-1.7	-100.0%
Workshop machinery and equipment	26.3	17.6	14.4	12.2	9.5	8.7	49.5%
ICT development	16.6	16.3	20.1	34.9	22.0	0.3	1.8%
Other	3.6	2.4	4.2	9.7	4.2	1.2	50.0%
Components in overhaul, including:	596.7	358.6	230.6	307.6	437.1	238.1	66.4%
Repairs and periodic inspections of locomotives	*170.1*	*77.3*	*72.1*	*150.7*	*126.0*	*92.8*	*120.1%*
Repairs and periodic inspections of wagons	*426.6*	*281.3*	*158.5*	*156.9*	*311.1*	*145.3*	*51.7%*
Total	**894.1**	**562.0**	**532.7**	**484.6**	**596.7**	**332.1**	**59.1%**

Source: Proprietary material

The funding mix of capital expenditures on property, plant and equipment and intangible assets in the subsidiaries was as follows: PLN 95.0 million of own funds, PLN 0.8 million of lease funds and PLN 8.7 million of EU grants.

4.6.2 Assessment of the capacity to execute investment plans

The Group will finance capital expenditures using partly external financing sources, such as investment loans or other forms of financing and also using its own funds.

Additionally, a cash pooling system is in place in the PKP CARGO Group which comprises, as at 31 December 2018, 7 Group companies.

PKP CARGO S.A. has been efficiently managing the cash management cycle by matching the maturity of receivables and liabilities. To hedge the possible risk of a short-term cash shortage, PKP CARGO S.A. has in place an overdraft facility with a limit of PLN 100 million (as at 31 December 2018).

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

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

Table 14 Financial highlights of PKP CARGO S.A.

PKP CARGO S.A.	PLN million[50]					EUR million				
	2018	2017*	2016	2015	2014	2018	2017*	2016	2015	2014
Exchange rates (PLN/EUR)						4.2669	4.2447	4.3757	4.1848	4.1893
Operating revenue	3,939.2	3,588.0	3,250.5	3,514.2	3,880.2	923.2	845.3	742.8	839.7	926.2
Profit / loss on operating activities	318.2	149.7	-31.1	-115.2	92.8	74.6	35.3	-7.1	-27.5	22.2
Profit / loss before tax	320.7	125.5	-70.7	-139.1	87.5	75.2	29.6	-16.2	-33.2	20.9
Net profit / loss from continuing operations	254.0	94.0	-68.6	-114.1	75.6	59.5	22.1	-15.7	-27.3	18.0
Comprehensive income	228.2	87.3	-53.9	-73.8	48.9	53.5	20.6	-12.3	-17.6	11.7
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917	44,524,924	44,786,917	44,786,917	44,786,917	44,786,917	44,524,924
Weighted average number of shares used to calculate diluted profit / loss	44,786,917	44,786,917	44,786,917	44,786,917	44,790,878	44,786,917	44,786,917	44,786,917	44,786,917	44,790,878
Earnings / loss per share (PLN/EUR)	5.67	2.10	-1.53	-2.55	1.70	1.33	0.49	-0.35	-0.61	0.41
Diluted earnings / loss per share (PLN/EUR)	5.67	2.10	-1.53	-2.55	1.69	1.33	0.49	-0.35	-0.61	0.40
Net cash flow from operating activities **	709.7	478.4	237.5	325.9	462.5	166.3	112.7	54.3	77.9	110.4
Net cash flow from investing activities	-536.3	-780.2	-440.6	-584.9	-208.1	-125.7	-183.8	-100.7	-139.8	-49.7
Net cash flow from financing activities	-246.9	-14.3	731.0	-38.3	-102.2	-57.9	-3.4	167.1	-9.2	-24.4
Movement in cash and cash equivalents	-73.5	-316.1	527.9	-297.3	152.2	-17.2	-74.5	120.6	-71.0	36.3
	31/12/2018	31/12/2017*	31/12/2016*	31/12/2015	31/12/2014	31/12/2018	31/12/2017*	31/12/2016*	31/12/2015	31/12/2014
Exchange rates (PLN/EUR)						4.3000	4.1709	4.4240	4.2615	4.2623
Non-current assets	4,902.5	4,562.6	4,445.2	4,458.1	4,129.5	1,140.1	1,093.9	1,004.8	1,046.1	968.8
Current assets	1,079.8	1,178.5	1,106.4	559.1	1,207.1	251.1	282.6	250.1	131.2	283.2
Non-current assets classified as held for sale	-	-	6.0	44.1	17.6	-	-	1.4	10.3	4.1
Share capital	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3	520.8	536.9	506.2	525.5	525.4
Equity	3,314.6	3,088.9	3,001.6	3,072.3	3,256.3	770.8	740.6	678.5	720.9	764.0
Non-current liabilities	1,652.6	1,748.7	1,713.9	1,150.2	1,034.3	384.3	419.3	387.4	269.9	242.7
Current liabilities	1,015.1	903.5	842.1	838.8	1,063.5	236.1	216.6	190.3	196.8	249.5

Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2018 prepared according to EU IFRS.

* restatement of data is described in detail in **Notes 1.4 and 1.5 to the SFS**[51]
** including the payment of liabilities stemming from the implemented 1st and 2nd Voluntary Redundancy Programs in the amount of PLN 273.7 million in 2015,
including the payment of liabilities stemming from the implemented 1st and 2nd Voluntary Redundancy Programs in the amount of PLN 47.4 million in 2016,

[50] In this Management Board Report on the Activity of the PKP CARGO Group for the financial year 2017, to facilitate the reading, some figures were rounded off which may cause slight deviations in the presented data. In all cases of possible distortions, the data were presented with greater accuracy.
[51] Any reference to a Note in these Statements should be construed as a Note to the Standalone Financial Statements of PKP CARGO S.A. ("SFS") for the financial year ended 31 December 2018 prepared according to EU IFRS, if the reference is made to standalone data. In the case of consolidated data, it should be construed as a Note to the Consolidated Financial Statements of the PKP CARGO Group ("CFS") for the financial year ended 31 December 2018 prepared according to EU IFRS unless indicated otherwise.

Table 15 Reconciliation of the differences between the reported and adjusted result on operating activities (EBIT) and the operating result without depreciation (EBITDA) of PKP CARGO S.A.

PKP CARGO S.A.	PLN million				
	2018	2017*	2016	2015	2014
Profit / loss on operating activities	**318.2**	**149.7**	**-31.1**	**-115.2**	**92.8**
Adjustments:					
Operating expenses					
VRP 1					257.1
VRP 2				63.9	
Revaluation of assets		-27.4		177.9	
Adjusted profit / loss on operating activities	**318.2**	**122.3**	**-31.1**	**126.5**	**349.9**
Operating profit without depreciation (EBITDA)	**771.2**	**590.3**	**443.7**	**454.4**	**440.6**
Adjustments:					
Operating expenses					
VRP 1					257.1
VRP 2				63.9	
Adjusted operating profit without depreciation (EBITDA)	**771.2**	**590.3**	**443.7**	**518.3**	**697.7**

Source: Proprietary material
* restatement of data is described in detail in **Notes 1.4 and 1.5 to the SFS**

Table 16 Financial highlights of the PKP CARGO Group

PKP CARGO Group	PLN million					EUR million				
	2018	2017*	2016	2015	2014	2018	2017*	2016	2015	2014
Exchange rates(PLN/EUR)						**4.2669**	**4.2447**	**4.3757**	**4.1848**	**4.1893**
Operating revenue	5,237.5	4,733.0	4,411.3	4,554.1	4,274.3	1,227.5	1,115.0	1,008.1	1,088.3	1,020.3
Profit / loss on operating activities	277.6	153.4	-132.1	55.9	120.9	65.1	36.1	-30.2	13.4	28.9
Profit / loss before tax	243.8	116.5	-150.9	10.5	93.5	57.1	27.4	-34.5	2.5	22.3
Net profit / loss	183.9	81.7	-133.8	30.1	78.3	43.1	19.2	-30.6	7.2	18.7
Total comprehensive income attributable to the owners of the parent company	170.7	73.8	-91.1	107.6	43.8	40.0	17.4	-20.8	25.7	10.4
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917	44,524,924	44,786,917	44,786,917	44,786,917	44,786,917	44,524,924
Weighted average number of shares used to calculate diluted profit/loss	44,786,917	44,786,917	44,786,917	44,786,917	44,790,878	44,786,917	44,786,917	44,786,917	44,786,917	44,790,878
Earnings / loss per share (PLN/EUR)	4.11	1.82	-2.99	0.67	1.70	0.96	0.43	-0.68	0.16	0.41
Diluted earnings / loss per share (PLN/EUR)	4.11	1.82	-2.99	0.67	1.70	0.96	0.43	-0.68	0.16	0.41
Net cash flow from operating activities**	863.0	600.7	380.0	387.5	559.9	202.2	141.5	86.9	92.6	133.7
Net cash flow from investing activities	-612.0	-740.0	-568.6	-515.2	-238.7	-143.4	-174.3	-129.9	-123.1	-57.0
Net cash flow from financing activities	-322.9	-99.4	663.9	-29.4	-155.7	-75.7	-23.4	151.7	-7.0	-37.2
Movement in cash and cash equivalents	-71.9	-238.7	475.3	-157.1	165.5	-16.9	-56.2	108.6	-37.6	39.5
	31/12/2018	**31/12/2017***	**31/12/2016***	**31/12/2015**	**31/12/2014**	**31/12/2018**	**31/12/2017***	**31/12/2016***	**31/12/2015**	**31/12/2014**
Exchange rates(PLN/EUR)						**4.3000**	**4.1709**	**4.4240**	**4.2615**	**4.2623**
Non-current assets	5,187.2	4,951.5	4,964.2	4,996.9	4,254.5	1,206.3	1,187.2	1,122.1	1,172.6	998.2
Current assets	1,619.1	1,694.2	1,547.9	1,078.9	1,401.2	376.5	406.2	349.9	253.2	328.7
Non-current assets classified as held for sale	-	-	-	44.1	17.6	-	-	-	10.3	4.1
Share capital	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3	520.8	536.9	506.2	525.5	525.4
Equity attributable to the owners of the parent company	3,483.5	3,317.2	3,243.4	3,351.4	3,321.5	810.1	795.3	733.1	786.4	779.3
Equity attributable to non-controlling interests	-	-	-	-	55.2	-	-	-	-	13.0
Non-current liabilities	1,969.1	2,110.9	2,092.6	1,586.1	1,165.4	457.9	506.2	473.0	372.2	273.4
Current liabilities	1,353.7	1,217.6	1,176.1	1,182.4	1,131.1	314.8	291.9	265.8	277.5	265.4

Source: Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2018
* restatement of data is described in detail in **Notes 1.4 and 1.5 to the CFS**
** including the payment of liabilities stemming from the implemented 1st and 2nd Voluntary Redundancy Programs in the amount of PLN 287.4 million in 2015,

including the payment of liabilities stemming from the implemented 1st and 2nd Voluntary Redundancy Programs in the amount of PLN 48.2 million in 2016,

Table 17 Reconciliation of the differences between the reported and adjusted result on operating activities (EBIT) and the operating result without depreciation (EBITDA) of the PKP CARGO Group

PKP CARGO Group	PLN million				
	2018	2017*	2016	2015	2014
Profit / loss on operating activities	**277.6**	**153.4**	**-132.1**	**55.9**	**120.9**
Adjustments:					
Operating revenue					
Bargain acquisition of AWT				-137.8	
Operating expenses					
VRP 1					265.3
VRP 2				70.2	
Impairment loss on receivables from OKD			72.7		
Revaluation of assets**	69.0	-27.4	34.1	178.7	
Adjusted profit / loss on operating activities	**346.6**	**126.0**	**-25.3**	**167.0**	**386.3**
Operating profit without depreciation (EBITDA)	**907.0**	**700.3**	**489.5**	**704.9**	**503.7**
Adjustments:					
Operating revenue					
Bargain acquisition of AWT				-137.8	
Operating expenses					
VRP 1					265.3
VRP 2				70.2	
Impairment loss on receivables from OKD			72.7		
Adjusted operating profit without depreciation (EBITDA)	**907.0**	**700.3**	**562.2**	**637.3**	**769.0**

Source: Proprietary material

* restatement of data is described in detail in **Notes 1.4 and 1.5 to the CFS**
** in 2018, the impairment loss was related to AWT

In 2018, the PKP CARGO Group identified a non-recurring event in the form of an impairment loss on the redundant rolling stock assets and other property, plant and equipment in the amount of PLN 69.0 million (rolling stock) as a result of the impairment test (described in detail in **Note 5.1 to the CFS)** and as part of the optimization processes carried out in the AWT Group. This event did not affect EBITDA.

The following average PLN to EUR exchange rates set by the National Bank of Poland have been used to translate selected financial data in the periods covered by the Standalone Financial Statements of PKP CARGO S.A. and the Consolidated Financial Statements:

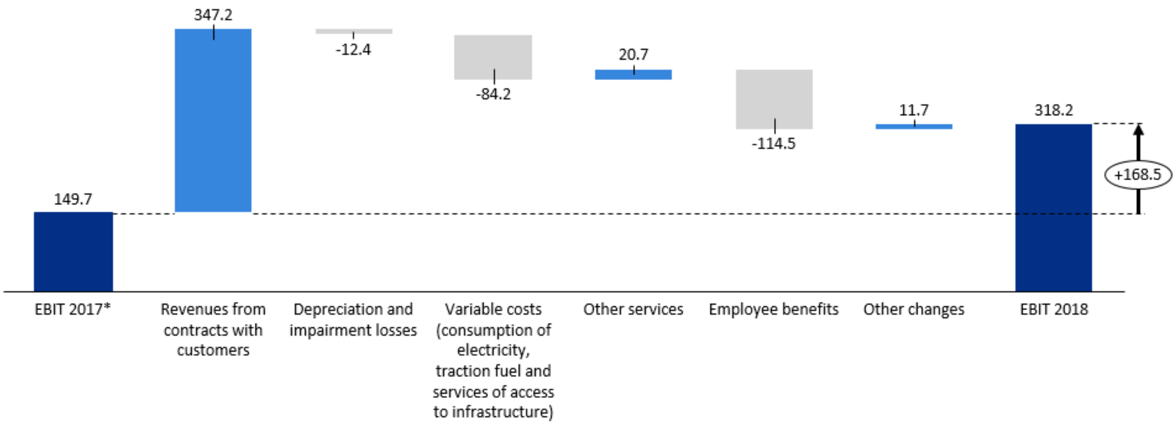
- exchange rate in force on the last day of the reporting period: 31 December 2018: EUR 1 = PLN 4.3000; 31 December 2017: EUR 1 = PLN 4.1709,
- the average exchange rate in the period calculated as the arithmetic mean of the exchange rates prevailing on the last day of each month in a given period: 1 January – 31 December 2018: EUR 1 = PLN 4.2669, 1 January – 31 December 2017: EUR 1 = PLN 4.2447.

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

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

In 2018, EBIT reached PLN 318.2 million, having gone up by PLN 168.5 million (112.6%) compared to the corresponding period of the previous year.

Figure 21 EBIT in 2018 as compared to the corresponding period in 2017 (PLN million)



Source: Proprietary material

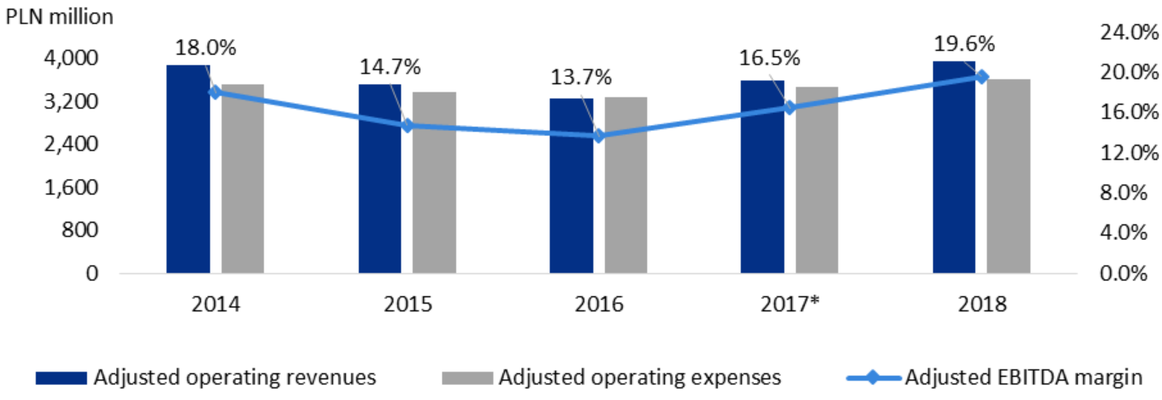
* restatement of data is described in detail in **Notes 1.4 and 1.5 to the SFS**

The following is the explanation of the most significant changes affecting EBIT in 2018 as compared to 2017:

- increase in revenue from contracts with customers (chiefly revenue from transportation services and freight forwarding services) resulted from higher transport prices and better transport performance (increase in freight volume by 2.1% yoy, increase in freight turnover by 1.3% yoy). The details pertaining to PKP CARGO S.A.'s transport business are described in chapter **4.2.5 "The Company's and the PKP CARGO Group's rail transport business".**
- increase in depreciation and impairment losses, chiefly owing to revaluation of the residual value of rolling stock components performed as at 31 December 2017 (undervaluation of the base amount);
- increase in variable expenses (consumption of electricity and traction fuel and infrastructure access services) caused by a hike in fuel prices by 11.9%, increase in the unit measure of traction electricity consumption by 5.4% as a result of difficulties experienced on PLK lines due to intensified work on major transport routes and related detours as well as increase in freight turnover by 1.3%;
- decrease in other services, predominantly in transport services by PLN 41.1 million, as a result of lower freight forwarding costs (change in freight routes to ones that do not require any additional costs on the part of the Company) and expiration of the "Kopernik" ferry lease agreement. Moreover, a decrease was recorded in the costs of transshipment services and other services by PLN 9.7 million as a result of the overstated base amount in 2017 (provision of the ore frostbite service at PKP CARGO CL Medyka-Żurawica at the beginning of 2017). At the same time, the Company's cost of rents and fees for the use of real properties and rolling stock increased by PLN 32.7 million – increase in leases of locomotives and wagons and wagon parking charges related to the higher freight turnover realized and caused by activities aimed at preparations for the achievement of freight targets in 2019;
- increase in employee benefits which resulted predominantly from wage increases at PKP CARGO S.A.: from 1 September 2017 and from 1 September 2018 (in accordance with the memorandum of agreement of 15 June 2018 entered into between the Parties to the Company Collective Bargaining Agreement for Employees Hired by PKP CARGO S.A.). At the same time, the Company recorded an increase in headcount by 265 staff. PKP CARGO S.A. intends to increase its headcount in teams of key importance for the Company's operations to enable it to properly handle the growing freight volume. Detailed information on the changes in headcount is presented in section **4.5 "Headcount"**;
- the increase in other changes was caused by the decline in taxes and fees resulting from the change in the recognition of VAT from foreign invoices for electricity and access to infrastructure. Since 1 January 2018, VAT refunds have been posted to settlements (receivables), because such refunds are not a definitive expense and are subject to recovery. Moreover, decreases have been recorded in property tax and perpetual usufruct fees as a result of tax exemptions caused by amendments to the Rail Transport Act.

The figure below presents the adjusted EBITDA margin compared to selected adjusted items in the Company's statement of comprehensive income for 2014-2018. Since the end of 2016, PKP CARGO S.A. has been gradually rebuilding its EBITDA margin, chiefly by way of increases in transport prices and growing volumes of transported cargo.

Figure 22 Adjusted EBITDA margin compared to the Company's adjusted operating revenues and expenses in 2014-2018* (PLN million)



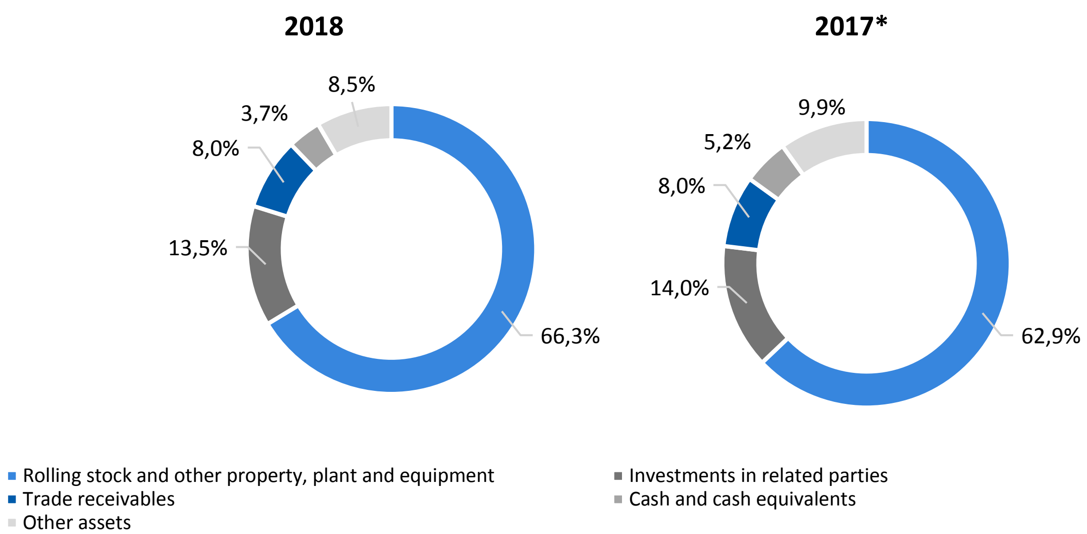
Source: Proprietary material
* the 2014 data were adjusted for presentation purposes for the costs following from the first Voluntary Redundancy Program implemented in the amount of PLN 257.1 million, the 2015 data were adjusted for presentation purposes for the costs following from the second VRP implemented in the amount of PLN 63.9 million and impairment losses on non-current assets and assets classified as held for sale in the amount of PLN 177.9 million
the 2017 data were adjusted for presentation purposes for revaluation of the residual value of rolling stock and reversal of part of the impairment loss on rolling stock components in the amount of PLN -27.4 million,
data in 2018 were not adjusted; restatement of data is described in detail in **Notes 1.4 and 1.5 to the SFS**.

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

ASSETS

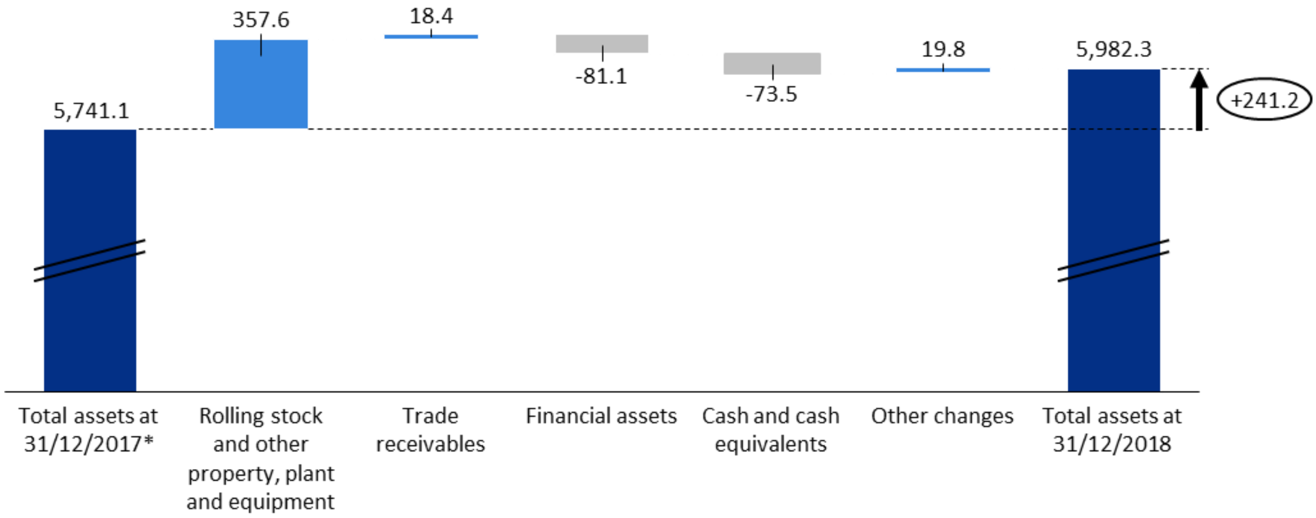
As at 31 December 2018, rolling stock and other property, plant and equipment had the largest share in the structure of assets, accounting for 66.3% of total assets, compared to 62.9% as at 31 December 2017. The second largest item in PKP CARGO S.A.'s non-current assets as at 31 December 2018 was investments in related parties, which accounted for 13.5% of total assets, compared to 14.0% as at 31 December 2017. The largest share in the structure of current assets as at 31 December 2018 in relation to total assets was attributable to trade receivables (8.0%) and cash and cash equivalents (3.7%).

Figure 23 Structure of PKP CARGO S.A.'s assets in 2018 and 2017



Source: Proprietary material
* restatement of data is described in detail in **Notes 1.4 and 1.5 to the SFS**

Figure 24 Movement in PKP CARGO S.A.'s assets in 2018 (PLN million)



Source: Proprietary material
* restatement of data is described in detail in **Notes 1.4 and 1.5 to the SFS**

- the increase in the value of rolling stock and other property, plant and equipment was due to the execution of investments in property, plant and equipment (chiefly rolling stock). In 2018, the Company incurred capital expenditures for the acquisition of property, plant and equipment, intangible assets and the overhaul component of PLN 828.4 million, which was PLN 317.2 million higher than the actuals in 2017. In 2018, depreciation of rolling stock, other property, plant and equipment and intangible assets was PLN 453.0 million, compared to PLN 440.6 million in 2017, up by PLN 12.4 million.
- the increase in the value of trade receivables by PLN 18.4 million was largely due to the increase in revenues at the end of 2018;
- the decrease in cash and cash equivalents and financial assets (mainly deposits with a maturity above 3 months) by PLN 154.6 million was associated with the acquisition of rolling stock, other property, plant and equipment, intangible assets and repayment of loans and borrowings.

Table 18 Days in inventory in 2014-2018

Item	2018	2017	2016	2015	2014	Change 2018-2017	% change 2018/2017
Days in inventory*	96.8	128.9	110.6	87.1	77.5	-32.1	24.9%

** Days in inventory calculated for 360 days and depletion on a year-to-date basis since the beginning of the reporting year*

Source: Proprietary material

At the end of December 2018, days in inventory was 96.8, down 32.1 compared to 2017, with:

- inventory of materials in 2018 at PLN 84.2 million, compared to PLN 86.4 million in 2017;
- net value of materials sold at PLN 22.5 million, compared to PLN 8.4 million the year before;
- consumption of materials and employee benefits at PLN 290.3 million, compared to PLN 232.9 million the year before.

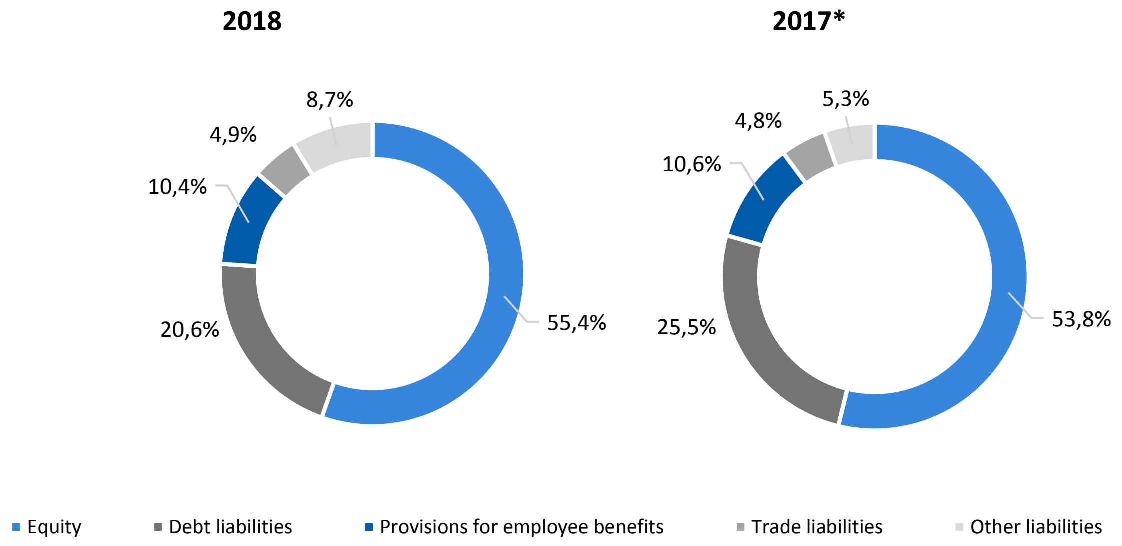
The indicator decreased due to a 2.6% drop in net inventories with a 25.0% increase in the consumption of materials and a 169.8% increase in the net value of materials sold.

The level of inventories is adapted mainly to the level of the rolling stock maintenance and repair activity. The details regarding the level of inventories are presented in **Note 5.3 to the SFS**.

EQUITY AND LIABILITIES

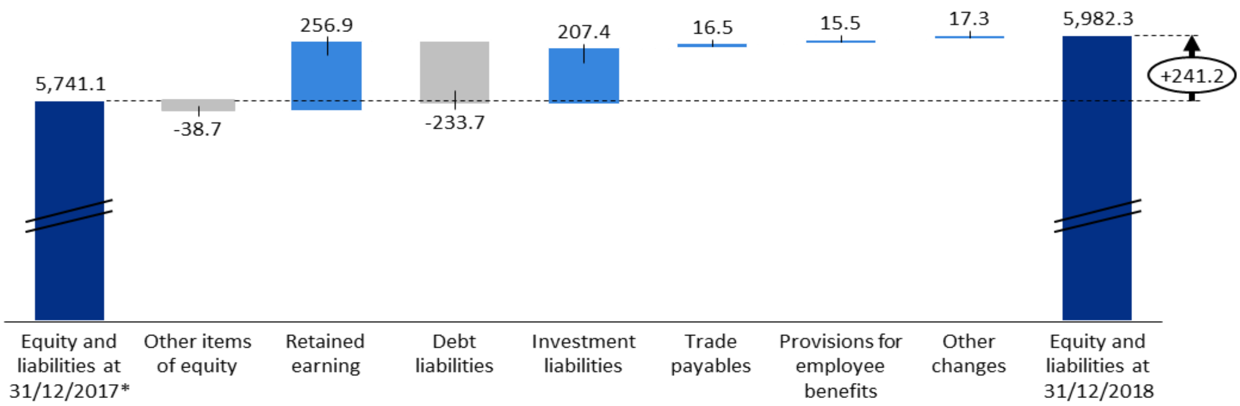
The largest share in the structure of equity and liabilities as at 31 December 2018 was attributable to equity, which accounted for 55.4% of the sum of equity and liabilities, compared to 53.8% as at 31 December 2017. The share of debt liabilities in the sum of equity and liabilities was 20.6% as at 31 December 2018 compared to 25.5% as at 31 December 2017.

Figure 25 Structure of PKP CARGO S.A.'s equity and liabilities in 2018 and 2017



Source: Proprietary material
* restatement of data is described in detail in **Notes 1.4 and 1.5 to the SFS**

Figure 26 Movement in PKP CARGO S.A.'s equity and liabilities in 2018 (PLN million)



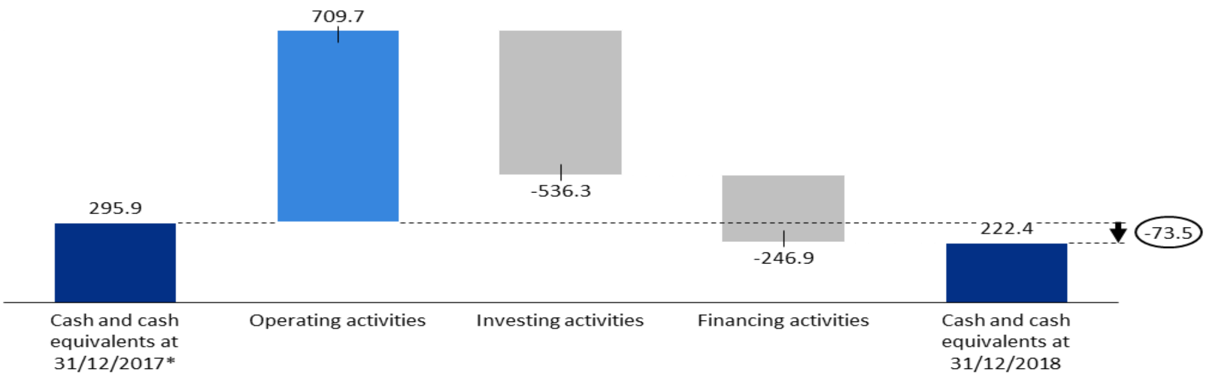
Source: Proprietary material
** restatement of data is described in detail in* **Notes 1.4 and 1.5 to the SFS**

- the increase in equity by PLN 225.7 million resulted chiefly from the positive financial result in 2018 (improvement in retained earnings by PLN 256.9 million);
- the decrease in the value of debt liabilities was caused by the realization of loan repayments in accordance with the schedule;
- the increase in the value of investment liabilities by PLN 207.4 million was due to the acquisition of rolling stock under an installment payment system.
- the increase in the value of provisions for employee benefits by PLN 15.5 million was largely due to the increase in provisions for retirement and disability severance pays by PLN 18.4 million and jubilee awards by PLN 13.7 million along with a decrease in provisions for charges to the Company Social Benefits Fund by PLN 14.5 million;

5.2.3 Cash flow statement of PKP CARGO S.A.

The value of cash and cash equivalents as at 31 December 2018 decreased by PLN 73.5 million compared to 31 December 2017.

Figure 27 Cash flows in PKP CARGO S.A. in 2018 (PLN million)



Source: Proprietary material
** restatement of data is described in detail in* **Notes 1.4 and 1.5 to the SFS**

Cash flow from operating activities

This type of cash flow was generated on the result before tax of PLN 320.7 million and depreciation of property, plant and equipment, amortization of intangible assets and impairment losses of PLN 453.0 million. Another factor influencing the cash flow from operating activities is income tax, paid in the amount of PLN 55.2 million.

Cash flow from investing activities

The negative cash flows from investing activities directly affected capital expenditures on the acquisition of non-financial non-current assets in the amount of PLN 655.5 million, termination of bank deposits with a maturity of over 3 months for the amount of PLN 50.0 million and revenues from dividends disbursed by subsidiaries of PLN 35.7 million.

Cash flow from financing activities

This type of cash flow resulted chiefly from the repayment of loans and borrowings in the amount of PLN 219.5 million, finance lease instalments of PLN 29.8 million and interest payments on finance leases and loans and borrowings of 23.9 million.

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

The table below presents PKP CARGO S.A.'s key financial and operating ratios in the period of 2014-2018.

Table 19 Selected financial and operating ratios of PKP CARGO S.A. in the period of 2014-2018

Item	2018	2017*	2016	2015	2014	Change 2018 - 2017	% change 2018/2017
EBITDA margin[1]	19.6%	16.5%	13.7%	12.9%	11.4%	3.1 p.p.	19.0%
Net profit margin[2]	6.4%	2.6%	-2.1%	-3.2%	1.9%	3.8 p.p.	146.1%
Net financial debt to EBITDA ratio[3]	1.0	1.5	2.0	1.4	-0.2	-0.5	-30.8%
ROA[4]	4.2%	1.6%	-1.2%	-2.3%	1.4%	2.6 p.p.	159.3%
ROE[5]	7.7%	3.0%	-2.3%	-3.7%	2.3%	4.6 p.p.	151.8%
Average distance covered per locomotive (km/day)[6]	262.9	256.8	249.5	240.6	243.9	6.1	2.4%
Average gross train tonnage per operating locomotive (tons)[7]	1,489.0	1,485.0	1,502.0	1,523.0	1,481.0	4.0	0.3%
Average running time of train locomotives (hours per day)[8]	16.1	15.6	15.1	15.2	15.4	0.5	3.2%
Freight turnover per employee (thousands tkm/employee)[9]	1,728.8	1,702.5	1,516.3	1,553.8	1,307.2	26.3	1.5%

Source: Proprietary material
* restatement of data is described in detail in **Notes 1.4 and 1.5 to the SFS**

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

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

- The key profitability ratios, i.e. the EBITDA margin, the net profit/loss margin, ROA and ROE, were higher for the reasons described in section **5.2 "PKP CARGO S.A.'s economic and financial highlights".** The net financial debt to EBITDA ratio also improved as a result of the stronger financial performance of PKP CARGO S.A. and a decline in net financial debt;
- the improvement in the average daily mileage of locomotives resulted from the optimization of the transportation process;
- the increase in the average gross train tonnage per operating locomotive was caused by a better utilization of locomotives and optimization of the transportation process;
- the increase in the average daily running time of locomotives was an outcome of the continuous monitoring of how the freight turnover process is run while concurrently optimizing the match between the number of active locomotives and doing the work with changing freight turnover;
- the increase in the freight turnover ratio per employee was caused mainly by the increase in freight turnover by 1.3% with the concurrent decrease in the average headcount by 0.2%.

The improvement of these indicators and measures is proof of continuous advancements in management, use and maintenance of traction vehicles, which translates into better financial performance of PKP CARGO S.A.

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

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

Table 20 Time series of the statement of profit or loss and other comprehensive income of PKP CARGO S.A. in 2014-2018

	PLN million				
	2018	2017*	2016	2015	2014
Revenues from contracts with customers	3,910.8	3,563.6	3,219.0	3,482.4	3,804.7
Consumption of electricity and traction fuel	-549.7	-484.6	-456.8	-509.7	-543.9
Services of access to infrastructure	-733.6	-714.5	-658.1	-681.9	-723.2
Other services	-430.0	-450.7	-420.4	-433.1	-446.0
Employee benefits	-1,265.2	-1,150.7	-1,089.1	-1,229.9	-1,553.7
Other expenses	-170.2	-164.0	-153.9	-168.2	-138.2
Other income and operating expenses	9.1	-8.8	3.1	-5.1	40.9
Operating profit without depreciation (EBITDA)	**771.2**	**590.3**	**443.7**	**454.4**	**440.6**
Depreciation and impairment losses	-453.0	-440.6	-474.8	-569.6	-347.8
Profit on operating activities (EBIT)	**318.2**	**149.7**	**-31.1**	**-115.2**	**92.8**
Financial income and expenses	2.5	-24.2	-39.6	-23.9	-5.3
Profit before tax	**320.7**	**125.5**	**-70.7**	**-139.1**	**87.5**
Income tax	-66.7	-31.5	2.1	25.0	-11.9
NET PROFIT	**254.0**	**94.0**	**-68.6**	**-114.1**	**75.6**
OTHER COMPREHENSIVE INCOME					
Measurement of hedging instruments	-22.5	25.4	-4.7	-	-
Income tax	4.3	-4.8	0.9	-	-
Other comprehensive income subject to reclassification to profit or loss, total	**-18.2**	**20.6**	**-3.8**	**-**	**-**
Actuarial profits/losses on employee benefits	-9.4	-33.6	22.8	49.8	-32.9
Income tax	1.8	6.3	-4.3	-9.5	6.2
Other comprehensive income not subject to reclassification to profit or loss, total	**-7.6**	**-27.3**	**18.5**	**40.3**	**-26.7**
Total other comprehensive income	**-25.8**	**-6.7**	**14.7**	**40.3**	**-26.7**
TOTAL COMPREHENSIVE INCOME	**228.2**	**87.3**	**-53.9**	**-73.8**	**48.9**
Earnings per share (PLN per share)					
Weighted average number of common shares	44,786,917	44,786,917	44,786,917	44,786,917	44,524,924
Weighted average number of shares used to calculate diluted profit	44,786,917	44,786,917	44,786,917	44,786,917	44,790,878
Basic earnings per share	5.67	2.10	-1.53	-2.55	1.70
Diluted earnings per share	5.67	2.10	-1.53	-2.55	1.69

Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2018 prepared according to EU IFRS.

* restatement of data is described in detail in **Notes 1.4 and 1.5 to the SFS**

Table 21 Time series of the statement of balance sheet situation of PKP CARGO S.A. in 2014-2018

	PLN million				
	31.12.2018	31.12.2017*	31.12.2016*	31.12.2015	31.12.2014
ASSETS					
Rolling stock	3,425.7	3,056.0	2,982.4	2,960.3	3,120.6
Other property, plant and equipment	543.1	555.2	579.6	602.4	621.6
Investments in related parties	805.5	804.7	738.0	734.6	262.8
Financial assets	5.7	8.6	6.3	6.0	6.0
Other assets	35.3	44.1	58.8	78.2	57.5
Deferred tax assets	87.2	94.0	80.1	76.6	61.0
Total non-current assets	**4,902.5**	**4,562.6**	**4,445.2**	**4,458.1**	**4,129.5**
Inventories	84.2	86.4	59.7	60.7	75.8
Trade receivables	479.4	461.0	407.9	377.3	412.4
Financial assets	203.4	281.6	-	25.1	301.8
Other assets	90.4	53.6	26.8	11.9	35.7
Cash and cash equivalents	222.4	295.9	612.0	84.1	381.4
Total current assets	**1,079.8**	**1,178.5**	**1,106.4**	**559.1**	**1,207.1**
Non-current assets classified as held for sale	-	-	6.0	44.1	17.5
TOTAL ASSETS	**5,982.3**	**5,741.1**	**5,557.6**	**5,061.3**	**5,354.1**
EQUITY AND LIABILITIES					
Share capital	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3
Supplementary capital	596.7	589.2	589.2	589.2	584.5
Other items of equity	-32.7	6.0	12.7	3.7	-36.5
Retained earnings	511.3	254.4	160.4	240.1	469.0
Total equity	**3,314.6**	**3,088.9**	**3,001.6**	**3,072.3**	**3,256.3**
Debt liabilities	999.9	1,214.5	1,206.4	534.6	320.2
Investment liabilities	109.7	-	0.6	22.4	67.9
Provisions for employee benefits	528.8	520.0	490.5	549.3	637.8
Other financial liabilities	-	-	-	27.7	-
Other provisions	14.2	14.2	16.4	16.2	8.4
Total non-current liabilities	**1,652.6**	**1,748.7**	**1,713.9**	**1,150.2**	**1,034.3**
Debt liabilities	231.3	250.4	221.3	178.8	208.5
Trade payables	292.6	276.1	228.7	276.1	211.6
Investment liabilities	225.5	127.8	70.3	80.8	64.9
Provisions for employee benefits	92.6	85.9	84.8	81.6	318.6
Other financial liabilities	1.7	-	59.0	-	-
Other provisions	19.4	16.9	11.6	8.3	17.4
Other liabilities	152.0	146.4	166.4	213.2	242.5
Total current liabilities	**1,015.1**	**903.5**	**842.1**	**838.8**	**1,063.5**
Total liabilities	**2,667.7**	**2,652.2**	**2,556.0**	**1,989.0**	**2,097.8**
TOTAL EQUITY AND LIABILITIES	**5,982.3**	**5,741.1**	**5,557.6**	**5,061.3**	**5,354.1**

Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2018 prepared according to EU IFRS.
* restatement of data is described in detail in **Notes 1.4 and 1.5 to the SFS**

Table 22 Time series of the statement of cash flows of PKP CARGO S.A. in 2014-2018

	PLN million				
	2018	2017*	2016	2015	2014
Net cash on operating activities	**709.7**	**478.4**	**237.5**	**325.9**	**462.5**
Net cash on investing activities	**-536.3**	**-780.2**	**-440.6**	**-584.9**	**-208.1**
Net cash from financing activities	**-246.9**	**-14.3**	**731.0**	**-38.3**	**-102.2**
Net increase/decrease in cash and cash equivalents	-73.5	-316.1	527.9	-297.3	152.2
Cash and cash equivalents at the beginning of the reporting period	295.9	612.0	84.1	381.4	229.2
Cash and cash equivalents at the end of the reporting period	**222.4**	**295.9**	**612.0**	**84.1**	**381.4**

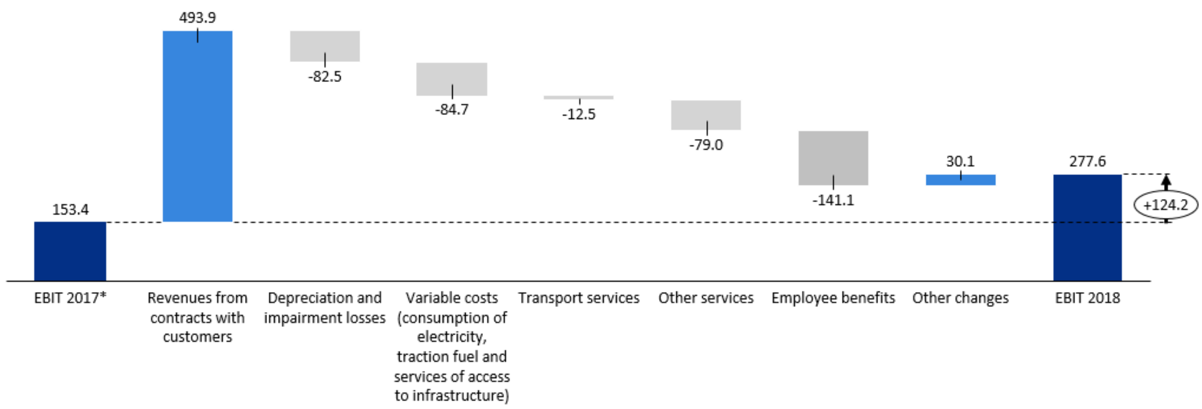
Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2018 prepared according to EU IFRS.
* restatement of data is described in detail in **Notes 1.4 and 1.5 to the SFS**

5.3 Key economic and financial figures of PKP CARGO Group

5.3.1 Statement of comprehensive income of the PKP CARGO Group

In 2018, EBIT reached PLN 277.6 million, having gone up by PLN 124.2 million (81.0%) compared to the corresponding period in 2017.

Figure 28 EBIT in 2018 as compared to the corresponding period in 2017 (PLN million)



Source: Proprietary material

* restatement of data is described in detail in **Notes 1.4 and 1.5 to the CFS**

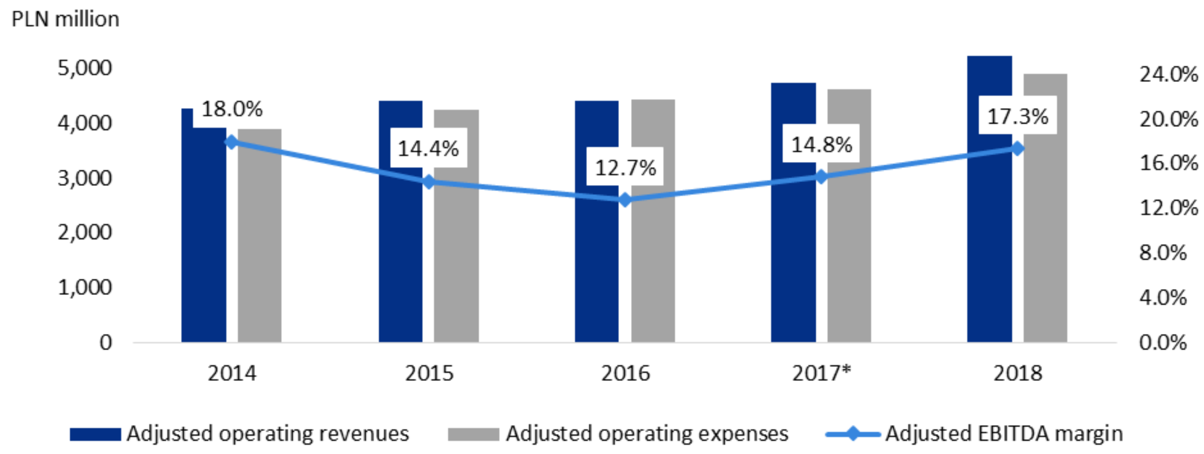
The following is the explanation of the most significant changes affecting EBIT in 2018 as compared to the corresponding period of the previous year:

- increase in revenues from contracts with customers, predominantly in the Parent Company, as has been explained in the description of PKP CARGO S.A.'s performance;
- increase in depreciation and impairment losses, chiefly due to changes in impairment losses on assets. In 2018, an impairment loss of PLN 69.0 million was recognized on assets as a result of the impairment test (described in detail in **Note 5.1 to the CFS**) and as part of the optimization processes carried out in the AWT Group. In 2017, impairment losses on rolling stock were reversed due to an increase in scrap prices and the resulting change in the residual value of rolling stock at PKP CARGO S.A.;
- increase in variable costs (consumption of electricity and traction fuel and infrastructure access services), predominantly in the Parent Company, as has been explained in the description of PKP CARGO S.A.'s performance;
- increase in the cost of transport services due to the strong demand for freight forwarding services. Subsidiaries use the services provided by external entities to a greater extent, in particular on foreign sections, which increases the costs of transport services by PLN 12.5 million;

- increase on other services, chiefly in the line item of costs of rents and fees for the use of real properties and rolling stock by PLN 47.7 million (greater volume of leased locomotives and wagons necessary to perform the increased transport orders received by the PKP CARGO Group). Moreover, the cost of reclamation services increased by PLN 23.8 million as a result of a higher number of projects executed for OKD's mines in the Czech Republic.
- the increase in employee benefits resulted primarily from wage increases in member companies of the PKP CARGO Group. At the same time, the PKP CARGO Group recorded an increase in headcount by 390 persons. This is associated with hiring more people for employee teams that are crucial for the PKP CARGO Group's operations as they are the ones who handle the growing freight volumes and maintain the rolling stock in proper technical condition. Detailed changes in the headcount level are presented in section **4.5 "Headcount"**;
- the increase in other changes occurred mainly due to a higher level of reversed impairment losses on trade receivables by PLN 9.2 million from counterparties of the PKP CARGO Group. The balance of other provisions also declined by PLN 9.4 million. Moreover, net result on foreign exchange differences on trade receivables and payables went up by PLN 9.5 million due to changes in the exchange rates.

The figure below presents the adjusted EBITDA margin compared to the selected items of the Group's statement of comprehensive income for 2014-2018.

Figure 29 Adjusted EBITDA margin compared to the Group's adjusted operating revenues and expenses in 2014-2018* (PLN million)



Source: Proprietary material

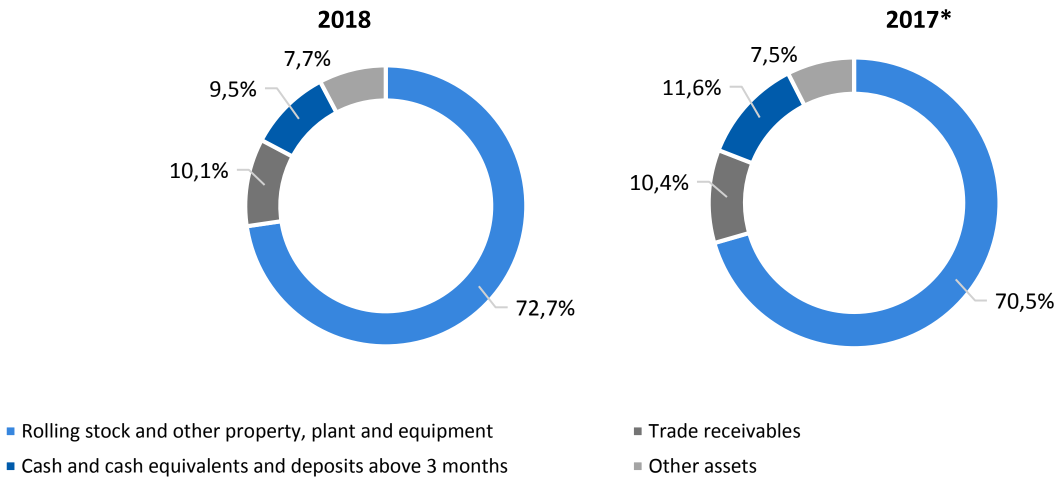
* presentation data for 2014 adjusted for the costs following from the implemented 1st Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 265.3 million
presentation data for 2015 adjusted for the profit on the bargain acquisition of AWT in the amount of PLN 137.8 million and the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million, as well as the impairment of non-current assets and assets classified as held for sale in the amount of PLN 178.7 million
the data for 2016 are adjusted for presentation purposes for an impairment loss on assets in the amount of PLN 34.1 million (the adjustment takes into account a loss on fixed assets in the amount of PLN 35.0 million and depreciation, reduced accordingly, in H2 2016 in the amount of PLN 0.9 million), which was described in **Note 12.1. to the CFS** for the financial year ended 31 December 2016 and the receivables impairment loss in the amount of PLN 72.7 million (described in **Note 19 to the CFS** for the financial year ended 31 December 2016).
the 2017 data were adjusted for presentation purposes for revaluation of the residual value of rolling stock and reversal of part of the impairment loss on rolling stock components in the amount of PLN -27.4 million (details are described in **Note 10 to the CFS** for the financial year ended 31 December 2017).
the 2018 data were adjusted for presentation purposes for an impairment loss on assets as a result of the impairment test (described in detail in **Note 5.1 to the CFS**) and the optimization processes carried out in the AWT Group in the amount of PLN 69.0 million,
restatement of data is described in detail in **Notes 1.4 and 1.5 to the CFS**

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

ASSETS

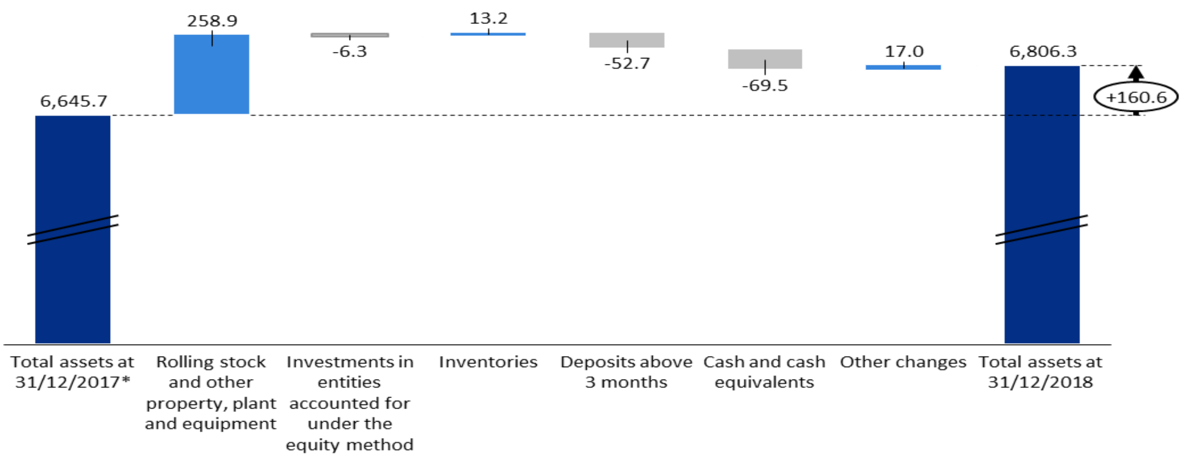
As at 31 December 2018, rolling stock and other property, plant and equipment had the largest share in the structure of assets of the PKP CARGO Group, accounting for 72.7% of total assets, compared to 70.5% as at 31 December 2017. The largest share in the structure of current assets as at 31 December 2018 in relation to total assets was attributable to trade receivables (10.1%), cash and cash equivalents and deposits with a maturity above 3 months (9.5%).

Figure 30 Structure of the PKP CARGO Group's assets in 2018 and 2017



Source: Proprietary material
* restatement of data is described in detail in **Notes 1.4 and 1.5 to the CFS**

Figure 31 Movement in the PKP CARGO Group's assets in 2018 (PLN million)



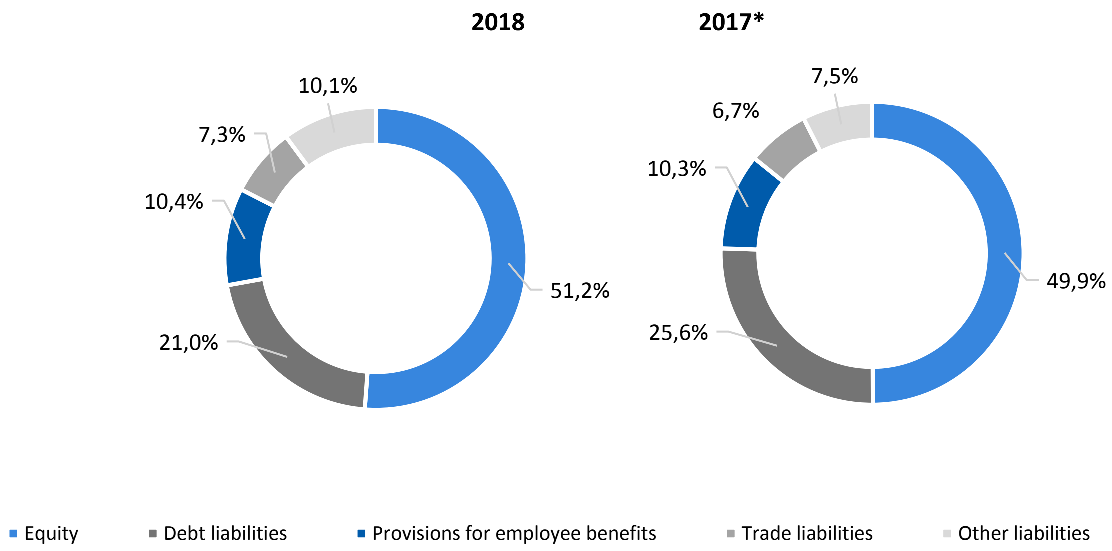
Source: Proprietary material
* restatement of data is described in detail in **Notes 1.4 and 1.5 to the CFS**

- the increase in the value of rolling stock and other property, plant and equipment was due to the execution of investments in property, plant and equipment (chiefly rolling stock), while the value of non-current assets declined due to depreciation. Total expenditures to acquire property, plant and equipment, intangible assets and the rolling stock component in 2018 were PLN 894.1 million. This meant that an increase by PLN 332.1 million was recorded compared to 2017. In 2018, depreciation of rolling stock, other property, plant and equipment and intangible assets was PLN 629.4 million, of which rolling stock accounted for PLN 461.7 million. A significant negative impact on the value of rolling stock at yearend 2018 was exerted by impairment losses in the amount of PLN 69.0 million recognized as a result of the impairment test (described in detail in **Note 5.1 to the CFS**) and the optimization processes carried out in the AWT Group;
- the value of investments accounted for under the equity method declined chiefly due to the sale of a 50% stake in Pol-Rail S.r.l. valued at PLN 8.4 million.
- the value of cash and cash equivalents and bank deposits decreased by PLN 122.2 million as a result of expenditures on the acquisition of rolling stock, other property, plant and equipment, intangible assets and repayment of loans and borrowings;
- the increase in the value of other assets was mainly driven by an increase in VAT settlements by PLN 27.9 million and prepayments for the purchase of electricity by PLN 7.8 million with a concurrent reduction in the effect of foreign currency forward contracts by PLN 8.6 million.

EQUITY AND LIABILITIES

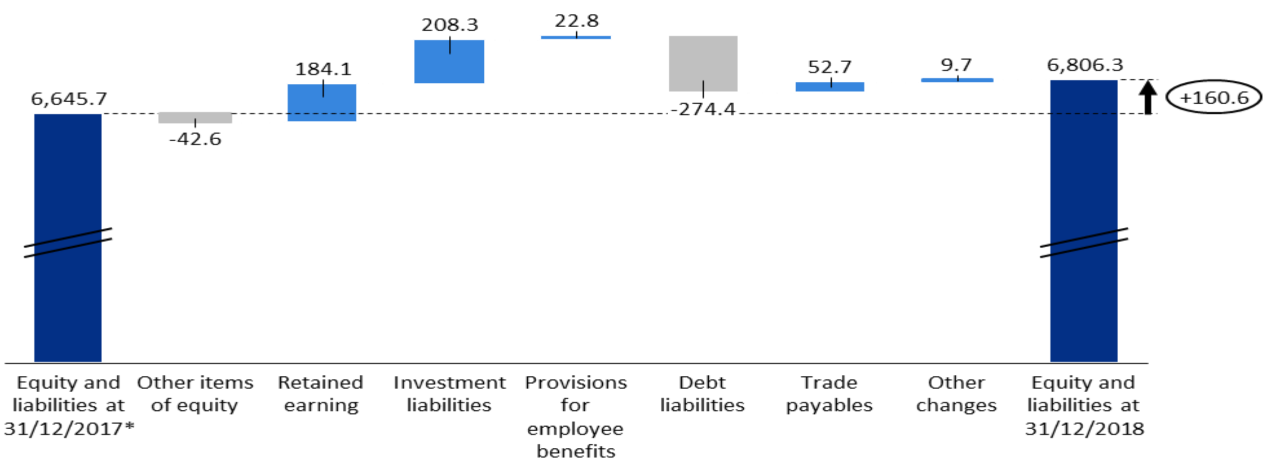
The largest share in the structure of equity and liabilities as at 31 December 2018 was attributable to equity, which accounted for 51.2% of the sum of equity and liabilities, compared to 49.9% as at 31 December 2017. In 2018, equity increased by PLN 166.3 million compared to 31 December 2017. Debt liabilities accounted for 21.0% of total equity and liabilities, compared to 25.6% as at 31 December 2017.

Figure 32 Structure of the PKP CARGO Group's equity and liabilities in 2018 and 2017



Source: Proprietary material
* restatement of data is described in detail in **Notes 1.4 and 1.5 to the CFS**

Figure 33 Movement in the PKP CARGO Group's equity and liabilities in 2018 (PLN million)



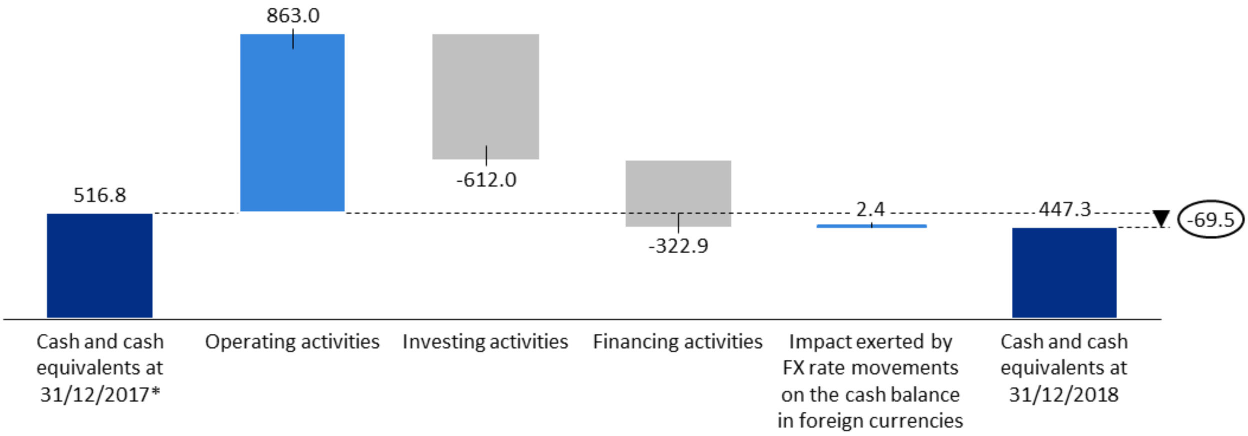
Source: Proprietary material
* restatement of data is described in detail in **Notes 1.4 and 1.5 to the CFS**

- the increase in equity resulted chiefly from the positive financial result in 2018 (improvement in retained earnings by PLN 184.1 million);
- the increase in the value of investment liabilities was due to the acquisition of rolling stock under an installment payment system;
- the decrease in the value of debt liabilities was caused mainly by the realization of loan repayments in accordance with the schedule.

5.3.3 Statement of cash flows of the PKP CARGO Group

The value of cash and cash equivalents as at 31 December 2018 decreased by PLN 69.5 million compared to 31 December 2017.

Figure 34 Cash flows in the PKP CARGO Group in 2018 (PLN million)



Source: Proprietary material

* restatement of data is described in detail in **Notes 1.4 and 1.5 to the CFS**

Cash flow from operating activities

Net cash flow from operating activities were generated on the result before tax of PLN 243.8 million and depreciation of property, plant and equipment and amortization of intangible assets of PLN 629.4 million. Moreover, the largest changes contributing to the decrease in the outflow of cash from operating activities were the increase in the balance of trade payables by PLN 52.8 million and investment liabilities by PLN 35.0 million. Another factor influencing the cash flow from operating activities is income tax, paid in the amount of PLN 75.8 million.

Cash flow from investing activities

The negative cash flows from investing activities directly affected capital expenditures on the acquisition of non-financial non-current assets in the amount of PLN 719.7 million and termination of bank deposits with a maturity of over 3 months in the amount of PLN 53.0 million.

Cash flow from financing activities

In 2018, cash flow from financing activities resulted chiefly from the repayment of loans and borrowings in the amount of PLN 248.6 million, finance lease instalments of PLN 46.7 million and interest payments on finance leases and loans and borrowings of 31.4 million.

5.3.4 Selected financial and operating ratios of the PKP CARGO Group

The table below presents the key financial and operating ratios of the PKP CARGO Group in the period of 2014-2018.

Table 23 Selected financial and operating ratios of the PKP CARGO Group in the period of 2014-2018

Item	2018	2017*	2016	2015	2014	Change 2018 - 2017	% change 2018/2017
EBITDA margin[1]	17.3%	14.8%	11.1%	15.5%	11.8%	2.5 p.p.	17.0%
Net profit margin[2]	3.5%	1.7%	-3.0%	0.7%	1.8%	1.8 p.p.	103.4%
Net financial debt to EBITDA ratio[3]	0.9	1.3	2.1	1.2	-0.2	-0.5	-35.4%
ROA[4]	2.7%	1.2%	-2.1%	0.5%	1.4%	1.5 p.p.	118.3%
ROE[5]	5.2%	2.5%	-4.1%	0.9%	2.3%	2.8 p.p.	112.1%
Average distance covered per locomotive (km/day)[6]	250.1	244.7	238.4	233.3	243.9	5.4	2.2%
Average gross train tonnage per operating locomotive (tons)[7]	1,463.0	1,460.0	1,436.0	1,500.0	1,481.0	3.0	0.2%
Average running time of train locomotives (hours per day)[8]	15.8	15.2	14.8	14.9	15.4	0.6	3.9%
Freight turnover per employee (thousands tkm/employee)[9]	1,342.3	1,332.2	1,216.7	1,224.2	1,105.5	10.1	0.8%

Source: Proprietary material
* restatement of data is described in detail in **Notes 1.4 and 1.5 to the CFS**

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

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

- The key profitability ratios, i.e. the EBITDA margin, the net profit/loss margin, ROA and ROE, were higher on a yoy basis for the reasons described in section **5.3 Key economic and financial figures of PKP CARGO Group.** The net financial debt to EBITDA ratio also improved as a result of the stronger financial performance of the Group;
- the improvement in the average daily mileage of locomotives resulted from the optimization of the transportation process;
- the increase in the average gross train tonnage per operating locomotive was caused by a better utilization of locomotives and optimization of the transportation process;
- the increase in the average daily running time of locomotives was an outcome of the continuous monitoring of how the freight turnover process is run while concurrently optimizing the match between the number of active locomotives and doing the work with changing freight turnover;
- the increase in the freight turnover ratio per employee was caused mainly by the increase in freight turnover by 1.2% yoy, with the increase in the headcount by 0.5% yoy.

The improvement of these indicators and measures is proof of continuous advancements in management, use and maintenance of traction vehicles, which translates into better financial performance of the PKP CARGO Group.

5.3.5 Time series of the PKP CARGO Group's financial data

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

Table 24 Time series of the statement of profit or loss and other comprehensive income of the PKP CARGO Group in 2014-2018

	PLN million				
	2018	2017*	2016	2015	2014
Revenues from contracts with customers	5,183.0	4,689.1	4,372.0	4,363.5	4,217.1
Consumption of electricity and traction fuel	-615.1	-544.8	-514.5	-550.3	-545.6
Services of access to infrastructure	-732.0	-717.6	-668.6	-675.2	-680.0
Transport services	-463.1	-450.6	-431.7	-328.8	-264.9
Other services	-529.6	-450.6	-472.8	-497.2	-370.9
Employee benefits	-1,651.4	-1,510.3	-1,442.3	-1,484.8	-1,698.9
Other expenses	-298.9	-297.3	-274.3	-264.7	-171.3
Other income and operating expenses	14.1	-17.6	-78.3	142.4	18.2
Operating profit without depreciation (EBITDA)	**907.0**	**700.3**	**489.5**	**704.9**	**503.7**
Depreciation and impairment losses	-629.4	-546.9	-621.6	-649.0	-382.8
Profit on operating activities (EBIT)	**277.6**	**153.4**	**-132.1**	**55.9**	**120.9**
Financial income and expenses	-42.0	-37.7	-22.3	-51.7	-28.3
Share in the profit/loss of entities accounted for under the equity method	3.7	0.8	3.5	4.4	0.9
Result on the sale of shares in entities accounted for under the equity method	4.5	-	-	1.9	-
Profit before tax	**243.8**	**116.5**	**-150.9**	**10.5**	**93.5**
Income tax	-59.9	-34.8	17.1	19.6	-15.2
NET PROFIT	**183.9**	**81.7**	**-133.8**	**30.1**	**78.3**
OTHER COMPREHENSIVE INCOME					
Measurement of hedging instruments	-23.4	27.9	-3.9	3.3	-3.2
Income tax	4.4	-5.3	0.7	-0.6	0.6
Exchange differences resulting from conversion of financial statements	16.5	-0.6	28.5	31.5	-
Other comprehensive income subject to reclassification to profit or loss, total	**-2.5**	**22.0**	**25.3**	**34.2**	**-2.6**
Actuarial profits/losses on employee benefits	-13.2	-36.9	21.5	53.2	-38.1
Income tax	2.5	7.0	-4.1	-10.1	7.2
Other comprehensive income not subject to reclassification to profit or loss, total	**-10.7**	**-29.9**	**17.4**	**43.1**	**-30.8**
Total other comprehensive income	**-13.2**	**-7.9**	**42.7**	**77.3**	**-33.4**
TOTAL COMPREHENSIVE INCOME	**170.7**	**73.8**	**-91.1**	**107.4**	**44.9**
Net profit attributable:					
Net profit attributable to the owners of the parent company	183.9	81.7	-133.8	30.3	76.0
Non-controlling interests	-	-	-	-0.2	2.3
Total other comprehensive income attributable:					
Total other comprehensive income attributable to shareholders of the parent company	170.7	73.8	-91.1	107.6	44.8
Non-controlling interests	-	-	-	-0.2	1.1
Earnings per share (PLN per share)					
Weighted average number of common shares	44,786,917	44,786,917	44,786,917	44,786,917	44,524,924
Weighted average number of shares used to calculate diluted profit	44,786,917	44,786,917	44,786,917	44,786,917	44,790,878
Basic and diluted earnings per share	4.11	1.82	-2.99	0.67	1.70

Source: Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2018
* restatement of data is described in detail in **Notes 1.4 and 1.5 to the CFS**

Table 25 Time series of the statement of balance sheet situation of the PKP CARGO Group in 2014-2018

	PLN million				
	31.12.2018	31.12.2017*	31.12.2016*	31.12.2015	31.12.2014
ASSETS					
Rolling stock	3,997.0	3,750.4	3,734.6	3,750.9	3,229.5
Other property, plant and equipment	949.9	937.6	966.0	968.8	815.1
Goodwill	-	-	-	-	2.7
Investments in entities accounted for under the equity method	47.3	53.6	58.2	57.2	35.2
Trade receivables	0.7	1.8	2.2	5.1	-
Other assets	56.7	70.4	91.7	110.3	80.3
Deferred tax assets	135.6	137.7	111.5	104.6	91.6
Total non-current assets	**5,187.2**	**4,951.5**	**4,964.2**	**4,996.9**	**4,254.4**
Inventories	161.7	148.5	121.2	128.5	115.3
Trade receivables	684.6	687.0	613.8	631.1	497.6
Deposits above 3 months	201.1	253.8	-	1.3	301.4
Other assets	124.4	88.1	57.0	41.8	57.7
Cash and cash equivalents	447.3	516.8	755.9	276.2	429.2
Total current assets	**1,619.1**	**1,694.2**	**1,547.9**	**1,078.9**	**1,401.2**
Non-current assets classified as held for sale	**-**	**-**	**-**	**44.1**	**17.6**
TOTAL ASSETS	**6,806.3**	**6,645.7**	**6,512.1**	**6,119.9**	**5,673.2**
EQUITY AND LIABILITIES					
Share capital	2,239.3	2,239.3	2,239.3	2,239.3	2,239.3
Supplementary capital	628.2	619.3	618.7	619.5	615.4
Other items of equity	-44.2	-1.6	5.7	-2.8	-48.6
Exchange differences resulting from conversion of financial statements of foreign operations	75.8	59.9	60.5	32.0	-
Retained earnings	584.4	400.3	319.2	463.4	515.4
Non-controlling interest	-	-	-	-	55.2
Total equity	**3,483.5**	**3,317.2**	**3,243.4**	**3,351.4**	**3,376.7**
Debt liabilities	1,156.5	1,403.7	1,414.5	809.3	398.9
Trade payables	0.5	1.3	1.3	3.1	-
Investment liabilities	109.8	-	0.6	22.4	68.0
Provisions for employee benefits	591.5	575.7	542.1	603.6	687.8
Other provisions	20.5	22.5	26.4	29.4	8.4
Deferred tax liability	88.5	107.4	106.7	118.3	2.3
Other liabilities	1.8	0.3	1.0	-	-
Total non-current liabilities	**1,969.1**	**2,110.9**	**2,092.6**	**1,586.1**	**1,165.4**
Debt liabilities	270.5	297.7	376.0	319.0	219.9
Trade payables	499.4	445.9	376.0	380.7	248.1
Investment liabilities	177.6	79.1	45.8	91.3	66.7
Provisions for employee benefits	115.5	108.5	103.5	100.4	338.6
Other provisions	56.9	59.7	25.0	17.9	24.2
Other liabilities	233.8	226.7	249.8	273.1	233.6
Total current liabilities	**1,353.7**	**1,217.6**	**1,176.1**	**1,182.4**	**1,131.1**
Total liabilities	**3,322.8**	**3,328.5**	**3,268.7**	**2,768.5**	**2,296.5**
TOTAL EQUITY AND LIABILITIES	**6,806.3**	**6,645.7**	**6,512.1**	**6,119.9**	**5,673.2**

Source: Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2018
* restatement of data is described in detail in **Notes 1.4 and 1.5 to the CFS**

Table 26 Time series of the statement of cash flows of the PKP CARGO Group in 2014-2018

	PLN million				
	2018	2017*	2016	2015	2014
Net cash on operating activities	**863.0**	**600.7**	**380.0**	**387.5**	**559.9**
Net cash on investing activities	**-612.0**	**-740.0**	**-568.6**	**-515.2**	**-238.7**
Net cash from financing activities	**-322.9**	**-99.4**	**663.9**	**-29.4**	**-155.7**
Net increase/decrease in cash and cash equivalents	-71.9	-238.7	475.3	-157.1	165.5
Cash and cash equivalents at the beginning of the reporting period	516.8	755.9	276.2	429.2	263.7
Impact exerted by FX rate movements on the cash balance in foreign currencies	2.4	-0.4	4.4	4.2	-
Cash and cash equivalents at the end of the reporting period	**447.3**	**516.8**	**755.9**	**276.2**	**429.2**

Source: Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2018
* restatement of data is described in detail in **Notes 1.4 and 1.5 to the CFS**

5.4 Information about production assets

5.4.1 Rolling stock

PKP CARGO Group's rolling stock is maintained through repair points functioning within the structures of PKP CARGO S.A. Units and in subsidiaries. The PKP CARGO Group's rolling stock repair and maintenance organization has the competences to repair and maintain wagons, electric locomotives at all the maintenance levels from P1 to P5[52] and to repair diesel locomotives at maintenance levels from P1 to P4. In addition to the rolling stock owned by the PKP CARGO Group, this organization belonging to the Group also repairs rolling stock and subassemblies for other owners.

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

In 2018, the number of locomotives owned by the Group increased. This increase was driven directly by the steadily improving situation on the rail transport market – in order to meet the high demand for the PKP CARGO Group's freight transport services, the Group expanded its rolling stock fleet to 2,352 locomotives.

The decrease in the number of registered rail cars resulted from the sale by PKP CARGO S.A. of more than 2 thousand G, T and U-type freight cars. The wagons sold by the Company had not been used for a long time due to their technical condition, construction, intended use and type of the applied loading/unloading technologies.

[52] P1 – scheduled inspection operations performed before the vehicle's admission to the line, when the vehicle is in motion or after the completion of the ride, provision of consumables, assessment of the main components and vehicle systems
P2 – scheduled inspection operations performed without disassembling any components during breaks in the operation of the vehicle
P3 – maintenance operations performed on specialist control posts, when the vehicle is withdrawn from service, with partial dismantling of sub-assemblies
P4 – maintenance operations performed in plants fitted with technical facilities and measurements stations, encompassing planned replacement or repairs of sub-assemblies
P5 – renovation of the vehicle, encompassing dismantling of sub-assemblies and their replacement with new or regenerated ones

The tables below present the structure of the locomotives and wagons used, by type and ownership in 2014-2018.

Table 27 Structure of the locomotives used by the PKP CARGO Group and PKP CARGO S.A., by traction type and ownership

Item	31/12/2018	31/12/2017	31/12/2016	31/12/2015	31/12/2014	Change 2018-2017
diesel locomotives	1,286	1,272	1,398	1,429	1,300	14
of which in PKP CARGO S.A.	*1,077*	*1,076*	*1,200*	*1,231*	*1,256*	*1*
electric locomotives	1,066	1,062	1,173	1,173	1,162	4
of which in PKP CARGO S.A.	*1,049*	*1,048*	*1,161*	*1,158*	*1,162*	*1*
Total	**2,352**	**2,334**	**2,571**	**2,602**	**2,462**	**18**
of which in PKP CARGO S.A.	***2,126***	***2,124***	***2,361***	***2,389***	***2,418***	***2***
owned locomotives (including financial lease)	2,322	2,319	2,556	2,579	2,451	3
of which in PKP CARGO S.A.	*2,114*	*2,124*	*2,360*	*2,380*	*2,409*	*-10*
locomotives in operating lease or rented	30	15	15	23	11	15
of which in PKP CARGO S.A.	*12*	*0*	*1*	*9*	*9*	*12*
Total	**2,352**	**2,334**	**2,571**	**2,602**	**2,462**	**18**
of which in PKP CARGO S.A.	***2,126***	***2,124***	***2,361***	***2,389***	***2,418***	***2***

Source: Proprietary material

Table 28 Structure of the wagons used by the PKP CARGO Group and PKP CARGO S.A., by ownership

Item	31/12/2018	31/12/2017	31/12/2016	31/12/2015	31/12/2014	Change 2018-2017
wagons owned (also under finance leases)	61,153	63,737	64,519	64,907	62,086	-2,584
of which in PKP CARGO S.A.	*57,672*	*60,268*	*60,954*	*61,324*	*61,593*	*-2,596*
wagons in operating lease or rented	2,998	1,023	1,167	1,868	0	1,975
of which in PKP CARGO S.A.	*1,455*	*0*	*0*	*0*	*0*	*1455*
Total	**64,151**	**64,760**	**65,686**	**66,775**	**62,086**	**-609**
of which in PKP CARGO S.A.	***59,127***	***60,268***	***60,954***	***61,324***	***61,593***	***-1,141***

Source: Proprietary material

5.4.2 Real estate

In the transport process, due to the necessity to guarantee appropriate maintenance and repair support, real estate plays an important role. Most real estate used by the Group is used on the basis of lease and rental agreements. The table below presents the change of the balance of real estate owned and used by the PKP CARGO Group and PKP CARGO S.A. in 2014-2018.

Table 29 Real estate owned and used by the PKP CARGO Group and PKP CARGO S.A. in 2014-2018

Item	31/12/2018	31/12/2017	31/12/2016	31/12/2015	31/12/2014	Change 2018-2017
Land - owned, in perpetual usufruct and leased from other entities [ha]	1,479	1,573	1,584	1,560	1,006	-94
of which in PKP CARGO S.A.	*536*	*566*	*578*	*585*	*583*	*-30*
Buildings - owned, leased and rented from other entities [sqm]	738,392	749,492	781,998	794,303	684,945	-11,100
of which in PKP CARGO S.A.	*542,337*	*564,091*	*585,690*	*592,893*	*601,269*	*-21,754*

Source: Proprietary material

The decrease in the size of the surface areas of the land and buildings owned, leased and rented results from the on-going verification of the size of the assets used by the Parent Company and its Subsidiaries and adjusting it to the scale and profile of conducted activity.

5.5 Key information about the financial standing of the Company and the PKP CARGO Group

5.5.1 Information on loan and borrowing agreements executed and terminated

In 2018, no loan agreement with the Company was terminated.

On 24 May 2018, PKP CARGO S.A. entered into an agreement with Bank Polska Kasa Opieki S.A. for current account overdraft up to the amount of PLN 100 million (WIBOR O/N + margin). The facility is available for the term of 12 months with a 12-month extension option.

On 20 December 2018, a PKP CARGO Group company made an early repayment of the loan (PLN 7.2 million) obtained from Bank Polska Kasa Opieki S.A. on 13 March 2017.

Details of the bank loans and borrowings are presented in **Note 4 to the SFS** and in **Note 4 to the CFS** for 2018.

5.5.2 Information about granted loans

In 2018, neither the Parent Company nor any PKP CARGO Group granted any loans.

5.5.3 Information about granted and received sureties and guarantees

In connection with the signed freight transport contracts, the Parent Company has ordered bank guarantees to be issued for the total amount of PLN 10,657 thousand.

In 2018, the Parent Company did not grant any sureties to its subsidiaries.

As at 31 December 2018 the PKP CARGO Group had off-balance sheet liabilities on account of granted guarantees and sureties for the total amount of PLN 127,896 thousand.

In 2018, the amount comprised:

- guarantees and sureties granted to subsidiaries for third party entities in the amount of PLN 1,500 thousand.
- sureties and guarantees for liabilities towards third parties issued in the course of on-going operations, pertaining primarily to: contract performance bonds, customs guarantees, bid security guarantees and payment guarantees, in the amount of PLN 126,396 thousand.

Additional information about contingent liabilities is presented in **Note 7.4 to the SFS** and in **Note 7.4 to the CFS** for 2018.

5.5.4 Issues, redemptions and repayments of debt securities and equity securities

In the analyzed period, in the PKP CARGO Group there were no issues, redemptions and repayments of debt securities and equity securities.

5.5.5 Assessment of management of financial resources

PKP CARGO S.A. and the Group have been efficiently managing the cash management cycle by matching the maturity of its receivables and payables. To secure the possible risk associated with a shortage of cash in the short run, in 2018, PKP CARGO S.A. had current account overdraft agreements with limits amounting to PLN 100 million.

Internal financial risk management policy, allowing for optimization of the maturities and types of investment instruments and the liquidity reserve level, is an element supporting efficient management of the Company's and the Group's finances. Excess cash generated by the Company and the Group was invested in fixed rate bank deposits with maturities depending on the Group's liquidity needs. Decisions made with regard to bank deposits are based on maximizing the rate of return and current assessment of the financial standing of the banks. The structure of assets, including cash and short-term investments, secured the Company's and the Group's ability to settle their liabilities in a timely manner.

The finance management system in PKP CARGO Group companies is efficiently supplemented by the cash pooling mechanism, which makes it possible to reduce the costs incurred in connection with the use of short-term external financing sources and maximize the financial revenues in connection with available cash surpluses.

In Q4 2018, the Company entered into a bank guarantee limit agreement on the basis of which it is possible to issue guarantees on the order of any company from the PKP CARGO Group, which made it possible to reduce the costs incurred in connection with obtained guarantees.

In 2018, the Group companies had the capacity to settle their liabilities at maturity.

5.5.6 Description of the structure of key equity investments or key investments made within the Company and the PKP CARGO Group

Most financial investments made by the Company and the Group in 2018 were bank deposits, which were executed for a period from a few days up to 5 months, depending on the liquidity needs.

5.5.7 Current and forecasted financial standing of the Company and the PKP CARGO Group

The financial standing of the Company and the Group is stable. There were no negative events that could endanger its status as an ongoing concern or cause a significant deterioration of their financial standing.

5.6 Key risk factors and threats

5.6.1 Description of the key threats and risks

Risks related to the economic and market environment

Risk resulting from the macroeconomic situation – Poland and the Czech Republic are important links in the European supply chain. The condition of their macroeconomic environment (in particular that of Germany, which is the main trading partner of both Poland and the Czech Republic) translates strongly and directly into the economic situation in these countries, having an especially significant impact on the condition of their export industries. This, in turn, affects the volumes of freight available for transport, and consequently influences the PKP CARGO Group's operations, revenues and financial performance.

At the same time, in the coming few quarters the rate of GDP growth in Poland and the Czech Republic (key markets for the provision of transport services by the PKP CARGO Group) is expected to remain at a relatively high level. In parallel, according to the projections published by local and international economic institutions, a gradual slowdown in economic growth should be expected compared to 2018. An upcoming economic downturn in Poland and the Czech Republic is also suggested in the form of the latest values adopted for PMI industry foresight indicators, which in December 2018 in both these countries stood below the level of 50.0 points (which is conventionally considered to be the boundary between expansion and recession in the sector), the lowest for several years.

In addition to external factors, a significant barrier to the rate of GDP growth in Poland and the Czech Republic is currently a shortage of labor available on both markets, which, given their moderate growth in productivity, significantly curtails room for a rapid growth in output[53].

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

PKP CARGO Group's freight transport continues to focus on the transport of bulk cargo, specifically hard coal, aggregates and construction materials, metal ores and metals, chemicals, coke and refined petroleum products. As a consequence, any change in the economic status quo on these markets directly affects the volume of freight available for transport and thus the quantum of transport and financial performance of the PKP CARGO Group.

The main medium-term risk factors affecting the rate of growth in transport volumes of the PKP CARGO Group include:

- steady decrease in the share of hard coal in Poland's energy mix, although according to the assumptions published by the Ministry of Energy, the absolute consumption of hard coal (approx. 70 million tons annually) should not change significantly in the coming decade or two[54];
- gradual implementation of EU's climate policy goals – including an increase in the importance of renewable energy sources in the production of electricity, a decrease in CO_2 emissions, a general improvement in energy efficiency or the introduction of the "Winter Package" (governing the rules applicable to the internal electricity market in the European Union)[55];
- final result of the pending restructuring processes in the Polish and Czech hard coal mining sectors (including optimization of the sector's cost structure in Poland and planned gradual phasing out of coal extraction in OKD's Czech mines in the coming several years);

[53] National Bank of Poland, Ministry of Finance of the Czech Republic
[54] Ministry of Energy: "Poland's Energy Policy until 2040"
[55] Ministry of Energy: "Poland's Energy Policy until 2040"

- lasting very strong demand for transport of aggregates and construction materials to construction sites of infrastructural projects, which in the context of current renovation and modernization works on PLK's network may result in difficulties with handling the requested freight volumes[56];
- growing costs of materials and wages coupled with a shortage of qualified workers in the construction sector translating into difficulties in tender processes (because the lowest price proposal is higher than the contracting authority's budget) and in the transition to the project execution phase may adversely affect the sector's growth rate and the scale of construction projects underway[57];
- uncertainty related to the anticipated increase in real energy prices which translate directly into the competitive strength of the steel and chemical industries (and at the same time their output levels) and the rail transport sector itself[58];
- expected economic downturn in Poland and abroad suppressing demand for steel products and inputs required for their production (coke, iron ore).

In light of these risks, the PKP CARGO Group takes effective action with a view to reacting swiftly to the changing market situation and existing trends. This approach involves a gradual diversification of transport types (e.g. investments in specialized rolling stock intended for the provision of intermodal transport services) and improvements in the transportation process (which, despite the requirement to use detours and the lower operating speed on PLK's network, enables the timely completion of contracts).

Risk associated with the rail freight sector

In accordance with the data provided by the Office of Rail Transport, the total number of 71 rail operators, including PKP CARGO S.A. and PKP CARGO SERVICE sp. z o.o., offered the rail freight service on the Polish market in 2018.[59] At the same time, the domestic market of cargo transport by rail has been considerably decentralized in recent years, which has been influenced by liberalization of the laws regulating the activity of the entities operating there. The market significance of small rail operators with the individual share of up to 2% has strongly increased (in particular at the expense of large operators) in recent quarters. Currently, their total share constitutes over 15% of the market in terms of both freight volume and freight turnover[60]. The PKP CARGO Group's competitors offer a broad range of transport services, including whole-train transport of coal, aggregates and other dry bulk cargoes, liquid fuels and chemicals. Some companies also have single-wagon transport on offer. In recent quarters, entities focusing exclusively on container (intermodal) transport have appeared on the market. In the face of lower market entry barriers and good prospects for, among others, the segment of intermodal transport, a further increase in the number of PKP CARGO Group's competitors and a dynamic growth of the existing entities in the coming quarters cannot be excluded.

The main competitors for PKP CARGO Group entities (AWT and PKP CARGO S.A.) in the Czech Republic are ČD CARGO (a strong leader on the transport market), Metrans Rail, Unipetrol Doprava, and IDS Cargo[61]. As is the case in Poland, transport services provided by competing rail operators chiefly include such transport market segments as: coal, bulk materials, liquid fuels, chemicals and intermodal transport.

In the face of an increasing competition on the rail market, the activities of the PKP CARGO Group are oriented towards continuous improvement of the quality of the provided transport services and their development (such as investing in the rolling stock and signing cross-border cooperation agreements with local rail operators) and offering a comprehensive logistics service for enterprises operating in various branches of the industry.

Risks in the operations conducted

Risk associated with the rail infrastructure – The executed contracts describe the principles of cooperation when monitoring the effectiveness of the existing arrangements and the procedure to be applied in the case of shared risk for the purpose of adopting and introducing the necessary changes, including the tasks and responsibilities of the individual participants in the process (e.g. contracts on using the allocated train routes between PKP CARGO S.A. and the infrastructure administrator for which the part "B" certificate has been issued to PKP CARGO S.A.). Any and all irregularities related to the infrastructure found by employees are communicated to administrators on an ongoing basis. Moreover, periodic meetings and conferences are organized to discuss the irregularities and measures aimed to both eliminate them and prevent the occurrence of similar situations in the future.

[56] "Kierunek Surowce" [Direction: Commodities] portal
[57] wnp.pl website
[58] wnp.pl website
[59] Office of Rail Transport
[60] Office of Rail Transport
[61] SZDC (http://www.szdc.cz)

Transport safety

From the viewpoint of rail traffic safety, PKP CARGO S.A. operates based on relevant part A and part B safety certificates issued by the President of the Office of Rail Transport. The basic requirement for obtaining the certificates necessary to pursue an independent business activity was to implement the Safety Management System (SMS), and it was satisfied in 2009.

The SMS covers risks related to the pursued activity and provides for appropriate supervision and control measures in order to reduce them and ensure the appropriate safety level:

- the risk arisen from a direct activity, including occupational risk (related to the performed work) and technical risk (related to the rolling stock and technical resources used),
- the shared risk, which is a risk arisen from an interaction between the entities being part of the railway system (e.g. infrastructure administrators, other rail operators, entities in charge of maintenance),
- the risk of third parties, which are not directly involved in the operation of the railway system.

Moreover, the processes and procedures serving the purpose of monitoring the effectiveness of the measures taken in the area of risk supervision and introducing the necessary changes are applied within the SMS: The changes concern:

- technology and methods,
- operating procedures, rules and standards,
- organizational structure.

Risk associated with changes of legal regulations

Technical specifications for interoperability Noise (NOI TSI)

In 2018, works were performed to amend the Technical Specifications for Interoperability relating to the subsystem 'Rolling stock - Noise' ('Noise TSI').

The deadline for adopting the amendments determining, among others, the period for decommissioning freight cars equipped with cast iron brake blocks, specifying access to some routes for modernized or non-modernized freight cars was set for the beginning of 2019.

On 31 January 2019, the EU Member States adopted amendments to Noise TSI at a meeting of the Railway Interoperability and Safety Committee. In the course of the works, Poland managed to negotiate the so-called special case providing for further operation of freight cars with tyred wheels, which constitute a considerable number of PKP CARGO S.A.'s freight cars. Such vehicles may be used in domestic transport regardless of the line status until the end of 2036. They may also enter the Czech Republic and Slovakia without limitations until the end of 2026. This will prevent considerable costs involved in adapting to the new requirements.

Service Infrastructure Facilities

The Act of 16 November 2016 Amending the Act on Rail Transport and Certain Other Acts entered into force on 30 December 2016. The purpose of the Act is to adjust the national legal order in the field of rail transport to the changes resulting from Directive 2012/34/EU of the European Parliament and of the Council of EU. The Act specifies, among others, a new group of facilities, the so-called service facilities, designated for the provision of services necessary to perform the transport process.

In connection with the amendment, in 2017 the Company introduced a number of organizational changes in order to appoint the service facility operators.

Another legal act regulating the operations of the service facilities in detail, i.e. Commission Implementing Regulation (EU) 2017/2177 of 22 November 2017 on access to service facilities and rail-related services which entered into effect on 13 December 2017. In 2016 and 2017, the Company participated in the works of the legal group of CER (Community of European Railway and Rail Infrastructure Authorities) which presented to the European Commission a number of the Company's postulates. They are to some extent taken into account in the Regulation.

Since the Regulation will enter into force on 1 May 2019, the Company is performing works on adapting the Bylaws for access to PKP CARGO S.A.'s Service Infrastructure Facilities to the provisions of the Regulation.

The intended amendments are for specification rather than principal purposes. Their entry into force might involve the necessity to perform some additional duties by PKP CARGO S.A. employees handling Service Infrastructure Facilities, yet the planned amendments are not expected to have a significant influence on the Company's financial performance.

EU Emissions Trading Scheme (EU ETS)

One should consider the planned changes in the EU Emissions Trading Scheme (EU ETS) – the related uncertainty was the reason why the Company's client, ArcelorMittal Poland (AMP), suspended its decision to overhaul the blast furnace no. 2 in Dąbrowa Górnicza. Finally, AMP decided to carry out the overhaul in the period July-August 2018. The modernization lengthened the furnace useful life by three to five years. This will make it possible to assess the financial impact on AMT of the amendments to the EU ETS to become effective in 2021. Only then will it be known whether a general overhaul of the blast furnace is economically viable. The phasing out of the blast furnace at the end of July and at the beginning of August 2018 did not have a major impact on the quantum of transport services provided by PKP CARGO S.A. to AMP.

Other changes in the regulatory environment

- Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data ("GDPR"), and repealing Directive 95/46/EC (General Data Protection Regulation) entered into force on 25 May 2018 - the absence of consistent procedures for information protection, including personal data protection might result in unauthorized access to or, in extreme cases, disclosure of such information outside the Group. PKP CARGO S.A. appointed a data controller responsible for all issues related to increasing the legal standards for securing the information containing personal data. Moreover, the provisions regarding the rights and obligations arising from the GDPR were implemented, among others, to trade agreements, tendering documents, IT agreements.
- The new provisions of the Act of 9 March 2017 on the Monitoring System for the Carriage of Goods by Road and Rail entered into force on 14 June 2018. They are significant for the Company since the goods provided for in the Act may be transported exclusively upon submitting a notification to the Electronic Goods Monitoring System (SENT) and obtaining the so-called Reference Number. The obligation to submit, supplement and update notifications is imposed on the entity sending the goods (or the sender), the entity receiving the goods (or the recipient) and the rail operator, respectively; the Act specifically defines the entities, scope of their respective responsibilities and introduces financial sanctions for breaching the obligations imposed under the Act.
- The Act of 15 December 2017 Amending the VAT Act and Certain Other Acts introduced, among others, the so-called Split Payment mechanism on 1 July 2018. This obligation required that PKP CARGO prepare the SAP system for generating bank statements with VAT amounts indicated and develop a function of controlling the amounts of payments exclusive of VAT made by PKP CARGO S.A.'s customers. Furthermore, the adaptation of the SAP BW system was required also by the Regulation of the Minister of Finance of 18 April 2018 on templates of VAT returns.
- The provisions of the Regulation of the Minister of Infrastructure on the list of positions directly associated with rail traffic management and safety and the conditions to be met by persons employed on such positions and rail vehicle drivers of 16 August 2004 were repealed on 29 October 2018. As regards train engineers, the Company found the amendment significant and therefore the internal regulations on the principles of training train engineers and issuing licenses were updated accordingly. The works on adapting the training system in the Company were performed gradually and, in that period, train engineers received licenses issued by the Office of Rail Transport, which constituted the basis for issuing certificates, whereas new train engineers were trained in accordance with the new rules.
- The provisions of the Regulation of the Minister of Infrastructure and Development of 10 February 2014 on a train engineer certificate, regarding training with the use of a traction unit simulator, entered into force on 1 January 2019. The relevant activities regarding the adaptation to the said regulation are performed or supervised in the Company by the competent substantive unit.

Road transport constitutes increasing competition for the Group

In 2018, the rail freight transport in Poland grew dynamically (+4.1% yoy). At the same time, the volume of cargo transported by trucks increased even more, i.e. by 18.1% yoy[62].

In recent years, road transport of goods has managed a vast majority of the incremental freight volume on the Polish and Czech markets, which translates into a gradual growth of its share in the entire sector of transport for these countries. The car transport significance growth is to a large extent underlain by its competitive advantages with respect to other branches of land transport of goods.

The measures taken by the PKP CARGO Group are aimed at the railway achieving the position of a means of transport that would be complementary to road transport (e.g. long-distance transportation of high volumes of bulk cargo by rail and their handling by trucks as part of the so-called last mile). At the same time, the schedule speed should increase and the transport routes should be shortened in terms of operation on the completion of the modernization works in the PLK network as part of the "National Railway Program". This will also result in a significant improvement of the competitive position of railway with respect to other means of transport of goods.

[62] Central Statistical Office of Poland, enterprises with > 9 employees, excluding economic transport

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

A considerable number of contracts executed by the PKP CARGO Group with business partners are long-term contracts. Hence, it is possible to contract transportation of large volumes of bulk cargo such as hard coal, aggregates, metals or ores, sufficiently in advance. The contracts specify the declared transport volume and, in reasonable cases, its later modification (both increase and decrease) may be negotiated. As a consequence, this can both mean the necessity to obtain additional resources in order to transport extra cargo and translate into the necessity to reduce the scale of the PKP CARGO Group's actual transport.

At the same time, the transformations of the structure of the entities to which the PKP CARGO Group provides transport services might assume the form of a complete change or diversification of the area of activity. It is also possible to establish subsidiaries focusing on providing transport services covering the goods manufactured by a given enterprise. There are currently several operators of this kind in the domestic rail freight but they do not have the sufficient rolling stock to be able to handle the whole volume of cargo commissioned by parent companies. There is a risk that their significance in transport for the parent company will gradually increase, which, in consequence, could decrease the volumes of goods available for acquisition by the PKP CARGO Group. However, with time, the said entities might decide to provide transport services also to other enterprises (e.g. from a given sector, using the know-how and the matching rolling stock) and thus commence an activity competitive to the PKP CARGO Group in a broader market. The PKP CARGO Group's long-term strategy assumes a gradual improvement of efficiency, competitiveness and quality of the transport and logistics services offered. The measures taken reduce the risk of potential diversification of rail operators by key accounts.

Risk associated with shortage of trained personnel

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

In 2018, the adaptation program was adjusted to the needs and expectations of various groups of positions: administrative employees, non-administrative employees working in the Company's facilities and managerial staff. For employees in positions directly associated with the transport process, a series of training sessions was updated thus allowing them to obtain required professional qualifications. A carefully selected professional training program is supposed to ensure that new employees are integrated into the organization and familiarized with their duties as soon as possible and to help them adapt to the working environment, which influences the effectiveness of the performed works and minimizes the risk of employee fluctuation.

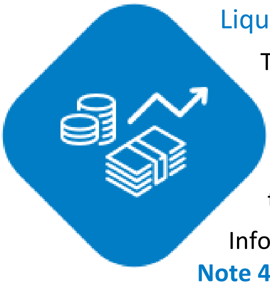
Risk of collective disputes and strike

Owing to the dialog carried out by the PKP CARGO S.A. Management Board with the Trade Unions, the Trade Unions not initiate any collective dispute or strike in the Company in the reporting period. This made it possible to perform the expected tasks in a spirit of social peace. In June 2018, as a result of arrangements between the Management Board and Trade Unions, a pay rise was introduced for the Company employees as of 1 September 2018.

Risk of increase of salaries

On the delivery date of this report, trade unions did not apply for wage increases.

Financial risks



Liquidity risk

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

In 2018, the Group's liquidity remained at the level that ensured timely payment of all due and payable liabilities. To ensure an additional source of funds required to secure its financial liquidity, the Group used external financing sources, such as a current account overdraft facility.

Information on credit facilities undrawn as at 31 December 2018 is presented in **Note 4.1 to the SFS** and **Note 4.1 to the CFS** for 2018.

Additionally, in order to optimize financial expenses in the PKP CARGO Group, a cash pooling system is in place which comprises, as at 31 December 2018, 7 Group companies.

Market risk

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

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

FX risk

In 2018, the Group was exposed to FX risk resulting from the receivables, payables and cash denominated in foreign currencies. The Group's receivables expressed in foreign currencies are short-term receivables with the maturity up to 1 month and payables expressed in foreign currencies are mostly short- and long-term liabilities on account of investment loan agreements with maturities until the year 2031.

The balance sheet valuation of receivables and some current and non-current liabilities long-term liabilities expressed in foreign currencies, settlements in foreign currencies both on the side of receivables and liabilities, lead to financial revenues (positive FX differences) and financial expenses (negative FX differences). The level of financial revenues and financial expenses fluctuates during the year, which is caused by changes in the exchange rates.

Cash in foreign currencies deposited on bank accounts follow from timing mismatch of receipts and expenditures and the surplus of receipts over expenditures. In the long run, the valuation risk matches the risk of change of cash flows, therefore it is the cash flows, not balance sheet items, that are subject to hedging transactions.

For the EUR/PLN exchange rate, there is partial natural hedging due to the fact that proceeds in EUR are partly balanced out by expenditures in the same currency. The FX risk management transactions used by the Group are aimed at hedging the net free position (understood as the difference between FX proceeds and expenditures) exposed to change of the value in PLN.

According to the Financial Risk Management Policy prevailing in the PKP CARGO Group, in 2018, FX risk management transactions were used for the EUR/PLN currency pair.

Forward transactions were used to hedge FX risk in 2018.

In 2018, the Group hedged the surplus in EUR through forward transactions on the EUR/PLN pair at the levels and with transaction maturities determined in accordance with the procedures of the Financial Risk Management Policy.

The Parent Company used hedge accounting for all EUR loans and Forward transactions. At the same time, PKP CARGO CONNECT Sp. z o.o. applied hedge accounting for forward transactions.

Interest rate risk

Most financial investments made by the Group as at the end of 2018 were bank deposits, which were concluded mainly for the period from a few days up to 5 months, depending on the Company's liquidity needs.

In addition, the Group is exposed to the risk of volatility of interest rate cash flows following from bank loans, leasing based on variable interest rates. Interest on lease agreements was accrued according to the reference rates increased by the financing party's margin. The reference rate for agreements denominated in EUR is EURIBOR 6M and for agreements signed in PLN – WIBOR 1M. The interest rate risk in leasing agreements is executed through revaluation of leasing installments in the periods of 1 month, 6 months, depending on the agreement.

Interest on loan agreements were accrued according to the WIBOR 1M, WIBOR 3M, EURIBOR 3M and PRIBOR 3M reference rates plus the banks' margins. The interest rate risk in loan agreements were executed through revaluation of loan installments in monthly, quarterly and semi-annual periods.

At the same time, in accordance with the financial risk management policy prevailing in the Group, one of the Group companies applied interest rate hedging transactions, the so-called IRS.

Credit risk

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

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

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

The credit risk associated with cash and bank deposits is perceived as low. All entities in which the Group invests free cash operate in the financial sector.

The maximum exposure to credit risk is presented by balance sheet balances of trade and other receivables, cash and other financial assets. This exposure is limited through securities established in favor of the Group (in the form of, inter alia, bank/insurance guarantees, guarantee deposits).

5.6.2 Information on financial instruments with respect to the risk and financial risk management objectives and methods adopted by the Company and the PKP CARGO Group

The principles of market risk management are implemented through assigned organizational units under the supervision of the Parent Company’s Management Board. Financial risk in the PKP CARGO Group is managed using strategies, with partial use of derivative instruments (SPOT FX transactions, FORWARD FX transactions and IRS transactions), which are used only to limit the risk of change of the balance sheet values and the risk of cash flow changes.

In 2018, the Parent Company applied cash flow hedge accounting using financial instruments such as forward currency sales transactions and an investment loan. The purpose of the hedging activity is to mitigate the impact of the FX risk within the EUR/PLN currency pair on the future cash flows. The hedged item is a highly probable cash flow denominated in EUR.

Hedge accounting was used by a PKP CARGO Group company: PKP CARGO CONNECT Sp. z o.o. To manage FX risk this company used financial instruments, primarily forward sales transactions and variable interest rate hedges to hedge interest rate fluctuations for its investment loans in PLN. IRS transactions were concluded to this end.

In Q2 2018, a Group company, PKP CARGO CONNECT, ceased to use IRSs – transactions hedging the interest rate risk.

6. Key events and information about the activity of the Company and the PKP CARGO Group

6.1 Key information and events

January

- Application by two members of the PKP CARGO Group for co-financing of intermodal projects with EU funds (acquisition of specialized rolling stock, modernization and extension of a container terminal and purchase of equipment for the container terminal).

February

- Update of the residual value of rolling stock as at 31 December 2017. The increase in the residual value of rolling stock resulted in lower depreciation costs in H1 2018 by approx. PLN 15 million, and for the period of 9 months 2018 - by approx. PLN 25 million.

March

- As of 27 March 2018, the appointment of Czesław Warsewicz to the PKP CARGO S.A. Management Board and entrusting him with the function of President of the Management Board and the appointment of Leszek Borowiec to the PKP CARGO Management Board and entrusting him with the function of PKP CARGO S.A. Management Board Member in charge of Finance.
- Publication of a forecast of selected standalone financial and operating data on PKP CARGO S.A.'s business in 2018 in accordance with the Business Plan for 2018 adopted by the Company.

April

- Execution of a contract with Newag S.A. for modernization of 60 SM48 diesel locomotives for the total net amount of approx. PLN 388 million.
- Signing of an annex to the commercial agreement entered into in 2015 with Lafarge Kruszywa i Beton Sp. z o.o. (extension of the agreement until 31 March 2020, increase in the declared freight volume to approx. 9 million tons).
- Adoption of a resolution by the PKP CARGO S.A. Management Board on submitting a motion to the Company's Ordinary Shareholder Meeting to distribute net profit of PLN 93,967,095.00 as follows: allocate PLN 7,517,367.60 to supplementary capital pursuant to Article 396 of the Commercial Company Code, allocate PLN 86,449,727.40 to cover losses carried forward.
- Appointment of Mr. Jerzy Sośnierz, the candidate nominated to be the employee representative, to the PKP CARGO S.A. Supervisory Board for the 6th term of office, effective as of 1 May 2018.
- Receipt by PKP CARGO S.A. and PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o. of the "Leader in Intermodal Transport" award in the categories "Rail Carrier" and "Land Container Terminal", respectively. The awards were presented during the Gala of the Intermodal Transport Forum Freight 2018 in Gdańsk.
- Award, for the second consecutive time, to PKP CARGO S.A. of the prestigious title of the "Transparent Company of the Year 2017".

May

- Establishment of the Board of Presidents in order to integrate and optimize processes in the PKP CARGO Group. Actions taken by the Board of Presidents included the establishment of four steering committees and the adoption of the PKP CARGO Group's business plan for 2018.
- Publication of estimate selected consolidated financial and operating results for Q1 2018.
- Accession by CL Małaszewicze, CL Medyka-Żurawica, Euroterminal Sławków and Terminale Przeładunkowe Sławków-Medyka to the Agreement of the Operators of Terminals and Logistics Centers in Central and Eastern Europe.
- Signing by PKP CARGO S.A. and the Lithuanian Railways of an annex to the Agreement on Cooperation in International Rail Freight Services.
- Execution of a contract with Pojazdy Szynowe PESA Bydgoszcz S.A. ("PESA") to conduct repairs of 38 series ST44 diesel locomotives. The estimated gross value of this contract is approx. PLN 176.3 million. Moreover, the Company's Management Board signed a Letter of Intent with PESA pertaining to the construction of a dual mode electro-diesel locomotive.
- Execution of 2 contracts for the transport of steam coal to ENEA Elektrownia Połaniec (ENEA Połaniec Power Plant) for the total gross amount of over PLN 222 million.
- Execution of a contract for the transport of coal for the Veolia Group. In 2019-2021, PKP CARGO S.A. will transport over 5 million tons of coal.
- Execution of a current account overdraft agreement with Bank Polska Kasa Opieki S.A. The available amount of the facility is PLN 100 million.

June

- Appointment of Mr. Paweł Sosnowski to the PKP CARGO S.A. Supervisory Board.
- Extraordinary Shareholder Meeting of the Company.
- Execution of a memorandum of agreement between the Parties to the Company Collective Bargaining Agreement for Employees Hired by PKP CARGO S.A. Units, under which wage increases were agreed to be implemented on 1 September 2018. The Company estimates that the cost of the raise till the end of 2018 with a one-time bonus will amount to approximately PLN 33.9 million.
- Notification from NN OFE about a change in the stake held: an increase to 17.31%.
- Execution of a letter of intent with JSW for joint innovative investment projects focused on the commercial use of hydrogen fuel.
- Signing of an agreement with the Lithuanian Railways introducing mutual assistance in the transport of cargo between Poland and Lithuania.

July

- Execution of contracts with PGNiG Termika for the transport of 1.9 million tons of coal in the period from 1 January to 31 December 2019 and with Enea Wytwarzanie for the transport of 5.5 million tons of coal in the period from July 2018 to August 2019.
- Signing of a letter of intent with Newag opening the way to the commencement of negotiations on the purchase by PKP CARGO of three E6ACTa - DRAGON 2 locomotives.
- Impairment loss on redundant rolling stock assets owned by the AWT Group in the amount of PLN 18.1 million. The impact of the recognized impairment loss on the consolidated net profit, taking into account the deferred tax effect, is PLN 14.6 million.
- Signing of a memorandum with the Chinese city of Zhengzhou regarding the promotion of international cooperation in logistics and supply chains as part of the China-EU regional policy.

August

- Notice from Aegon PTE S.A. about a change in the stake held: a decrease to 4.812%.

September

- Implementation of a wage increase – in accordance with the provisions of the Memorandum of Agreement dated 15 June 2018.
- Signing of a cooperation agreement with Pojazdy Szynowe PESA Bydgoszcz S.A. and Instytut Pojazdów Szynowych “TABOR” to conduct research and development work within the framework of a project to construct an autonomous dual mode locomotive.

October

- Execution of an electricity sales and distribution service agreement with PKP Energetyka S.A. The agreement was concluded for the period from 1 January 2019 to 31 December 2020. The expected aggregated net value of the Agreement during its term is PLN 987.1 million (gross value of PLN 1,214.1 million).
- Judgment of the Regional Court in Warsaw, the Court of Competition and Consumer Protection (“SOKiK”), in which it dismissed the appeal filed by PKP CARGO S.A. and upheld Decision No. DOK-5/2015 of 31 December 2015 issued by the President of the Office of Competition and Consumer Protection (“President of UOKiK”). In the opinion of the Company’s Management Board, SOKiK’s judgment of 15 October 2018 is groundless and the Company intends to file an appeal against it.
- Execution of a contract with NEWAG S.A. for the delivery of 3 electric 6-axle E6ACTa DRAGON2 locomotives. The three locomotives will be delivered by 31 December 2018. The estimated gross value of this contract is approx. PLN 45.3 million.
- Co-financing awarded for three projects submitted under the Operational Programme Infrastructure and Environment 2014-2020 in the total amount of PLN 288.7 million.
- Signing of a guarantee facility Agreement with Credit Agricole Bank Polska S.A. with a limit of PLN 60 million. The agreement will be in effect until 15 October 2019. The limit may be used by the subsidiaries that sign a trilateral agreement.

November

- Execution of a Memorandum of Agreement between the parties to the Company Collective Bargaining Agreement. By the power of this Memorandum of Agreement, the parties resolved that a quarterly performance bonus pilot program will be launched for Q4 2018 (the estimated value of additional payouts will total approx. PLN 29.3 million) and, if the results after Q3 2018 are confirmed, greater bonuses will be paid on the occasion of the Railway Employee Day (with the total impact on the result of approx. PLN 13.9 million).

December

- Approving the PKP CARGO Group’s Strategy for 2019-2023 - strategic objectives is number 1 in the area of the "Three Seas Initiative" and on the New Silk Road routes in the EU measured by freight turnover and freight volume by 2023 and strengthening this position in 2023-2038, a 65% share in the Polish rail freight market by 2023 measured by freight turnover.
- Acquiring 80% in PRIMOL-RAIL d.o.o., a Slovenian company, by AWT a.s.
- Registering the Company Collective Bargaining Agreement (CCBA) for CARGOTOR Sp. z o.o. employees in the State Labor Inspection Service with an effect from 1 January 2019.
- A PKP CARGO Group company made an early repayment of the loan concluded with Bank Polska Kasa Opieki S.A. on 13 March 2017.
- Execution of a rail infrastructure access agreement with PKP PLK. The agreement is in effect from 9 December 2018 to 14 December 2019. The expected aggregated net value of the agreement during its term is PLN 690.6 million (gross value of PLN 849.5 million).

January 2019

- Execution of an agreement for transport of hard coal and limestone sorbents with a total maximum weight of 16.7 million tons with PGE Group companies. The agreements were concluded for the period from 01 January 2019 to 31 December 2021. The estimated maximum net value of the agreements during their terms is PLN 541.2 million (gross value of PLN 665.7 million).
- Extraordinary Shareholder Meeting of the Company.
- A contract with companies from the Siemens Consortium for the supply of 5 Vectron multi-system locomotives.
- The Supervisory Board’s adoption of: the consolidated text of the Articles of Association of PKP CARGO S.A., the “Rules and regulations for appointing members of the PKP CARGO S.A. Management Board” and the “Rules and regulations for running elections for candidates to become an employee representative in the PKP CARGO S.A. Management Board and to appoint employee representatives to the PKP CARGO S.A. Supervisory Board and the procedure for their removal”
- Initiating the recruitment procedure for the positions of: President and Members of PKP CARGO S.A. Management Board

February 2019

- Judgment of the Regional Court of the first instance on payment for the incurred expenditure to Eurologistyka Wschód sp. z o.o. w likw. (PLN 2.1 million).
- Registration of amendments to Company’s Articles of Association

March 2019

- Recognition of an impairment loss on assets owned by the AWT Group. The total value of this impairment loss in the consolidated financial statements for 2018 is estimated at PLN 51.2 million (PLN 41.5 million PLN taking into account the tax effect).

6.2 Evaluation of factors and unusual events affecting the result recorded by the Company and the PKP CARGO Group

Situation on the rail transport market in the main cargo categories

The rail freight market is closely dependent on the business conditions on the market for coal, aggregates, coke, iron ore, metals, petroleum oil refinery products, chemical products and situation in the container transport market. The growth rate of the freight volumes transported by cargo carrier companies in the PKP CARGO Group is strongly linked to changes in the transport in the aforementioned cargo categories.

In 2018 there was a noticeable strong increase in aggregates and construction materials transport volume in the market. It was chiefly due to the intensification of works on the existing infrastructural investment projects and the launch of new such projects.

Infrastructure access costs

The performance of both PKP CARGO S.A. and the PKP CARGO Group largely depend on the amount of rail infrastructure access charges. The cost of access to infrastructure in 2018 accounted for approx. 20.3% of PKP CARGO S.A.'s operating expenses and about 15.0% of PKP CARGO Group's operating expenses.

Large-scale infrastructural investments related to rail infrastructure modernization made by the Administrator, i.e. PLK, were one of the essential factors influencing freight in 2018. The track closures arising from such renewal works involved incurring additional expenses by the Company as a result of:

- Diversions of many trains, which made transport routes and, as a consequence, the time of transport longer and increased the demand for locomotives, train crews, and rail car stock.
- A longer time of waiting for a timetable.
- The necessity to change the type of train power supply and, as a consequence, the increased demand for diesel locomotives.
- A hampered management of significant points of sale.

Social dialog

A social dialog is conducted in PKP CARGO S.A. based on commonly developed principles written down in the form of agreements specifying the relationships between representatives of the employer and representatives of the trade union. Observing and improving the agreed procedures and fulfilling the assumed obligations permit the highest standards to be maintained when cooperating with representatives of the community and a long-term constructive dialog to be ensured. Management Board respects and develops the idea of partnership in the relations with trade unions, which facilitates the implementation of solutions promoting the development as well as competitiveness and efficiency of the Company in the circumstances of social peace.

Conducting a social dialog based on partnership stabilized the social situation in the Company in 2018, and thus allowed it to conduct its statutory tasks in a peaceful atmosphere.

Situation in the Czech coal sector – situation of OKD a.s.

Company business names were changed as of 1 April 2018:

- the so-called. "old OKD", i.e. OKD, a.s., currently operates under the business name Správa pohledávek OKD, a.s. (the sole shareholder – NWR Holdings B.V., a Dutch company),
- the so-called "new OKD", i.e. OKD Nástupnická, a.s., currently operates under the business name OKD, a.s. (the sole shareholder – PRISKO a.s., a Czech company being a subsidiary wholly owned by the Czech Ministry of Finance).

The approved OKD restructuring plan remains in effect although an extension of the mining phase-out period can be expected. Darkov and Lazy mines are to be closed not before the second half of 2019.

In accordance with the restructuring plan, the entire coal mining by OKD, a.s. should be gradually phased out by 2024. However, due to the fact that the owner of the steel mill in Ostrava has changed and given the policy pursued by the Czech government, coal mining in OKD mines is to be prolonged until as late as 2030, as announced publically by the Czech prime minister, Andrej Babišco.

OKD is going to mine circa 4.5 million tons of coal in 2019. It is assumed that the quantities of coal to be mined in the period 2020-2024 will gradually drop from 4 to 2 million tons. The decrease in the coal mining volume in OKD in the coming years will be compensated by importing an appropriate quantity of coal from abroad.

Technical regulations related to rolling stock

The rolling stock used in rail transport must satisfy appropriate technical standards and requirements, determining the scale of the Group's modernization and repair activity. The investments in this area depend directly on the current technical condition of the rolling stock owned and the resulting mandatory periodic repairs. They may also depend on the requirements imposed by EU regulations.

6.3 Information on contracts of significance for the Company and the PKP CARGO Group

Contracts with vendors

Execution of an agreement with PKP Energetyka S.A.

An Electricity Sales and Distribution Service Agreement was executed between PKP CARGO S.A. and PKP Energetyka S.A. on 11 October 2018. The Agreement was entered into for the period from 1 January 2019 to 31 December 2020. The expected aggregated net value of the Agreement during its term is PLN 987.1 million (gross value of PLN 1,214.1 million).

The agreement pertains to the sale of electricity ("Traction Energy") and provision of Traction Energy distribution services for the needs of the transport services rendered using electrical traction with trains owned by the Client and for the needs of trains run by other operators using the Client's electric locomotives that are not charged for the electricity they consume under separate agreements. The agreement defines the level of power contracted in the settlement period and the forecast consumption of Traction Energy.

Signing of an agreement with PKP PLK S.A.

On 27 November 2018, an agreement on the use of throughput capacity to transport objects in the train timetable 2018/2019 was signed between PKP CARGO S.A. and PKP Polskie Linie Kolejowe S.A. The Agreement is in force from 9 December 2018 to 14 December 2019. The expected value of the Agreement in its validity term in total amounts to PLN 690.6 million net (PLN 849.5 million gross).

Under the Agreement, PKP PLK provides the Company with access to rail infrastructure to utilize the throughput capacity for cargo transport in accordance with the 2018/2019 timetable.

The Agreement enables PKP CARGO S.A. to use the requested train routes in the timetable, while the Company may cancel an allotted train route or part thereof (in accordance with the rules prescribed by the 2018/2019 Network Regulations). It is also possible to change the allotted route parameters following a change in the type of traction vehicle, an increase of the gross train weight (to 500 tons) or a decrease thereof.

Under the Agreement, the Administrator provides basic services of minimum access to rail infrastructure that comprise, among others, the possibility to use the rail infrastructure in accordance with the allotted train routes, the provision of access to traction network devices, the directing and carrying of traffic, including the use of the rail radio communication by the Carrier and delivery of information regarding train passage, if so requested by the Company.

Under the Agreement, the Administrator also renders services involving access to service infrastructure facilities, comprising the provision of assistance in connection with non-standard loads and the preparation and commissioning of trains.

Signing of agreements with NEWAG S.A.

On 4 April 2018, an agreement to modernize 60 SM48 diesel engine locomotives in the period from October 2018 to May 2021 was executed with NEWAG S.A. The estimated net value of the agreement is approximately PLN 388 million.

The subject matter of the Agreement includes: comprehensive modernization of 60 SM48 series locomotives upgrading them to the new ST48 series, by building a new modular technology bodywork, replacing the power generator, braking equipment as well as auxiliary machinery and equipment. As part of the modernization, the locomotives will also be equipped with a contemporary control system and a new, ergonomic driver's cab, delivery of software and licenses required to operate the locomotive, delivery of a set of specialized tools for diagnosing and repairing the combustion engine, purchase of an "emergency" set, i.e. spare parts and sub-assemblies required for quick emergency repairs, performance of maintenance and repair activities on the combustion engine (inspections) during the quality warranty period granted for the modernized locomotives and guaranteeing high technical availability ratios.

On 25 October 2018, a contract for the delivery of 3 electric 6-axle E6ACTa "DRAGON2" locomotives by 31 December 2018 was executed with NEWAG S.A. The estimated net value of this contract was approx. PLN 45.3 million.

The subject matter of the Contract was the following: delivery of 3 brand new electric 6-axle E6ACTa "DRAGON2" locomotives with an additional built-in trail observation system and a GPS locomotive positioning system, delivery of software and licenses necessary for the operation of the locomotives, delivery of a set of brand new spare parts and components forming the so-called "emergency kit", necessary for carrying out quick emergency repairs.

Signing of a contract with Pojazdy Szynowe PESA Bydgoszcz S.A.

On 21 May 2018, a contract to conduct level five maintenance repairs and replace the combustion engine with a new one in 38 ST44 diesel locomotives in the period from January 2019 to September 2020 was executed with Pojazdy Szynowe PESA Bydgoszcz S.A. The estimated net value of the contract is PLN ca. 176.3 million.

The subject matter of the Contract entails: level five maintenance repairs and replacement of the combustion engine with a new one in 38 ST44 series locomotives. Material modifications will be made to the locomotives through these repairs. In particular, the obsolete, two-stroke combustion engine will be replaced with a new generation 12CzN26/26 four-stroke engine fulfilling the UICIIIA emission standards affording a guarantee of reducing the consumption of diesel fuel and engine oil. The locomotives will also be equipped with a new ergonomic driver's cab, delivery of software and licenses required to operate the locomotive, and delivery of a set of specialized tools to perform inspection and repair work on the combustion engine. As a result of repair and modernization the locomotives will have a high guaranteed reliability factor.

Contracts with buyers

Signing of contracts with ENEA Elektrownia Połaniec S.A.

PKP CARGO S.A. has entered into two significant contracts for the transport of steam coal, for the transportation of the fuel from Lubelski Węgiel Bogdanka and Silesian mines for the total gross amount of over PLN 222 million.

Under the first of these contracts, PKP CARGO S.A. will transport 3.35 million tons of coal over a time span of 19 months. The estimated gross value of this contract is nearly PLN 122.8 million. The freight will be transported from LW Bogdanka.

Under the second contract, coal will be transported from Silesian mines until the end of 2019. The freight volume expected to be transported in this period is approx. 3 million tons. The estimated gross value of this second contract is nearly PLN 100 million.

Execution of a contract with the Veolia Group

PKP CARGO S.A. has won a contract for coal transportation to Veolia Group companies all over the country. The volume of the transported material will be over 5 million tons in total in the period 2019-2021.

As a result of the same tendering procedure, PKP CARGO S.A. will transport an additional volume of 950 thousand tons of coal for the Veolia Polska Group in 2018 under the current contract, which will be annexed.

Execution of a contract with PGNiG TERMIKA

PKP CARGO S.A. has executed two contracts for coal transportation to three Warsaw facilities of PGNiG TERMIKA in the period from 1 January to 31 December 2019.

Coal will be transported from Upper Silesia and Lublin region to Siekierki CHP Plant, Żerań CHP Plant and the Kawęczyn Heat Plant. Almost 1.9 million tons will come from the mines of Polska Grupa Górnicza, Jastrzębska Spółka Węglowa, Węglokoks, Tauron Wydobycie, PG Silesia, and Lubelski Węgiel Bogdanka.

6.4 Management Board's stance with respect to the possibility of realizing previously published result forecasts for the year

As at the publication date of this report, the realization of the forecasts of selected financial data of PKP CARGO S.A. and PKP CARGO Group for 2018 made public by the current report no. 26/2018 of 21 August 2018 is as follows:

With respect to PKP CARGO S.A.:

- Operating revenue: forecast PLN 3,914.5 million, realization PLN 3,910.8 million, which means a deviation from the forecast by PLN -3.7 million, i.e. by -0.1%,
- EBITDA: forecast PLN 781.3 million, realization PLN 771.2 million, which means a deviation from the forecast by PLN -10.1 million, i.e. by -1.3%,
- EBIT: forecast PLN 337.3 million, realization PLN 318.2 million, which means a deviation from the forecast by PLN -19.1 million, i.e. by -5.7%,
- Net profit: forecast PLN 269.9 million, realization PLN 253.9 million, which means a deviation from the forecast by PLN -16.0 million, i.e. by -5.9%,
- Capital expenditures: forecast PLN 878.5 million, realization PLN 828.4 million, which means a deviation from the forecast by PLN -50.1 million, i.e. by -5.7%.

No significant deviations were recorded in PKP CARGO S.A.

With respect to the PKP CARGO Group:

- EBITDA: forecast PLN 904.8 million, realization PLN 907.0 million, which means a deviation from the forecast by PLN 2.2 million, i.e. by 0.2%,
- Freight volume: forecast 121.8 million tons, realization 121.9 million tons, which means a deviation from the forecast by 0.1 million tons, i.e. by 0.1%,
- Share in the Polish freight market in terms of freight turnover: forecast: 49.7%, realization 48.5%, which means a deviation from the forecast by -1.2 p.p.

Insignificant deviations were recorded in the PKP CARGO Group.

7. Company's and PKP CARGO Group's development policy

7.1 Description of external and internal factors of relevance for the development of the Company and the PKP CARGO Group

Economic situation

The macroeconomic environment is directly reflected in the Company's and Group's business activities. Freight turnover is strongly correlated not only with the rate of growth in GDP but also with periods of business cycle peaks and troughs and long-term fluctuations in various industrial sectors.

Situation on the energy fuel market

Due to the largest share of hard coal in rail transport, the fuel and power industries will continue to be the most important sectors of the economy. The overall economic situation in the sector will continue to affect the 's freight volumes and the freight transport market. Coal transport will continue to be the basic cargo categories in transport carried by the PKP CARGO Group and the situation in this market will have an effect on the results and market shares obtained by the Company and Group.

Situation on the aggregates market

Rail cargo transport, including transportation of aggregates and construction materials, increased significantly in 2018. It was driven chiefly by the intensification of work on existing infrastructural investment projects and the launch of new such projects (road construction and railway modernization), strongly supported by the EU structural funds within the financial perspective for 2014-2020.

It is expected that in the upcoming quarters the favorable economic situation on the markets for construction materials will continue, partly due to the carry-over effect of existing projects but also due to planned large public investment projects to be executed under the "National Road Construction Program" and the "National Railway Program". Thus, transportation of aggregates and construction materials will remain a significant market for the PKP Cargo Group, strongly affecting freight turnover and market shares.

Situation on the intermodal transport market

An especially rapid growth is expected in the coming years in the intermodal transport market. The Group remains actively involved in the handling of transports over the NJS line. The primary objective of the project is to increase the volumes of overland intermodal transport between China and Western Europe through Małaszewicze and back to Asia. Development of trade cooperation between Poland and People's Republic of China is expected to be facilitated thanks to execution of trade agreements and bilateral treaties, which will be an important stimulus increasing the level of intermodal transport carried out by the Group.

Condition of rail infrastructure

Large-scale infrastructural investments related to rail infrastructure modernization made by the Administrator, i.e. PLK, were one of the essential factors influencing freight in 2018. A large number of railway track closures also in the coming years will directly contribute to a reduced throughput of the lines and stations used, and extended travel time, longer train travel routes and longer train stays at the stations, which requires increased human, rolling stock and traction resources to be involved in the transportation process.

Rail infrastructure access charges

The performance of both PKP CARGO S.A. and the PKP CARGO Group largely depend on the amount of rail infrastructure access charges. Infrastructure access cost accounted for approx. 20.3% of PKP CARGO S.A.'s operating expenses and about 15.0% of PKP CARGO Group's operating expenses in 2018.

On 27 November 2018, an Agreement on the use of throughput capacity to transport objects in the train timetable 2018/2019 was signed between PKP CARGO S.A. and PKP Polskie Linie Kolejowe S.A. The

Agreement is in force from 9 December 2018 to 14 December 2019. The expected value of the Agreement in its validity term in total amounts to PLN 690.6 million net (PLN 849.5 million gross).

PKP CARGO S.A. executes also rail infrastructure access agreements with the following administrators of foreign rail networks: DB Netz (German), ProRail B.V. (Dutch), MÁV Zrt (Hungary), GYSEV Zrt. (Hungary), SŽDC (Czech Republic), ŽSR (Slovak Republic), ÖBB Infrastruktur (Austria).

Technical regulations related to rolling stock

The rolling stock used in rail transport must satisfy appropriate technical standards and requirements, determining the scale of the Group's modernization and repair activity. The investments in this area depend directly on the current technical condition of the rolling stock owned and the resulting mandatory periodic repairs. The number of periodical repairs and periodical overhauls performer in individual periods results from the cycles defined in DSU for the rolling stock approved by the Office of Rail Transport.

Due to the anticipated growth in the Polish rail freight market in the coming years, it will be necessary to adapt accordingly the rolling stock used in the business. In light of the aging nature of the available rolling stock and the limited capacities of repair plants, the future may bring a temporary misalignment between the quantities and types of the available rolling stock to the actual needs of the transportation market.

Risk of changes to legal regulations

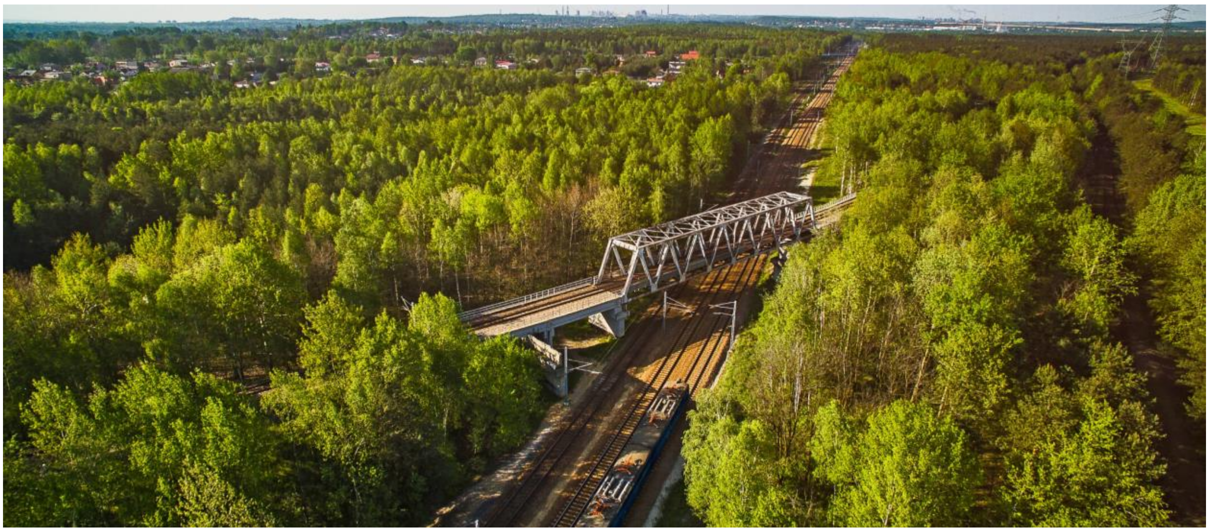
The business activity pursued by both PKP CARGO S.A. and PKP CARGO Group companies is subject to specific legal regulations. They include among others Technical Specifications for Interoperability Noise (NOI TSI), regulations on access to Service Infrastructure Facilities and EU Emissions Trading Scheme (EU ETS). The specific influence of these regulations is described in section 5.5.1.

Capital expenditure financing

The Group will finance capital expenditures with investment loans, its own funds and from other sources. An increase in loan liabilities will result in an increased level of liabilities (short- and long-term) and of financial expenses.

Social dialog

The social dialog in PKP CARGO S.A. is based on the principles contemplated in the generally binding laws, the Company Collective Bargaining Agreement and the agreements defining the mutual obligations of the parties to the social dialog. The Company respects and improves the principles of cooperation between the social partners, which contributes to implementation of modern, pro-development solutions aiming at increasing the company's competitiveness and efficiency.



7.2 Description of the growth prospects and development policy of the Company and the PKP CARGO Group at least in the next financial year

PKP CARGO Group's Strategy for 2019-2023

On 26 November 2018, the Company's Supervisory Board approved the PKP CARGO Group's Strategy for 2019-2023.

The new PKP CARGO Group Strategy addresses the challenges and opportunities on the Polish and international markets. The Group does not intend to limit its role to a rail operator only: it will also increasingly provide comprehensive forwarding services.

The strategy defines the PKP CARGO Group's vision and mission for 2019-2023, including an outlook to 2038. This is the Group's key document setting out the directions for its development, but it is also an element of its integration.

PKP CARGO Group's VISION:

Become the Central European leader in rail freight transport by taking the dominant position in the area of the 'Three Seas Initiative' and on the 'New Silk Road'.

PKP CARGO Group's MISSION STATEMENT:

Offering comprehensive logistics services on the rail freight and intermodal services market in a way to make it the supplier of first choice.

In five years' time, the PKP CARGO Group should become the leader on the Central and Eastern European market by becoming the No. 1 in the area of the Three Seas Initiative, i.e. in the pan-European north-south transport corridors. PKP CARGO also intends to achieve a dominating position on the New Silk Road routes within the European Union. In both cases, this is in terms of freight volume and freight turnover. The leading position that the Group wants to achieve by 2023 should be consolidated between 2023 and 2038.

Strategic objectives

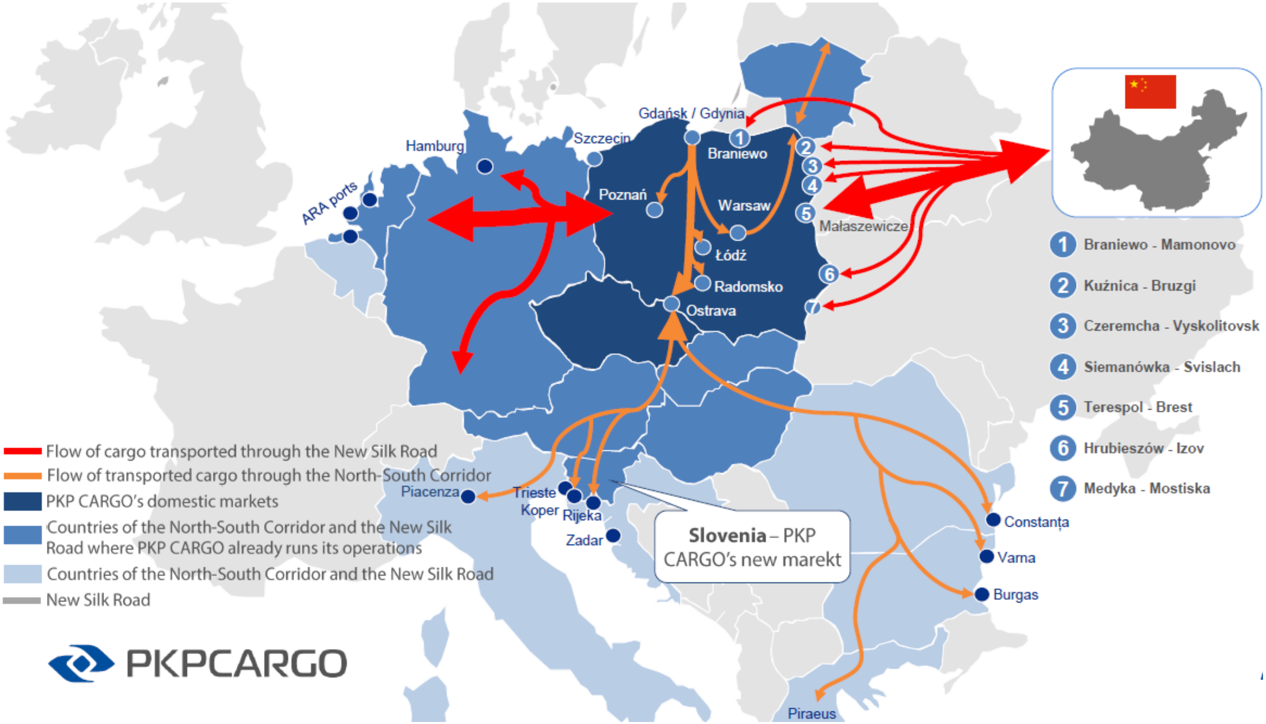
- Become number 1 in the area of the "Three Seas Initiative" and on the New Silk Road routes in the European Union measured by freight turnover and freight volume by 2023 and strengthen this position in 2023-2038,
- Gain 65% of the Polish rail freight market by 2023 measured by freight turnover.

Short-term objectives

- Devise the most competitive offer for business partners on the New Silk Road in the European Union and in the area of the Three Seas Initiative,
- Grow operational efficiency measured by KPIs on an annual basis,
- Maintain a pace of growth in the share price that is higher than the WIG30's growth,
- Generate annual net profit equal to at least 5% of revenue starting from 2019 and at least 8% of revenue starting from 2023.

At the same time, PKP CARGO's share of the domestic market should also increase. At present, the Group controls less than 50% of rail transport in Poland in terms of freight turnover, while in 2023 this figure is expected to increase to 65%. Some of the growth will be driven by the Group's organic growth, but acquisitions will also be important. Acquisitions are also to be conducted on international markets, since this is the faster and easier way of implementing the Group's expansion program on Eurasian markets.

Figure 35 The north-south corridors and the New Silk Road



Source: Proprietary material

In its Strategy, PKP CARGO discontinues its image as a rail operator that simply accepts and executes orders for the transport of freight by train. In order to implement the objectives set out in the strategy, the Group needs to expand its business profile. PKP CARGO is supposed to become a specialized logistics operator that provides comprehensive door-to-door freight services, especially in the intermodal sector.

To this end, PKP CARGO will strive to devise the most competitive offer for business partners on the New Silk Road in the European Union and in the area of the Three Seas Initiative The Group wants to quickly address the challenges driven by globalization and use the natural advantages of Poland, that is quick economic development and the resulting improving international position. The advantage that many experts believe is key is Poland's location at the crossroads of critical trade routes.

Attaining the strategic objectives will be based on executing 13 strategic initiatives arranged under three pillars:

Figure 36 Strategic initiatives

Growth	Operational efficiency	Organizational efficiency
1 Adopting and executing an organic growth plan on the domestic market	7 Digitization and computerization	11 Optimizing decision-making processes and customizing the PKP Cargo Group's structure
2 Adopting and executing an inorganic growth plan on the domestic market	8 Optimizing freight transport processes	12 Developing organizational culture, human capital and management by objectives (MBO)
3 Coordinating foreign expansion	9 Modernizing and optimizing rolling stock resources and maintenance processes	13 Adopting a project management policy and appointing a Project Management Office (PMO) in headquarters
4 Aligning the offer to clients to integrate the value chain	10 Optimizing asset management	
5 Adopting and executing an action plan in marketing and CSR in coordination with the PKP Group		
6 Developing innovation		

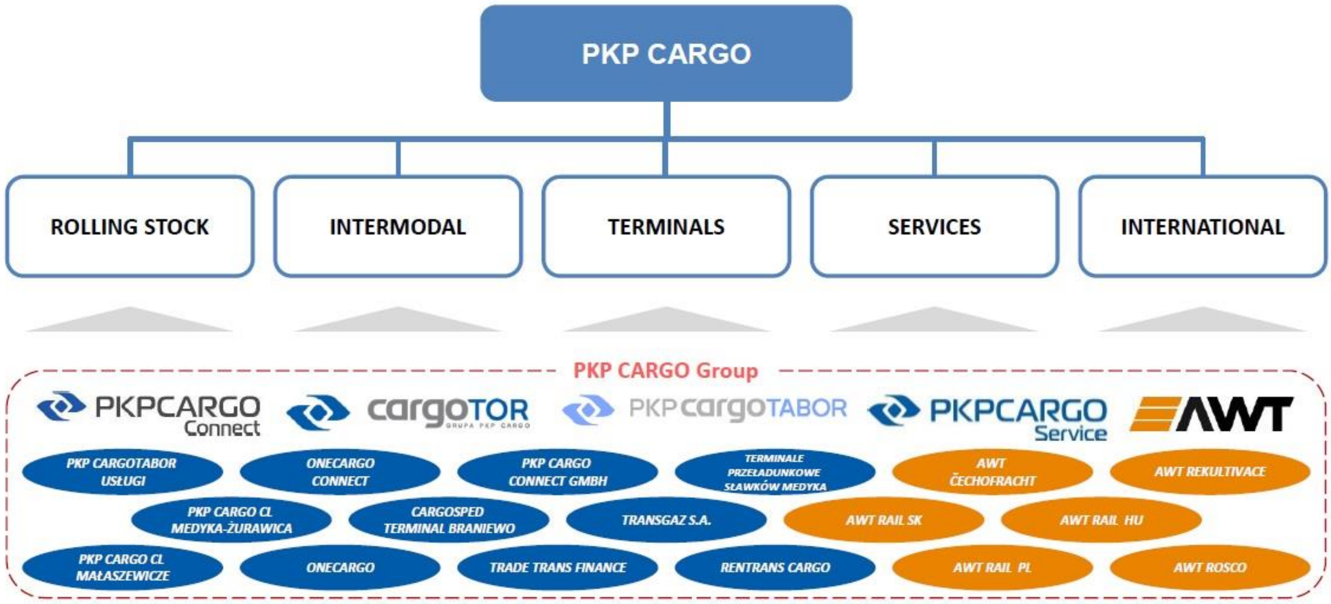
Source: Proprietary material

The domestic and international expansion process will be supported by improvements in operational efficiency through digitalization and computerization as well as optimization of transport processes. The PKP CARGO Group will also increase efficiency of the rolling stock utilization and modernization processes and improve management of assets of all companies.

Better organizational efficiency is equally as important. It should improve through optimization of decision-making processes and adaptation of the PKP CARGO Group’s structure to its operations and through development of its organizational culture. The Group will implement management by objectives (MBO), adopt a project management policy and establish a central Project Management Unit (PMO).

The introduction of new areas of operation will improve organization management efficiency:

Figure 37 Areas of operation



Source: Proprietary material

2018 did not only mark the commencement of preparation of the strategy for the next five years. Some of the solutions that became priorities in the document were already starting to be implemented. Improvements in the organization of work, transport processes, higher level of market competition, attracting customers with increasingly better offers, also in terms of price – these factors were the main reasons why the PKP CARGO Group posted excellent financial results.

8. Other key information and events

8.1 Information on PKP CARGO S.A. shares

8.1.1 Issue of securities and use of proceeds from the issue

In the reporting period, in PKP CARGO S.A. there were no issues, redemptions or repayments of debt securities or equity securities.

8.1.2 Information about agreements which may in the future cause changes to the proportions of shares held by the current shareholders

PKP CARGO S.A. is unaware of any agreements entered into by its existing shareholders which may result in future changes to the proportions of their shareholdings.

8.1.3 Acquisition of treasury stock

In 2018, PKP CARGO S.A. did not effect any purchase or sale of its treasury stock.

8.1.4 Information on the employee share plan control system

Shares taken up by entitled employees in connection with the right granted under the Employee Guarantee Package („EGP"), were subject to contractual limitation of their disposal. Each eligible employee submitting a subscription for shares was required to sign an agreement providing for restrictions on the transferability of shares for a period of 2 years from the Company's first day of trading on the Warsaw Stock Exchange, i.e. until 30 October 2015. Any submitted subscription without signing the said agreement would have been considered invalid and the eligible employee would have lost his/her right to the privatization bonus, hence also to the shares. A sale of or encumbrance on any shares or rights to shares prior to 30 October 2015 was ineffective against the Company and may have exposed the employee to liability for damages.

On the date of expiration of the above lock-up period, i.e. on 30 October 2015, series C shares were converted into bearer shares.

8.1.5 Shares held by management board and supervisory board members

The holdings of Company's shares or rights to such shares by members of the Company's Management Board from 21 November 2018, i.e. the delivery date of the Q3 2018 report to the delivery date of this report, was as follows:

Table 30 PKP CARGO S.A. shares held by Management Board members as at the report delivery date

Name	Number of PKP CARGO S.A. shares held by Management Board members		Par value of shares [PLN]	
	as at the delivery date of this report	as at 21 November 2018	as at the delivery date of this report	as at 21 November 2018
Czesław Warsewicz	1,500	0	75 000	0
Leszek Borowiec	0	0	0	0
Grzegorz Fingas	0	0	0	0
Witold Bawor	46	46	2 300	2 300
Zenon Kozendra	46	46	2 300	2 300

Source: Proprietary material

The holdings of Company's shares or rights to such shares by members of the Company's Supervisory Board from 21 November 2018, i.e. the delivery date of the Q3 2018 report to the delivery date of this report, was as follows:

Table 31 PKP CARGO S.A. shares held by Supervisory Board members

Name	Number of PKP CARGO S.A. shares held by Management Board members		Par value of shares [PLN]	
	as at the delivery date of this report	as at 21 November 2018	as at the delivery date of this report	as at 21 November 2018
Krzysztof Mamiński	0	0	0	0
Mirosław Antonowicz	0	0	0	0
Krzysztof Czarnota	70	70	3 500	3 500
Zofia Dzik	0	0	0	0
Raimondo Eggink	0	0	0	0
Małgorzata Kryszkiewicz	0	0	0	0
Tadeusz Stachaczyński	0	0	0	0
Władysław Szczepkowski	0	0	0	0
Jerzy Sośnierz	70	70	3 500	3 500
Paweł Sosnowski	0	0	0	0

Source: Proprietary material

No members of the issuer's Management Board or Supervisory Board, as at 31 December 2018 or as at the delivery date of this report, hold any shares or ownership interests in PKP CARGO S.A.'s related parties.

8.1.6 Dividends paid or declared

On 17 April 2018, the PKP CARGO S.A. Management Board adopted a resolution on distribution of the net profit presented in the Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2017, i.e. on allocation of a majority of it for covering losses from previous years. The Management Board recommended that the dividend from the net result of the financial year 2017 not be paid.

At the time of Report publishing, the Management Board of the Company has not presented the recommendation on the 2018 profit distribution.

8.2 Information on transactions with related parties

No entity from the PKP CARGO Group entered in any transactions with related parties on non-market terms in 2018. Also after the balance sheet date no such transactions have been entered into.

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

8.3 Proceedings pending before courts, arbitration bodies or public administration authorities

PKP CARGO S.A. and its subsidiaries are not parties to proceedings pending before courts, arbitration bodies or public administration authorities pertaining to liabilities or claims the value of which constitutes at least 10% of the Parent Company's equity.

PKP CARGO S.A. and its subsidiaries are not parties to proceedings pertaining to liabilities or claims of the issuer or the issuer's subsidiary where the total value of such liabilities or claims constitutes at least 10% of the Parent Company's equity.

8.4 Major achievements in research and development

An autonomous dual-mode locomotive

PKP CARGO S.A. cooperates with Pesa Bydgoszcz S.A. and Instytut Pojazdów Szynowych "TABOR" in Poznań to conduct research and development works on constructing an autonomous dual-mode locomotive.

The relevant contract was signed at the InnoTrans trade fairs in Berlin in September. It provides that PKP CARGO and Pesa will prepare the technical assumptions and configuration of the designed locomotive, which will be reviewed by the scientists from IPS "TABOR". The second stage will involve design and research works followed by the commencement of the construction of an autonomous dual-mode, electro-diesel, locomotive by Pesa. The first vehicle will be tested by PKP CARGO, which will enable the operation of the locomotive to be checked in the conditions of a normal operation on tracks as well as corrections and improvements to be introduced to its design.

A hydrogen project

Representatives of the Management Boards of Jastrzębska Spółka Węglowa and PKP CARGO signed a letter of intent for joint innovative investment projects focused on the commercial use of hydrogen fuel at the IMPACT'18 conference held in Kraków in June. The document provides, among others, for cooperation in research, analyses, and the future manufacturing of new types of rail cars and shunting locomotives with a hydrogen drive and their later maintenance and operation.

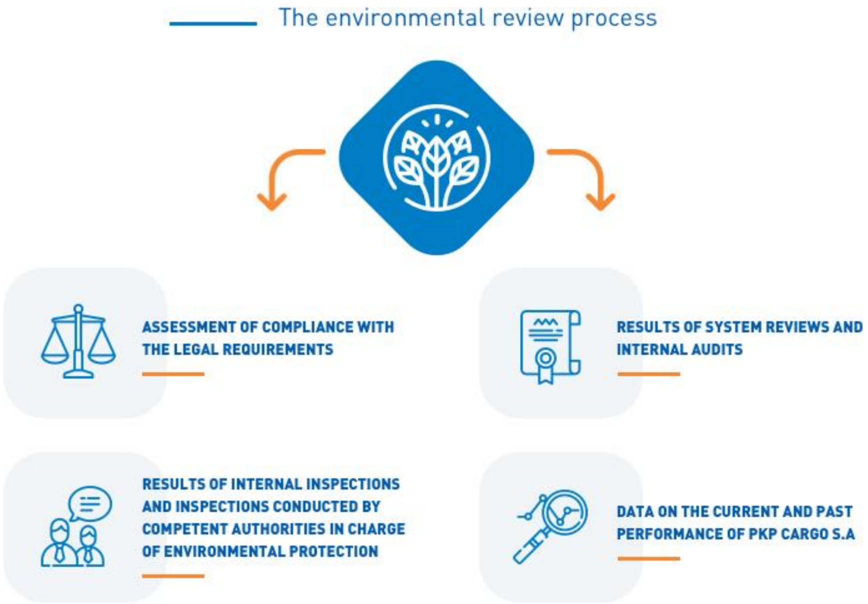
JSW and PKP CARGO identified the possibility to pursue joint ventures the key objective of which would be the development of innovative solutions for reduced energy and fuel consumption and exhaust emissions involved in the commercial use of rail cars and locomotives powered by hydrogen. The agreement was joined by H. Cegielski – Fabryka Pojazdów Szynowych in November.

8.5 Information on natural environment issues

Implementation of the Company's strategy is based on adapting its resources and organization to the requirements of the contemporary transportation market, taking into account the principles of sustainable development, in accordance with the adopted policy of the Integrated Management System (IMS): quality, occupational health and safety, environmental protection.

The Company's environmental policy forms an integral part of its overall corporate management system. The strategic objective for responsible actions taken by PKP CARGO S.A. in the field of environmental protection is to ensure a safe carriage of merchandise using rolling stock that meets the applicable environmental requirements. The Company invests both in the purchases of new rolling stock and in the modernization of its existing rolling stock as well as in maintenance and repair facilities and devices for diagnostics of the Company's rolling stock. These efforts are aimed at achieving high standards of rolling stock maintenance and protecting the natural environment against the possible consequences of breakdowns and accidents involving the Company's rolling stock.

In the process of environmental review (conducted on an annual basis), the effects of the Company's environmental initiatives are evaluated and specific environmental targets and tasks are formulated for subsequent years according to criteria selected based on:



The Company diligently monitors all environmental aspects considered to be significant. The objective of the monitoring of significant aspects is not only to gain knowledge of the magnitude of impacts on the natural environment by tracking certain assumed indicators but also to implement the environmental protection program in order to improve the emission indicators (energy intensity). Year by year, through the introduction of objectives and tasks in significant areas in relation to the adopted classification criteria, the Company keeps minimizing its environmental impact in relation to the activities performed.

The significant environmental aspects are related to the Company's core business of the carriage of cargo and the maintenance and repairs of rolling stock. The most relevant of these deliverables are:

1) Carriage of hazardous cargo

First of all, the Company is a rail freight carrier, hence the carriage of hazardous materials is subject to monitoring. In 2018, the Company did not record any events resulting in environmental damage, and because the Company is aware of the costs involved in restoring the environment to the required standards, it continuously monitors the quality of the safety of our transport. This process is supported by improvements in diagnostics and inspections of the rolling stock through earmarking considerable funds for that purpose, including purchases of diagnostic equipment, repair equipment, garage equipment for diagnostics and repairs of locomotives and rail cars and on purchases of new rolling stock and modernizations of the rail cars.

2) Emissions into the air

Rail transport is crucial for the achievement of the European objectives related to the reduction of greenhouse gas emissions. All activities leading to the development and growth of the rail market, resulting in an increased share of this type of transport in the overall transport, always translate into the ecological effect in the form of improved air quality and mitigated climate changes.

Therefore, the tasks performed by the Company focus on gradual modernization and obtainment of an increasing number of new diesel and electric locomotives, which leads to a reduction of harmful gas and particulate matter emissions to the environment and permits savings of fuel and energy. (agreeemtn with Newag and PESA) The Company implements also rolling stock solutions for energy consumption optimization through modernization of electric locomotives by installing a modern electrical apparatus. The Company supports also innovative solutions and research and development works on a new generation rolling stock to improve the efficiency of freight turnover and enable the applications of solutions for reduced energy and fuel consumption and exhaust emissions involved in the commercial use of rail cars and locomotives.

In its activities for air protection, the Company invests not only in the rolling stock. It gradually modernizes and removes sources of low emission by overhauling and liquidating solid fuel boiler plants and shifting to more ecological fuels, such as fuel oil and gas. Both the results of the Energy Audit and local anti-smog regulations are taken into account here. Climate protection effects are ensured also by purchasing high-quality fuels and investing in thermal performance improvement of the utilized backup facilities.

3) Emissions into waters

PKP CARGO S.A. is going to invest in straightening out the water and sewage management, which will enable the legal situation regarding environmental protection to be fully regulated, fees and charges for using water services to be reduced, and the risk of sewage with parameters inconsistent with the laws being discharged to the sewerage to be minimized. As regards more cost-intensive projects, a renovation and alteration of the sewage and stormwater discharge network in Rolling Stock Maintenance Centers in Rybnik and Opole were commenced in 2018 (the activities are going to be continued in 2019). Moreover, inspections of the water and sewage network are carried out on an ongoing basis, involving the cleaning of oil-derived substance separators and the required tests of sewage parameters.

4) Protection of the earth's surface

The Company's operations exert an impact on the ground water environment. This fact prompted the implementation of the Company's program of the construction of container fuel stations which has led to the decommissioning of all fuel stations with single-shell tanks leased from PKP S.A. In 2018, the Company implemented its plan to decommission old tanks for used oil and to build up forced-drain installations for used oil in 17 Rolling Stock Maintenance Centers. The new double-jacket tanks are equipped with an internal tank monitoring system using the "dry" method. A leak detector is installed in the system. When a leak occurs, an acoustic alarm signal is set off, enabling a quick response, inspection of the tank and repair of any leakage.

5) Organizational actions

The consumption of materials, fuels and electricity during the conduct of business operations causes an extensive impact on the environment. In order to avoid any breaches of environmental protection laws and minimize the risk of sanctions against the Group's member companies, continuous monitoring and inspection of the conduct of their operations are required. Aware of their impact on the environment, the companies take actions aimed at preventing environmental pollutions. Moreover, they make efforts aimed at ensuring the constant raising of environmental awareness among their personnel by training all staff responsible for performing tasks associated with the transport of cargo, supervision and maintenance of installations causing emissions into the environment and waste management.

The company expends all efforts to ensure that its decisions related to the protection of the natural environment, including air, are noticed not only by its counterparties in business transactions but also by ordinary citizens. To this end, the company attempts to promote rail transport also by applying eco-marketing tools. For instance, to support efforts aimed at protecting honey bees, the company installed two beehives on the roof of its head office in Warsaw. PKP CARGO S.A.'s best practices in the area environmental protection are described in the FOB Report entitled "Responsible business in Poland. Best practices". As part of further support for the fight against CO_2 emissions, a Letter of Intent was signed with the State Forests regarding the provision of support to the Forest Coal Farms.

The Group is involved in achieving compliance of its actions with the applicable laws and regulations, has in place a program of environmental measures and achieves measurable results of these activities, has qualified personnel conducting environmental matters with the use of instruments in the form of software for calculating environmental fees, which constitutes an up-to-date database on the extent of the use of the environment. The employees have access to up-to-date regulations and instructions, and their environmental awareness is growing every year due to training and information processes conducted.

8.6 Description of the Company's and the PKP CARGO Group's sponsoring, charitable or other similar activities

Among the areas of the Company's sponsorship activities are innovative initiatives in the TSL industry, science and education, including cooperation with institutions of higher education and scientific centers, culture and art, safety and sports, with particular emphasis placed on the development of youth through sports and care for healthy lifestyle.

Charitable support activities are focused on environmental protection and ecology (including supporting the initiatives related to ecology of transport), science and education, culture and art, safety and equalization of social differences.

Science, culture and art

The activities in that area included, among other things, the projects that aimed at popularizing the topic of rail transport and served as a panel for exchange of information and experience on the logistics market. PKP CARGO S.A. was a partner to an important event in the TSL industry which was the Fracht Intermodal Transport Forum 2018. It also participated in the 6th International Maritime Congress in Szczecin.

In turn, PKP CARGO SERVICE provided support to the Scientific and Technical Conference "Open Rail Market in Poland – 15 Years of the Open Rail Market in Poland" organized by the Association of Polish Transportation Engineers and Technicians.

In 2018, as in previous years, PKP CARGO S.A. also supported initiatives aimed at protecting monuments of rail history.

Safety

PKP CARGO S.A. was a partner to the training program entitled "I want to live safely" ("Bezpiecznie - chce się żyć") organized in Warsaw by the Traffic Division of the Warsaw Police Headquarters.

Moreover, the Company is a partner of the social campaign Safe Railroad Crossing – "Railroad Barrier to Risk".

Sports and physical education

PKP CARGO S.A. co-funded another edition of the "Solidarność" and Olympians' Bicycle Race.

PKP CARGO Group companies also provide support to a number of sports clubs and school initiatives in the field of physical education, which puts the Group in the ranks of major sponsors of Polish sport.

PKP CARGO S.A. undertook charitable activities to support the foundations' and associations' operations contemplated in their articles of association, as well as for the benefit of private individuals, in particular employees and pensioners of PKP CARGO S.A. and their family members. At this point, emphasis should be placed on good cooperation between PKP CARGO S.A. and the PKP Group Foundation in the performance of activities for the benefit of children from impoverished railway employee families and as well as other social initiatives. PKP CARGO Group companies were also involved in charity initiatives and, for instance, provided support to associations working for the benefit of people with disabilities.

8.7 Information about existing Compensation Policy

8.7.1 General information about the compensation system accepted in the Parent Company

In PKP CARGO S.A., the compensation rules are established in accordance with the generally applicable laws and internal regulations in force in the Company.

The compensation system is comprised of the following:

- Company Collective Bargaining Agreement for Employees Hired by PKP CARGO S.A. Units,
- Resolutions of corporate bodies of PKP CARGO S.A. to establish and introduce the rules for compensating key staff at PKP CARGO S.A., the employees of the Company's Headquarters and the employees on management and independent positions in the Company's work establishments,
- Regulations for paying bonuses to employees in place in the work establishments.

Pursuant to the provisions of the Company Collective Bargaining Agreement, the Company employees who in 2018 represented 83.84% of total number of employees, were eligible for compensation elements, benefits and perks as well as other rights which are not contemplated in the commonly prevailing regulations or are regulated in a less favorable manner.

These employees' compensation consists of fixed and variable elements, depending on their position.

Fixed compensation components include basic compensation, special duty allowance and seniority allowance. Variable compensation components include allowances for work in conditions that are detrimental to health, burdensome and hazardous, for overtime work, for work on Sundays and holidays, for work during night, allowance for kilometers and allowance for one-person traction service.

In addition, the employees who receive compensation under the Company Collective Bargaining Agreement are eligible for monthly bonus paid according to the company bonus payment rules. The bonus fund includes a pool of funds earmarked for payment of bonuses for ongoing performance of tasks and for payment of bonuses to the employees for individual achievements.

Pursuant to the delegation contained in the Company Collective Bargaining Agreement, the employees of the Company's Headquarters and the employees on management and independent positions in the Company's work establishments, who in 2018 represented 16.16% of total number of employees, receive their compensation based on the principles defined in the Resolution adopted by the PKP CARGO S.A. Management Board based on the individual wage coefficient appropriate for the job and the average monthly wage in the enterprise sector published by the Central Statistical Office (GUS).

The employees receiving compensation under the Resolution adopted by the PKP CARGO S.A. Management Board may be paid, depending on their position, the quarterly discretionary bonus, which is disbursed if the Company's business goals are achieved to a specified degree, or annual bonus based on the Management Through Objectives Program in place in PKP CARGO S.A. if the Program is launched in the given year.

In addition, the compensation system includes, among others, the following benefits and perks: jubilee award, disability severance pay, retirement severance pay, coal allowance in the form of cash equivalent, benefits in the form of passenger train tickets, a benefit paid on the occasion of the Railway Employee Day, additional holidays for which employees on certain positions are eligible.

In connection with the IPO of PKP CARGO S.A.'s shares on the Warsaw Stock Exchange, on 2 September 2013 the Employee Guarantee Package ("Package") was adopted by the signatories of the Company Collective Bargaining Agreement, which has a significant impact on the performance of the Company's HR policy.

The Package introduced several solutions that were beneficial to PKP CARGO S.A. employees, including, among others, the following:

- guaranteed employment, compensation and place of work on the conditions stipulated in the Package, excluding management positions,
- one-off benefit in the form of employee shares,
- participation of crew representatives in the Supervisory Board and the Management Board of the Company,
- participation of crew representatives in negotiations of annual compensation increase depending on the Company's result and financial standing.

Reconstruction of the compensation system towards its modernization and adjustment to the current market situation is determined by the willingness to achieve consensus and unanimity by all signatories of the Company Collective Bargaining Agreement, i.e. the employer and 12 trade union organizations.

Under the agreements entered into between the PKP CARGO S.A. Management Board and the Trade Unions operating in the Company, a pilot project of quarterly task bonuses for Q4 2018 for all Company employees was launched. A bonus may be granted if the tasks for the whole Company and individual tasks of the Head Office department or the Company's unit have been performed.

The quarterly task bonus program for Q4 2018 is a pilot project. Therefore, if it is evaluated favorably by the Social Partners, it will serve as the basis for developing a permanent solution the objective of which will be to strengthen the incentive function of the PKP CARGO S.A. employee compensation system by creating a framework for rewarding employees for the completion of assigned tasks and achieving the Company's targets.

As part of the non-compensation incentive system for employees, a program of additional fringe benefits in the form of discounts on cultural events, goods or services for all employees of PKP CARGO S.A. was introduced. The Company's offer of discounts and rebates on products and services is more attractive than what is available on the open market. The employer makes sure that in terms of geolocation its offer is available to the largest possible number of employees. Employees are informed about the offer through such communication channels as the Intranet, e-mail, local messages and newsletter distributed in electronic and paper form.

The broadly construed employee compensation system also covers the rules for compensating key management, i.e. PKP CARGO S.A. Supervisory Board Members, Management Board Members, directors of the Head Office departments and directors of the Company's Units. These rules constitute an internal element of the corporate governance principles in effect in PKP CARGO S.A. established in accordance with the generally applicable laws and internal regulations in force in the Company, including in particular the provisions of the Articles of Association, the Bylaws of the Shareholder Meeting, the Bylaws and Resolutions of the Supervisory Board and the Bylaws of the Management Board.

This document contains a collection of general rules for compensating key management and constitutes an important element of the development and safety of PKP CARGO S.A., and its main objective is to support the strategies aimed at achieving the Company's assumed business goals.

At the beginning of 2018, the provisions of this regulation were amended. The most significant amendments included:

- change in the form of employment of the Company's Management Board Members,
- specification of the minimum and maximum levels of base compensation for the Company's Management Board Members,
- provision of detailed rules for setting and evaluating the achievement of management objectives and the amount and method of payment of the variable compensation component,
- specification of the Company's right to incur costs related to the discharge of managerial functions by Management Board Members,
- change in the rules for compensating Management Board Members for their membership in the management boards or supervisory boards of subsidiaries and companies other than members of the Company's group,
- specification of the amount of benefits in the event of termination of the discharge of a managerial function by a Management Board Member, including severance pay and compensation for an extended competition ban,
- specification of the maximum amount of compensation for members of the Company's supervisory body.

8.7.2 Terms and value of compensation and fringe benefits of Management Board and Supervisory Board members

Management Board

In accordance with the "Rules for compensating key management at PKP CARGO S.A.", in 2018 all Management Board members were employed under management services contracts. The terms and conditions of contracts with Management Board Members and the amount of compensation are determined by the Supervisory Board. Management Board members are entitled to a monthly base salary calculated on the basis of an objective and measurable indicator. The minimum and maximum amount of which must correspond to the size of the enterprise and must remain in a reasonable relation to the Company's economic performance.

Management Board Members are entitled to a bonus for the achievement of management objectives specified by the Supervisory Board. Such objectives should be determined no later than by the end of April of the financial year in which they are expected to be achieved. Moreover, Management Board Members, in accordance with the terms specified in their contracts, may be granted the right to use technical tools and equipment owned by PKP CARGO S.A. to assist them in the proper performance of their duties.

During the period of their membership in the Management Board and thereafter (extended competition ban), the Company's Management Board Members are required to refrain from the conduct of any business competitive to that of the Company or of any member of the PKP CARGO Group. Management Board Members are entitled to additional specific compensation for the extended competition ban.

The discharge of a function in the Management Board is the main area of professional activity of a Management Board Member. It may be permitted for a Management Board Member to be additionally involved in the activities of the management or supervisory bodies of other members of the PKP CARGO Group, however without the right to collect any additional remuneration on this account. The Company's Management Board members may sit on the management boards or supervisory boards of companies other than members of the PKP CARGO Group only with the consent of the Supervisory Board.

The table below presents total compensation and fringe benefits for PKP CARGO S.A. Management Board members in 2018.

Table 32 Salaries and fringe benefits for PKP CARGO S.A. Management Board members in 2018 (PLN)

Name	Compensation, holiday equivalent (incl. VAT)	Bonuses, occasional awards, jubilee awards	Severance pays indemnities, non-competition (incl. VAT)	Other revenue taxed and subject to social security contributions	Subsidiaries	Total
Current Management Board members						
Czesław Warsewicz	541,200	0	0	865	0	**542,065**
Leszek Borowiec	484,825	0	0	0	0	**484,825**
Grzegorz Fingas	634,680	0	0	865	0	**635,545**
Witold Bawor	634,680	0	0	865	0	**635,545**
Zenon Kozendra	634,680	0	0	0	0	**634,680**
Former Management Board members						
Maciej Libiszewski	0	0	143,664	534	0	**144,198**
Arkadiusz Olewnik	0	0	158,670	0	408,000	**566,670**
Jarosław Klasa	0	0	344,000	324	0	**344,324**

Source: Proprietary material

* Taxed and subject to social security contributions

Supervisory Board

In accordance with the "Rules for compensating key management at PKP CARGO S.A.", in 2018 Supervisory Board Members were not employed by the Company (this applies to the form of appointing a Supervisory Board member; Supervisory Board members – employee representatives may be Company employees, and they suspend their employment relationship for the duration of their service on the Supervisory Board).

The amounts of compensation of the Supervisory Board Members are set by the Company's Shareholder Meeting. The monthly base salary of a Supervisory Board Member may not exceed a clearly defined multiple of the average monthly wage in the enterprise sector without profit-sharing in the fourth quarter of the previous year, as announced by the President of the Central Statistical Office.

Compensations of the Supervisory Board Members are not contingent on the Company's financial performance, options, other financial instruments or any variable component. Compensations of the Supervisory Board Members do not constitute a significant item in the costs of the Company's operations and do not significantly affect its financial performance.

The rule is that compensations of Supervisory Board Members should be commensurate with the entrusted scope of activities and discharged functions, e.g. work in Supervisory Board's committees. Moreover, Supervisory Board Members may be granted the right to use, in accordance with the rules in force in the Company, any tools and technical equipment necessary to discharge the duties of a Supervisory Board Member.

The table below presents total compensation and fringe benefits of the Company's Supervisory Board members in 2018.

Table 33 Salaries and fringe benefits for PKP CARGO S.A. Supervisory Board members in 2018 (PLN)

Name	Position	Compensation for discharging a function in the PKP CARGO S.A. Supervisory Board	Other compensation (PKP CARGO S.A.)	Subsidiaries
Krzysztof Mamiński	Supervisory Board Chairman	0	0	0
Mirosław Antonowicz	Supervisory Board Deputy Chairman	0	0	0
Krzysztof Czarnota	Supervisory Board Member	138,931	150,017	0
Zofia Dzik	Supervisory Board Member	134,792	0	0
Raimondo Eggink	Supervisory Board Member	134,792	0	0
Małgorzata Kryszkiewicz	Supervisory Board Member	134,792	0	0
Tadeusz Stachaczyński	Supervisory Board Member	140,227	92,111	0
Władysław Szczepkowski	Supervisory Board Member	134,792	0	0
Jerzy Sośnierz	Supervisory Board Member	94,207	162,260	0
Paweł Sosnowski	Supervisory Board Member	76,382	0	0
Czesław Warsewicz	Supervisory Board Member	31,886	0	0

Source: Proprietary material

Terms of non-financial components of compensation for other key managers

Department Directors and Unit Directors

In accordance with the "Rules for compensating key management at PKP CARGO S.A.", since 2018 the Company's key managers may be granted, in accordance with the rules in force in the Company, the right to obtain co-financing of the rent for an apartment, a company car, a company payment card, tools and technical equipment necessary to discharge the duties of a given position, and the right to medical care.

The Company's key managers may subject to a ban on conducting any business competitive to that of PKP CARGO S.A. after the termination of their employment relationship, in accordance with the terms defined by a Management Board Resolution, and on this account are entitled to receive compensation for observing the ban on conducting any business competitive to that of PKP CARGO S.A. and other members of the PKP CARGO Group.

8.7.3 Indication of material changes introduced in the compensation policy in the last financial year or information on absence of such changes

No material changes in the Company's compensation policies were introduced in 2018.

8.7.4 Evaluation of the practical application of the compensation policy in the context of its goals, in particular the long-term increase of the company's value for shareholders and stability of its operations

The "Rules for compensating key management" which entered into effect in 2017 have enabled the Company to generate value for its shareholders in the following aspects:

- the implementation of an internal regulation describing the rules for compensating the Company's key management personnel ensures compliance with the standards generally applicable to companies listed on the Warsaw Stock Exchange,
- the adoption of the regulation means that the compensation rules defined therein are not set on an ad hoc basis under the influence of any current events or in response to the current financial performance but are a set of permanent, transparent and independent compensation rules contributing to the stability of the enterprise,
- it enables the selection of groups of employees who, through the functions they discharge, exert a significant impact on the efficient management of the organization and on the implementation of the Company's strategic objectives,
- in particular, the regulation adopted by the Company defines a transparent form, structure and manner for determining the compensations and other benefits for key managers, which helps reduce the risks that would arise from unstable compensation rules applicable to the Company's key personnel.

8.7.5 Agreements entered into between PKP CARGO S.A. and managers which provide for compensation in specific cases

On 26 March 2018, pursuant to Resolution No. 1729/VI/2018, the Supervisory Board appointed Czesław Warsewicz as President of the PKP CARGO S.A. Management Board. The management contract and non-competition agreement with the President of the PKP CARGO S.A. Management Board was entered into pursuant to Resolution No. 1731/VI/2018 adopted by the Supervisory Board on 26 March 2018.

On 26 March 2018, pursuant to Resolution No. 1727/VI/2018, the Supervisory Board appointed Leszek Borowiec as Management Board Member in charge of Finance at PKP CARGO S.A. The management contract and non-competition agreement with the Management Board Member in charge of Finance at PKP CARGO S.A. was entered into pursuant to Resolution No. 1730/VI/2018 adopted by the Supervisory Board on 26 March 2018.

The basic terms and conditions of the newly executed management contracts and non-competition agreements are as follows:

- Management Board Members provide management services consisting in personal management of the entrusted areas of the Company's operations;
- the agreement is concluded for the duration of discharging the function in the company's Management Board; the agreement is terminated upon the elapse of that period;
- Management Board members are vested with the right to receive the remuneration consisting of a fixed part, constituting the monthly basic remuneration, and the variable part ("Bonus"), constituting the supplementary remuneration for the financial year in connection with the Manager's achievement of the management objectives of particular importance to the Company and the Group;
- Management Board members undertake that during the term of validity of their contract they will not conduct any business competitive to that of the Company or of any member of the PKP CARGO Group;
- the non-compete clause will continue to be binding for a period of six months after the termination of the contract and the expiration of the term of office of the Management Board member. Due to the obligation to adhere to the extended non-compete clause by Management Board members, the Company will pay them a base compensation for each month of validity of the extended non-compete clause applicable to the pertinent Management Board member;
- at the written request of a Management Board member, the Supervisory Board may, by way of a resolution, release the Manager from, respectively, the Non-Compete Clause or Extended Non-Compete Clause. The Supervisory Board will specify in its resolution the scope of the waiver, indicating the applicable activities, entities or functions.

On 27 June 2018, the Supervisory Board adopted Resolution to determine the rules for compensating Management Board Members at PKP CARGO S.A. and Resolution to set the compensation of Management Board Members at PKP CARGO S.A. Pursuant to these resolutions, the following rights have been granted to Management Board members:

- Management Board members are entitled to a break in the provision of their services – based on their own decision, including as a result of an illness, which will not result in a reduction of the Management Board member's base salary, provided that the break is no longer than 24 calendar days in a given financial year of the Company. If a Management Board member has provided his/her management services for a period shorter than one fiscal year, the break will be calculated pro rata to the service provision period. If a Management Board member does not exercise all or part of the right referred to in the previous sentences in a given financial year of the Company, such a Management Board member will lose this right and will not be entitled to claim any cash benefit, compensation or other similar benefit from the Company in return.

On 27 June 2018, the Supervisory Board adopted Resolution to enter into annexes to the management contracts and non-competition agreements with members of the PKP CARGO S.A. Management Board. The Supervisory Board entered into the said annexes to the management contracts and non-competition agreements with the Management Board members.

8.8 Information about the financial statements

8.8.1 Information about the agreement entered into with the audit firm

By Resolution No. 1597/VI/2016 of the PKP CARGO S.A. Supervisory Board adopted on 30 June 2016, BDO Spółka z ograniczoną odpowiedzialnością sp.k. ("BDO") with its registered office in Warsaw at ul. Postępu 12, entered in the register of audit firms under the file number 3355, was selected as the auditor.

The agreement with BDO was entered into on 27 July 2016 to perform the following activities:

- audit of the standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group for 2016-2018,
- review of the semi-annual standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group for 2016-2018,
- verification of the reporting package prepared for the purposes of consolidation with PKP S.A.,
- conduct of agreed procedures aimed at confirming the correct calculation of the annual ratios defined in the loan agreements,
- translation of quarterly, semi-annual and annual standalone and consolidated financial statements into English.

On 16 October 2017, an annex was signed to the aforementioned agreement, pursuant to which the audit firm will additionally prepare a report for the audit committee and ceases, as of 1 January 2018, to translate the quarterly, semi-annual and annual standalone and consolidated financial statements into English.

BDO Sp. z o.o. sp.k. also audited the financial statements of other members of the Group, specifically PKP CARGOTABOR Sp. z o.o., PKP CARGO CONNECT Sp. z o.o. and PKP CARGO SERVICE sp. z o.o.

Table 34 Fee of the audit company (PLN, net of VAT)

Item	Year ended 31/12/2018	Year ended 31/12/2017
Audit of the standalone and consolidated financial statements	120,427	120,427
Audit of the financial statements of the subsidiaries	86,408	86,408
Other attestation services, including a review of the financial statements	105,520	105,520
Other services (including open training)	4,420	2,500
Total	**316,775**	**314,855**

Source: Proprietary material

8.8.2 Rules for preparing annual financial statements

The Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2018 and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2018 have been prepared in accordance with International Financial Reporting Standards and related interpretations adopted by the European Union ("EU IFRS"), published and in effect at the time of preparation of the standalone and consolidated financial statements and in accordance with the Finance Minister's Regulation of 19 February 2009 on the current and periodic information transmitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent (Journal of Laws of 2018 Item 757) ("Regulation").

The Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2018 and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2018 have been prepared based on the assumption that both PKP CARGO S.A. and the Group will continue to be a going concern in the foreseeable future. As at the preparation date of these financial statements, there are no circumstances indicating any substantial threat to PKP CARGO S.A.'s and the Group's ability to continue to run their business as a going concern for a period of at least 12 months from the date of these financial statements.

The Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2018 and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2018 have been prepared in accordance with the historic cost principle except for derivative financial instruments and investments in equity instruments carried at fair value.

8.8.3 Description of unusual items in the standalone financial statements of PKP CARGO S.A. and the consolidated financial statements of the PKP CARGO Group

No unusual items in the standalone financial statements of PKP CARGO S.A. or the consolidated financial statements of the PKP CARGO Group have been found.

8.8.4 Description of significant off-balance sheet items

Significant off-balance sheet items are described in **Notes 7.2 and 7.4 to the SFS** and **Notes 7.2 and 7.4 to the CFS** for the financial year ended 31 December 2018.

9. Representation on the application of corporate governance

9.1 Indication of a set of corporate governance rules applicable to PKP CARGO S.A. and of the place where the wording of such rules is publicly available

In the period from the date of admission of the Company's shares to public trading, i.e. from 28 October 2013 to 31 December 2018, the Company was subject to the corporate governance rules described in the Code of Best Practice for WSE-Listed Companies ("Code of Best Practice") forming an attachment to Resolution No. 12/1170/2007 of 4 July 2007 adopted by the Supervisory Board of the Warsaw Stock Exchange, as amended.

On 13 October 2015, the Supervisory Board of the Warsaw Stock Exchange adopted a resolution on the adoption of a new set of corporate governance rules entitled the "Code of Best Practice for WSE-Listed Companies 2016" (hereinafter referred to as the "Code of Best Practice 2016") which entered into force on 1 January 2016 and replaced the previous set of corporate governance rules. The wording of the "Code of Best Practice 2016" to which the Company has been subject since 1 January 2016 is available on the website of the Warsaw Stock Exchange at https://www.gpw.pl/pub/GPW/files/PDF/GPW_1015_17_DOBRE_PRAKTYKI_v2.pdf.

In connection with the entry into force on 1 January 2016 of the "Code of Best Practice 2016", on 4 January 2016 the Management Board published a current report in Electronic Information Base format containing "Information on the progress of the Company's application of recommendations and rules laid down in the Code of Best Practice for WSE-Listed Companies 2016, the wording of which is available on the Company's website in the section Investor Relations/Corporate Governance/Good Practices.

9.2 Extent to which PKP CARGO S.A. failed to observe the provisions of the set of corporate governance rules, indication of such provisions and explanation of the reasons for the failure

The Company complies with the recommendations and rules laid down in the Code of Best Practice for WSE-Listed Companies 2016, except for the following ones:

Chapter II Recommendation 2 of the Code of Best Practice concerning the appointment of management board members or supervisory board members

The Company expresses its support for this recommendation concerning the pursuit of versatility and diversity in the process of selection of members of the management board and the supervisory board, in terms of such criteria as gender, field of education, age and professional experience. However, the Company has a policy in place under which the Company employs competent, creative individuals with appropriate professional experience and education, without considering the gender and age criterion.

Chapter IV Recommendation 2 of the Code of Best Practice concerning the enabling of shareholders to participate in a Shareholder Meeting using electronic means of communication

The Company decides not to apply this principle because of the legal, organizational and technical risks, which may pose a threat to the correct course of the general shareholder meeting if means of remote communication are provided to the shareholders. Additionally, none of the shareholders has notified the Company about being interested in such a manner of participating in the general shareholder meeting. We must assert that the principles governing the participation in general shareholder meetings currently allow the shareholders to exercise all the rights arising from their shares efficiently and protect interests of all the shareholders.

Chapter VI Recommendation 3 of the Code of Best Practice concerning the functioning of the compensation committee

The Company decides not to apply this corporate governance principle on a temporary basis, until appropriate amendments are made to its corporate documents.

Chapter VI Recommendation 4 of the Code of Best Practice concerning the levels of compensation for members of the management board and the supervisory board and key managers

Remuneration of the Supervisory Board members is currently differentiated only in respect to the Chairperson of the Company's Supervisory Board who, pursuant to Resolution 5/2014 adopted by the Extraordinary Shareholder Meeting on 30 July 2014, receives remuneration higher than other Supervisory Board Members. However, the remuneration does not take into account additional functions of the Company's Supervisory Board members, such as activity in Supervisory Board committees. Accordingly, this corporate governance principle is complied with only partially. The Company's Management Board will recommend amendments in this respect to the General Shareholder Meeting to ensure that it is possible to fully comply with this corporate governance principle.

Chapter I Rule 1.15 concerning the diversity policy applied by the company to its authorities and key managers

The Company has a policy in place under which the Company employs competent, creative individuals with appropriate professional experience and education, without considering the sex and age criterion.

Chapter I Rule 1.16 concerning the planned broadcasting of shareholder meetings

Non-application of this corporate governance principle is a consequence of the Company's decision not to apply principle IV.R.2., which requires the Company to enable shareholders to participate in the General Shareholder Meeting using means of electronic communication, in particular by real-time broadcast of the general shareholder meeting.

Chapter I Rule 1.20 concerning the recording of the course of shareholder meetings in audio or video form

The Company believes that non-application of this principle does not affect the reliability of the Company's information policy or the completeness of the material information provided by the Company to its shareholders.

Chapter II Rule 2 concerning the consent of the supervisory board for members of the management board to sit on the management boards or supervisory boards of companies other than members of the company's group

The Company decides not to apply this corporate governance principle on a temporary basis, until appropriate amendments are made to its corporate documents.

Chapter II Rule 7 concerning the tasks and functioning of the supervisory board committees

The Company decides not to apply this corporate governance principle on a temporary basis, until appropriate amendments are made to its corporate documents.

Chapter III Rule 2 concerning persons responsible for risk management, internal audit and compliance – their reporting directly to the president or another member of the management board, and ensuring the possibility of reporting directly to the supervisory board or the audit committee

At present, this corporate governance rule is fulfilled partially - the person responsible for internal audit is the Internal Audit Manager (competent Director of the Office) who is directly subordinate to the CEO and has the option of reporting directly to the Audit Committee of the Supervisory Board ("KARN"). The person responsible for compliance is appointed as Compliance Officer, who is substantively subordinate to the CEO and has the option of reporting to KARN. Pursuant to the Risk Management Policy adopted in the Company, the Heads of the Head Office and the Divisions who are directly subordinate to the CEO or another member of the Management Board are responsible for risk management. However, they do not have the posibility to report directly to the Supervisory Board or the KARN.

Chapter III Rule 4 concerning presentation to the supervisory board by the person in charge of internal audit (in case such a separate function exists in the company) and by the management board of own assessment of the effectiveness of operation of the internal control, risk management and compliance systems and the internal audit function

The Company decides not to apply this corporate governance principle on a temporary basis, until appropriate amendments are made to its corporate documents.

Chapter IV Rule 2 concerning the provision of publicly available broadcasts of shareholder meetings in real time.

The Company is of the opinion that non-application of this principle does not affect the reliability of the Company's information policy or the completeness of the material information provided by the Company to its shareholders.

Chapter V Rule 5 concerning the company's execution of a significant agreement with a shareholder holding at least 5% of the total number of votes in the company or with a related party

At present, this corporate governance rule is fulfilled only partially, i.e. with reference to a related entity. The Management Board of the Company will take steps to fulfill the above-mentioned rule in full.

Chapter V Rule 6 concerning the specification, in the company's internal regulations, of the criteria and circumstances in which a conflict of interest may emerge in the company and the rules of conduct in an actual or threatened conflict of interest situation

Currently, this corporate governance principle is complied with only partially. Although the Management Board Bylaws contain provisions about the conduct if a conflict of interest arises between the Company's interests and the personal interests of a Company's Management Board member, they do not include all the requirements of this corporate governance practice, i.e. they do not identify for example the criteria and circumstances under which a conflict of interest may arise in the company. The Company's Management Board will take steps to fully comply with this corporate governance principle and will recommend such steps to the Company's Supervisory Board.

9.3 Description of the primary attributes of the internal control and risk management systems used in PKP CARGO S.A. in respect of the process of preparing standalone and consolidated financial statements

Uniform accounting policy

Uniform accounting policy: PKP CARGO S.A.'s parent company has developed and implemented the Accounting Policy designed in accordance with EU IFRS. The document is updated on an ongoing basis as statutory amendments are introduced. The principles contained in the document are applied to standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group. Companies subject to consolidation are required to apply the Accounting Policy of PKP CARGO S.A. in their preparation of reporting consolidation packages which form the basis for preparation of the PKP CARGO Group's consolidated financial statements.

Uniform consolidation packages of subsidiaries

Uniform consolidation packages of subsidiaries: For the purposes of preparation of the consolidated financial statements of the PKP CARGO Group, a uniform pattern of reporting packages based on EU IFRS to be prepared by the subsidiaries has been adopted. The subsidiaries prepare their reporting packages in accordance with EU IFRS taking into account the differences between Polish Accounting Standards and EU IFRS.

Bookkeeping

Bookkeeping: The reliability of financial statements is ensured by using data derived directly from the accounting ledgers. The Parent Company keeps a set of accounting ledgers forming the basis for preparation of financial statements in its computerized financial and accounting system SAP. The Company updates its financial and accounting system on an ongoing basis in line with the changing legislation and reporting requirements, both internal and external. Access to the IT systems is restricted by appropriate permissions granted to authorized employees. The IT and organizational solutions used by the Company secure control of access to the financial and accounting system and ensure appropriate protection and archiving of accounting ledgers.

Procedures for the closing of ledgers and authorization of financial statements

Procedures for the closing of ledgers and authorization of financial statements: PKP CARGO S.A. and the subsidiaries have implemented internal procedures for closing the reporting periods, setting the dates and defining the responsibilities of internal departments for each reporting area; financial statements are subjected to internal procedures aimed at verifying their completeness and compliance; EU IFRS-compliant reporting packages are signed by the Management Boards of the subsidiaries and EU IFRS-compliant consolidated financial statements are properly authorized and signed by the Company's Management Board.

Supervision by the Audit Committee

Supervision by the Audit Committee: Within the structure of the PKP CARGO S.A. Supervisory Board, the Audit Committee has been established which, in accordance with the applicable regulations, exercises supervision over the process of preparation of consolidated financial statements and the process of financial audit and which analyzes and monitors interim and annual financial data of both the Company and the Group.

Audit and review of financial statements

Audit and review of financial statements: Annual standalone and consolidated financial statements are audited by a statutory auditor, semi-annual standalone and consolidated financial statements are reviewed by a statutory auditor; reports on the auditor's activities are appended to all approved and published financial statements.

9.4 Shareholders holding directly or indirectly significant blocks of shares

Table 35 Shareholder structure of PKP CARGO S.A. as at 1 January 2018

Shareholder	Number of shares	% in share capital	Number of votes	% in the total number of votes at the Shareholder Meeting
PKP S.A. (1)	14,784,194	33.01%	14,784,194	33.01%
Nationale-Nederlanden OFE (2)	6,854,195	15.30%	6,854,195	15.30%
AEGON PTE (3)	2,499,979	5.58%	2,499,979	5.58%
MetLife OFE (4)	2,494,938	5.57%	2,494,938	5.57%
Aviva OFE (5)	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	15,815,240	35.31%	15,815,240	35.31%
TOTAL	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

(1) According to a notice sent by the shareholder on 24 June 2014.
(2) According to a notice sent by the shareholder on 18 October 2016.
(3) According to a notice sent by the shareholder on 23 November 2017.
(4) According to a notice sent by the shareholder on 18 August 2016.
(5) According to a notice sent by the shareholder on 13 August 2014.

Source: Proprietary material

On 21 June 2018, the Management Board received a notification from Nationale-Nederlanden Powszechne Towarzystwo Emerytalne S.A. on a change in the company's shareholding as a result of the acquisition of a stake in PKP CARGO S.A. in transactions settled on 14 June 2018, whereby the following funds: Nationale-Nederlanden Open-End Pension Fund ("OFE") and Nationale-Nederlanden Non-Compulsory Pension Fund ("DFE") increased their stake in the Company by at least 2% of votes at the Company's Shareholder Meeting. After settlement of the transactions, in the securities accounts of OFE and DFE there were 7,751,187 Company shares, which accounted for 17.31% of the Company's share capital. The shares entitled the holder to 7,751,187 votes at the Company's Shareholder Meeting representing 17.31% of the total number of votes.

On 29 August 2018, the Company received a notice from Aegon Powszechne Towarzystwo Emerytalne S.A. with its registered office in Warsaw stating that it had reduced the number of votes held in PKP CARGO S.A. Aegon Open-End Pension Fund, following a sales transaction executed on 24 August 2018 and settled on 28 August 2018, reduced its shareholding in PKP CARGO S.A. below 5% of votes. After the sale of the equity stake in the Company, Aegon Open-End Pension Fund held 2,154,979 shares in the Company, which represented 4.812% of its share capital, and 2,154,979 votes, that is 4.812% of the total number of votes.

Table 36 Shareholder structure of PKP CARGO S.A. as at 31 December 2018 and as at the date of submission of this report

Shareholder	Number of shares	% of capital	Number of votes	% of votes
PKP S.A. (1)	14,784,194	33.01%	14,784,194	33.01%
Nationale-Nederlanden OFE (2)	7,751,187	17.31%	7,751,187	17.31%
MetLife OFE (3)	2,494,938	5.57%	2,494,938	5.57%
Aviva OFE (4)	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	17,418,227	38.89%	17,418,227	38.89%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

(1) According to a notice sent by the shareholder on 24 June 2014.
(2) According to a notice sent by the shareholder on 21 June 2018.
(3) According to a notice sent by the shareholder on 18 August 2016.
(4) According to a notice sent by the shareholder on 13 August 2014.

Source: Proprietary material

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

Table 37 Structure of PKP CARGO S.A.'s share capital

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

Source: Proprietary material

PKP CARGO S.A. is unaware of any agreements entered into by its existing shareholders which may result in future changes to the proportions of their shareholdings.

9.5 Holders of securities giving special controlling rights

No PKP CARGO S.A. securities give any of the shareholders of any special control rights.

9.6 Restrictions regarding the exercise of voting rights

Right to participate in the Shareholder Meeting and voting rights

Shareholders exercise their right to vote at Shareholder Meetings. in accordance with the provisions of the Commercial Company Code. The Company's shareholders may participate in the Shareholder Meeting and exercise their voting right in person or by proxy. A shareholder wishing to participate in a Shareholder Meeting by proxy must grant the proxy powers in writing or in electronic form. The Company provides a form of proxy document in the notice on convening the Shareholder Meeting. Moreover, the Company should be notified about granting proxy powers in electronic form using the means of electronic communication specified in the announcement on convening the Shareholder Meeting. The Company takes proper action to identify the shareholder and his/her/its proxy to verify the validity of the proxy powers granted in electronic form. A detailed description of the manner of verification of the validity of proxy powers granted in electronic form must be included in the contents of the notice on convening the Shareholder Meeting.

A shareholder holding shares registered in more than one securities account may appoint separate proxies to exercise the rights attached to shares registered in each of his/her/its accounts.

If a member of the Management Board, a member of the Supervisory Board, the liquidator, an employee of the Company, or a member of a corporate body or an employee of the Company's subsidiary or cooperative acts as a proxy, then the proxy document may authorize such a person to represent the shareholder at a single Shareholder Meeting only. The proxy is obligated to disclose to the shareholder any circumstances indicating the existence or possibility of a conflict of interest. In such a situation, it is not permitted for the proxy to grant the proxy powers to others. The proxy will vote in accordance with the instructions given by the Company's shareholder.

Pursuant to § 11 Section 2 of the Articles of Association, each share entitles its holder to one vote at the Shareholder Meeting. Pursuant to § 13 Section 1 of the Company's Articles of Association, voting rights of the shareholders holding more than 10% of all the votes in the Company are restricted in such a manner that no such shareholder may exercise more than 10% of all the votes in the Company existing on the date of the Shareholder Meeting. This restriction does not apply for the purposes of determining the obligations of buyers of significant blocks of shares, which are prescribed by the Act on Public Offering. The above restriction of the voting rights does not apply to shareholders who, on the date of adoption of the Shareholder Meeting resolution introducing the restriction, were entitled to exercise voting rights, also as users, attached to shares representing more than 10% of the total number of votes existing in the Company or any other entity that acquires the Company's shares held by the shareholders referred to above in connection with their liquidation.

In accordance with the provisions of the Articles of Association, the limitation of voting rights of shareholders representing more than 10% of the total number of votes in the Company will not cease after a sale of all shares held by PKP S.A. to which the said limitation does not apply. As a consequence, the limitation of voting rights makes it potentially difficult for a single investor to gain control of the Company even if the stake held by PKP S.A. in the Company's share capital drops to zero.

A Company's shareholder may not, either personally or by proxy or while acting in the capacity of a proxy of any other person, vote on resolutions concerning his/her/its liability towards the Company on whatever account, including exonerating on the performance of his/her/its duties, being released from any of his/her/its liabilities towards the Company or any dispute between him/her/it and the Company. The above restriction does not apply to voting by a shareholder acting in the capacity of a proxy for another shareholder on any of the said resolutions concerning the voting shareholder.

Moreover, pursuant to § 13 Section 1 of the Company's Articles of Association, for the purposes of restricting the voting rights, the votes of the shareholders connected by a parent or subsidiary relationship are added up according to the principles described below.

The shareholders whose votes are accumulated and reduced are jointly referred to as a "Grouping". Vote accumulation involves adding up the votes held by individual shareholders from a Grouping. Reduction of votes involves reduction of the total number of votes in the Company at the Shareholder Meeting vested in the shareholders from a Grouping. Reduction of votes is effected according to the following principles:

- for each shareholder associated with a Grouping, a percentage of votes vested in the shareholder in the cumulative number of votes vested in the entire Grouping is calculated;
- the number of votes corresponding to 10% of all the votes in the Company is calculated on the date of holding the Shareholder Meeting;

Pursuant to § 13 Section 7 of the Company's Articles of Association, in order to determine the basis for vote accumulation and reduction, each Company shareholder, the Management Board, Supervisory Board and individual members of these bodies, as well as the Chairperson of the Shareholder Meeting may demand that a Company shareholder whose votes are reduced provide information as to whether he/she/it is a person having the status of a controlling entity or subsidiary of another shareholder.

9.7 Restrictions on the transfer of ownership title to PKP CARGO S.A. securities

Statutory restrictions on the transferability of shares

The Public Offering Act, the Act on Trading in Financial Instruments and the Commercial Company Code provide, among others, for the following restrictions on the unconstrained transferability of shares:

- the obligation to notify the Polish Financial Supervision Authority and the Company applies to anyone who: (i) has reached or exceeded 5%, 10%, 15%, 20%, 25%, 33%, 33 $^{1}/_{3}$%, 50%, 75% or 90% of the total number of votes in a public company; (ii) holds at least 5%, 10%, 15%, 20%, 25%, 33%, 33 $^{1}/_{3}$%, 50%, 75% or 90% of the total number of votes in a company and, as a result of a reduction in this shareholding, reached 5%, 10%, 15%, 20%, 25%, 33%, 33 $^{1}/_{3}$%, 50%, 75% or 90%, respectively, or less of the total number of votes; (iii) has changed his/her/its previously held share greater than 10% of the total number of votes by at least 2% of the total number of votes in a public company whose shares are admitted to trading on an official stock market (as at the Prospectus Date, the market in question is the main market of the Warsaw Stock Exchange); (iv) has changed his/her/its previously held share greater than 33% of the total number of votes in a public company by at least 1% of the total number of votes;
- the obligation to announce a call to subscribe for the sale or conversion of shares in the event of: (i) the acquisition of shares entitling the holder to exercise more than 10% or 5% of the total number of votes at the Shareholder Meeting, (ii) exceeding the threshold of 33% of the total number of votes at the Shareholder Meeting, (iii) exceeding the threshold of 66% of the total number of votes at the Shareholder Meeting;

- the prohibition of the acquisition or sale, for one's own account or for a third party, of any financial instruments, based on confidential information;
- the prohibition of the acquisition or sale of financial instruments during the lock-up period by the persons referred to in the Act on Trading in Financial Instruments;
- the parent company, within the meaning of Article 4 Section 1 Item 4 of the Commercial Company Code, is required to inform a subsidiary of the establishment or termination of a relationship of dominance within two weeks of the date of establishment of such a relationship, otherwise its voting rights attached to the shares held by the parent company representing more than 33% of the share capital of the subsidiary will be suspended.

Apart from the foregoing, there are no other statutory restrictions on the transferability of shares in the Company.

Contractual restrictions on the transferability of shares

Shares subscribed for by entitled employees in connection with the right granted under the Employee Guarantee Package („EGP") were subject to a contractual limitation of their disposal. Each eligible employee submitting a subscription for shares was required to sign an agreement providing for restrictions on the transferability of shares for a period of 2 years from the Company's first day of trading on the Warsaw Stock Exchange, i.e. until 30 October 2015.

On the date of expiration of the above lock-up period, i.e. on 30 October 2015, series C shares were converted into bearer shares.

Pursuant to the Conditional Agreement for Underwriting the Subscriptions of Institutional Investors on the Principles of Underwriting the Initial Public Offering of PKP CARGO S.A. Shares, the Company and PKP S.A. were subject to the contractual restriction on the transferability of shares and the issue of shares from the date of execution of the Underwriting Agreement to the end of the period of 180 days from the first listing of the Company's shares on the Warsaw Stock Exchange.

9.8 Rules for appointment and dismissal of managers and their rights

The PKP CARGO S.A. Management Board consists of between one and five members, including the President of the Management Board. Management Board members are appointed for a joint 3-year term of office. The President and other Members of the Management Board are appointed by the Supervisory Board pursuant to the Articles of Association and the Bylaws for Appointing Management Board Members in PKP CARGO S.A. The Supervisory Board sets the number of Management Board members.

Management Board Members are appointed following the conduct of a recruitment procedure only from among candidates participating in the qualification procedure who received a favorable opinion from the recruitment consultant. The recruitment procedure for a Management Board Member is prepared and organized by a professional personnel consulting company selected by a resolution of the PKP CARGO S.A. Supervisory Board. A participant in the procedure for appointment of Management Board Members is the Nomination Committee which exercises ongoing supervision over the process of selection of a Management Board Member and the process of evaluation and appointment of Management Board Members.

The Supervisory Board also selects one Management Board Member from among candidates nominated by the Company's employees. Such a candidate should have higher education, at least 5 years of professional experience in the PKP Group and have no criminal record. A Management Board member may not discharge an elected function or sit in the bodies of a company, inter-company or national trade union organization, a federation of trade unions or a confederation of trade unions. The bylaws for electing candidates for a representative of employees in the Management Board are adopted by the Supervisory Board. Failure to appoint a representative of employees to the Management Board does not preclude the appointment of the Management Board or the effective adoption of its resolutions. The power referred to in the first sentence above was granted to the Company's employees in connection with Article 4 Section 4 of the Act on Commercialization and Restructuring of PKP and the provisions of the Employee Guarantee Package.".

As long as the State Treasury, PKP S.A. or other state legal persons hold less than 100% of the Company's shares, the President of the Management Board and other Management Board members are appointed and dismissed by the Supervisory Board.

In the event that PKP S.A.'s share in the Company's share capital is 50% or less, PKP S.A. will have the personal power to select candidates for the President of the Management Board on its own. The personal rights referred to in the preceding sentence are exercised by way of delivering a written statement to the Supervisory Board Chairperson.

Pursuant to § 18 and § 25 Section 3 Item 2 of the Articles of Association, the PKP CARGO S.A. Management Board is authorized, with the consent of the Supervisory Board, in accordance with the rules laid down in the provisions of the Commercial Company Code, to pay shareholders an interim dividend towards the dividend expected at the end of the financial year.

The Company's executives are not authorized to make any decisions on the issue or redemption of shares.

9.9 Rules for amending the Articles of Association of PKP CARGO S.A.

The rules for amending the Company's Articles of Association are based on Article 430 and Article 402 § 2 of the Commercial Company Code.

Any amendment to the Articles of Association requires a resolution of the Shareholder Meeting. Moreover, the adoption of a resolution on amendments to § 14 Section 6, § 26 Section 3 or 4 or § 27 Section 7 of the Articles of Association requires a resolution of the Shareholder Meeting adopted by a majority of four-fifths of the votes in the presence of shareholders representing three-fourths of the Company's share capital.

Any amendments to the Articles of Association are subject to approval by the Shareholder Meeting and their registration by the appropriate court. Pursuant to § 25 Section 3 Item 11, the Supervisory Board is entitled, after the court's decision on the registration of amendments to the Company's Articles of Association becomes final non-appealable, to adopt the consolidated version of the Company's Articles of Association[63].

An amendment to the Company's Articles of Association which involves a material change in the line of business does not require a buyout of the shares held by the shareholders objecting to such an amendment if the relevant resolution of the Shareholder Meeting in this matter is adopted by a majority of two thirds of the votes in the presence of shareholders representing at least one half of the share capital.

9.10 Manner of operation and key powers of the Shareholder Meeting, description of shareholders' rights and the manner of their exercise

The Company's Shareholder Meeting operates pursuant to the provisions of the Commercial Company Code, the Company's Articles of Association (in particular, §10-§13) and the Bylaws of the Shareholder Meeting. Shareholders are entitled to participate in and exercise their voting rights at the Shareholder Meeting in person or by proxy.

The Shareholder Meeting is valid irrespective of the number of shares represented thereat.

Resolutions of the Shareholder Meeting are adopted by an absolute majority of votes except for resolutions the adoption of which is subject to more stringent requirements provided for by the Commercial Company Code or the Articles of Association. Moreover, the adoption of a resolution on amendments to § 14 Section 6, § 26 Section 3 or 4 or § 27 Section 7 of the Articles of Association requires a resolution of the Shareholder Meeting adopted by a majority of four-fifths of the votes in the presence of shareholders representing three-fourths of the Company's share capital.

Votes at the Shareholder Meeting are cast in an open ballot. A secret ballot is ordered for elections and motions for the dismissal of members of the Company's corporate bodies or the Company's liquidators, or for holding them accountable, or in other personal matters. Moreover, a secret ballot must be ordered at the request of at least one shareholder attending or represented at the Shareholder Meeting.

In accordance with the Bylaws of the Shareholder Meeting, open and secret ballots may be held using means of electronic communication with the consent of the Shareholder Meeting. The Shareholder Meeting may adopt a resolution on waiving the secrecy of voting in matters concerning the selection of a committee appointed by the Shareholder Meeting.

The Shareholder Meeting is presided over by its Chairman who oversees its efficient conduct in accordance with the adopted agenda. The Chairman may make decisions concerning procedural matters. Without the consent of the Shareholder Meeting, the Chairman may not remove or change the order of business entered in the adopted agenda.

The Shareholder Meeting of PKP CARGO S.A. is opened by the Chairman of the Shareholder Meeting appointed by the Management Board. If the President of the Management Board fails to appoint the Chairman of the Shareholder Meeting prior to the designated start time of the meeting, the provisions of Article 409 § 1 of the Commercial Company Code are applied and then the Chairman of the Shareholder Meeting is elected from among the persons entitled to participate in the Shareholder Meeting. The Chairman of the Shareholder Meeting is elected by an absolute majority of votes cast in a secret ballot.

The Extraordinary Shareholder Meeting may be convened by a shareholder whose stake in the total number of votes in the Company is greater than 33%. In such a case, the shareholder convening the Extraordinary Shareholder Meeting appoints the Chairman of the Shareholder Meeting.

The Shareholder Meeting adopts the Bylaws of the PKP CARGO Spółka Akcyjna Shareholder Meeting laying down a detailed procedure of conduct for its meetings. Draft Bylaws of the Shareholder Meeting are presented by the Management Board. It is permitted to participate in the Shareholder Meeting by means of electronic communication, provided that the notice of convocation of the Shareholder Meeting contains information about such a possibility.

[63] On 6 and 27 February 2019, amendments to the Company's Articles of Association adopted by the Extraordinary Shareholder Meeting of PKP CARGO S.A. held on 16 January 2019 were entered in the National Court Register.

9.11 Personnel composition and changes to it during the most recent financial year, description of the activity of PKP CARGO S.A.'s managing, supervising or administering authorities and their committees

MANAGEMENT BOARD

The Management Board of PKP CARGO S.A. with its registered office in Warsaw operates on the basis of the applicable provisions of law, in particular:

1. Act of 15 September 2000 entitled Commercial Company Code (Journal of Laws No. 94 Item 1037, as amended);
2. Act of 8 September 2000 on the Commercialization and Restructuring of the State-Owned Enterprise "Polskie Koleje Państwowe" (Journal of Laws No. 84 Item 948, as amended);
3. Articles of Association of PKP CARGO S.A. (consolidated text adopted by Resolution No. 1682/VI/2017 of the PKP CARGO S.A. Supervisory Board dated 27 June 2017)[64]
4. Bylaws of the PKP CARGO S.A. Management Board adopted by Resolution No. 47/2018 of the PKP CARGO S.A. Management Board dated 7 February 2018 and Resolution No. 1722/VI/2018 of the PKP CARGO S.A. Supervisory Board dated 26 February 2018
5. other internal regulations.

Powers of the Management Board

The Management Board manages the Company's day-to-day business, manages its assets and represents the Company in relations with third parties. The responsibilities of the Management Board include any activities that are not reserved for the Shareholder Meeting or the Supervisory Board. Management Board resolutions are adopted by an absolute majority of votes present at the meeting, provided that at least half of the Management Board members are in attendance. The President of the Management Board acting individually or two Management Board Members acting jointly or a Management Board Member acting jointly with a commercial proxy are authorized to make declarations of will.

Operation of the Management Board

The procedure of the Management Board's operation is described in detail in the Management Board Bylaws. The Bylaws are adopted by the Management Board and approved by the Company's Supervisory Board. According to the Management Board Bylaws, the Management Board makes decisions in the form of resolutions. Management Board resolutions are adopted by an absolute majority of votes, with at least half of the Management Board members attending the meeting; they may only be adopted if all the Management Board Members have been duly notified about the Management Board meeting. According to the Bylaws, if an equal number of votes is cast "for" and "against" together with abstentions, the President of the Management Board will have the casting vote. Management Board meetings are held at least once a week. In particularly justified cases, Management Board meetings may be held on a later date but no later than within 14 days of the date of the preceding meeting.

According to the Management Board Bylaws, in the event of conflicting interests of the Company and personal interests of a Management Board member, his/her spouse, relatives and next of kin (up to the second degree), the Management Board member should provide immediate notification of such a conflict to the remaining Management Board members, and in the case of the President of the Management Board also to the Supervisory Board, and refrain from participating in the discussion and voting on the adoption of a resolution in the matter where the conflict of interests has occurred and may request that this fact be recorded in the minutes of the Management Board meeting.

Diversity policy

In the Company, no formal diversity policy has been prepared with regard to the Company's corporate bodies; nevertheless, the policy carried out by the Company in all the processes, especially recruitment, takes into consideration such diversity aspects as sex, education, age and professional experience, accepting diversity and equal opportunities as significant competitive advantages, which make it possible to win and retain talented employees and benefit from their professional capacity.

The Company applies clear rules for employing Management Board and Supervisory Board members.

The Company's Articles of Association define the rules of appointing the Management Board and electing Management Board members by employees. Pursuant to § 14 Section 10 of the Company's Articles of Association, a Management Board member

[64] On 6 and 27 February 2019, amendments to the Company's Articles of Association adopted by the Extraordinary Shareholder Meeting of PKP CARGO S.A. held on 16 January 2019 were entered in the National Court Register.

is obligated to satisfy the requirements specified in Article 22 of the Act on Rules for Managing State Property (Journal of Laws 2016 Item 2259, as amended).

A recruitment procedure in 2018 for the position of Management Board member was conducted on the basis of the Bylaws for Appointing Management Board Members of PKP CARGO S.A. The Bylaws define in particular the qualifications that will be evaluated when selecting candidates for respective positions in the Management Board. Amendments to the Bylaws for Appointing Management Board Members require consent of all Supervisory Board members who meet the independence criteria and are appointed following the rules set forth in § 20 and 21 of the Articles of Association of PKP CARGO S.A.

The procedure is organized by a professional personnel consultancy company. Each Supervisory Board member may propose a personnel consultancy company to appointed as recruitment consultant. Responsibilities of a recruitment consultant include organization and handling of the recruitment procedure for the position of a Management Board member, in compliance with law and the highest standards following from the professional character of its activity, including in particular preparations, organization and active participation in interviews with candidates to the position of a Management Board member.

Table 38 Composition of the PKP CARGO S.A. Management Board from 1 January 2018 to the date of submission of this report

Name	Position	Period in office	
		from	to
Czesław Warsewicz	President of the Management Board	27 March 2018	to date
Leszek Borowiec	Management Board Member in charge of Finance	27 March 2018	to date
Witold Bawor	Management Board Member in charge of Operations	26 October 2017	to date
Grzegorz Fingas	Management Board Member in charge of Commerce	1 April 2016	to date
Zenon Kozendra	Management Board Member – Employee Representative	14 July 2016	to date
Krzysztof Mamiński	temporary discharge of duties of President of the Management Board	26 October 2017	25 March 2018 (in accordance with Article 383 of the Commercial Company Code)

Source: Proprietary material

On 26 October 2017, the Supervisory Board adopted resolution to second Supervisory Board Member Krzysztof Mamiński to temporarily, i.e. until 26 January 2018, perform the duties of President of the PKP CARGO S.A. Management Board.

On 25 October 2018, the Supervisory Board adopted resolution to second Supervisory Board Member Krzysztof Mamiński to temporarily, i.e. from 27 January 2018 to 26 March 2018, perform the duties of President of the PKP CARGO S.A. Management Board.

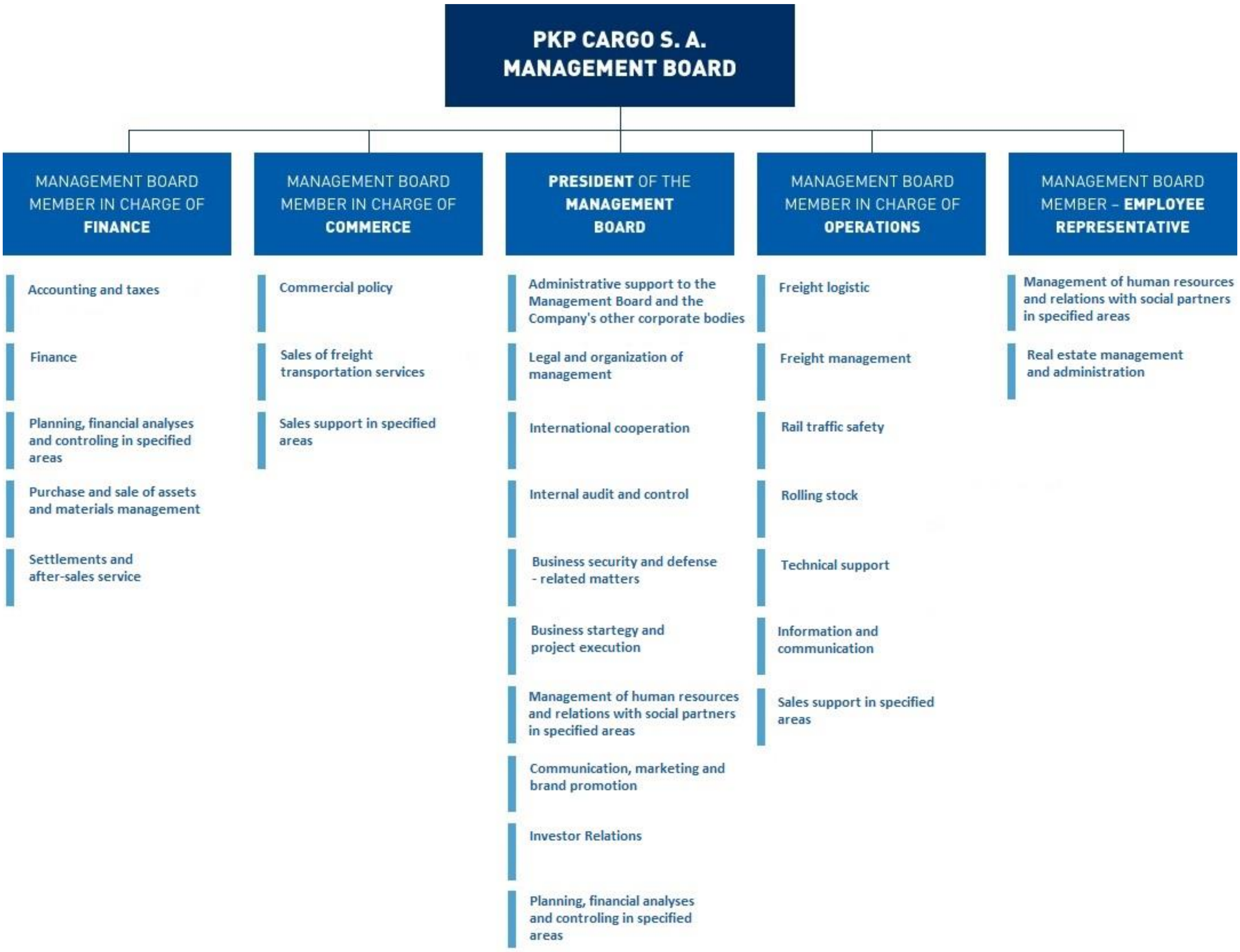
On 23 March 2018, Mr. Krzysztof Mamiński, Chairman of the PKP CARGO S.A. Supervisory Board, tendered his resignation, effective as of 25 March 2019, from discharging the duties of President of the PKP CARGO S.A. Management Board.

On 26 March 2018, the Supervisory Board adopted resolution appointing Leszek Borowiec, as of 27 March 2018, to the position of the PKP CARGO S.A. Management Board Member in charge of Finance for the joint term of office of the Management Board within the meaning of § 27 sec. 5 in conjunction with § 14 sec. 1 of the Articles of Association of PKP CARGO S.A.

On 26 March 2018, the Supervisory Board adopted resolution appointing Czesław Warsewicz, as of 27 March 2018, to the position of President of the PKP CARGO S.A. Management Board for the joint term of office of the Management Board within the meaning of § 27 sec. 5 in conjunction with § 14 sec. 1 of the Articles of Association of PKP CARGO S.A.

The internal allocation of tasks and functions discharged by Management Board members is as follows:

Figure 38 Duties and responsibilities of the Parent Company's Management Board Members as at 31 December 2018.



Source: Proprietary material

Czesław Warsewicz – President of the Management Board

Mr. Czesław Warsewicz is an economist by education. He graduated from the Management and Marketing Faculty of the Warsaw School of Economics (SGH) and subsequently conducted research at the Postgraduate Doctoral Course of the SGH Strategic Management Faculty in the areas of venture capital and private equity.

He participated in the first Polish edition of AMP – Advanced Management Program organized by the IESE Business School in Barcelona. A specialist in transportation and management. From 1994 to 1999, he worked for the private sector, including Raab Karcher Energieservice Sp. z o.o. and EVIP International Sp. z o.o. In 1997, he joined the stock-exchange listed Rolimpex Group where he worked for 9 years, including in the positions of Chief Financial Officer and Management Board Member. In 2006-2009, he served as the President of the PKP Intercity S.A. Management Board. In 2009-2013, he was a Department Director at Patentes TALGO, a leading European manufacturer of rolling stock. Since 2013, he has served as an Executive Director, member of the Board of Directors of Miller Graphics AB. From 2015 to 2018, he was a member of the PKP CARGO S.A. Supervisory Board.

Leszek Borowiec – Management Board Member in charge of Finance

Mr. Leszek Borowiec has a degree of higher education. He graduated from the Częstochowa University of Technology, majoring in corporate finance management, and then completed post-graduate studies in accounting.

He holds a Ph.D. in economics, specializing in finance and accounting, a title he obtained from the Wrocław University of Economics. Moreover, Mr. Leszek Borowiec completed Executive MBA studies at the Institute of Economics of the Polish Academy of Sciences. Since 2001, he has served as an Assistant Professor and Lecturer at the University of Warsaw and the Head of the Accounting Faculty at the University of Finance and Management in Warsaw. From 2001 to 2010, he worked for Zakład Produkcji Cystern LDS Sp. z o.o., where he held the position of Chief Financial Officer, among his other functions. In 2010-2011, he was an Expert at Ernst & Young Business Advisory in the area of management accounting for entities operating in the public and/or regulated sectors. From 2011 to 2013, he served as a Management Board Member and Director for Economic and Financial Matters at Solino S.A., a member of the ORLEN Group. In 2014-2018, he worked for the Poczta Polska Group, where he held the position of Managing Director of the Finance Division and most recently President of the Pocztowe Usługi Finansowe Sp. z o.o. Management Board.

Witold Bawor – Management Board Member in charge of Operations

Mr. Witold Bawor is a graduate of the Częstochowa University of Technology, having majored in electrical engineering.

He has been associated with the railway sector, including the PKP CARGO Group, for many years. In 2006-2012, he was the PKP CARGO Management Board Member in charge of Maintenance. In 2012-2014, he was the Managing Director – Management Board Representative for Maintenance. Since 2015, Mr. Witold Bawor has been a PKP CARGOTABOR Sp. z o.o.

Management Board Member and then the President of the PKP CARGOTABOR Sp. z o.o. Management Board.

Grzegorz Fingas – Management Board Member in charge of Commerce

Mr. Grzegorz Fingas is a manager with many years of experience in building trade strategy and managing sales teams, associated with the PKP CARGO Group since 2008.

From May 2008, he discharged the function of Director of the PKP CARGO S.A. Trade Department and in the period 2010–2013, he was a Member of the Management Board of PKP CARGO International a.s. with its registered office in Bratislava. From the beginning of his professional career in 1988, Mr. Grzegorz Fingas discharged, among others, the following functions: Director of the Marketing Department of BOT Górnictwo i Energetyka S.A. in Łódź (2005-2008) and sub-department manager in the Statistical Office in Katowice (2002-2006). In 2003, Mr. Grzegorz Fingas graduated from MA studies at the Economics and Philology Faculty of the School of Marketing Management and Foreign Languages in Katowice, specializing in Marketing Management and, in 2012, MBA studies at the Gdańsk Foundation for Management Development. In 2010–2014, he discharged the function of Member of the Supervisory Board of Zakład Przewozu i Spedycji "Spedkoks" Sp. z o.o. with its registered office in Dąbrowa Górnicza.

Zenon Kozendra – Management Board Member – Employee Representative

Mr. Zenon Kozendra is a graduate of the Higher School of Public Administration in Kielce. He completed postgraduate studies in the organization of management at the Kozminski Academy. He has been associated with PKP since 1985.

From 2005 to 2008, Zenon Kozendra was the Management Board Member responsible for Employee and Administrative Affairs and from 2008 he was the Management Board's Plenipotentiary responsible for Personnel Strategy. Zenon Kozendra was a member of the PKP CARGO Supervisory Board from 2001 to 2005 and a Management Board Member of the Trade Union of Rail Employers from 2006 to 2008. Moreover, Zenon Kozendra sat on the supervisory boards of the following companies: PKP CARGO SERVICE – as Chairman of the Supervisory Board in 2006-2007, PKP CARGO WAGON Kraków – as Chairman of the Supervisory Board in 2007-2008, PKP CARGO TABOR Karsznice – as Member of the Supervisory Board in 2010-2014, PKP S.A. – as Member of the Supervisory Board in 2014-2016.

SUPERVISORY BOARD

The Supervisory Board consists of 11 to 13 members (including the Supervisory Board Chairperson and Deputy Chairperson) appointed for a joint term of office. The term of office of the Supervisory Board is 3 years. The Supervisory Board is appointed and dismissed by the Shareholder Meeting, subject to the provisions of § 19 Sections 2 and 3 of the Articles of Association of PKP CARGO S.A. The Company's employees are entitled to appoint and dismiss three employee representatives to the Supervisory Board.

Powers of the Supervisory Board

The Supervisory Board exercises permanent supervision over the Company's operations in all areas of its activity. Moreover, its powers, in addition to matters reserved by the Commercial Company Code or other statutes in 2018, included selecting and changing the entity authorized to audit the Company's financial statements and to review the Company's accounting records, granting consent for the payment of an interim dividend by the Management Board towards the anticipated end-of-the-year dividend, appointing and dismissing the President and other Members of the Management Board, setting the number of Management Board Members, granting consent for the establishment or liquidation of the Company's branch, issuing opinions on proposals submitted by the Management Board to the Shareholder Meeting.

Operation of the Supervisory Board

The procedure of the Supervisory Board's operation is described in detail in the Supervisory Board Bylaws adopted by the Supervisory Board. In accordance with the provisions of these Bylaws, the Supervisory Board makes decisions in the form of resolutions. For Supervisory Board resolutions to be valid, all the Supervisory Board members must have been invited and at least half of them must be present, including the Supervisory Board Chairperson. Resolutions of the Supervisory Board are adopted by an absolute majority of votes. If an equal number of votes is cast "for" and "against", the latter including abstentions, the Supervisory Board Chairperson has the casting vote. Supervisory Board resolutions in the matter of suspension of Management Board members or Management Board require the consent of the Supervisory Board Chairperson. Supervisory Board resolutions may also be adopted without holding a meeting, except for resolutions pertaining to the election of the Supervisory Board Chairperson or Deputy Chairperson, the appointment of a Management Board member and the dismissal or suspension of these persons in their duties. The Supervisory Board holds its meetings no less frequently than once every two months.

The Supervisory Board may adopt resolutions by following a written procedure or using means of direct remote communication. The decisions on the written ballot are made by the Supervisory Board Chairperson at his/her own initiative or upon a written motion of the Company's Management Board or Supervisory Board member.

In accordance with the Bylaws of the Supervisory Board, in the event of conflicting interests of the Company and personal interests of a Supervisory Board member, his/her spouse, family or relatives (to the second degree next of kin) and personal relations, the Supervisory Board member should refrain from participating in the discussion and voting on the resolution of such matters and request that this fact be recorded in the minutes of the Supervisory Board meeting.

Diversity policy

PKP S.A. is authorized to appoint and dismiss Supervisory Board Members in a number equal to half the composition of the Supervisory Board. At least one of the Supervisory Board members appointed by PKP S.A. complies with the conditions of independence within the meaning of the Act on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2017, item 1089) and is qualified in accounting or auditing.

The Company's employees are entitled to appoint and dismiss three employee representatives to the Supervisory Board. The rules and regulations for running elections for candidates to become an employee representative in the PKP CARGO S.A. Management Board and to appoint employee representatives to the PKP CARGO S.A. Supervisory Board and the procedure for their removal were adopted by the Supervisory Board with resolution on 30 March 2016. A failure to elect the Supervisory Board members representing the employees does not prevent the Supervisory Board from being appointed or from adopting effective resolutions.

Independent PKP CARGO S.A. Supervisory Board Members satisfy the independence criteria for Supervisory Board Members defined by the European Commission in Annex II to the Commission Recommendation of 15 February 2005 and additional requirements specified in the "Best Practice of GPW Listed Companies 2016".

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

Table 39 Composition of the PKP CARGO S.A. Supervisory Board from 1 January 2018 to the delivery date of this report

Name	Position	Period in office	
		from	to
Krzysztof Mamiński	Supervisory Board Member	6 March 2017	
	Supervisory Board Chairman	20 March 2017	
	(seconded to temporarily perform the duties of President of the Management Board)	26 October 2017	25 March 2018
	Supervisory Board Chairman	26 March 2018	to date
Mirosław Antonowicz	Supervisory Board Member	1 June 2017	
	Supervisory Board Deputy Chairman	27 June 2017	to date
Krzysztof Czarnota	Supervisory Board Member	20 May 2016	to date
Zofia Dzik	Supervisory Board Member	11 May 2016	to date
Raimondo Eggink	Supervisory Board Member	13 April 2015*	to date
Małgorzata Kryszkiewicz	Supervisory Board Member	17 December 2015*	to date
Tadeusz Stachaczyński	Supervisory Board Member	20 May 2016	to date
Władysław Szczepkowski	Supervisory Board Member	14 March 2017	to date
Jerzy Sośnierz	Supervisory Board Member	1 May 2018	to date
Paweł Sosnowski	Supervisory Board Member	7 June 2018	to date
Czesław Warsewicz	Supervisory Board Member	17 December 2015*	26 March 2018

* the 6th term of office of the PKP CARGO S.A. Supervisory Board began on 11 May 2016, the date of holding the Ordinary Shareholder Meeting ("OSM") of PKP CARGO S.A.

Source: Proprietary material

Krzysztof Mamiński – Supervisory Board Chairman

Mr. Krzysztof Mamiński has been associated with railways for over 40 years. He is a graduate of the University of Szczecin, where he obtained the degree of Master of Economics. He also completed post-graduate studies in the field of European Management Model in the Kozminski University in Warsaw.

He started working on the railways in 1980, in the IT Center at the Central Regional Directorate of the State Railways (CDOKP) in Warsaw. From 1990, he was a member of the National Committee of the "Solidarity" Trade Union, discharging, among others, the functions of the head of the National Section of Railway Employees of the "Solidarity" Trade Union and the head of the Office of Transport Employees in the union. In 1998-2002 he sat on the Management Board of Polskie Koleje Państwowe, in charge of restructuring and employee relations. From 2001 to 2012, he was President of the Union of Railway Employers, and from 2002 to 2012, he was President of the Management Board of Natura Tour Sp. z o.o., PKP's subsidiary. From 2012 to 2013 he acted as the PKP S.A. Management Board Representative for Social Dialog in the PKP Group and for the following three years, he was the President of the Management Board of "CS Szkolenie i Doradztwo" Sp. z o.o., a company from the PKP Group. Additionally, in 2006 he served as a member of the Supervisory Board of PKP Linia Hutnicza Szerokotorowa Sp. z o.o., and from 2006 to 2013 he was a member of the Supervisory Board of WARS S.A. From April 2016, he was President of the Management Board of Przewozy Regionalne Sp. z o.o., and from March 2017, President of the Management Board of PKP S.A. From 26 October 2017 to 25 March 2018 he served as President of the PKP CARGO S.A. Management Board.

Mirosław Antonowicz – Supervisory Board Deputy Chairman

Mr. Mirosław Antonowicz has a PhD in economics, specializing in management; he has been associated with the railway sector, including the PKP Group, for many years. Among others, he was a member of the PKP CARGO S.A. Management Board. He also sat on the supervisory boards of several railway companies. From 2006 to 2010, he was the Vice-President of the Office of Rail Transport responsible for market regulation. He is also an academic staff member of the Kozminski University. He was also a Presidium member and expert of the Transport Process and Logistics Team of the Committee on Transport of the Polish Academy of Sciences. He has also completed many post-graduate courses, including Management of Transport Companies at the Warsaw University of Technology and the Post-Graduate Course of European Financial, Economic and Legal Relations at the Warsaw School of Economics. He is an author of numerous publications and papers on management, transport and logistics.

Krzysztof Czarnota – Supervisory Board Member

Mr. Krzysztof Czarnota completed the Railway Technical School in Skarżysko-Kamienna as a Transportation Technician. Since 1977, he has worked for PKP, including in the Locomotive Depot in Skarżysko-Kamienna, in the Unclassified Station in Skarżysko, in the District Station in Skarżysko, in the Freight Transport Unit in Skarżysko and currently in the Company's Eastern Unit in Lublin as a dispatcher in charge of the shift.

Since 1992, Mr. Krzysztof Czarnota has served as Chairman of the Independent Trade Union of Railway Workers of PKP Cargo S.A. in Skarżysko-Kamienna. Since the establishment of the Freight and Transshipment Industry Board at the Federation of Trade Unions of Railway Workers, he had served as its Chairman and currently is Vice Chairman of the Cargo Industry Board at the Federation of Trade Unions of Railway Workers. He is a member of the Bureau, the Board and the National Council of the Federation of Trade Unions of Railway Workers.

From the incorporation of the Company, i.e. from 2001 until 29 September 2015, he was a member of the PKP Cargo S.A. Supervisory Board and a representative of all employees of PKP Cargo S.A. as a delegate of the Federation of Trade Unions of Railway Workers.

Zofia Dzik – Supervisory Board Member – independent member

Ms. Zofia Dzik is a graduate of the Kraków University of Economics, University of Illinois in Chicago, University of Social Sciences and Humanities in Warsaw and of the Executive Programs at INSEAD Business School. She holds an MBA title from Manchester Business School and is a certified member of the Association for Project Management (APMP) and a certified member of The John Maxwell Team, a top international organization associating eminent leadership coaches, trainers and speakers.

In the years 1995-2003, she worked for Andersen Business Consulting as a consultant responsible for the insurance sector (Insurance Division Director). From 2003 she was associated with Intouch Insurance Group (RSA Group), where in the years 2004–2007 she performed the function of the President of Towarzystwo Ubezpieczeń LINK4 S.A., whereas in the years 2007–2009 a function of a management board member of Intouch Insurance B.V. in the Netherlands and the CEO for East-Central Europe of Intouch Insurance Group. In that capacity, she was responsible for developing new markets; she was also the chairwoman of the supervisory boards of: TU Link4 S.A. and Direct Insurance Shared Services Center in Poland, Intouch Strachowanie in Russia (a start-up) and Direct Pojistovna in the Czech Republic (a start-up), as well as the deputy chairwoman of the supervisory board of TU na Życie Link4 Life S.A.

In 2006-2008, she served as a management board member of the Polish Insurance Association. In the years 2007–2010 a supervisory board member of the Insurance Guarantee Fund. She also sat on the supervisory boards of: KOPEX S.A. and Polish Energy Partners S.A (PEP S.A.)

Currently, she is the President of the Humanites – Art of Upbringing Foundation, which has the goal of supporting social transformation in Poland and qualitative growth of the young generation, mentor, author of the "Consistent Leadership" model, an 8-stage growth program for leaders building engaging organizations, director of the Academy for Leaders in Education as well as member of the supervisory boards of BRW S.A., ERBUD S.A., Benefit Systems S.A. and other companies, and in the past she also sat on the supervisory boards of PKO BP S.A., AmRest SE and PEP S.A., among others.

Raimondo Eggink – Supervisory Board Member – independent member

Since 2002, Mr. Raimondo Eggink has been running an independent business as a consultant and trainer for entities operating in the financial market. At the same time, he has been a member of the Supervisory Boards of the following public and private companies: Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. (since 2009), AmRest Holding SE (since 2010), PERŁA – Browary Lubelskie S.A. (2004-2005 and since 2008), Prime Car Management (since 2015), PKP Cargo S.A. (since 2015), Górnośląskie Przedsiębiorstwo Wodociągów S.A. (since 2015) and Suwary S.A. (since 2015).

Prior to that, he was a member of the Supervisory Boards in the following companies: Stomil-Olsztyn S.A. (2002-2003), Giełda Papierów Wartościowych w Warszawie S.A. (2002-2008), Wilbo S.A. (2003-2005), Mostostal Płock S.A. (2003-2006), Swarzędz Meble S.A. (2004-2005), PKN Orlen S.A. (2004-2008), KOFOLA S.A. (2004-2012, previously HOOP S.A.), Zachodni Fundusz Inwestycyjny NFI S.A. (2006), Firma Oponiarska Dębica S.A. (2008-2012), Netia S.A. (2006-2014) and Lubelski Węgiel "Bogdanka" S.A. (2012-2015).

Earlier, he served as Management Board Member, Investment Director, President of the Management Board and, most recently, liquidator of ABN AMRO Asset Management (Polska) S.A., a firm managing the assets of Polish institutional investors and high-net-worth individuals which terminated its business in 2001. He began his professional career in 1995 in the Warsaw branch of ING Bank N.V. where he played a major role in the establishment of Poland's first asset management firm. In 1995-1997, he served as Vice-President of the Council of Brokers and Advisers, and in 2004-2013, he was a member of the Management Board of the CFA Society of Poland. He is the author of a number of articles on the development of the Polish capital market, especially on the protection of minority shareholders.

Mr. Eggink is a graduate of the Jagiellonian University majoring in theoretical mathematics where in 2010 he obtained his Ph.D. degree. He also holds an investment advisor's license and is a CFA (Chartered Financial Analyst) Charterholder.

Małgorzata Kryszkiewicz – Supervisory Board Member

Ms. Małgorzata Kryszkiewicz is a graduate of the Finance and Banking Faculty of the Warsaw School of Economics (SGH). She started her professional career in 1995. In subsequent years, she worked in various positions associated with accounting, tax and financial management. From 2002 to 2014, she headed the Accounting Department and the Finance and Accounting Department at PKP S.A. Currently, she runs a statutory auditor's office providing financial audit, advisory and consulting services. Statutory auditor since 2009.

Tadeusz Stachaczyński – Supervisory Board Member

In 1980, Mr. Tadeusz Stachaczyński completed a Railway Technical School specializing in the operation and repair of traction vehicles. In 2010, he graduated in engineering from the Subcarpathian School of Higher Education in Jasło, majoring in transportation and freight forwarding. In 2011 completed postgraduate studies in marketing and market research.

Since 1974, Mr. Tadeusz Stachaczyński has been employed by PKP CARGO S.A.'s Southern Unit (formerly, PKP's Locomotive Depot in Jasło). In 1995-2014, Mr. Stachaczyński was a councilor of the Town Council of Jasło where he served in the budget, development and audit committees.

Since 2009, he has served as Chairman of the Company Council of the Trade Union of Train Drivers at PKP CARGO S.A.'s Southern Division, and since 2013 has been Chairman of the Freight Sector of the Trade Union of Train Drivers.

Mr. Tadeusz Stachaczyński was a member of the Supervisory Board of PKP CARGO S.A. Centrum Logistyczne Medyka-Żurawica Sp. z o.o. in 2011-2013.

Władysław Szczepkowski - Supervisory Board Member

Mr. Władysław Szczepkowski graduated in law from the Faculty of Law and Administration in the Department of Theory of the State and Law of the Nicolaus Copernicus University in Toruń in 1992. From 1992 to 2005, he pursued his career in banking where he was involved in financial analysis and corporate restructuring projects; he also worked for legal departments. From 2005 to 2007, he was the President of the PKP CARGO S.A. Management Board. From 2010 to 2016, he worked for companies of the PGNiG Group. From September 2016 to March 2017, he was employed by Przewozy Regionalne sp. z o.o. Since the beginning of March 2017, he has been working for PKP S.A. as the Director – PKP S.A. Management Board Representative for the Strategy and Organization of the PKP Group. Since 2000, he has been entered in the list of legal counsels.

Jerzy Sośnierz

In 1978 Mr. Jerzy Sośnierz graduated from the Technical School of Metallurgy in Dąbrowa Górnicza in the field of mining machinery construction. He took a train traffic controller course in 1979. In 2010 he received a master's degree from the Administration and Management Faculty of the Humanitas University in Sosnowiec, majoring in public administration.

Mr. Sośnierz has 40 years of experience in the railway industry. His professional career began in 1978 when he became a train traffic controller in Bukowno, later becoming a dispatcher in Jaworzno-Szczakowa and after the restructuring of PKP CARGO S.A. he became a shift dispatcher in Katowice. He co-founded the Bukowno Chapter of the NSZZ Solidarność trade union. He has been connected to NSZZ Solidarność ever since, acting as the Chairman of the Union at the PKP Cargo S.A. South Unit. During his term in office, he was member of the Executive Committee of the Trade Section in PKP CARGO S.A., member of the Council of the Trade Section in PKP CARGO S.A., member of the National Council of the Railwaymen Section and a Delegate for the General Meeting of the Transport Secretariate.

Paweł Sosnowski

Mr. Paweł Sosnowski graduated from the Faculty of Law and Administration at the University of Warsaw and from the Faculty of Canon Law at the Warsaw Theological Academy. He obtained a Ph.D. degree in administrative law from the Catholic University of Lublin. He is also a licensed legal counsel and a member of the Regional Chamber of Legal Counsels in Warsaw.

In 1992-2006, Mr. Paweł Sosnowski was associated with Totalizator Sportowy Sp. z o.o., and in 1998-2002 he rendered his services to the State Fund for the Rehabilitation of the Disabled. In parallel, he also lectured at the Faculty of Administration and Social Sciences of the Warsaw University of Technology and cooperated with the Department of Administrative Law and Local Self-Government at the Cardinal Stefan Wyszyński University in Warsaw. In 2003-2007, he served as Deputy Mayor of the Wawer District of Warsaw and Chief Specialist in the Legal Department of the Warsaw City Hall. In 2007, he also served as Deputy County Construction Supervision Inspector in the County Construction Supervision Inspectorate for the Capital City of Warsaw. Since 2007, he has worked for the General Counsel to the Republic of Poland.

Mr. Paweł Sosnowski was a member of the Supervisory Board of LIGIA Sp. z o.o. (2000-2002), Chairman of the Supervisory Board of Towarzystwo Budownictwa Społecznego "WOLA" Sp. z o.o. (2003-2006) and a member and secretary of the Supervisory Board of PKP S.A. (2017-2018).

SUPERVISORY BOARD'S AUDIT COMMITTEE

The PKP CARGO S.A. Supervisory Board's Audit Committee is appointed by the PKP CARGO S.A. Supervisory Board. It consists of at least three Supervisory Board members, provided that the majority of the Committee members, including its Chairperson, meet the independence criteria and are appointed in the manner specified in § 20 and § 21 of the Company's Articles of Association and in the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (Journal of Laws of 2017 Item 1089). At least one member of the Audit Committee has qualifications in the area of accounting or audit of financial statements and at least one member of the Audit Committee must have knowledge and skills in the specific industry in which the Company operates. Committee members are appointed for a term corresponding to the Supervisory Board's term of office. Tasks of the Audit Committee include in particular: oversight of the organizational unit responsible for internal audit, monitoring the financial reporting process, monitoring the performance of internal control systems, risk management and internal audit systems, including the area of financial reporting, monitoring financial review activities, monitoring the independence of the statutory auditor and the entity authorized to audit financial statements, also when it provides to the Company other services than financial review, assessing the independence of a statutory auditor and giving consent for it to provide permitted auditing services, recommending an entity authorized to audit financial statements to the Supervisory Board to perform financial review activities for the Company, in compliance with the policies in force in the Company.

Table 40 Composition of the Audit Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2018 to the delivery date of this report

Name	Position	Period in office	
		from	to
Raimondo Eggink	Committee Member	30 April 2015	11 May 2016*
	Committee Chairman	18 December 2015	11 May 2016*
	Committee Member	20 May 2016	
	Committee Chairman	31 May 2016	to date
Małgorzata Kryszkiewicz	Committee Member	18 December 2015	11 May 2016*
		20 May 2016	to date
Zofia Dzik	Committee Member	20 May 2016	to date

* expiration date of the 5th term of office of the PKP CARGO S.A. Supervisory Board

Source: Proprietary material

In 2018, the Audit Committee held 10 meetings.

The Audit Committee members who satisfy the statutory independence criteria are:

1. Ms. Zofia Dzik,
2. Mr. Raimondo Eggink.

As required by the provisions of the Act on Statutory Auditors, Audit Firms and Public Oversight of 11 May 2017 (Journal of Laws of 2017, Item 1089), in June 2017 the independent members of the Audit Committee signed in August 2017 and signed again in March 2019 the appropriate statements confirming their fulfillment of the criteria listed in Article 129 Section 3 of the said Act.

The Audit Committee members who have the knowledge and skills in the area of accounting or auditing of financial statements are:

- Ms. Zofia Dzik: 9 years of experience in a Big Four firm providing audit services and financial and business consulting services in 1995-2004. Senior Manager and Director in a business and financial consulting department, MBA, Manchester Business School, member, vice president and chairman of audit committees (since 2011);
- Mr. Raimondo Eggink: investment advisor's license (1995), CFA certificate (2000), has discharged the function of a member and chairman of a number of audit committees in SPVs (since 2004).
- Ms. Małgorzata Kryszkiewicz: Postgraduate studies "IFRS in practice" at the Warsaw School of Economics in a joint program with the EY Academy of Business (2017), Postgraduate MBA studies – Gdańsk Manager Training Foundation and the University of Gdańsk, program validated by the IAE Aix-en-Provence Graduate School of Management (2009), Postgraduate studies in Corporate Accounting at the Academy of Engineering and Health in Warsaw and the AGH University of Science and Technology in Kraków (2005), Postgraduate studies in Finance and Corporate Taxation at the Warsaw School of Economics (2002), Master's degree in Finance and Banking from the Warsaw School of Economics (1996), statutory auditor (2009), accounting certificate issued by the Ministry of Finance (2006).

A member of the Audit Committee who has the knowledge and skills in the specific industry in which PKP CARGO operates is:

- Ms. Małgorzata Kryszkiewicz: 18 years of professional experience (employment) in rail sector companies, including 13 years in managerial positions, since 2001 discharging the function of a member and chairwoman of supervisory boards in rail companies (repair, power supply, transshipment), and since 2012 a member and chairwoman of audit committees

The PKP CARGO S.A. Supervisory Board's Audit Committee, having assessed the risks and safeguards of independence of the audit firm BDO sp. z o.o. sp.k. with its registered office in Warsaw, adopted Resolution No. 7/2018 of 10 August 2018 expressing the consent for BDO sp. z o.o. sp.k. with its registered office in Warsaw to provide services other than audit services.

In compliance with the provisions of the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight, the Company's Supervisory Board Audit Committee, by Resolution No. 6/2019 of 19 October 2017, established the policy and procedure for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group as well as the policy for the provision of additional services by PKP CARGO S.A.'s audit firm, its related parties or members of its network.

The policy for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group assumes that:

1. Pursuant to the Articles of Association of PKP CARGO S.A., the selection of an audit firm was made by the PKP CARGO S.A. Supervisory Board. As a result of amendments to the Company's Articles of Association (on 6 and 27 February 2019, changes to the Company's Articles of Association adopted by the Extraordinary General Meeting of PKP CARGO S.A., which took place on January 16, 2019), the election will be made by the General Meeting of PKP CARGO S.A. The selection is made on the basis of a recommendation submitted by the Audit Committee, which contains:
   - at least two options for the selection of an audit firm along with a justification and indication of the candidate for the auditor preferred by the Audit Committee;
   - statement by the Audit Committee that its recommendation is devoid of any third party influence;
   - statement by the Audit Committee confirming that PKP CARGO S.A. has not entered into any agreements containing clauses that would confine selection of an audit firm to certain categories or lists of audit firms.
2. When selecting an audit firm, the Supervisory Board and the Audit Committee are required to pay special attention to:
   - the need to maintain the independence and objectivity of the audit firm and the auditor – the scope of services provided during the most recent financial years by the audit company itself as well as by its related parties and network members to the Company or its parent company or entities controlled by PKP CARGO S.A. is a matter of detailed analysis;
   - experience in auditing standalone and consolidated financial statements of public interest entities of a similar size to that of the Company and the PKP CARGO Group and listed on the Warsaw Stock Exchange;
   - experience in auditing companies with a similar business profile to that of the Company;
   - professional qualifications and experience of persons directly involved in the conduct of the audit/review of the Company and selected subsidiaries of PKP CARGO S.A.;
   - the ability to provide the required range of services within the specified period, including the ability to ensure the stability of the team;
   - the availability of qualified specialists in of specific issues related to financial statements, such as tax analysis, hedge accounting, measurement of derivatives, IT systems;
   - costs of the audit.
3. The selection of an audit firm must be made sufficiently in advance to enable the execution of the audit contract early enough to enable the audit firm to prepare for the interim review.
4. Verification and monitoring of the independence of the statutory auditor and the audit firm are performed at every stage of the procedure to select an audit firm to audit and review the said financial statements.
5. The selection of an audit firm is made in consideration of the principle of rotation of audit firms and key statutory auditors in such a manner that the maximum duration of uninterrupted statutory audits for individual financial years carried out by the same audit firm or by a company related to this audit firm or any member of the network operating in European Union Member States which includes these audit firms does not exceed five years and the key statutory auditor does not perform any statutory audits in the Company for more than five years. The same key statutory auditor may be selected no earlier than three years after the completion of the most recent statutory audit.
6. The first contract for a statutory audit is entered into with an audit firm for a period not shorter than two years with an option to extend the contract by subsequent periods of at least two years, in consideration of the rules of rotation of audit firms and key statutory auditors in compliance with the applicable laws.

7. The audit firm selection process is conducted in accordance with the adopted "Procedure for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the Group".

The procedure for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group assumes that:

1. The selection procedure is initiated by the Audit Committee which lays down detailed guidelines regarding the requirements to be satisfied by the audit firm responsible for conducting audits of standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group as well as the selection criteria. The technical organization of the audit firm selection process is the responsibility of the person appointed by the Audit Committee (Coordinator) in consultation with the PKP CARGO S.A. Management Board Member in charge of Finance.
2. The Coordinator, with the support of the Procurement Department of PKP CARGO S.A., prepares a request for proposals which is sent to at least six selected audit firms. When selecting audit firms, consideration is given to guidelines related to such issues as, for instance, the rotation of statutory auditors, their independence, etc., as described in the "Policy for the selection of an audit firm to audit standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group".
3. The request for proposals to be sent to audit firms in compliance with Article 130 Section 3 Item 2a of the Act should contain at least the following information:

- presentation of the business of PKP CARGO S.A. and its subsidiaries, the organizational structure of the Company and the PKP CARGO Group, locations of business;
- list of entities and the scope of their financial statements subject to audit and review, period covered by the request for proposals, additional services (if any) (taking into consideration the requirements of the Policy for the provision of additional services by PKP CARGO S.A.'s audit firm, its related parties or members of its network).
- selection criteria applied by the Company in the evaluation of proposals submitted by audit firms.

4. The Company evaluates the proposals submitted by audit firms and submits a report containing conclusions from the selection procedure, which are then subject to approval by the Audit Committee.
5. Taking into consideration the conclusions of the annual report of the Audit Oversight Commission referred to in Article 90 Section 5 of the Act, the analysis of proposals submitted by audit forms and the financial statements, the Audit Committee prepares a recommendation for the Supervisory Board in accordance with the provisions of the Policy.
6. Pursuant to the Articles of Association of PKP CARGO S.A., the selection of an audit firm was made by the Supervisory Board. If the Supervisory Board's decision on the selection of an audit firm deviates from the recommendation issued by the Audit Committee, the Supervisory Board was required to present a justification for making a selection different than that recommended by the Audit Committee.
7. Based on the resolution adopted by the Supervisory Board, the Company signed an audit contract with the selected audit firm[65].
8. After the adoption of a resolution on the selection of an audit firm, the Management Board is required to communicate, in the form of a current report, information about the selection made, in compliance with the applicable laws.

The Audit Committee has adopted the following rules governing the provision of additional services by audit firms, including their related parties or members of their network responsible for auditing standalone financial statements of the Company and consolidated financial statements of the PKP CARGO Group:

1. Besides the audit/review of the financial statements, the audit firm may provide the following services to the Company or PKP CARGO S.A.'s controlled entities:

- conducting due diligence procedures regarding the economic and financial standing and preparation of comfort letters in connection with the issue prospectus, carried out in accordance with the national standard of related services (agreed procedures);
- assurance services regarding pro forma financial information, result forecasts or estimates given in the issue prospectus;
- audits of historical financial information, referred to in the Commission Regulation (EC) No 809/2004 of 29 April 2004;
- verification of consolidation packages;
- confirmation of the fulfillment of the terms of loan agreements based on an analysis of the financial information provided in the financial statements;

[65] As a result of amendments to the Company's Articles of Association (on 6 and 27 February 2019, changes to the Company's Articles of Association adopted by the Extraordinary General Meeting of PKP CARGO S.A., which took place on January 16, 2019), the election will be made by the General Meeting of PKP CARGO S.A.

- assurance services regarding corporate governance, risk management and corporate social responsibility reporting;
- auditor's opinion on financial statements or other financial information addressed to supervisory authorities, the supervisory board or another supervisory body of the Company or the shareholders, not covered by the scope of the statutory audit, and intended to support those bodies in the performance of their statutory duties.

2. Provision of the services referred to in point 1 is possible only within a scope not related to the tax policy of the Company, its parent entity or subsidiaries, after the Audit Committee of the Supervisory Board has assessed the threats and warranties regarding the independence of the audit firm.
3. Conclusion of an agreement for the provision of additional services referred to in point 1 by the audit firm requires every time a consent of the Audit Committee, both in the case of the Company, as well as PKP CARGO S.A.'s controlled entities.
4. The Company presents to the Audit Committee of the Supervisory Board, at least annually, a list of all additional services provided by the audit firm to PKP CARGO S.A., its parent entity and the entities controlled by the Company.

THE NOMINATION COMMITTEE

The PKP CARGO S.A. Supervisory Board appoints a Nomination Committee. It consists of three Supervisory Board members, of whom at least one Supervisory Board Member must satisfy the independence criteria and be appointed in the manner provided for in § 20 and 21 of the Company's Articles of Association, to discharge the function of the Committee Chairman. The Committee members are appointed for a term corresponding to the Supervisory Board's term of office. The Nomination Committee organizes and exercises ongoing oversight over the recruitment procedure for the positions of the Company's Management Board members and over the process of assessment and appointment of the Company's Management Board members, and supports the attainment of the Company's strategic objectives by presenting opinions and findings to the Supervisory Board pertaining to the employment structure and remuneration for the Company's employees, including in particular the Company's Management Board Members and high-ranking management.

Table 41 Composition of the Nomination Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2018 to the submission date of this report

Name	Position	Period in office	
		from	to
Zofia Dzik	Chairperson	20 May 2016	to date
Mirosław Antonowicz	Member	27 June 2017	to date
Władysław Szczepkowski	Member	27 November 2017	to date

* expiration date of the 5th term of office of the PKP CARGO S.A. Supervisory Board

Source: Proprietary material

THE STRATEGY COMMITTEE

The Strategy Committee is appointed by the PKP CARGO S.A. Supervisory Board. It consists of at least three Supervisory Board members, of whom at least one Supervisory Board Member must satisfy the independence criteria and be appointed in the manner provided for in § 20 and § 21 of the Company's Articles of Association. The Committee members are appointed for a term corresponding to the Supervisory Board's term of office. The Strategic Committee supports the Supervisory Board in overseeing the development of the strategy, as well as the appropriate implementation of the strategy and annual and long-term activity plans for the Company and the Group.

Table 42 Composition of the Strategic Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2018 to the submission date of this report

Name	Position	Period in office	
		from	to
Mirosław Antonowicz	Member	27 June 2017	to date
	Chairperson	28 May 2018	to date
Raimondo Eggink	Member	23 June 2016	to date
Władysław Szczepkowski	Member	23 April 2018	to date
Czesław Warsewicz	Chairperson	23 June 2016	26 March 2018

Source: Proprietary material

10. Representation of the PKP CARGO Group and PKP CARGO S.A. on non-financial information

From Zenon Kozendra, Member of the Management Board, Employee Representative

- ambassador of the socially responsible business (CSR) in PKP CARGO S.A.

The Corporate Social responsibility is more than just following the company management standards. It stands primarily for long-term development of a multi-dimensional, positive history of the company, with its clients, shareholders, employees and local communities.

2018 marked 10 years since PKP CARGO S.A. has been developing initiatives in the area of corporate social responsibility (CRS). Sustainable development and accountability are constant elements supporting state-of-the-art management of the Company. As a socially responsible company, PKP CARGO manages the transportation process with respect for the highest standards of sustainable development in the economic, social and environmental aspect. In this way, the Company combines professional implementation of business objectives with a responsible attitude towards employees, business partners and the natural environment.

For many years now, CRS initiatives support pro-social attitudes on the part of employees, promote a healthy and active lifestyle, enhance partnership in the social dialog with the Social Partners, build a culture of safe workplace, support diversity and raise environmental awareness.

Responsible approach to the Company's processes is not just a requirement of international business standards. It is primarily about integrating employees around important initiatives and development of the spirit of cooperation in the organization. All actions of that type generate positive impact on the external environment, building a good image of the Company in the eyes of investors, business partners and clients. CSR is one of the pillars of effective and modern development of today's enterprises.

Together, employees of PKP CARGO Group develop an environment conducive to creating the best possible spirit in the workplace, based on the following ethical values:

Respect

Reliability

Cooperation

Good management

Safety

Professionalism

Modernity

Transparency

Responsibility

10.1 Representation of the PKP CARGO Group

The Representation of the PKP CARGO Group[66] on non-financial information for 2018 (hereinafter: the Representation), constitutes a stand-alone part of the Report on the PKP CARGO Group Activities (hereinafter: the Group, PKP CARGO Group) and presents non-financial information about the Group for the period from 1 January 2018 to 31 December 2018. The Representation is based on the guidelines recommended by the IIRC (International Integrated Reporting Council), the GRI guidelines (Global Reporting Initiative) and reflects the provisions of the Accounting Act of 29 September 1994.

The Representation presents non-financial data which has been prepared as a result of a dialog conducted with the Group stakeholders and is material for the Group itself, showing mutual relationships and correlations between financial and non-financial aspects of its activity.

In its non-financial reporting, the PKP CARGO Group addresses the following issues:

For the PKP CARGO Group, non-financial reporting is an opportunity to present to its stakeholders a broader picture of how the company value is created. Although difficult to estimate and measure, over longer term the non-financial data translates into financial and operational performance. The Group's objectives and qualitative changes resulting from the Company's sustainable development activities are presented below.

- We care about the environment -> better quality and efficiency, more environmentally friendly operations
- We care about employees -> professional human resources, committed employees
- We care about society -> support for culture and tradition, better brand recognition
- We care about respect for human rights -> reliable and recommendable employer
- We care about prevention of corruption and bribery -> trustworthy, ethical employer, safe workplace

In 2018, the PKP CARGO Group was recognized for its operations and achievements in sustainable development. It is reflected in the many prizes awarded to the PKP CARGO Group, including:

Leader of Intermodal Transport

PKP CARGO S.A. and PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o. were awarded the "Leader of Intermodal Transport" award in the categories "Rail Operator" and "Land Container Terminal", respectively.

[66] The data included in the disclosures also cover the subsidiaries PKP CARGO CONNECT and AWT

The Transparent Company of the Year

The "Transparent Company of the Year" is a ranking compiled by the Investor and Stock Market Magazine "Parkiet", together with the Institute of Accounting and Taxes. The purpose of the ranking is to find the most transparent companies from among the companies of the three main stock market indexes (WIG20, mWIG40 and sWIG50), based on a questionnaire survey covering such areas as: financial statement and reporting, investor relations and corporate governance.

Business Gazelles

In 2018, PKP CARGO SERVICE was recognized with the prestigious award and joined the ranking of the Business Gazelles, i.e. the ranking of the most dynamically developing Polish small and medium enterprises.

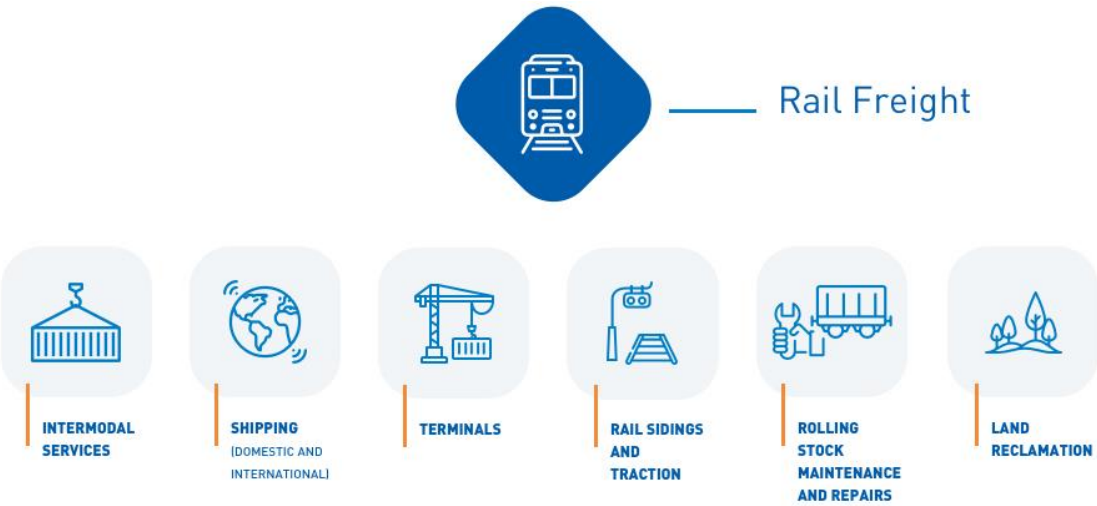
Reliable Company 2018

PKP CARGO SERVICE Sp. z o.o. was awarded the "RELIABLE COMPANY" certificate, which attests to the reliability and credibility of the enterprise.

To join this group of honored companies, such requirements must be met as: promotion of pro-environmental and pro-social activities, abiding by the rules of fair competition, and timely settlements with counterparties and employees.

10.1.1 Description of the business model

The PKP CARGO Group is Poland's largest rail operator and the EU's leading operator. It owns the biggest fleet of rolling stock in Poland.



The Group's activity covers a wide range of services connected with rail freight transport. The Group's revenue from rail transportation and freight forwarding services makes up 84 % of the Group's total operating revenue. The services provided by the Group allow it to participate in the entire logistic value chain, including railway shipping, siding services, freight transport, transshipment and storage services and using the Group's terminals. The above services offer a natural competitive advantage in terms of customer acquisition and service.

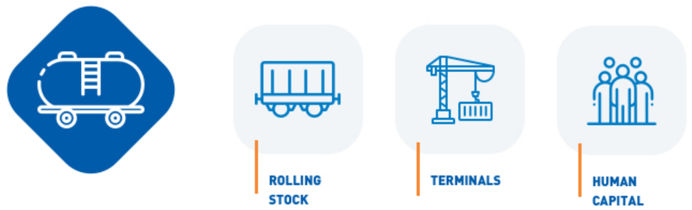
Intermodal services is the fastest developing area of the PKP CARGO Group's activities. The revenue generated by these services is expected to grow.

PKP CARGO Group employs competent employees with extensive experience, who ensure the highest quality of services and form the foundation of the Group's operations. As at 31 December 2018, the Group employed over 23 thousand employees.

The Group's operations are based on relations with key suppliers, in particular contracts for access to rail infrastructure, traction power supply, property leasing, diesel fuel sales and rolling stock repair and modernization.

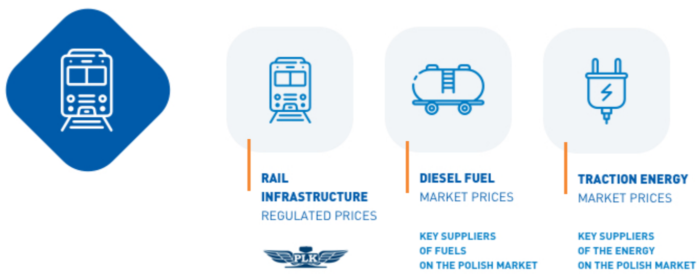
Business model

Resources



The PKP CARGO Group holds necessary resources to provide cargo rail transport services and ancillary services complementing its comprehensive transport offer. The Group expends all efforts to achieve, and invests in the improvement of, the quality of its services.

Key Suppliers



The key suppliers of the PKP CARGO Group are responsible for the rail infrastructure, fuels and electricity. PKP PLK is responsible for the condition of the rail infrastructure used by the Group's rolling stock. The locomotives used by the Group are powered by diesel fuel and traction power. Electricity is delivered by PKP ENERGETYKA. All the factors listed above have an impact on the costs of the PKP CARGO Group's services.

Clients

The Group's key customers include steel mills, coking plants, power plants, mines, steel works and shipping companies. The PKP CARGO Group collaborates with the largest Polish and global groups, including the ArcelorMittal Group, the PKN Orlen Group, PGNiG, the Lafarge Group, the Azoty Group, Jastrzębska Spółka Węglowa, Węglokoks, the Enea Group, the PGE Group, the Tauron Group, Polska Grupa Górnicza and International Paper. The contracts with these business partners are regularly renewed, which confirms the high quality of the transport services provided by the PKP CARGO Group.

10.1.2 Key non-financial performance indicators of the PKP CARGO Group operation

NATURAL ENVIRONMENT
Key environmental indicators

Table 43 Electricity Consumption by the Group in 2016-2018

Electricity	Energy consumed [MWh]		
	2018	2017	2016
Traction	703,493	645,438	631,019
Non-traction	45,193	44,512	44,627

Source: Proprietary material

Table 44 Air emissions by the Group in 2016-2018

Substance emission	Total emissions [t]		
	2018	2017	2016
Sulfur dioxide	4,369	1,159	1,151
Nitrogen dioxide	9,040	3,418	3,172
Carbon oxide	657	758	807
Carbon dioxide	624,717	527,792	518,347
Benzo[a]pyrene	2	0	0
Dust and soot	447	262	259
Total hydrocarbons	467	455	356
Other	46	35	16

Source: Proprietary material

The largest substance emission generated by the PKP CARGO Group is the indirect emission generated as a result of electricity consumption in locomotives, accounting for over 90% of the entire energy purchased by the Group. The emission indicators for generated electricity increased significantly in comparison to 2016, which translates into a significant increase in the reported substance emissions.

Table 45 Primary waste produced by the Group, by type and volume, in 2016-2018

Waste	Waste Code	Waste volume [t] in 2018		Waste volume [t] in 2017		Waste volume [t] in 2016	
		inventory at the end of					
		Preceding period	Reporting period	Preceding period	Reporting period	Preceding period	Reporting period
Sawdust, shavings, cuttings, wood, chipboard and veneer, other	03 01 05	3.9	441.0	1.4	3.9	6.6	1.4
Slag, bottom ash and boiler dust (excluding boiler dust listed in 100104)	10 01 01	195.3	91.6	364.7	195.3	318.8	364.7
Wastes from turning and sawing of ferrous metals and their alloys	12 01 01	115.8	56.9	133.4	115.8	204.1	133.4
Waste grinding materials containing hazardous substances	12 01 20*	13.3	22.3	13.6	13.3	113.2	13.6
Mineral engine and transmission oils	13 02 05*	8.1	15.2	27.4	8.1	32.3	27.4
Other engine, transmission and lubricating oils (lubricants)	13 02 08*	26.8	11.1	28.2	24.8	32.9	28.2
Worn-out clothes and cleaning cloth	15 02 02*	13.0	25.1	24.1	13.0	14.8	24.1
Worn-out or unusable vehicles, not containing liquids or other hazardous elements	16 01 06	0.0	0.0	5,184.9	0.0	6,896.1	5,184.9
Ferrous metals (scrap)	16 01 17	4,244.7	3,652.8	3,194.6	4,244.7	5,521.9	3,194.6
Non-ferrous metals	16 01 18	15.8	48.9	16.8	15.8	140.3	16.8
Other waste, not listed elsewhere	16 01 99	127.9	119.2	117.7	127.9	34.2	117.7
Worn-out devices, other than those listed in 16 02 09 to 16 02 13	16 02 14	10.3	27.0	4.0	10.3	8.1	4.0
Lead batteries	16 06 01*	8.8	11.6	19.9	8.8	4.4	19.9
Iron and steel	17 04 05	16.0	10.2	21.7	16.0	52.5	21.7
Wood	19 12 07	23.4	68.0	13.4	23.4	39.3	13.4
Other wastes		53.3	590.5	168.8	55.5	100.9	168.8

Source: Proprietary material

The list presents waste, the inventory of which at the end of the period was at least 10 tons. The categories of waste, the inventory of which at the end of 2018 was less than 10 tons are included in the collective category - “Other wastes”. The majority of wastes generated by the PKP CARGO Group is ferrous metal, i.e. scrap. In 2018, the PKP CARGO Group had no wastes in the category “Worn-out or unusable vehicles, not containing liquids or other hazardous elements”.

Table 46 Expenditure on environment protection incurred by the Group in 2016-2018

Expenditures incurred for: [PLN thousand]	2018	2017	2016
Air protection, including:*	**1,494**	**1,510**	**1,049**
Boiler plants	163	424	181
Technological processes	308	240	183
Vehicles and machinery	35	30	32
Locomotives	960	795	621
Steam engines	8	7	13
Other	20	14	19
Water protection, including:*	**937**	**574**	**875**
Water intake	365	339	372
Sewage disposal	156	112	296
Disposal of rainwater and snowmelt	23	17	15
Other	394	105	192
Tree and shrub clearing	**43**	**197**	**167**
Protection of the earth’s surface	**53**	**0**	**108**
Waste management*	**2,382**	**1,982**	**1,531**
Other costs of environmental protection	**176,903**	**138,910**	**249,415**

** a different estimate methodology was used, in order to ensure comparability with the previous year data in the PKP CARGO Group*

Source: Proprietary material

The category "Other costs of environmental protection" is a collective category, comprising other expenses. In 2018, the PKP CARGO Group spent PLN 176.9 million on capital expenditures and repairs related to environment protection. The expenditures include, inter alia, expenditure to lower emissions or regulate formal and legal environmental status. The most of this amount, over 80%, financed modernization of locomotives. The other expenditure items include investments ad renovation in technical facilities, such as:

- construction of fueling stations,
- double-jacket tanks for worked oils,
- modernization of water supply and sewage networks,
- locomotive painting plants,
- construction of waste storage,
- modernization of boiler plants, heating networks, etc.

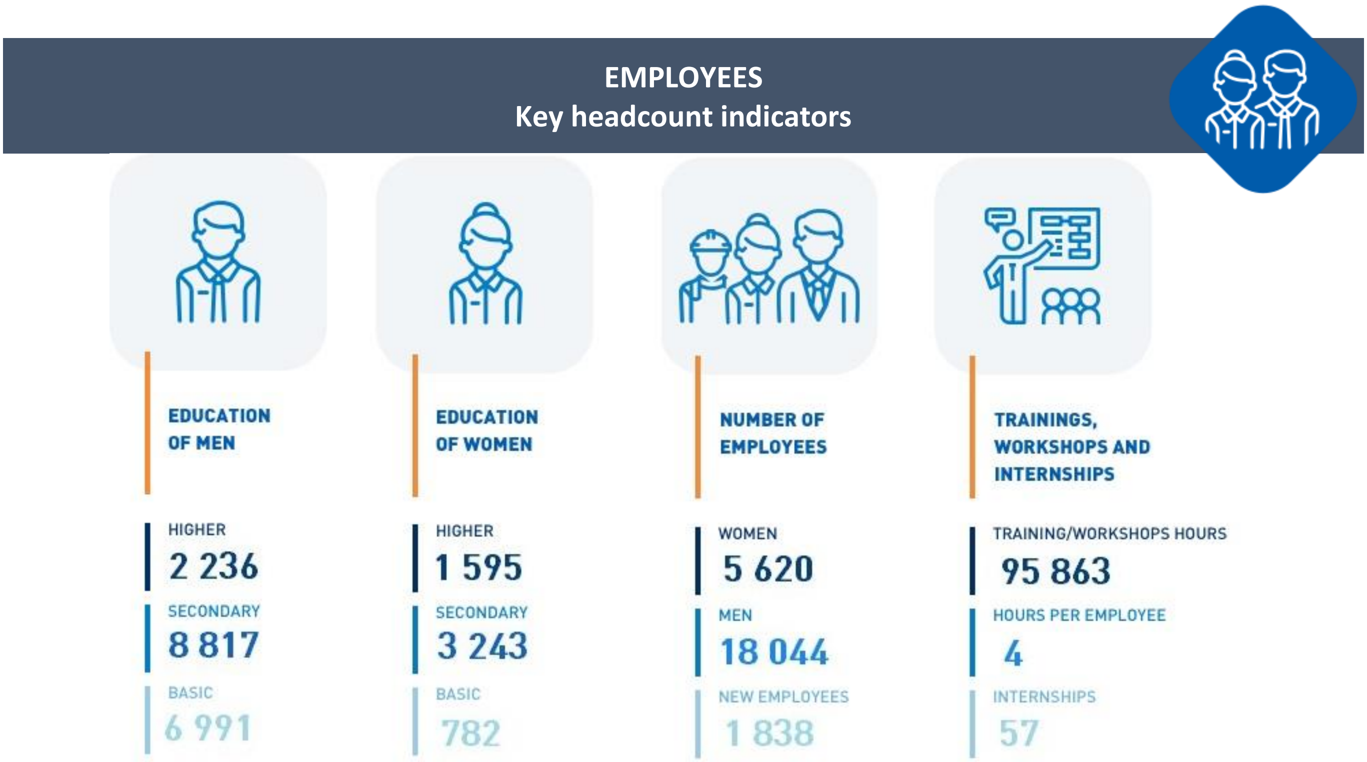


Table 47 Number of employees in the Group in 2016-2018

Number of employees, including:	As at 31 December 2018		As at 31 December 2017		As at 31 December 2016	
	persons	FTEs	persons	FTEs	persons	FTEs
Women	**5,620**	**5,499**	**5,418**	**5,398**	**5,391**	**5,431**
Tertiary education	1,595	1,556	1,416	1,386	1,397	1,397
Secondary education	3,243	3,158	3,146	3,143	3,155	3,178
Primary and vocational education	782	785	856	869	839	856
Men	**18,044**	**17,926**	**17,897**	**17,897**	**17,824**	**17,824**
Tertiary education	2,236	2,277	2,085	2,085	2,063	2,063
Secondary education	8,817	8,769	8,555	8,555	8,507	8,507
Primary and vocational education	6,991	6,880	7,257	7,257	7,254	7,254
Total	**23,664**	**23,425**	**23,315**	**23,295**	**23,215**	**23,255**

Source: Proprietary material

Table 48 Apprentices and new employees in the Group in 2016-2018

Item	2018	2017	2016
Number of apprenticeships started [units]	57	31	10
Number of apprentices accepted [persons]	13	6	4
Number of new employees [persons]	1,838	1,597	641
Number of new employees [FTEs]	1,788	1,563	616

Source: Proprietary material

Table 49 Training in the Group in 2016-2018

Item	2018	2017	2016
Number of training courses conducted [hours], including:	**95,863**	**101,152**	**103,159**
under the post-accident psychological support program	7,411	7,486	7,639
Number of training hours per employee [hour/person]*	**4**	**4**	**4**

Source: Proprietary material
* A different estimate method was used in previous years

The post-accident psychological support program (PPS) has been operated by the Company for many years now, in the form of diverse initiatives, including a specialist help line, provision of psychologist consultations and training. In 2018, the stage of cascading training was completed, however some elements of the PPS have been continued in safety training. Cascading training sessions will be resumed in 2019.

SOCIAL

In 2016, the Parent Company adopted the "Corporate Social Responsibility Policy". The document is a road map for responsible activities for everyone involved in the execution of business processes.

Socially responsible business (CSR) combines a responsible attitude towards employees, business partners and the natural environment with professional realization of business goals.

CSR benefits can be observed in the following three areas:
- Organizational, including raising the level of the company's organizational culture and increasing work productivity and transport security;
- Customer relations, including increasing competitiveness and customer loyalty;
- Employee relations, including building a positive image of the employer; reduction of employee turnover; raising employee awareness regarding the processes operated by the Company.

In 2018, PKP CARGO S.A. executed corporate social responsibility projects addressed to company employees or their families, activities focused on environmental protection, as well as initiatives designed to increase the security of transport provided by the Company. The projects have been described in the Responsible Business Best Practice Forum report. The projects addressed the following Social Development Goals:

Among the CSR projects carried out in 2018, particular emphasis should be placed on the following:

"POST-ACCIDENT PSYCHOLOGICAL SUPPORT".

The purpose of the project is to increase rail traffic safety through psychological support of the human factor.

The project is carried out in all organizational units and covers over 7000 employees. It is dedicated to members of train crews and other employees directly involved in rail traffic and rail traffic safety, as well as members of permanent rail commissions. The project's main deliverables include:

- The Psychological Support Helpline staffed by specialist psychologists.
- A psychologist consultation.
- In 2017, training held devoted to the psychological aspects of railway accidents. The training will be continued in 2019.

Education in the area of psychological aspects of rail accidents – including Acute Stress Disorder (ASD) and Post-Traumatic Stress Disorder (PTSD) is of a long-term character. In 2018, the Company organized the next stage of communication activities designed to disseminate and promote the Post-Accident Psychological Support project and knowledge in this area. Our activities in this area have also been recognized by the Responsible Business Forum, which discussed the PPS in its annual Best Practices Report.

Table 50 Number of training hours for train crews employees and other employees directly involved in rail traffic and rail traffic safety, as well as members of permanent rail commissions

Position	Number of training hours in the year	Number of trainees in the year		
		2018	2017	2016
Operator of rail vehicles on rail sidings, Traction vehicle operator, Traction vehicle operator assistant	24	4,113	4,135	4,112
Operator of special rail vehicles which are not intended to move using their own propelling mechanism on actively used rail tracks	8	24	18	14
Rail traffic controller	16	53	77	92
Control room employee	16	14	23	36
Train conductor	16	72	151	198
Rolling stock auditor	16	1,246	1,072	1,115
Shunting master	16	1,201	1,227	1,251
Switchman	16	622	706	752
Track supervisor	16	10	9	10
Points operator	16	56	68	59
Total	**160**	**7411**	**7,486**	**7,639**

Source: Proprietary material

PKP CARGO as the patron of rail technology history

For 15 years, PKP CARGO S.A., as the largest Polish cargo rail operator and main patron of rail technology history, has been maintaining historic rolling stock in Chabówka, Małopolskie Voivodship, and has been co-funding, jointly with the local governments of Wielkopolskie Voivodship, the operations of more than 100-years old Wolsztyn Railway Roundhouse, which has had the status of the Cultural Institution since 1 January 2017.

PKP CARGO S.A. also promotes the rail traditions by organizing the following events in Chabówka:

- "Parowozjada" – an annual event featuring working steam locomotives, which attracts thousands of railway fans from Poland and abroad. In 2018, to celebrate 100 years of Poland's Independence, a unique program based on Polish history was prepared.
- "Summer with Steam Locomotives" – an educational program addressed to children and entire families, which popularizes historical and modern trains through education and fun activities. Besides Chabówka, the program is also

carried out in the Museum Station, in the Wolsztyn, Jarocin and Skierniewice Roundhouses, and - for the first time in 2018 - in the Open-Air Museum of Locomotives in Zduńska Wola Karsznice.

- "Tourist Trails of Małopolska" - a very popular tourist destination provided with the Małopolska Marshal Office. Every year over 10,000 people take a trip on retro trains as part of the program, which operates 40 trains. Besides a trip on a historical train, the program also offers artistic performances, picnics, and local guided sightseeing tours.
- The Open-Air Museum in Chabówka – it contains the largest Polish collection of historical rolling stock, including steam locomotives, diesel and electric engines, passenger and freight wagons, snow plows and rail handcars. Some of the steam locomotives are maintained in operating condition. They are used to operate tourist trains on the most picturesque trails of Małopolskie Voivodship. The Museum in 2018 celebrated 25 years of work as a museum.

PKP CARGO also cooperates with non-profit community organizations working to protect monuments of rail history, as well as the development of rail tourism and tourism promotion, by offering financial and technical support.

"WE RUN TO HELP"

As a "Running-Friendly Company", PKP CARGO promotes a healthy life style and integrates Employees working in different locations in Poland and in different positions. The campaigns organized by the Running-Friendly Company initiative also have a positive impact on strengthening the work and life balance. In addition, it supports Employees in adopting pro-social and help-oriented attitudes.

For a few years now, PKP CARGO S.A. has been carrying out a project entitled A Running-Friendly Company, which is supported on three pillars.

- sport and integration - promotion of a healthy and active life style. Under this pillar of activities, team of PKP CARGO S.A. employees take part in running initiatives, as well as marathon and half-marathon events organized in Poland and across the world.
- charitable - running, employees help beneficiaries of the foundations they work with. For three years now, the Company has taken part in the national charitable event Poland Business Run, with the money paid as the entry fee in the run going to a foundation supporting people with motor disabilities. The extensive geographical structure of the Company lets it find runner employees in almost all locations in which the Poland Business Run is held.
- symbolic/historical - commemoration of important anniversaries and jubilees, celebration of significant events in Poland's history, with the memory of those events integrating both the Company's employees and their families. This role was well served, for example, by the project 100 PKP CARGO Runners for the Centenary of Poland's Independence..

Year 2018:
200 - employee participants across Poland;
1000 - kilometers ran for the Independence Centenary (2 Employees ran the distance of 100 km)

20 - marathon participants in Poland and across the world
7 - cities in which 85 employees ran for charity to support the beneficiaries of the Poland Business Run Foundation

Rail Freight Forward and Noah's Train

PKP CARGO S.A. is a member of the Rail Freight Forward, a coalition of European cargo rail transport companies which have undertaken to significantly reduce the negative impact of cargo transport on the planet and increase mobility through innovation and better transport structure.

The coalition's ambition is to increase the share of rail freight up to 30% by 2030, as the better macroeconomic solution for Europe's development. Rail Freight Forward seeks to attract rail companies, infrastructure managers and decision makers across Europe to participate in the activities designed to achieve this change. For this purpose, in December 2018, the coalition signed a Vision for Rail Freight 2030 and a manifesto, in which they have undertaken to significantly reduce the negative impact of freight transport on our planet and mobility.

Another expression of the coalition's climate-related undertakings was the launch of the Noah's Train, the longest, evolving and mobile work of art in the world. Designed by European street artists and inspired by the biblical tale, the work symbolizes hope that rail freight symbolizes for our common future.

HUMAN RIGHTS

In 2018, no risks related to exploitation of child labor or risks of exploitation of forced labor were identified in the PKP CARGO Group. Moreover, in 2018, no cases of discrimination, mobbing or sexual harassment were recorded in the Group.

Freedom of association

Table 51 Trade unions in the Group in 2016-2018

Item	2018	2017	2016
Number of trade unions in the Group [organizations]	179	174	172
Number of employees who are members of trade unions [persons]	17,973	17,637	16,937
trade union membership percentage ratio	76.0%	75.6%	73.0%

Source: Proprietary material

Right to safe working environment

Table 52 Number of accidents and accident ratio in the Group in 2016-2018

Item	2018	2017	2016
Number of accidents at work [cases]	239	236	205
Accident ratio [‰]	10.1	10.1	8.7

Source: Proprietary material

The PKP CARGO Group makes every effort to continuously increase the level of safety, with regard to the working environment as well as the cargo shipped. Usage of the fleet of unmanned drones resulted in increasing the safety level, as well as in a significant reduction of theft of the shipped cargo (by almost one-half).

In its day-to-day activities, the Operating Group uses Unmanned Aerial Vehicles (hereinafter referred to as UAVs) to increase the range of its observations in the field. This also allows observation of locations where theft may occur outside of the Operating Group's region. UAVs make it possible to catch the perpetrators because their escape routes can be followed with the drones.

- A security audit of the areas belonging to PKP CARGO or used by PKP CARGO pursuant to an agreement with other Group companies. An analysis of the processed materials collected by UAVs and a security audit from the point of view of the infrastructure located in the audited areas;
- Prevention activities conducted in the sites of PKP CARGO units
- Increasing the number of UAVs in the fleet in response to bigger demand for utilization of the technology in various areas managed by PKP CARGO;
- Utilization of UAVs fitted with an RGB camera (which allows observation during the day) or a thermal vision camera (which allows observation during the night) to monitor train routes.

PREVENTION OF CORRUPTION AND BRIBERY

In February 2018, PKP CARGO S.A. adopted and implemented a Code of Ethics.

The Code of Ethics is one of the fundamental elements supporting the process of building and developing the organizational culture in the Company. The values and standards of conduct it contains are desirable in any organization.

The Code of Ethics sets out the fundamental rules of conduct developed by the representatives of PKP CARGO S.A., with the participation of its Employees and Clients, such as: reliability, cooperation, good management, safety, professionalism, modernity, transparency, responsibility and respect: these are the principles that employees should be guided by in their everyday work.

The main purpose of the Code of Ethics is to recommend attitudes and rules of conduct at the workplace. The Code serves as a road map for the actions undertaken in the Company in the relations with Employees, Clients, Suppliers, Competitors and with the social and natural environment. The implementation of the Code of Ethics will improve the quality of the Company's services and increase job satisfaction, both for Employees and Clients. It will also enhance the organizational culture, improve the image and strengthen PKP CARGO S.A.'s position in the Polish and international markets.

Since 2017, PKP CARGO S.A. has maintained anonymous reporting channels for PKP CARGO S.A.'s employees who would like to report an abuse/irregularity. The channels include: a dedicated hotline, an e-mail address and a traditional mail address. Selected PKP CARGO S.A. employees have been trained to act as Value Leaders and an Ethics Officer. The Code of Ethics, in its full scope, will be implemented across the PKP CARGO Group.

10.1.3 Policies and their results

Safety Management System guarantees not only a high quality of services and highly qualified staff, but also, above all, the acceptable level of safety of the services.

The Safety Management System ensures:

- the highest level of service safety without compromising its quality,
- safety of the rail system participants (other rail operators, infrastructure administrators, subcontractors),
- collaboration with other rail operators and rail infrastructure administrators, to jointly achieve shared safety objectives,
- a satisfactory level of safety indicators,
- safe working conditions for employees and subcontractors;
- compliance with rail safety standards and regulations,
- prevention of accidents at the workplace and occupational illnesses,
- continuous improvement of occupational health and safety, and continual improvement in this area,
- ongoing identification and minimization of technical and occupational risk.

The Safety Policy developed by the PKP CARGO Group reflects the Company's commitment and strategic vision in the area of rail traffic safety. The Policy contains, inter alia, a declaration of intentions, as well as outlines the overall goals and objectives of the Safety Management System (SMS) and principles and core values pursued by the Group. It contributes to the organization's commitment to create and improve work ethics; it also provides the employees with clear guidelines, which solidify the culture of safety.

The SMS System operates on the basis of national and EU legal regulations in respect of rail traffic safety, and it is a requirement which, if not complied with, will prevent a rail company from conducting its operations. The SMS System represents a systemic approach to the Company's organization and supervision of its activities in order to ensure rail traffic safety.

The implementation and operation of the SMS System is confirmed by the Safety Certificate issued by the Office of Rail Transport. On the basis of the Certificate, and having ensured compliance with other requirements, the Company may also conduct independent shipment operations in the following 7 EU countries: Czech Republic, Slovakia, Germany, the Netherlands, Austria, Hungary and Lithuania.

The purpose of the SMS System is also to ensure supervision over all types of risk associated with rail carrier's activities, together with maintenance services, the supply of materials and hiring of subcontractors.

PKP CARGO's freight wagon Maintenance Management System (MMS) represents a systemic approach to the organization and supervision of activities designed to ensure rail traffic safety through keeping the freight wagons for which PKP CARGO is responsible in good technical condition.

The System is developed by, and applicable to, a given company which conducts its operations as part of the rail system. Having an MMS System in place and ensuring its proper implementation and operation is mandatory for all enterprises responsible for maintenance of freight wagons; it is the condition necessary for conducting operations in that area. The System is subject to oversight by the Office of Rail Transport.

The MMS system has been implemented in PKP CARGO S.A. in 2013. The primary scope of the system includes maintenance of good technical condition of freight wagons as part of the main maintenance process, as well as auxiliary processes that ensure correct operations, such as risk analysis, management of staff competences or collaboration with other enterprises (in that regard, it is similar to the SMS System).

On the basis of the approved MMS System, in 2013 PKP CARGO received the Certificate of an Entity in charge of maintenance (the ECM Certificate) confirming its approval in the European Union.

The certificate is maintained on the condition of full implementation of the principles and conditions of freight wagons maintenance set out in national and EU laws.

Thanks to implementation of the MMS system and obtaining the ECM Certificate, at present PKP CARGO may conduct maintenance of freight wagons on its own or subcontract their maintenance to other companies, including its subsidiary PKP CARGOTABOR Sp. z o.o.

Without the MMS System and the ECM Certificate, the Company would not be able to conduct activities in that area, and the maintenance of freight wagons would have to be outsourced (PKP CARGO holds the aforementioned certificate).

The ECM Certificate is valid for 5 years, after which it is subject to renewal. The current certificate expires in May 2021.

Figure 39 Policies pertaining to sustainable development

Policy area	PKP CARGO	PKP CARGO SERVICE	PKP CARGOTOR	PKP CARGO CONNECT	CARGOSPED TERMINAL BRANIEWO	CARGO-TABOR	PKP CARGO CL MEDYKA ŻURAWICA	AWT
- social matters	📋	📋	📋	📋	📋	📋	📋	📋
- employee matters	📋	📋	📋	📋	📋	📋	📋	📋
- environmental matters	📋		📋	📋	📋	📋	📋	📋
- respect for human rights	📋	📋	📋	📋	📋	📋	📋	📋
- prevention of corruption and bribery	📋	📋		📋	📋	📋	📋	📋

PKP CARGO Group's policy related to social matters

In view of the PKP CARGO Group Companies' pursuit of the highest corporate governance standards and in order to ensure the consistency of the financing of social undertakings in the form of donations and sponsorship, the company has implemented the Rules and regulations for the financing of social undertakings in the form of donations and sponsorship in the PKP CARGO Group's subsidiaries. The purpose of the regulations is to standardize the procedures for examining requests for donations and offers to provide sponsorship in the PKP CARGO Group, as well as to ensure a seamless flow of information in this area. The rules and regulations define internal procedures for filing applications for donation or for replying to sponsorship offers.

Social dialog in PKP CARGO S.A. is based on the stipulations of the generally mandatory laws, the Company Collective Bargaining Agreement and the agreements defining the mutual obligations of the parties to social dialog in the Company.

The significance and role of the trade unions in PKP CARGO S.A. are primarily determined by:

- powers defined both in general laws and internal regulations,
- participation in managing the Company through delegation of representatives to the corporate bodies (there are three union representatives in the Supervisory Board and one in the Management Board),
- high level of union membership among employees (around 84%).

The scope of cooperation with the trade unions in the Company includes in particular the following:

- monitoring of the functioning, and laying down the direction of changes in the Company Collective Bargaining Agreement,
- agreeing the labor, incentive and company social benefits fund bylaws, as well as and participation in the distribution of benefits from that fund,
- participation in distribution of funds earmarked for salaries,
- issuing opinions on the headcount,
- consulting changes to organizational structures and framework organizational rules and regulations,
- influencing the development of occupational health and safety conditions through participation in OHS commissions and oversight over SIP,
- supervision over provident and loan associations,
- consulting the intent to terminate, dissolve or amend the content of the employment contract; agreeing upon the changes to employment contracts of persons subject to special protection.

The basic form of dialog are regular meetings aimed at discussing current issues of material importance to the employer and the employees, which are held, in principle, once a month on the plant level and once a quarter on the Company level.

The idea of partnership has been developed as a long practice of PKP CARGO S.A.; therefore, in 2018, the Company continued activities to promote it, based on, inter alia, internal Best Practices of Social Dialog, developed jointly with the Social Partners during the Partnership-Based Dialog Workshop in 2017.

Seeking to ensure transparent principles of cooperation between the dialog parties, the Company updates its internal regulations which define the rules of Social Partners' cooperation. As a result of joint work, the Agreement of 14 February 2005 on mutual obligations of the Parties to Company Collective Bargaining Agreement was updated in 2018 for Employees of PKP CARGO S.A. Units.

The Company also creates conditions conducive to the dissemination and upgrading of knowledge, in its aspects which are important for social dialog parties. To this end, representatives of the Social Partner are offered training courses devoted, inter alia, to changes of the law in the areas having direct impact on joint processes (revision of the trade unions act, GDPR).

The Company became a Signatory of the Diversity Charter, coordinated in Poland by the Responsible Business Forum. Joining the Charter is a public expression of respect for the policy of equal opportunities and the idea of equality in business, as well as acceptance for differences and dissimilarities, membership.

PKP CARGO SERVICE Sp. z o.o.

The Company has been working on adopting and implementing the "Corporate Social Responsibility (CSR) Policy in PKP CARGO SERVICE sp. z o.o.". The values of a socially responsible business are also reflected in the certified management systems operated in the Company (Integrated Management System, Safety Management System -SMS, Maintenance Management System -MMS) and the Company's bylaws (including the Labor Bylaws, Organizational Bylaws and Remuneration Bylaws) and procedures (e.g. Anti-Mobbing and Anti-Discrimination Procedure), which must be followed by all employees.

In 2018, the Company completed two out of the five implementation stages of the "CSR Policy". The entire project is planned for completion in 2019.

PKP CARGO SERVICE sp. z o.o. undertakes several initiatives whose outcomes may be observed in both the social, as well the employee, matters. These include:

- Dialog with employees
- Cooperation with trade unions, at the end of 2018, there four trade unions operating in the Company
- Collaboration with Employment Offices
- Recruitment and the "Recommend an Employee" Program

CARGOTOR Sp. z o.o.

CARGOTOR Sp. z o.o. has a donations and support policy. The Company. provides donations to social organizations and participates in sponsoring activities.

PKP CARGO CONNECT Sp. z o.o.

In 2018, PKP CARGO CONNECT Sp. z o.o. provided its employees with social benefits which encompassed subsidizing holidays, school aid and financing material assistance is also possible. Employees may also receive hardship assistance, living expenses aid and a loan for housing needs. In 2018, the Company purchased discounted railway fares for its employees

Bylaws concerning financing social undertakings through donations and sponsorships in subsidiaries of the PKP CARGO Group were enforced into action.

CARGOSPED Terminal Braniewo Sp. z o.o.

The Company, based on agreements with the Employment Office and local schools, organizes internships and practices to reduce unemployment in the region and provide vocational training.

PKP CARGOTABOR Sp. z o.o.

The Company pursues dialog with the trade unions which operate in the Company and represent the social element. It holds regular meetings with them to analyze potential problems that may occur in individual areas and relevant prevention strategies. The Company supports the activities of social labor inspectors.

In addition, the Company operates the Company Social Benefits Fund whose purpose is to provide material support to employees in need and also to ensure the integration among the crew. As a result of such policies, the Company's authorities have good relations with employees and trade unions operating in the Company.

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

As regards social issues, in 2017 the Company began to collaborate with the East European State Higher School in Przemyśl, applying for participation in the "Vocational practices at State Higher Vocational Schools Programme". As part of this collaboration, the Company organized vocational practices for students in 2018. At the same time, collaborating with the Przemyśl Employment Office in the "Activation of unemployed young people in Przemyśl County (III)" project conducted as part of Operating Programme Knowledge Education Development, Priority Axis I "Young people on the labour market", an agreement to organize a six-months internship for one unemployed person less than 30 years old has been concluded. Thanks to such actions, we offer students and young people an opportunity to earn their first professional experiences.

AWT

The AWT Group's approach to social issues is explained in the company's principles referred to as the "Social Responsibility Code". This document discusses the following issues: corporate governance, natural environment, energy and water consumption, waste management and prevention, sustainable development, manner of treating people, collaboration with schools, occupational safety and health, support and aid, supporting non-profit activities, communication,external relations.

PKP CARGO Group's policy related to employee issues.

PKP CARGO S.A.

Employee recruitment

In 2018, similar to 2017, internal and external recruitment processes were ongoing. Additionally, following activities were organized within the scope of three major programs:

- The vocational internships program
- The scholarship program
- The summer internships program

In addition, new employees without professional qualifications were allowed to participate in an extensive training project to prepare them to work as a train driver, rolling stock auditor or switchman.

In addition, collaboration with local organizations and with the Polish Ministry of Education to support employment in specific facilities was continued.

Adaptation program

In 2018, the existing adaptation program was adjusted to the needs and expectations of selected groups of positions in the Company: administrative employees, managerial staff and non-administrative employees. For employees in positions directly associated with the transport process, a series of training sessions was updated to allow them to obtain required professional qualifications. Adaptation program results in decreased employee turnover.

Training and Development

PKP CARGO S.A. aims to obtain the status of a learning organization, using knowledge- and experience-based management and various forms of professional development that would support the accomplishment of business goals.

In 2018, the Company supported its employees in post-graduate studies, foreign language teaching courses were launched and training in the form of e-learning was introduced.

Social activity and travel benefits

The Company Social Benefits Fund (CSBF) has been established at PKP CARGO S.A., based on the rules following from generally applicable provisions of law and the Collective Bargaining Agreement (CBA. In particular, use of CSBF funds is granted to employees, old age and disability pensioners and members of their families.

Employees can take advantage of a wide-ranging package of social benefits. Meeting the expectations of employees halfway, the possibility of co-financing the stay of children in kindergartens and nurseries has been introduced and is enjoying considerable popularity.

Caring about employee health and comfort, the ability to use sport facilities, sport and recreational programs, FITPROFIT cards and other sports cards that allow access to a number of facilities nationwide has been added.

In 2018, the Company has made a CSBF charge for 39,909 eligible persons, including 17,253 employees and 22,656 old age and disability pensioners.

Employees and members of their families, as well as old age and disability pensioners, are eligible for discounted travel services in the form of preferential fares in trains throughout the country. The cost of employees purchasing a discounted travel service for the second class is covered entirely by the employer. These benefits are offered pursuant to an Agreement of 27 November 2013 between ZPK and carriers operating passenger railway transport on discounted travel services, and the Company's internal regulations.

In 2018, a total of 27,309 such benefits were purchased, including:

- for employees – 13,100,
- for members of employees' families – 2,121
- for old age and disability pensioners from the railway sector – 12,088.

Every year several hundred people (265 applications in 2017, about 300 applications in 2018) decide to purchase an international ticket, which allows them to travel around Europe and selected countries in Asia and even Africa for a token fee.

PKP CARGO SERVICE Sp. z o.o.

Since its foundation, PKP CARGO SERVICE sp. z o.o. has been pursuing a very transparent employee affairs policy. The Company implements its own policies and regulations, based on those in force at the Group. These policies and regulations are known to all employees of PKP CARGO SERVICE sp. z o.o. and getting acquainted with them is part of the onboarding process.

PKP CARGO SERVICE Sp. z o.o. undertakes a number of initiatives in the employment area. These include, among others:

- Employee health protection – a pilot tick-borne encephalitis vaccination scheme commenced, focusing on employees particularly exposed to contact with the virus.
- Supporting employee passions – organizing participation in the Open Polish Railway Alpine Ski Championships
- Training.

CARGOTOR Sp. z o.o.

At CARGOTOR Sp. z o.o., the subject of social relations is also regulated by documents and bylaws relating to labor order and discipline, in which the principles, duties and rights resulting from employment and the position held in the Company are defined. Those documents include the Labor Bylaws, Anti-mobbing Policy and Organizational Bylaws

PKP CARGO CONNECT Sp. z o.o.

At PKP CARGO CONNECT Sp. z o.o. the rules for improving employee qualifications apply, defining the manner of and eligibility of employees for raising professional qualifications. As part of the employee development policy, the following forms of qualifications improvement are implemented:

- bachelor, master and post-graduate studies,
- training courses,
- foreign language learning,
- other forms of qualifications improvement.

Activities aimed at improving employee competences are defined in the "Periodic Employee Review Rules". The Company refers employees to courses and training on its own in order for them to improve qualifications and obtain authorizations to perform assigned duties.

CARGOSPED Terminal Braniewo Sp. z o.o.

The following documents are in effect at the Company: Labor Bylaws, Remuneration Bylaws and CSBF Management Bylaws, containing the rights and duties of the employee and employer, Company rules concerning working time, leave, employee liability, remuneration, work organization and order, occupational and health safety, and preventing discrimination.

PKP CARGOTABOR Sp. z o.o.

The policy applied in the area of employee affairs is basically reflected is the adoption of a Collective Bargaining Agreement as the basic document regulating the issue of remunerating employees. The CBA comprehensively regulates issues related to setting the remuneration, jubilee bonuses, retirement benefits and any other employee benefits. In addition, the company has Labor Bylaws, as well as detailed regulations related to bonuses, in effect.

Of note is also the establishment of an Anti-mobbing Committee, which is an expression of the employer's proactive attitude in fighting mobbing as a pathology in employee relations.

As a result of such policies, all conflicts related to legal and employee relations are minimized.

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

The Company has a Collective Bargaining Agreement. The company promotes equal opportunities and equal treatment, and hires, supports and remunerates employees based on their qualifications and skills.

The Company recognizes the essential right of all employees to establish trade unions and elect their representatives, and also strives to engage in sincere and trust-based cooperation with employee representatives and to balance the interests of both sides.

Issues related to occupational health and safety are found in internal Company regulations, namely the Collective Bargaining Agreement, the Labor Bylaws and the Occupational Health and Safety Management System.

Systematic training, inspections and reviews are carried out in this respect. In addition, employees attend regular first pre-medical aid training that takes place at the Company site for extra facilitation.

The Compnay ensures social benefits to its employees under the Company Social Benefits Fund. Additionally social care can be extended to every old age or disability pensioner.

AWT

Employee affairs are mainly described in the Collective Bargaining Agreement.

Some of the rules are set out in the Code of Ethics. AWT enforced "AWT Rules of Behavior and Conduct" document. The document is one of the foundations of the organization. It defines the rules of employee conduct, including conduct outside the organization and between employees. It sets out the essential principles of professional and appropriate approach of employees to various non-standard situations. It defines standards that strengthen the responsibility of employees for their actions and resulting consequences.

The purpose of that document is to provide employees with tips on how they can behave appropriately in specific, ethically difficult or complicated situations.

PKP CARGO Group's policy related to natural environment

The environmental policy adopted by the Group is a consistent feature of PKP CARGO S.A. policy regarding the Integrated Management System (IMS) and includes:

- protection of the natural environment through the promotion and implementation of eco-friendly forms of transport and prevention of pollution,
- reasonable use of raw materials, other materials and energy and water in accordance with the legal requirements of environmental protection and sustainable development,
- raising awareness of responsibility for the quality of the natural environment among employees.

The application of those policies results in:

- safe transport of goods by rolling stock that meets environmental requirements;
- investments in the procurement of new rolling stock and modernization of used stock, in the maintenance and repair facilities, and in rolling stock diagnostics equipment, which helps maintain high standards of rolling stock maintenance and protect of the environment against possible consequences of rolling stock breakdowns and accidents;
- compliance of the performed activities with applicable legal provisions;
- minimizing the impact on the natural environment, reduction of the amount of substances and pollutants emitted to the environment;
- the environmental awareness of our employees is growing every year – they are regularly trained according to the environmental hazards which they face in their working stations.

CARGOTOR Sp. z o.o.

CARGOTOR Sp. z o.o. does not have specific internal rules regarding environmental protection. The Company applies generally applicable rules, including annual reporting of used materials, solid and liquid fuels.

PKP CARGO CONNECT Sp. z o.o.

The environmental policy adopted by PKP CARGO CONNECT Sp. z o.o. includes:

- compliance with all legal requirements essential for the environment, including laws, regulations and administrative duties concerning environmental protection,
- systematic identification of threats and significant environmental aspects,
- attempts to eliminate or minimize the occurrence of threats to the natural environment,
- reasonable use of and saving water, energy and fuels,
- reduction of pollutants emitted into the atmosphere,
- eco-friendly waste management in accordance with the requirements of environmental law,
- raising employee environmental awareness through appropriate information and training.

Effects of complying with the environmental policy:

- compliance of undertaken activities with effective legal and other provisions –
- reduction of impacts on natural environment – monitoring environmental aspects,
- increasing employee ecological awareness – organizing internal training for employees responsible for environmental protection tasks.

CARGOSPED Terminal Braniewo Sp. z o.o.

The Company has implemented and complies with procedures that define the rules of hazardous and non-hazardous waste management. Reports required by law are filed and environmental fees paid.

PKP CARGOTABOR Sp. z o.o.

The company applies policies aimed at intensifying its activities for the implementation of procedures regulating the broadly understood environmental protection issues. In addition to the appointment of the Chief Specialist for Environmental Protection, the Company has implemented a number of regulations in the area, including: the procedure for scrap management, the waste disposal procedure, conditions for the sale of slag, conditions for the sale of waste wood.

The effectiveness of applying the above-mentioned policies is confirmed by absence of any sanctions or complaints regarding violation of environmental protection regulations.

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

As part of its environmental policy, the Company modernized a gas boiler room and installed solar thermal collectors that are environmentally friendly, allowing the Company to decrease the costs of heating utility water and premises. In addition, in 2019 the Company plans to modernize the gas boiler room at the Production Organization Section. The modernized boiler room will meet the requirements of effective provisions and allow employees to work without interruption in the winter season. Completing the investment will cause a decrease in the quantity of gas consumed per month by 20% and lower the costs of operating the boiler room (employees previously tending the boiler room will be transferred to operating a six-chamber defrosting facility in Medyka).

AWT

Rules concerning natural environment are set out in the "Environmental and energy issues" regulation. The regulation specifies the procedure for identifying, registering, assessing the significance and updating environmental and energy issues and maintaining continuity in setting environmental targets and programs (in the environmental management system, EMS), and for setting energy targets and action plans (as part of managing energy issues).

PKP CARGO Group's policy related to respecting human rights

Human rights: equality regardless of sex, prohibition of discrimination, freedom and personal inviolability, the right to privacy and protection of personal data and freedom of association and freedom of opinion are a reference point for Polish law and form the grounds for the activities relating to the employees' affairs also in the PKP CARGO Group.

PKP CARGO S.A.

PKP CARGO S.A. treats developing proper interpersonal relations and ethical behaviors in the working environment as a priority. Considerable attention is paid to monitoring and effectively fighting all instances of mobbing and other forms of employee discrimination through the introduction of a number of organizational, legal, informational and cultural measures.

There are Anti-mobbing Committees and Trustees at the Company's Head Office and Units, which employees can turn to on a confidential basis in any matter that involves undesirable behavior. The Trustees cooperate with the Ethics Officer.

The anti-mobbing principles found in the Labor Code have been reflected in adopted internal regulations, forming the core of the Company's anti-mobbing policy. The obligation to prevent mobbing has been introduced into labor bylaws of PKP CARGO S.A. organizational units.

Particular attention in the mobbing prevention policy is paid to preventive actions, especially as regards education and information. To this end, employees and especially managerial staff are trained and the issues of mobbing and protecting against instances of mobbing are included in OHS training. An e-mail address is also available to which instances of mobbing can be reported, and employees are kept informed on this topic via the PKP CARGO intranet site.

Employees can also report irregularities outside the organization's structures. To achieve this, the Company began to work with an external "Ethics Hotline" that allows anonymous reporting of mobbing instances as well as ethical irregularities and corruption, conducts explanatory investigations and organizes training.

PKP CARGO SERVICE Sp. z o.o.

Social human rights, which include the social protection right and employment rights, including the prohibition of discrimination in employment, the right to decent working conditions and fair and equal remuneration for work of equal value, as well as the right to organize and strike, form the foundation for the aforementioned regulations and procedures applicable at Company.

The Integrated Management System at PKP CARGO SERVICE sp. z o.o. guarantees strict compliance with occupational health and safety rules and the privacy of employee personal data, while bylaws and procedures clearly spell out employee rights and obligations. They also protect their interests by ensuring equality and prohibiting discrimination.

In addition to the Labor Bylaws, Employee Remuneration Bylaws, Bonus Bylaws, Social Benefit Fund Bylaws and Occupational Health and Safety Bylaws, the Company has also adopted other regulations and documents protecting employee interests, such as for example:

- "Rules for conducting explanatory investigations concerning breaches of duties by employees of PKP CARGO SERVICE Sp. z o.o."
- "Rules for improving professional qualifications for employees of PKP CARGO SERVICE Sp. z o.o."
- "Anti-mobbing and Anti-discrimination Procedure

CARGOTOR Sp. z o.o.

CARGOTOR Sp. z o.o. has an Anti-mobbing Policy to prevent instances of mobbing.

PKP CARGO CONNECT Sp. z o.o.

As part of building a long-term subcontractor management policy, PKP CARGO CONNECT SP. z o.o. has adopted the Code of Conduct with Suppliers. The Code sets minimum standards of conduct for suppliers and subcontractors performing activities on behalf of the Company. This Code specifies the key values that the Company follows in cooperation with its subcontractors.

This is aimed at:

- consolidating the positive image of PKPCC as a company from the TSL sector,
- building the perception of the Company as an entity that cares about standards in relations with its customers and subcontractors,
- verify and assess rail operators according to IMS procedures, identifying and managing the risks related to social, environmental and ethical factors;

CARGOSPED Terminal Braniewo Sp. z o.o.

Effective regulations include principles designed to prevent instances of discrimination.

PKP CARGOTABOR Sp. z o.o.

All operations of the Company are conducted with deep respect for all human and civil rights. The Organizational and Legal Office exercises ongoing supervision over ensuring compliance of regulations and procedures in effect with the entire list of human rights laid down in the Constitution and appropriate international regulations. The Compliance Commission carries out detailed analyses of internal procedures to eliminate the risk of human rights violations in the Company's current operations.

As a result of the aforementioned policies applied in the Company, the risk of occurrence of human rights violations has been effectively prevented.

The Company has an Anti-mobbing Committee in operation to prevent and explain behaviors amounting to mobbing. An "internal control position" was established to conduct repeated inspections supervising compliance with legal and ethical principles by all Company units.

Additionally the Management Board, supported by the Organizational and Legal Office, pays close attention to all signals that prove or might prove any potential or actual violations of ethical and legal principles.

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

Respect for human rights – in this area the Company applies mandatory provisions of law, in particular the Labor Code and internal regulations in the form of Labor Bylaws.

Provisions of equal treatment are posted on notice boards, allowing all employees to become familiar with them. The Company treats all its employees with dignity and respect and does not tolerate verbal abuse, physical or mental compulsion, or any form of discrimination due to sex, ethnic origin, membership in organizations etc. Provisions included in the Labor Bylaws and additional information posted on the notice board advise employees that they are able to file a complaint with the President of the Management Board, if necessary.

AWT

Questions associated with respecting human rights are described in the document entitled "Rules of conduct in AWT", referred to in the section discussing the policies applied by the PKP CARGO Group with regard to employee issues.

PKP CARGO Group's policy related to preventing corruption and bribery

PKP CARGO S.A.

On 1 January 2018, the Decision of President of the PKP CARGO S.A. Management Board of 31 October 2017 entitled "Procedure of Dealing with Corruption Risks in PKP CARGO S.A." came into effect. The procedure regulates:

- the manner of reporting cases of corruption or suspected corruption;
- registration of corruption events;
- dealing with identified cases of corruption;
- dealing with persons reporting cases of corruption;
- informing the Management Board about cases of corruption;

- reporting cases of corruption to law enforcement agencies and cooperation with such agencies;
- analyzing cases of corruption;
- preventing the recurrence of cases of corruption;
- cooperation with stakeholders, partners, business partners and administration institutions;
- cooperation with PKP CARGO S.A.'s internal units.

The procedure applies to all PKP CARGO S.A. employees and persons sitting on the Management Board. In addition, the procedure regulates the whistleblower status, as well as the gift acceptance and offering policy.

The anti-corruption policy is implemented via the Procedure for Dealing with Corruption Risks at PKP CARGO S.A.

PKP CARGO S.A. appreciates the positive effects of whistleblowers. Consequently, the Company's governing bodies have decided to introduce organizational solutions for the needs of whistleblowing, giving employees the possibility to decide how to report a corruptive incident. It is the employee who makes the decision whether this report should be made anonymously or not, and should consider the benefits of both methods before they make the decision. For the employer, each report is important as it draws attention to the possibility of occurrence of irregularities which should be corrected as soon as practicable using appropriate tools.

PKP CARGO SERVICE Sp. z o.o.

PKP CARGO SERVICE Sp. z o.o. does not have a single document which could be called an "anti-corruption procedure". The Company complies with the laws in effect, as confirmed by the certificates and licenses held, results of external and internal inspections carried out.

However the Company has in place numerous bylaws, policies, management system procedures and adopted rules of conduct which, implemented in the Company's organizational structure and supported among others by the multi-module e-kolej-CS application and the SAP ERP system, aim at the prevention of dishonest practices.

PKP CARGO CONNECT Sp. z o.o.

PKP CARGO CONNECT Sp. z o.o. is committed to conduct its operations honestly and in compliance with law and effective regulations. The adopted code is aimed at maintaining the trust of customers, employees, state administration bodies and the public.

The code consists of two parts:

- defining the principles of conducting business activity,
- defining the principles of human rights and social justice.

CARGOSPED Terminal Braniewo Sp. z o.o.

Internal procedures include established rules for verifying contractors and drafting business proposals and offers on the basis of cost calculations and guidelines for a particular years. The business proposals and offers are recorded. The movement of goods is defined and regulated by permits issued by customs services and recorded in a separate electronic warehouse software, preventing unwanted actions by separating access rights.

PKP CARGOTABOR SP. Z O.O.

An "internal control position" was established to identify and prevent potential and existing risks in this area. In addition the Company pays considerable of attention to cooperation with all competent state authorities appointed to prosecute this phenomenon. As a consequence there are no signals pointing to occurrence of corruption in the Company.

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

Fighting corruption is a very important task for the Company, reflected in internal regulations. One of the basic duties of each employee is maintaining the confidentiality of information which could prejudice the Company if disclosed. Each employee is obliged to refrain from undertaking competing activities and to observe enterprise secrets resulting from the "Protection of enterprise secrets at PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o. bylaws" Another important fact is that all Company employees have signed non-competition agreements for the duration of their employment relationships, which to some degree guarantee their ethical behavior towards the employer.

By preventing corruption and unethical behavior, the Company particularly prioritizes care for customers and their satisfaction with provided services. Our design to is to improve the quality of service, partner relations, equal treatment, fulfilling the terms of contracts with customers (timeliness, quality), and transparent business cooperation. The Company offers customers reliable information through its website, transshipment offer, transshipment contract, phone calls and e-mail correspondence.

AWT

Corruption issues are explained in the “Rules for conducting negotiations with external entities”. The rules cover issues such as compliance with the effective provisions of law (competition and anti-monopoly policy, bribes for state officials), conflicts of interests (employee’s personal interest, acceptance of gifts and benefits) and honest relations (relations with customers, offering gifts and entertainment, relations with suppliers).

10.1.4 Due diligence procedures

PKP CARGO S.A. undertakes ongoing efforts to ensure that assigned tasks are effectively completed and legal provisions are complied with.

Internal regulations introduced in the Company are adjusted to current business needs and must be consistent with mandatory provisions of law. At the same time, the use of good practices by the Company contributes to improving the standards of conducted activities and increases the qualifications and competences of human resources.

Systematic risk assessment, including in relation to social, employee and human rights issues, allow to identify threats early and keep their consequences down to a minimum.

The human resources management area is subject to a system of internal audits, part of the Integrated Management System, which allows to identify processes, ensure their compliance with assumed requirements, and implement improvements.

10.1.5 Risks related to Group activities and managing these risks

On 25 September 2018, the PKP CARGO S.A. Management Board adopted a resolution on introducing the “Risk Management Policy in PKP CARGO S.A.” Pursuant to the resolution, changes were introduced in the previously effective Policy whose purpose was to link the Investment Plan being developed to existing, high risks, and make the process more flexible. The Security and Audit Office has been takes with exercising supervision over the implementation and execution of the provisions of the Policy.

The basic task of the PKP CARGO S.A. Supervisory Board Audit Committee (SBAC) is to examine the correctness and effectiveness of carrying out internal financial audits in the Company and monitoring the effective operation of internal control, internal audit and risk management systems. The Supervisory Board Audit Committee assesses the risk management system.

The PKP CARGO S.A. Management Board is responsible for risk management on the basis of the strategy adopted by the PKP CARGO Group, and primarily defines the directions of development and makes decisions regarding risk handling plans.

The Unit or Department Director is responsible for risk management in the reporting area. Its tasks include:

- identifying risks related to activities,
- analyzing and assessing the risks,
- and then comparing them with expected results.

Depending on the comparison results obtained, actions are taken to either retain the status quo or reduce the risk level. PKP CARGO employees are obliged to comply with the provisions of the Policy within the scope of their powers.

The Policy designates a Risk Leader whose task is to coordinate all matters associated with risk management. Gathering and analysis of information and subsequent reporting to the Management Board and Supervisory Board Audit Committee.

Particularly important risks have been subjected to special monitoring. With regard to the risks indicated by the Management Board Members, indicators illustrating the risk level have been designed. 25 indicators are currently monitored. Once a month, the Management Board receives a report which presents the indicator levels (neutral, alert and catastrophic), the trend of each indicator and information about the causes of deviations and actions taken by the risk owners in connection with the deviations.

The indicators in most cases are of quantitative nature and present information which is verifiable and obtained without sustaining undue costs from PKP CARGO S.A.’s IT systems. The Management Board has the possibility of changing the monitored indicators depending on information needs. The policy has been developed on the basis of the provisions of the ISO 31000 “Risk management” standard.

The risk assessment process takes place at least once a year, as part of self-assessment. During the assessment, risk owners identify the risks in their area and the information assets with regard to the risks associated with information security and plan actions aimed at reducing the risk level if it is unacceptable. If there are important circumstances affecting the risk level, the risk owner should carry out a self-assessment before elapse of one year.

The assessment process takes place in 3 stages: it starts with risk identification, then the risk is analyzed and the results obtained are compared with the expectations, which determines the next steps regarding the risk handling. The risk may be accepted or the risk owner prepares a Risk Handling Plan.

With regard to the risks associated with information security with regard to assets which have been found critical by their owners, Business Continuity Plans are developed. The asset owner is responsible for maintaining, updating and testing the Plan. The cyclical nature of the process assumes its continuous changes aimed at improvement.

Among the material risks associated with the entity's operations (social issues, employee issues, human rights) one should list:

Social dialog

Social agreements concluded and honored by PKP CARGO S.A. Social Partners, among which particular importance is attached to the Agreement of 14 February 2005 on mutual obligations of parties to the Collective Bargaining Agreement involving employees employed by PKP CARGO S.A. facilities, form the foundation of collaboration and social dialog in the Company. Informing the employer and staff about important matters, including regular meetings with trade unions, allows early identification of issues posing a risk to Company activities, prevents conflicts and disputes and ensures that business processes can be performed without social disturbances.

Representation of employees in PKP CARGO S.A. corporate bodies increases risks related to information protection, but also has a positive effect on Company management since it allows staff to identify with corporate objectives, increases responsibility and the level of economic awareness among employees and offers a realistic assessment of possibility of meeting trade union demands.

Various initiatives and actions undertaken to develop the partnership idea contribute to increasing the level of social dialog and have a positive impact on business processes in the Company.

Social policy and discounted transport services

One of the core objectives of the human resources management area is ensuring necessary human resources for Company needs.

In 2018 internal and external recruitment took place. To that end, efforts on implementing systemic solutions to underpin the hiring of new employees were intensified. These efforts fell within the scope of three major programs:

- Vocational internships program,
- Scholarships program
- Summer internships program.

In addition, collaboration with local organizations and the Polish Ministry of Education to support employment in specific facilities was continued.

An important measure safeguarding the Company's interests is the protection of information of considerable value for the Company. Considering the need to adjust the regulations in effect at the Company to industry standards and the fact that the Company as a publicly traded entity should take care to observe the highest standards of information protection, new rules prohibiting competitive activities have been designed. Their purpose is to eliminate or considerably mitigate the risk of disclosing information essential for the Company.

In addition, there are plans to make the amount of compensation and duration of post-employment non-competition clause dependent on the term of employment in a position subject to the clause.

The distribution of monies from the Company Social Benefits Fund (CSBF) with the participation of staff representatives is an essential feature of extra-salary benefits system in effect at the Company and contributes to satisfying the social and living needs of employees, former employees and members of their families. As PKP CARGO S.A. employees are able to manage the CSBF independently based on corporate bylaws, social assistance can reach those who need it the most, taking into account local considerations.

Likewise, eligibility for discounted transport fares, a historic feature of railway companies, has its important place among non-salary factors motivating Company employees at the recruitment stage and during subsequent integration between the enterprise and its personnel.

Anti-mobbing policy

The legal regulations adopted at PKP CARGO S.A. contribute to an organizational framework attempting to limit instances of mobbing and discrimination at the Company, prevent conflicts, and promote desirable employee attitudes. The Company's Anti-mobbing Committees and Trustees, supported by the Ethics Officer and the information and training policy, serve as the effective foundation for preventing mobbing and other discriminatory practices in the workplace.

Natural environment

Key risks in the area of environmental protection:

- the risk of failure to comply with the legal requirements as regards environmental protection – the legal and financial consequences (fines, reclamation costs, increased environmental fees) in the case of identification of non-compliance by environmental protection inspection authorities) – negative impact on the image of the organization, in the case of identification of irregularities, environmental contamination, use of the environment without the required decisions, permits, authorizations and filings and without the required waste records and reporting;

- the risk of failing to meet PL-EN ISO 14001:2015-9 requirements – discovering a critical non-compliance during a third party audit and loss of IMS certificate as regards the PN-EN ISO 14001 standard

Environment risks have been defined in the "PKP CARGO S.A. risk management policy" in the context of environmental processes such as managing emissions into air from technology processes and burning fuels in installations and equipment, managing equipment containing substances that deplete the ozone layer and fluorinated greenhouse gases, managing water and sewage, managing produced industrial and municipal waste, managing noise emissions to the environment, managing green areas and taking action in case of damage to the environment. Risk handling plans have been designed for environmental processes that require actions to be taken.

Preventing corruption and bribery

Minimizing corruption risk takes place through introduction of a Procedure for handling corruption risks and through introduction of whistleblower status and appointment of a Compliance Officer responsible for clarifying irregularities. Whistleblowers may be recruited from among both PKP CARGO employees and persons/entities outside the Company which cooperate with it (customers, business partners, suppliers etc.)

10.2 Representation of PKP CARGO S.A.

Following is the **Representation of PKP Cargo S.A. on non-financial information for 2018** (hereinafter referred to as the Representation), forming a separate part of the Activity Report of the PKP CARGO Group (hereinafter: the Group, the PKP CARGO Group) and including non-financial information concerning PKP CARGO S.A. (hereinafter: PKP CARGO, Company) for the period from 1 January 2018 to 31 December 2018. The Representation is based on the guidelines recommended by the IIRC (International Integrated Reporting Council), guidelines of the GRI (Global Reporting Initiative) and takes into consideration provisions of the Accounting Act of 29 September 1994.

The Representation includes non-financial data which have been prepared as a result of a dialog conducted with the Company's stakeholders, showing mutual relations and interdependencies between financial and non-financial aspects of its activity.

In its non-financial reporting, the PKP CARGO addresses the following issues:

For the PKP CARGO, non-financial reporting is an opportunity to present to its stakeholders a broader picture of how the company value is created. Although difficult to estimate and measure, in the longer term these non-financial data translate into financial and operational results. The Group's objectives and qualitative changes resulting from the Company's sustainable development activities are presented below.

- We care about the environment -> better quality and efficiency, more environmentally friendly operations
- We care about employees -> professional human resources, committed employees
- We care about society -> support for culture and tradition, better brand recognition
- We care about respect for human rights -> reliable and recommendable employer
- We care about prevention of corruption and bribery -> trustworthy, ethical employer, safe workplace

In 2018, PKP CARGO S.A. was recognized for its operations and achievements in sustainable development. This is reflected in the many prizes awarded to the Company, including:

Leader of Intermodal Transport

PKP CARGO S.A. and PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o. received the "Leader in Intermodal Transport" award in the categories "Rail Carrier" and "Land Container Terminal", respectively.

The Transparent Company of the Year

The "Transparent Company of the Year" is a ranking compiled by the Investor and Stock Market Magazine "Parkiet", together with the Institute of Accounting and Taxes. The purpose of the ranking is to find the most transparent companies from among the companies of the three main indexes (WIG20, mWIG40 and sWIG50), based on a questionnaire survey covering such areas as: financial statement and reporting, investor relations and corporate governance.

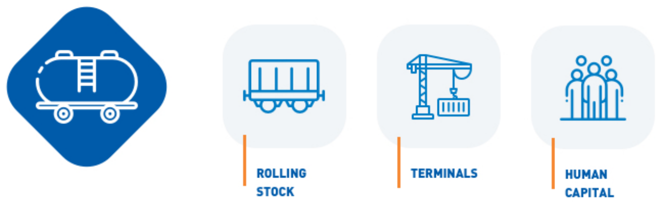
10.2.1 Description of the business model

PKP CARGO is Poland's largest and the EU's leading rail freight carrier.

It owns the biggest fleet of rolling stock in Poland. The Company's activity covers a wide range of services connected with rail freight transport. PKP CARGO's revenue from rail transportation and freight forwarding services makes up 96% of the Company's total operating revenue.

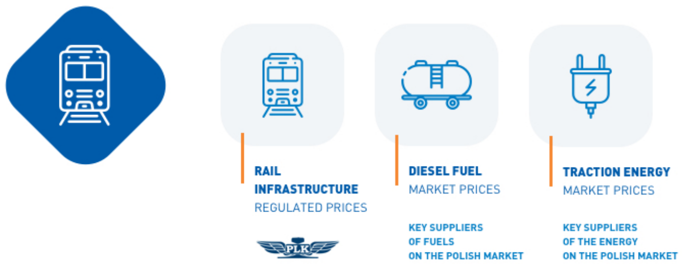
Business model

Resources



The PKP CARGO Group holds necessary resources to provide cargo rail transport services and ancillary services complementing its comprehensive transport offer. The Group expends all efforts to achieve, and invests in the improvement of, the quality of its services.

Key Suppliers



The key suppliers of the PKP CARGO Group are responsible for the rail infrastructure, fuels and electricity. PKP PLK is responsible for the condition of the rail infrastructure used by the Group's rolling stock. The locomotives used by the Group are powered by diesel fuel and traction power. Electricity is delivered by PKP ENERGETYKA. All the factors listed above have an impact on the costs of the PKP CARGO Group's services.

Clients

PKP CARGO's key customers include steel mills, coking plants, power plants, mines, steel works and shipping companies. PKP CARGO collaborates with the largest Polish and global groups, including ArcelorMittal, PKN Orlen, PGNiG, Lafarge Group, Azoty Group, Jastrzębska Spółka Węglowa, Węglokoks, Enea Group, PGE Group, Tauron Group, Polska Grupa Górnicza and International Paper. The contracts with these business partners are regularly renewed, which confirms the high quality of the transportation services provided by PKP CARGO.

Group employs competent employees with extensive experience, who ensure the highest quality of services and form the foundation of the Group's operations. As at 31/12/2018, the Group employed over 23 thousand employees.

The Group's operations are based on relations with key suppliers, in particular contracts for access to rail infrastructure, traction power supply, property leasing, diesel fuel sales and rolling stock repair and modernization.

10.2.2 Key non-financial effectiveness indicators connected with the operations of PKP CARGO S.A.

NATURAL ENVIRONMENT
Key environmental indicators

Table 53 Electricity consumption by PKP CARGO S.A. in 2016-2018

Electricity	Quantity of consumed energy [MWh]		
	2018	2017	2016
Traction energy	673,043	616,394	597,922
Non-traction energy	21,850	22,436	22,714

Source: Proprietary material

Table 54 Air emissions by PKP CARGO S.A. in 2016-2018

Substance emission	Total emissions [t]		
	2018	2017	2016
Sulfur dioxide	4,347	1,097	1,075
Nitrogen dioxide	8,938	2,912	2,641
Carbon oxide	553	516	484
Carbon dioxide	616,780	495,134	482,575
Dust and soot	398	190	189
Total hydrocarbons	*184*	156	**118**
Other	42	34	16

Source: Proprietary material

Table 55 Waste produced by PKP CARGO S.A., by type and volume, in 2016-2018

Name of waste	Waste code	Waste volume [t] in 2018		Waste volume [t] in 2017		Waste volume [t] in 2016	
		inventory at the end of					
		Preceding period	Reporting period	Preceding period	Reporting period	Preceding period	Reporting period
Slag, bottom ash and boiler dust (excluding boiler dust mentioned in 100104)	10 01 01	63.0	49.4	162.3	63.0	93.8	162.3
Wastes from turning and sawing of ferrous metals and their alloys	12 01 01	39.8	14.9	59.4	39.8	121.6	59.4
Other engine, transmission and lubricating oils (lubricants)	13 02 08*	22.4	8.2	25.6	22.4	22.5	25.6
Worn-out clothes and cleaning cloth	15 02 02*	9.3	15.8	13.7	9.3	9.5	13.7
Ferrous metals (scrap)	16 01 17	3,360.8	3,387.7	1,588.5	3,360.8	4,235.5	1,588.5
Non-ferrous metals	16 01 18	14.4	47.7	9.5	14.4	21.9	9.5
Other waste, not mentioned elsewhere	16 01 99	32.5	3.5	3.9	32.5	2.6	3.9
Worn-out devices, other than those mentioned in 16 02 09 to 16 02 13	16 02 14	10.0	27.0	3.7	10.0	7.8	3.7
Lead batteries	16 06 01*	7.4	10.4	18.4	7.4	4.4	18.4
Wood, glass and plastic waste containing or contaminated with hazardous substances	17 02 04*	8.0	15.4	8.0	8.0	12.2	8.0
Iron and steel	17 04 05	16.0	10.2	21.7	16.0	52.5	21.7
Wood	19 12 07	23.4	50.6	10.6	23.4	36.1	10.6
Other waste		33.5	126.8	*154.4*	33.6	76.9	*154.4*

Source: Proprietary material

The list presents waste, the inventory of which at the end of the period was at least 10 tons. The categories of waste, the inventory of which at the end of the period in 2018 was less than 10 tons are included in the collective category - “Other wastes”. The majority of wastes generated by the PKP CARGO Group is ferrous metal, i.e. scrap. In 2018, the PKP CARGO Group had no wastes in the category “Worn-out or unusable vehicles, not containing liquids or other hazardous elements”.

Table 56 Expenditures on environment protection incurred by PKP CARGO S.A. in 2016-2018

Expenditures incurred for: [PLN thousand]	2018	2017	2016
Air protection, including:	**1,046**	**898**	**747**
Boiler plants	52	63	73
Technological processes	73	66	54
Vehicles and machinery	9	9	9
Locomotives	893	753	599
Steam engines	8	7	13
Other	11	0	0
Water protection, including:	133	**52**	38
Water intake	0	0	1
Transport of sewage	7	10	4
Conveyance of rainwater and snowmelt	8	5	5
Other	**118**	37	29
Cutting trees and bushes	**32**	**5**	**0**
Protection of the earth's surface	**53**	**0**	**108**
Waste management	334	**392**	**266**
Other costs of environmental protection	**176,103**	**138,042**	**248,736**

Source: Proprietary material

The category "Other costs of environmental protection" is a collective category, comprising other expenses. In 2018, the PKP CARGO Group spent PLN 176.1 million on capital expenditures and repairs related to environment protection. The expenditures include, inter alia, expenditure to lower emissions or regulate formal and legal environmental status. The most of this amount, over 80%, financed modernization of locomotives. The other expenditure items include investments ad renovation in technical facilities, such as:

- construction of fueling stations,
- double-jacket tanks for worked oils,
- modernization of water supply and sewage networks,
- locomotive painting plants,
- construction of waste storage,
- modernization of boiler plants, heating networks, etc.

EMPLOYEE AREA
Key employment indicators

Table 57 Number of employees in PKP CARGO S.A. in 2016-2018

Number of employees, including:	As at 31 Dec 2018		As at 31 Dec 2017		As at 31 Dec 2016	
	PERSONS	FTES	PERSONS	FTES	PERSONS	FTES
Women	**4,621**	**4,514**	**4,432**	**4,412**	**4,420**	**4,440**
Higher education	1,158	1,128	1,039	1,018	1,012	1,005
Secondary education	2,745	2,663	2,660	2,655	2,656	2,674
Elementary and vocational education	718	722	733	739	752	761
Men	**12,687**	**12,622**	**12,611**	**12,765**	**13,009**	**13,259**
Higher education	1,591	1,641	1,502	1,480	1,488	1,484
Secondary education	6,105	6,058	5,876	5,870	5,922	6,007
Elementary and vocational education	4,991	4,922	5,233	5,415	5,599	5,767
Total	**17,308**	**17,135**	**17,043**	**17,177**	**17,429**	**17,698**

Source: Proprietary material

Table 58 Accepted interns and new employees in PKP CARGO S.A. in 2016-2018

Item	2018	2017	2016
Number of started internships [units]	43	15	7
Number of accepted interns [persons]	9	0	1
Number of new employees [persons]	1,108	502	198
Number of new employees [FTEs]	1,106	502	198

Source: Proprietary material

Table 59 Training courses delivered in PKP CARGO S.A. in 2016-2018

Item	2018	2017	2016
Number of training courses conducted [hours], including:	**49,608**	**53,888**	**66,520**
under the post-accident psychological support program	7,411	7,486	7,639
Number of training hours per employee [hour/person]	**3**	**3**	**4**

Source: Proprietary material

SOCIAL AREA

In 2016, the Parent Company adopted the "Corporate Social Responsibility Policy". The document is a roadmap for responsible activities for everyone involved in execution of business processes.
Socially responsible business (CSR) combines a responsible attitude towards employees, business partners and the natural environment with professional realization of business goals.

CSR benefits can be observed in the following three areas:

- Organizational, including raising the level of the company's organizational culture and increasing work efficiency and transport security;
- Customer relations, including increasing competitiveness and customer loyalty;
- Employee relations, including building a positive image of the employer; reduction of employee turnover; building employee awareness regarding the processes operated by the Company.

In 2018, PKP CARGO S.A. executed corporate social responsibility projects addressed for company employees or their families, activities focused on environmental protection, as well as initiatives designed to increase the security of transport provided by the Company. The projects have been described in the CSR Best Practice Forum report. The projects addressed the following Social Development Goals:

Among the CSR projects carried out in 2018, particular emphasis should be placed on the following:

"POST-ACCIDENT PSYCHOLOGICAL SUPPORT"

The aim of the project "Psychological post-accidental support for employees of traction teams, other employees directly related to the conduct and safety of railway traffic and members of permanent railway commissions" is to increase railway safety through psychological support of the human factor.

The project is carried out in all organizational units and covers over 7000 employees. It is dedicated to members of train crews and other employees directly involved in rail traffic and rail traffic safety, as well as members of permanent rail commissions.

The project's main deliverables include:

- The Psychological Support Helpline staffed by specialist psychologists.
- A psychologist consultation.
- Training was held devoted to the psychological aspects of railway accidents. The training will be continued in 2019.

Education in the area of psychological aspects of rail accidents – including Acute Stress Disorder (ASD) and Post-Traumatic Stress Disorder (PTSD) is of a long-term character. In 2018, the Company organized the next stage of communication activities designed to disseminate and promote the Post-Accident Psychological Support project and knowledge in this area. Information and prevention materials devoted to the project, were distributed to a dedicated group of employees. Our activities in this area have also been recognized by the CSR Forum, which discussed the PPS in its annual Best Practices Report.

Table 60 Number of training hours for train crews employees and other employees directly involved in rail traffic and rail traffic safety, as well as members of permanent rail commissions

Position	Number of training hours in the year	Number of trainees in the year		
		2018	2017	2016
Operator of rail vehicles on rail sidings, Traction vehicle operator, Traction vehicle operator assistant	24	4,113	4,135	4,112
Operator of special rail vehicles which are not intended to move using their own propelling mechanism on actively used rail tracks	8	24	18	14
Rail traffic controller	16	53	77	92
Control room employee	16	14	23	36
Train conductor	16	72	151	198
Rolling stock auditor	16	1,246	1,072	1,115
Shunting master	16	1,201	1,227	1,251
Switchman	16	622	706	752
Track supervisor	16	10	9	10
Points operator	16	56	68	59
Total	**160**	**7411**	**7,486**	**7,639**

Source: Proprietary material

PKP CARGO as the patron of rail technology history

For 15 years, PKP CARGO S.A., as the largest Polish cargo rail operator and main patron of rail technology history, has been maintaining historic rolling stock in Chabówka, Małopolskie Voivodship, and has been co-funding, jointly with the local governments of Wielkopolskie Voivodship, the operations of more than 100-years old Wolsztyn Railway Roundhouse, which has had the status of the Cultural Institution since 1 January 2017.

PKP CARGO S.A. also promotes the rail traditions by organizing the following events in Chabówka:

- "Parowozjada" – an annual event featuring working steam locomotives, which attracts thousands of railway fans from Poland and abroad. In 2018, to celebrate 100 years of Poland's Independence, a unique program based on Polish history was prepared.
- "Summer with Steam Locomotives" – an educational program addressed to children and entire families, which popularizes historical and modern trains through education and fun activities. Besides Chabówka, the program is also carried out in the Museum Station, in the Wolsztyn, Jarocin and Skierniewice Roundhouses, and - for the first time in 2018 - in the Open-Air Museum of Locomotives in Zduńska Wola Karsznice.
- "Tourist Trails of Małopolska" - a very popular tourist destination provided with the Małopolska Marshal Office. Every year over 10,000 people take a trip on retro trains as part of the program, which operates 40 trains. Besides a trip on a historical train, the program also offers artistic performances, picnics, and local guided sightseeing tours.
- The Open-Air Museum in Chabówka – it contains the largest Polish collection of historical rolling stock, including steam locomotives, diesel and electric engines, passenger and freight wagons, snow plows and rail handcars. Some of the steam locomotives are maintained in operating condition. They are used to operate tourist trains on the most picturesque trails of Małopolskie Voivodship. The Museum in 2018 celebrated 25 years of work as a museum.

PKP CARGO also cooperates with non-profit community organizations working to protect monuments of rail history, as well as the development of rail tourism and tourism promotion, by offering financial and technical support.

"WE RUN TO HELP"

As a "Running-Friendly Company", PKP CARGO promotes a healthy life style and integrates Employees working in different locations in Poland and in different positions. The campaigns organized by the Running-Friendly Company initiative also have a positive impact on strengthening the work and life balance. In addition, it supports Employees in adopting pro-social and help-oriented attitudes.

For a few years now, PKP CARGO S.A. has been carrying out a project entitled A Running-Friendly Company, which is supported on three pillars.

- sport and integration - promotion of a healthy and active life style. Under this pillar of activities, team of PKP CARGO S.A. employees take part in running initiatives, as well as marathon and half-marathon events organized in Poland and across the world.
- charitable - running, employees help beneficiaries of the foundations they work with. For three years now, the Company has taken part in the national charitable event Poland Business Run, with the money paid as the entry fee in the run going to a foundation supporting people with motor disabilities. The extensive geographical structure of the Company lets it find runner employees in almost all locations in which the Poland Business Run is held.
- symbolic/historical - commemoration of important anniversaries and jubilees, celebration of significant events in Poland's history, with the memory of those events integrating both the Company's employees and their families. This role was well served, for example, by the project 100 PKP CARGO Runners for the Centenary of Poland's Independence..

Year 2018:
200 - employee participants across Poland;
1000 - kilometers ran for the Independence Centenary (2 Employees ran the distance of 100 km)
20 - marathon participants in Poland and across the world
7 - cities in which 85 employees ran for charity to support the beneficiaries of the Poland Business Run Foundation

Rail Freight Forward and Noah's Train

PKP CARGO S.A. is a member of the Rail Freight Forward, a coalition of European cargo rail transport companies which have undertaken to significantly reduce the negative impact of cargo transport on the planet and increase mobility through innovation and better transport structure.

The coalition's ambition is to increase the share of rail freight up to 30% by 2030, as the better macroeconomic solution for Europe's development. Rail Freight Forward seeks to attract rail companies, infrastructure managers and decision makers across Europe to participate in the activities designed to achieve this change. For this purpose, in December 2018, the coalition signed a Vision for Rail Freight 2030 and a manifesto, in which they have undertaken to significantly reduce the negative impact of freight transport on our planet and mobility.

Another expression of the coalition's climate-related undertakings was the launch of the Noah's Train, the longest, evolving and mobile work of art in the world. Designed by European street artists and inspired by the biblical tale, the work symbolizes hope that rail freight symbolizes for our common future.

HUMAN RIGHTS

In 2018, no risks related to exploitation of child labor or risks of exploitation of forced labor were identified in PKP CARGO. Moreover, in 2018, no cases of discrimination, mobbing or sexual harassment were recorded.

Freedom of association

Table 61 Trade unions in PKP CARGO S.A. in 2016-2018

Item	2018	2017	2016
Number of trade unions in the Group [organizations]	123	129	131
Number of employees who are members of trade unions [persons]	14,620	14,595	14,944
trade union membership percentage ratio	84.47%	85.60%	85.70%

Source: Proprietary material

Right to a safe working environment

Table 62 Number of accidents and accident ratio in PKP CARGO S.A. in 2016-2018

Item	2018	2017	2016
Number of accidents at work [cases]	119	119	118
Accident ratio [‰]	6.9	6.9	6.7

Source: Proprietary material

PKP CARGO, as Poland's largest rail freight carrier, makes every effort to continuously increase the level of safety, with regard to the labor environment as well as the shipped cargo. Usage of the fleet of unmanned drones resulted in increasing the safety level, as well as in a significant reduction of theft of the shipped cargo.

Day-to-day activities using Unmanned Aerial Vehicles ("UAVs") increase the range of its observations in the field. This also allows observation of locations where theft may occur outside of the Operating Group's region.

- A security audit of the areas belonging to PKP CARGO or used by PKP CARGO pursuant to an agreement with other Group companies. An analysis of the processed materials obtained with the help of UAVs and a security audit from the point of view of the infrastructure located in the audited areas;
- Prevention activities conducted in the sites of PKP CARGO units
- Increasing the number of UAVs in the fleet in response to bigger demand for utilization of the technology in various areas managed by PKP CARGO;
- Utilization for monitoring of train routes the UAVs fitted with a RGB camera (which allows observation during the day) or a thermal vision camera (which allows observation during the night).

PREVENTION OF CORRUPTION AND BRIBERY

In February 2018, PKP CARGO S.A. adopted and implemented a Code of Ethics.

The Code of Ethics is one of the fundamental elements supporting the process of building and developing the organizational culture in the Company. The values and standards of conduct it contains are desirable in any organization.

The Code of Ethics sets out the fundamental rules of conduct developed by the representatives of PKP CARGO S.A., with the participation of its Employees and Clients, such as: reliability, cooperation, good management, safety, professionalism, modernity, transparency, responsibility and respect: these are the principles that employees should be guided by in their everyday work.

The main purpose of the Code of Ethics is to recommend attitudes and rules of conduct at the workplace. The Code serves as a road map for the actions undertaken in the Company in the relations with Employees, Clients, Suppliers, Competitors and with the social and natural environment. The implementation of the Code of Ethics will improve the quality of the Company's services and increase job satisfaction, both for Employees and Clients. It will also enhance the organizational culture, improve the image and strengthen PKP CARGO S.A.'s position in the Polish and international markets.

Since 2017, PKP CARGO S.A. has maintained anonymous reporting channels for PKP CARGO S.A.'s employees who would like to report an abuse/irregularity. The channels include: a dedicated hotline, an e-mail address and a traditional mail address. Selected PKP CARGO S.A. employees have been trained to act as Value Leaders and an Ethics Officer. The Code of Ethics, in its full scope, will be implemented across the PKP CARGO Group.

10.2.3 Applied policies and the results of their application

The Safety Management System guarantees not only high quality of provided services and highly qualified staff but also, above all other things, the acceptable level of safety of the provided services.

Safety Management System ensures:

- the highest level of service safety without compromising its quality,
- safety of the rail system participants (other rail operators, infrastructure administrators, subcontractors),
- collaboration with other rail operators and rail infrastructure administrators, to jointly achieve shared safety objectives,
- a satisfactory level of safety ratios,
- safe working conditions for employees and subcontractors;
- compliance with rail safety standards and regulations,
- prevention of accidents at the workplace and occupational illnesses,
- continuous improvement of occupational health and safety, and continual improvement in this area,
- ongoing identification and minimization of technical and occupational risk.

The Safety Policy developed by the PKP CARGO Group reflects the Company's commitment and strategic vision in the area of rail traffic safety. The Policy contains, inter alia, a declaration of intentions, as well as outlines the overall goals and objectives of the Safety Management System (SMS) and principles and core values pursued by the Group. It contributes to the organization's commitment to create and improve work ethics; it also provides the employees with clear guidelines, which solidify the culture of safety.

The SMS System operates on the basis of national and EU legal regulations in respect of rail traffic safety, and it is a requirement which, if not complied with, will prevent a rail company from conducting its operations. The SMS System represents a systemic approach to the Company's organization and supervision of its activities in order to ensure rail traffic safety.

The implementation and operation of the SMS System is confirmed by the Safety Certificate issued by the Office of Rail Transport. On the basis of the Certificate, and having ensured compliance with other requirements, the Company may also conduct independent shipment operations in the following 7 EU countries: Czech Republic, Slovakia, Germany, the Netherlands, Austria, Hungary and Lithuania.

The purpose of the SMS System is also to ensure supervision over all types of risk associated with rail carrier's activities, together with maintenance services, the supply of materials and hiring of subcontractors.

PKP CARGO's freight wagon Maintenance Management System (MMS) represents a systemic approach to the organization and supervision of activities designed to ensure rail traffic safety through keeping the freight wagons for which PKP CARGO is responsible in good technical condition.

The System is developed by, and applicable to, a given company which conducts its operations as part of the rail system. Having an MMS System in place and ensuring its proper implementation and operation is mandatory for all enterprises responsible for maintenance of freight wagons; it is the condition necessary for conducting operations in that area. The System is subject to oversight by the Office of Rail Transport.

The MMS system has been implemented in PKP CARGO S.A. in 2013. The primary scope of the system includes maintenance of good technical condition of freight wagons as part of the main maintenance process, as well as auxiliary processes that ensure correct operations, such as risk analysis, management of staff competences or collaboration with other enterprises (in that regard, it is similar to the SMS System).

On the basis of the approved MMS System, in 2013 PKP CARGO received the Certificate of an Entity in charge of maintenance (the ECM Certificate) confirming its approval in the European Union.

The certificate is maintained on the condition of full implementation of the principles and conditions of freight wagons maintenance set out in national and EU laws.

Thanks to implementation of the MMS system and obtaining the ECM Certificate, at present PKP CARGO may conduct maintenance of freight wagons on its own or subcontract their maintenance to other companies, including its subsidiary PKP CARGOTABOR Sp. z o.o.

Without the MMS System and the ECM Certificate, the Company would not be able to conduct activities in that area, and the maintenance of freight wagons would have to be outsourced (PKP CARGO holds the aforementioned certificate).

The ECM Certificate is valid for 5 years, after which it is subject to renewal. The current certificate expires in May 2021.

PKP CARGO S.A.'s policy related to social issues – social dialog.

Social dialog in PKP CARGO S.A. is based on the stipulations of the generally mandatory laws, the Company Collective Bargaining Agreement and the agreements defining the mutual obligations of the parties to social dialog in the Company.

The significance and role of trade unions in PKP CARGO S.A. are affected by the following factors in particular:

- powers defined both in general laws and internal regulations,
- participation in managing the Company through delegation of representatives to the corporate bodies (there are three union representatives in the Supervisory Board and one in the Management Board),
- high level of union membership among employees (around 84%).

Cooperation with trade unions in the Company covers the following issues in particular:

- monitoring of the functioning, and laying down the direction of changes in the Company Collective Bargaining Agreement,
- agreeing the labor, incentive and company social benefits fund bylaws, as well as and participation in the distribution of benefits from that fund,
- participation in distribution of funds earmarked for salaries,
- issuing opinions on the headcount,
- consulting changes to organizational structures and framework organizational rules and regulations,
- influencing the development of occupational health and safety conditions through participation in OHS commissions and oversight over SIP,
- supervision over provident and loan associations,
- consulting the intent to terminate, dissolve or amend the content of the employment contract; agreeing upon the changes to employment contracts of persons subject to special protection,
- participation in the procedure of imposing penalties for a breach of order.

In PKP CARGO S.A., being a collection of employers, the social dialog is conducted by:

- at the Company level - the President of the Management Board or a person designated thereby and the competent statutory bodies of supra-company trade unions operating at the level of PKP CARGO S.A. and company trade unions being a party to the CCBA;
- at the Company's Head Office level - a person designated by the President of the Management Board and the competent statutory bodies of company trade unions;
- at the Company's plant level - the Company's plant manager and the competent statutory bodies of company trade unions. The basic form of dialog are the regular meetings aimed at discussing current issues of material importance to the employer and the employees, which are held, in principle, once a month on the unit level and once a quarter on the Company level.

The basic form of dialog are regular meetings aimed at discussing current issues of material importance to the employer and the employees, which are held, in principle, in the Head Office once a month on the plant level and once a quarter on the Company level.

The idea of partnership has been developed as a long practice of PKP CARGO S.A.; therefore, in 2018, the Company continued activities to promote it, based on, inter alia, internal Best Practices of Social Dialog, developed jointly with the Social Partners during the Partnership-Based Dialog Workshop in 2017.

Seeking to ensure transparent principles of cooperation between the dialog parties, the Company updates its internal regulations which define the rules of Social Partners' cooperation. As a result of joint work, the Agreement of 14 February 2005 on mutual obligations of the Parties to Company Collective Bargaining Agreement was updated in 2018 for Employees of PKP CARGO S.A. Units.

The Company also creates conditions conducive to the dissemination and upgrading of knowledge, in its aspects which are important for social dialog parties. To this end, representatives of the Social Partner are offered training courses devoted, inter alia, to changes of the law in the areas having direct impact on joint processes (revision of the trade unions act, GPDR).

The Company became a Signatory of the Diversity Charter, coordinated in Poland by the Responsible Business Forum. Joining the Charter is a public expression of respect for the policy of equal opportunities and the idea of equality in business, as well as acceptance for differences and dissimilarities, including in the area of employee trade union membership.

PKP CARGO S.A.'s policy related to employee issues.

Employee recruitment

In 2018, similar to 2017, internal and external recruitment processes were ongoing. Additionally, following activities were organized within the scope of three major programs:

- The vocational internships program
- The scholarship program
- The summer internships program

In addition, new employees without professional qualifications were allowed to participate in an extensive training project to prepare them to work as a train driver, rolling stock auditor or switchman.

In addition, collaboration with local organizations and with the Polish Ministry of Education to support employment in specific facilities was continued.

Adaptation program

In 2018, the existing adaptation program was adjusted to the needs and expectations of selected groups of positions in the Company: administrative employees, managerial staff and non-administrative employees. For employees in positions directly associated with the transport process, a series of training sessions was updated to allow them to obtain required professional qualifications. Adaptation program results in decreased employee turnover.

Training and Development

PKP CARGO S.A. aims to obtain the status of a learning organization, using knowledge- and experience-based management and various forms of professional development that would support the accomplishment of business goals.

In 2018, the Company supported its employees in post-graduate studies, foreign language teaching courses were launched and training in the form of e-learning was introduced.

Social activity and travel benefits

The Company Social Benefits Fund (CSBF) has been established at PKP CARGO S.A., based on the rules following from generally applicable provisions of law and the Collective Bargaining Agreement (CBA. In particular, use of CSBF funds is granted to employees, old age and disability pensioners and members of their families.

Employees can take advantage of a wide-ranging package of social benefits. Meeting the expectations of employees halfway, the possibility of co-financing the stay of children in kindergartens and nurseries has been introduced and is enjoying considerable popularity.

Caring about employee health and comfort, the ability to use sport facilities, sport and recreational programs, FITPROFIT cards and other sports cards that allow access to a number of facilities nationwide has been added.

In 2018, the Company has made a CSBF charge for 39,909 eligible persons, including 17,253 employees and 22,656 old age and disability pensioners.

Employees and members of their families, as well as old age and disability pensioners, are eligible for discounted travel services in the form of preferential fares in trains throughout the country. The cost of employees purchasing a discounted travel service for the second class is covered entirely by the employer. These benefits are offered pursuant to an Agreement of 27 November 2013 between ZPK and carriers operating passenger railway transport on discounted travel services, and the Company's internal regulations.

In 2018, a total of 27,309 such benefits were purchased, including:

- for employees – 13,100,
- for members of employees' families – 2,121
- for old age and disability pensioners from the railway sector – 12,088.

Every year several hundred people (approx. 300) decide to purchase an international ticket, which allows them to travel around Europe and selected countries in Asia and even Africa for a token fee.

PKP CARGO S.A.'s policy related to natural environment.

The environmental policy adopted by the Company is a coherent element of the PKP CARGO S.A. Integrated Management System (IMS) Policy and includes:

- protection of the natural environment through the promotion and implementation of eco-friendly forms of transport and prevention of pollution,
- reasonable use of raw materials, other materials and energy and water in accordance with the legal requirements of environmental protection and sustainable development,
- raising employees' awareness of their responsibility for the quality of the natural environment

The application of those policies results in:

- safe transport of goods using rolling stock that meets environmental requirements;
- investments in the procurement of new rolling stock and modernization of used stock, in the maintenance and repair facilities, and in rolling stock diagnostics equipment, which helps maintain high standards of rolling stock maintenance and protect of the environment against possible consequences of rolling stock breakdowns and accidents;
- compliance of the performed activities with applicable legal provisions
- minimizing the impact on the natural environment, reduction of the amount of substances and pollutants emitted to the environment;
- The environmental awareness of our employees is growing every year – they are regularly trained according to the environmental hazards which they face in their working stations.

PKP CARGO S.A.'s policy related to human rights protection – anti-mobbing policy

PKP CARGO S.A. treats developing proper interpersonal relations and ethical behaviors in the working environment as a priority. Considerable attention is paid to monitoring and effectively fighting all instances of mobbing and other forms of employee discrimination through the introduction of a number of organizational, legal, informational and cultural measures.

The anti-mobbing principles found in the Labor Code have been reflected in adopted internal regulations, forming the core of the Company's anti-mobbing policy. The obligation to prevent mobbing has been introduced into labor bylaws of PKP CARGO S.A. organizational units. There are Anti-mobbing Committees and Trustees at the Company Head Office and facilities, which employees can turn to on a confidential basis in any matter that involves undesirable behavior. The Trustees cooperate with the Ethics Officer.

Particular attention in the mobbing prevention policy is paid to preventive actions, especially as regards education and information. To this end, employees and especially managerial staff are trained and the issues of mobbing and protecting against instances of mobbing are included in OHS training. An e-mail address is also available to which instances of mobbing can be reported, and employees are kept informed on this topic via the PKP CARGO intranet site.

Employees can also report irregularities outside the organization's structures. To achieve this, the Company began to work with an external "Ethics Hotline" that allows anonymous reporting of mobbing instances as well as ethical irregularities and corruption, conducts explanatory investigations and organizes training.

PKP CARGO S.A.'s policy related to preventing corruption and bribery

As of 1 January 2018 the Decision of President of the PKP CARGO S.A. Management Board dated 31 October 2017 entitled "Procedure of Dealing with Corruption Risks in PKP CARGO S.A." entered into effect. This procedure regulates:

- manner of reporting cases of corruption or suspected corruption;
- registration of corruption events;
- dealing with identified cases of corruption;
- dealing with persons reporting cases of corruption;
- informing the Management Board about cases of corruption;
- reporting cases of corruption to law enforcement agencies and cooperation with such agencies;
- analyzing cases of corruption;
- preventing the recurrence of cases of corruption;
- cooperation with the stakeholders, partners, business partners and administration institutions;
- cooperation with PKP CARGO S.A.'s internal units.

The procedure applies to all PKP CARGO S.A. employees and persons sitting on the Management Board. In addition, the procedure regulates the whistleblower status, as well as the gift acceptance and offering policy.

The anticorruption policy is implemented through the "Procedure for Dealing with Corruption Risks at PKP CARGO S.A."

10.2.4 Due diligence procedures

PKP CARGO S.A. on an ongoing basis, take actions to ensure the effectiveness of the implementation of the designated tasks and compliance with the law.

Internal regulations introduced in the Company are adjusted to current business needs and must be consistent with mandatory provisions of law. At the same time, the use of good practices by the Company contributes to improving the standards of conducted activities and increases the qualifications and competences of human resources.

Systematic risk assessment, including in relation to social, employee and human rights issues, allow to identify threats early and keep their consequences down to a minimum.

The human resources management area is subject to a system of internal audits, part of the Integrated Management System, which allows to identify processes, ensure their compliance with assumed requirements, and implement improvements.

10.2.5 Risks related to the activity of PKP CARGO S.A. and management of these risks

On 25 September 2018, the PKP CARGO S.A. Management Board adopted a resolution on introducing the "Risk Management Policy in PKP CARGO S.A." Pursuant to the resolution, changes were introduced in the previously effective Policy whose purpose was to link the Investment Plan being developed to existing, high risks, and make the process more flexible. The Security and Audit Office has been takes with exercising supervision over the implementation and execution of the provisions of the Policy.

The basic task of the PKP CARGO S.A. Supervisory Board Audit Committee (SBAC) is to examine the correctness and effectiveness of carrying out internal financial audits in the Company and monitoring the effective operation of internal control, internal audit and risk management systems. The Supervisory Board Audit Committee assesses the risk management system.

The PKP CARGO S.A. Management Board is responsible for risk management on the basis of the strategy adopted by the PKP CARGO Group, and primarily defines the directions of development and makes decisions regarding risk handling plans.

The Unit or Department Director is responsible for risk management in the reporting area. Its tasks include:

- identifying risks related to activities,
- analyzing and assessing the risks,
- and then comparing them with expected results.

Depending on the comparison results obtained, actions are taken to either retain the status quo or reduce the risk level. PKP CARGO employees are obliged to comply with the provisions of the Policy within the scope of their powers.

The Policy designates a Risk Leader whose task is to coordinate all matters associated with risk management. Gathering and analysis of information and subsequent reporting to the Management Board and Supervisory Board Audit Committee.

Particularly important risks have been subjected to special monitoring. With regard to the risks indicated by the Management Board Members, indicators illustrating the risk level have been designed. 25 indicators are currently monitored. Once a month, the Management Board receives a report which presents the indicator levels (neutral, alert and catastrophic), the trend of each indicator and information about the causes of deviations and actions taken by the risk owners in connection with the deviations.

The indicators in most cases are of quantitative nature and present information which is verifiable and obtained without sustaining undue costs from PKP CARGO S.A.'s IT systems. The Management Board has the possibility of changing the monitored indicators depending on information needs. The policy has been developed on the basis of the provisions of the ISO 31000 “Risk management” standard.

The risk assessment process takes place at least once a year, as part of self-assessment. During the assessment, risk owners identify the risks in their area and the information assets with regard to the risks associated with information security and plan actions aimed at reducing the risk level if it is unacceptable. If there are important circumstances affecting the risk level, the risk owner should carry out a self-assessment before elapse of one year.

The assessment process takes place in 3 stages: it starts with risk identification, then the risk is analyzed and the results obtained are compared with the expectations, which determines the next steps regarding the risk handling. The risk may be accepted or the risk owner prepares a Risk Handling Plan.

With regard to the risks associated with information security with regard to assets which have been found critical by their owners, Business Continuity Plans are developed. The asset owner is responsible for maintaining, updating and testing the Plan. The cyclical nature of the process assumes its continuous changes aimed at improvement.

Among the material risks associated with the entity's operations (social issues, employee issues, human rights) one should list:

Social dialog

Social agreements concluded and honored by PKP CARGO S.A. Social Partners, among which particular importance is attached to the Agreement of 14 February 2005 on mutual obligations of parties to the Collective Bargaining Agreement involving employees employed by PKP CARGO S.A. facilities, form the foundation of collaboration and social dialog in the Company. Informing the employer and staff about important matters, including regular meetings with trade unions, allows early identification of issues posing a risk to Company activities, prevents conflicts and disputes and ensures that business processes can be performed without social disturbances.

Representation of employees in PKP CARGO S.A. corporate bodies increases risks related to information protection, but also has a positive effect on Company management since it allows staff to identify with corporate objectives, increases responsibility and the level of economic awareness among employees and offers a realistic assessment of possibility of meeting trade union demands.

Various initiatives and actions undertaken to develop the partnership idea contribute to increasing the level of social dialog and have a positive impact on business processes in the Company.

Social policy and discounted transport services

One of the core objectives of the human resources management area is ensuring necessary human resources for Company needs.

In 2018 internal and external recruitment took place. To that end, efforts on implementing systemic solutions to underpin the hiring of new employees were intensified. These efforts fell within the scope of three major programs: (vocational internships program, scholarships program, summer internships program.) In addition, collaboration with local organizations and the Polish Ministry of Education to support employment in specific facilities was continued.

An important measure safeguarding the Company's interests is the protection of information of considerable value for the Company. Considering the need to adjust the regulations in effect at the Company to industry standards and the fact that the Company as a publicly traded entity should take care to observe the highest standards of information protection, new rules prohibiting competitive activities have been designed. Their purpose is to eliminate or considerably mitigate the risk of disclosing information essential for the Company. In addition, there are plans to make the amount of compensation and duration of post-employment non-competition clause dependent on the term of employment in a position subject to the clause.

The distribution of monies from the Company Social Benefits Fund (CSBF) with the participation of staff representatives is an essential feature of extra-salary benefits system in effect at the Company and contributes to satisfying the social and living needs of employees, former employees and members of their families. As PKP CARGO S.A. employees are able to manage the CSBF independently based on corporate bylaws, social assistance can reach those who need it the most, taking into account local considerations.

Likewise, eligibility for discounted transport fares, a historic feature of railway companies, has its important place among non-salary factors motivating Company employees at the recruitment stage and during subsequent integration between the enterprise and its personnel.

Anti-mobbing policy

The legal regulations adopted at PKP CARGO S.A. contribute to an organizational framework attempting to limit instances of mobbing and discrimination at the Company, prevent conflicts, and promote desirable employee attitudes. The Company's Anti-mobbing Committees and Trustees, supported by the Ethics Officer and the information and training policy, serve as the effective foundation for preventing mobbing and other discriminatory practices in the workplace.

Natural environment

Key risks in the area of environmental protection:

- the risk of failure to comply with the legal requirements as regards environmental protection – the legal and financial consequences (fines, reclamation costs, increased environmental fees) in the case of identification of non-compliance by environmental protection inspection authorities) – negative impact on the image of the organization, in the case of identification of irregularities, environmental contamination, use of the environment without the required decisions, permits, authorizations and filings and without the required waste records and reporting;
- the risk of failing to meet PL-EN ISO 14001:2015-9 requirements – discovering a critical non-compliance during a third party audit and loss of IMS certificate as regards the PN-EN ISO 14001 standard

Environment risks have been defined in the “PKP CARGO S.A. risk management policy” in the context of environmental processes such as managing emissions into air from technology processes and burning fuels in installations and equipment, managing equipment containing substances that deplete the ozone layer and fluorinated greenhouse gases, managing water and sewage, managing produced industrial and municipal waste, managing noise emissions to the environment, managing green areas and taking action in case of damage to the environment. Risk handling plans have been designed for environmental processes that require actions to be taken.

Preventing corruption and bribery

Minimizing corruption risk takes place through introduction of a Procedure for handling corruption risks and through introduction of whistleblower status and appointment of a Compliance Officer responsible for clarifying irregularities. Whistleblowers may be recruited from among both PKP CARGO employees and persons/entities outside the Company which cooperate with it (customers, business partners, suppliers etc.)

11. Other information of relevance for evaluation of the employment situation, financial standing, financial performance, assets and their movements as well as information of relevance for assessment of the ability of the issuer and other Group companies to pay their debts.

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

This Management Board Report on the Activity of the PKP CARGO Group has been prepared by the PKP CARGO S.A. Management Board.

Company's Management Board

Czesław Warsewicz
President of the Management Board

Leszek Borowiec
Management Board Member

Grzegorz Fingas
Management Board Member

Witold Bawor
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 20 March 2019

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 2018 and the Management Board's report on the operation of the PKP CARGO Capital Group for the year 2018

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 2018, 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 2018 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

Czesław Warsewicz
President of the Management Board

Leszek Borowiec
Management Board Member

Grzegorz Fingas
Management Board Member

Witold Bawor
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 20 March 2019

Warsaw, 20 March 2019

Information from the PKP CARGO S.A. Management Board, drawn up in compliance with the statement by the PKP CARGO S.A. Supervisory Board dated 20 March 2019 on the selection of an audit firm to audit the annual Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2018, prepared in accordance with EU IFRS, and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2018, prepared in accordance with EU IFRS

(as required pursuant to § 70 Section 1 Item 7 and § 71 Section 1 Item 7 of the Finance Minister's Regulation of 29 March 2018 on the current and periodic information transmitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent (Journal of Laws of 2018 Item 757))

The PKP CARGO S.A. Management Board, in compliance with the statement by the PKP CARGO S.A. Supervisory Board dated 20 March 2019 on the selection of an audit firm to audit the annual Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2018, prepared in accordance with EU IFRS (hereinafter: "Standalone Financial Statements"), and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2018, prepared in accordance with IFRS EU (hereinafter: "Consolidated Financial Statements"), hereby advises that an audit firm has been selected for the purposes of auditing the Standalone Financial Statements and the Consolidated Financial Statements in compliance with the generally applicable provisions of law and internal regulations of PKP CARGO S.A. (hereinafter: "Company") in effect as at the date of selection of the audit firm, and specifies that:

1) the audit firm selected for the purposes of auditing the Standalone Financial Statements and the Consolidated Financial Statements is BDO spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Warsaw, entered by the National Board of Statutory Auditors in the list of audit firms under file no. 3355;
2) the audit firm and members of the audit team fulfilled the conditions for preparing an impartial and independent audit report on the Standalone Financial Statements and the Consolidated Financial Statements in compliance with the applicable laws, professional standards and professional ethics principles and in accordance with the statement contained in the Supplementary Report for the Audit Committee of the PKP CARGO S.A. Supervisory Board;
3) the applicable laws providing for the rotation of the audit firm and the key statutory auditor and waiting periods have been complied with;
4) PKP CARGO S.A. has adopted a policy governing the selection of an audit firm and a policy governing the provision of additional non-audit services to the Company by an audit firm, its related parties and members of its network, including services conditionally exempt from the prohibition on being provided by an audit firm.

Czesław Warsewicz – President of the Management Board ……………………….

Leszek Borowiec – Management Board Member in charge of Finance ……………………….

Grzegorz Fingas – Management Board Member in charge of Commerce ……………………….

Witold Bawor – Management Board Member in charge of Operations ……………………….

Zenon Kozendra – Management Board Member – Employee Representative ……………………….

Warsaw, 20 March 2019

Statement by the PKP CARGO S.A. Supervisory Board on the establishment and operation of the Audit Committee of the PKP CARGO S.A. Supervisory Board

The PKP CARGO S.A. Supervisory Board, acting pursuant to § 70 Section 1 Item 8 and § 71 Section 1 Item 8 of the Finance Minister’s Regulation of 29 March 2018 on the current and periodic information transmitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent (Journal of Laws of 2018 Item 757) hereby represents that:

1) the laws governing the appointment, composition and operation of the Audit Committee of the PKP CARGO S.A. Supervisory Board have been complied with, including in terms of the fulfillment by its members of the independence criteria and requirements pertaining to the knowledge and skills in the specific industry in which PKP CARGO S.A. operates and in the domain of accounting or audit of financial statements;
2) The Audit Committee of the PKP CARGO S.A. Supervisory Board he performed its duties provided for in the applicable laws.

Warsaw, 20 March 2019

Assessment, by the PKP CARGO S.A. Supervisory Board, of the annual Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2018 prepared in accordance with EU IFRS

The PKP CARGO S.A. Supervisory Board, acting pursuant to Article 382 § 3 of the Commercial Company Code in conjunction with § 70 Section 1 Item 14 of the Finance Minister's Regulation of 29 March 2018 on the current and periodic information transmitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent (Journal of Laws of 2018 Item 757), is of the opinion that the annual Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2018 prepared in accordance with EU IFRS (hereinafter: "Standalone Financial Statements") are consistent with the accounting ledgers, documents and facts.

The PKP CARGO S.A. Supervisory Board justifies its assessment as follows:

The PKP CARGO S.A. Supervisory Board has assessed the Standalone Financial Statements on the basis of:

- contents of the said financial statements and the auditor's unqualified opinion,
- information obtained during meetings with representatives of BDO spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Warsaw, i.e. the audit firm, including the key statutory auditor,
- information provided to the PKP CARGO S.A. Supervisory Board by the Audit Committee of the PKP CARGO S.A. Supervisory Board as part of the performance, by the Audit Committee of the PKP CARGO S.A. Supervisory Board, of assignments provided for in the applicable laws and internal regulations,
- information and data presented to the PKP CARGO S.A. Supervisory Board by the PKP CARGO S.A. Management Board,
- information obtained by the PKP CARGO S.A. Supervisory Board within the framework of the powers vested in it, including in particular as part of internal control and audit activities and access to documents and financial ledgers.

In the opinion of the independent statutory auditor, the Standalone Financial Statements of PKP CARGO S.A.:

- present an accurate and clear picture of the assets and financial standing of PKP CARGO S.A. as at 31 December 2018 as well as its financial performance and cash flows in fiscal year ended on this day, pursuant to International Financial Reporting Standards and related interpretations announced in the form of regulations by the European Commission as well as the adopted accounting principles (policy)
- are consistent as to the form and content with the generally binding laws and The Articles of Association of PKP CARGO S.A.,
- were created on the basis of properly kept accounting ledgers in accordance with the provisions of Chapter 2 of the Act on accounting of 29 September 1994 (Journal of Laws of 2019, item 351)

In consideration of the foregoing, the favorable assessment of the annual Standalone Financial Statements of PKP CARGO S.A. is justified.

Warsaw, 20 March 2019

Assessment, by the PKP CARGO S.A. Supervisory Board, of the Management Board Report on the activity of the PKP CARGO Group and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2018 prepared in accordance with EU IFRS

The PKP CARGO S.A. Supervisory Board, acting pursuant to Article 382 § 3 of the Commercial Company Code in conjunction with § 71 Section 1 Item 12 of the Finance Minister's Regulation of 29 March 2018 on the current and periodic information transmitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent (Journal of Laws of 2018 Item 757), is of the opinion that the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2018 prepared in accordance with EU IFRS (hereinafter: "Consolidated Financial Statements") and the Management Board Report on the activity of the PKP CARGO Group are consistent with the accounting ledgers, documents and facts.

The PKP CARGO S.A. Supervisory Board justifies its assessment as follows:

The PKP CARGO S.A. Supervisory Board has assessed the Consolidated Financial Statements and the Management Board Report on the activity of the PKP CARGO Group on the basis of:

- contents of the said financial statements and the auditor's unqualified opinion,
- information obtained during meetings with representatives of BDO spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Warsaw, i.e. the audit firm, including the key statutory auditor,
- information provided to the PKP CARGO S.A. Supervisory Board by the Audit Committee of the PKP CARGO S.A. Supervisory Board as part of the performance, by the Audit Committee of the PKP CARGO S.A. Supervisory Board, of assignments provided for in the applicable laws and internal regulations,
- information and data presented to the PKP CARGO S.A. Supervisory Board by the PKP CARGO S.A. Management Board,
- information obtained by the PKP CARGO S.A. Supervisory Board within the framework of the powers vested in it, including in particular as part of internal control and audit activities and access to documents and financial ledgers.

In the opinion of the independent statutory auditor, the Consolidated Financial Statements:

- present an accurate and clear picture of the assets and financial standing of PKP CARGO Group. as at 31 December 2018 as well as its financial performance and cash flows in fiscal year ended on this day, pursuant to International Financial Reporting Standards and related interpretations announced in the form of regulations by the European Commission as well as the adopted accounting principles (policy
- are consistent as to the form and content with the generally binding laws and The Articles of Association of parent company

In the opinion of the independent statutory auditor, the Management Board Report on the activity of the PKP CARGO Group (including the Management Board Report on the activity of PKP CARGO S.A.) has been prepared in accordance with Article 49 of the Act on accounting (i.e. of 17 January 2019 (Journal of Laws of 2019, item 351) and with § 71 Section of the Finance Minister's Regulation and is consistent with the information contained in the Consolidated Financial Statements .

Furthermore, the independent statutory auditor stated that in the light of its knowledge about the PKP CARGO Group and its environment obtained during the audit of the Consolidated Financial Statements, the statutory auditor did not identify any material distortions in the Management Board Report on the activity of the PKP CARGO Group.

In consideration of the foregoing, the favorable assessment, by the PKP CARGO S.A. Supervisory Board, of the Management Board Report on the activity of the PKP CARGO Group and the Consolidated Financial Statements is justified.

For more information on PKP CARGO please contact
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