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PKP CARGO S.A.
STAND-ALONE ANNUAL REPORT
FOR 2015

Dear Investors,

I have the honor of presenting to you PKP CARGO's 2015 Annual Report, a register of the accomplishments of more than 21 thousand employees in our Group who every day are building the position of one of the most rapidly growing rail carriers and logistics operators in Europe.

Last year the market environment for cargo rail freight was exceptionally challenging. The freight transport industry was profoundly affected by the troubles faced by the Polish mining industry and the direct consequence of this situation in the form of diminished freight transport for this fuel to domestic and international clients. Nonetheless, despite the shrinking market and the challenging circumstances in the mining industry, thanks to PKP CARGO's effective commercial policy, we managed not only not to incur any losses but we also grew our share of coal transport. We also actively built the Company's position on the challenging market for the transport of aggregates. We accomplished this by introducing pricing mechanisms to curtail the seasonality of this type of transport in favor of evenly spreading it over the year.

In 2015 we offered our partners modern logistics services customized to specific individual transport orders. Our trains to Sweden and Denmark are flagship solutions. With this service we make connections entailing the transport of fertilizer and timber to the port, transport by rail ferry, transport to the loading site, transshipment to a vehicle, transport to the client and if necessary storage and warehousing. We have the ability to send a train at any time from any venue in Poland for any class of cargo. It is worth noting that under the new logistics solution proposed by PKP CARGO, transport by vehicle applies only to what is known as the "last mile", i.e. to cargo deliveries to the end user.

The double digit growth achieved in intermodal transport last year despite the very fierce competition was a major success for the PKP CARGO Group. The comprehensive measures taken by the commercial staff focusing on obtaining new orders and creating conducive commercial terms and conditions to develop container connections to Polish ports and to handle the rapidly growing transport on the New Silk Road connecting China to Europe produced results. At the outset of 2015 we started with a mere few trains a week on this route. Now at the end of the year this number has shot up to nearly twenty. In the upcoming years we would like to develop this direction of transport organization.

To satisfy our clients' growing needs we have expanded our intermodal services offering based on operator trains for container transport. This is a modern product giving our clients not just high quality services but also the element of regularity and repeatability needed in logistics. At the same time, this makes it possible to render an extensive range of logistics services, including the warehousing of containers and handling the "last mile" by vehicle. PKP CARGO's Poznań - Franowo terminal is the most important spot on Poland's rail map for this service. All the trains being marshalled carrying freight from Western Europe to the central portion of Poland and further east must travel through this station. In that manner this terminal facilitates the distribution of cargo in Central Poland and further export of products coming to Poland from abroad. In 2015 we finalized the process of expanding this terminal's transshipment and warehousing capabilities. As we wanted to extend the routes of the operator trains we commenced the expansion of the strategic terminal in Paskov in the vicinity of Ostrava to handle the automotive center situated in the Czech Republic, Slovakia and southern Poland.

All this taken together means that despite the demanding market environment, the ever fiercer competition posed by other carriers and operators, the impairment losses taken for property, plant and equipment - rolling stock - and inventories, amounting to more than PLN 177 million, we have generated satisfactory financial and operating results. The PKP CARGO Group's 2015 revenues topped PLN 4.5 billion while net profit was PLN 31 million.

In 2015 we subsumed our actions to building the competences of a logistics operator with a European reach by offering comprehensive logistics services to our clients. To streamline the execution of our commercial policy and augment our efficacy in reaching clients, we combined two forwarders from the PKP CARGO Group: PS Trade Trans and Cargosped. As a result of this consolidation the company doing business as PKP CARGO Connect was formed. It is responsible for selling PKP CARGO's integrated logistics services in Poland and on international markets.

Dear Investors, in the last twelve months we have undertaken numerous investment activities to form a strong foundation to grow the Company in subsequent years. In this respect the most important event in 2015 was the acquisition of an 80% stake in Advanced World Transport (AWT), the second largest rail freight operator in the Czech Republic and one of the largest private carriers in Europe. Through this investment PKP CARGO has bolstered its strategic position in Central and Southern Europe. By incorporating AWT in PKP CARGO's structures, we have greatly augmented the magnitude of international business and our capabilities to serve European markets.

Today our trains serve ports on the Adriatic Sea and the North Sea. To tap even more effectively into the potential offered by the North-South corridor, in Q1 2015 we signed a strategic cooperation agreement with HŽ Cargo, Croatia's national carrier. Cooperating with this partner affords us access to ports in Rijeka and Ploče that are undergoing intense modernization and to HŽ Cargo's terminals on that rail network.

To pursue international expansion effectively, last year the Company made the decision to purchase 15 technologically advanced multi-system locomotives. The first shipment of these locomotives is already driving PKP CARGO's trains in domestic and international transport, thereby contributing to strengthening our position on the European cargo transport market.

Nor do we forget about taking up development-focused activities on the Polish market. We believe that signing the agreement to acquire PKN Orlen's rail assets was crucial, i.e. ORLEN KoITrans and an organized part of the business of Euronaft Trzebinia. After finalizing this transaction the PKP CARGO Group will be enriched with a powerful carrier operating in a segment guaranteeing a high return with good forward-looking prospects.

Dear Shareholders, we are striving to respond to the changes transpiring in the market environment effectively and on a timely basis; that is why we perceive the necessity to introduce innovations in our business. The cooperation established in 2015 with the Industry Development Agency and the National Center for Research and Development will help us accomplish this goal. We intend to look for innovative business solutions for the rail jointly with these institutions while enhancing our operating efficiency and cutting our expenses. We would like to encourage startups and scientists to search for solutions related to our needs. An innovative PKP CARGO means a stronger PKP CARGO capable of competing more effectively in Poland and Europe.

We are steadily reinstating the role and significance of the occupation of railway worker to facilitate the unfettered development of the PKP CARGO Group. We are investing in the development of vocations that are needed for the Company's proper operation. For more than a year we have been running an unprecedented and large scale training program for train drivers. By 2020 some two thousand train drivers trained directly by PKP CARGO will drive PKP CARGO's trains.

We have brought together these measures under a tight-knit approach and we have arranged them systematically within the framework of our strategy for 2016-2020. We boldly gaze into the future: our objectives for the upcoming years call for holding the position of undisputed leader of railway transport in Poland, the comprehensive handling of international freight traffic passing through Poland and taking the position of a leading intermodal operator in Central and Eastern Europe. We have the potential, experience and capabilities to attain these objectives.

Maciej Libiszewski

President of the PKP CARGO S.A.
Management Board



PKP CARGO S.A.

**Opinion and Report
of the Independent Auditor
Financial Year ended
31 December 2015**

The opinion contains 2 pages
The supplementary report contains 9 pages
Opinion of the independent auditor
and supplementary report on the audit
of the separate financial statements
for the financial year ended
31 December 2015

OPINION OF THE INDEPENDENT AUDITOR



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

OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting of PKP CARGO S.A.

Opinion on the Separate Financial Statements

We have audited the accompanying separate financial statements of PKP CARGO S.A., with its registered office in Warsaw, ul. Grójecka 17 (“the Company”), which comprise the separate statement of financial position as at 31 December 2015, the separate statement of comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

Management’s and Supervisory Board’s Responsibility for the Financial Statements

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

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

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements and whether the financial statements are derived from properly maintained accounting records based on our audit. We conducted our audit in accordance with section 7 of the Accounting Act and International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Assurance. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements and the accounting records from which they are derived are free of material misstatements.

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

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

Opinion

In our opinion, the accompanying separate financial statements of PKP CARGO S.A. have been prepared and present fairly, in all material respects, the unconsolidated financial position of the Company as at 31 December 2015 and its unconsolidated financial performance and its unconsolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, are in compliance with the respective regulations and the provisions of the Company's articles of association that apply to the Company's separate financial statements and have been prepared from accounting records, that, in all material respects, have been properly maintained.

Specific Comments on Other Legal and Regulatory Requirements

Report on the Company's Activities

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

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
ul. Inflancka 4A
00-189 Warsaw

Signed on the Polish original

.....
Monika Bartoszewicz
Key Certified Auditor
Registration No. 10268
Limited Liability Partner
with power of attorney

17 March 2016

REPORT OF THE INDEPENDENT AUDITOR

PKP CARGO S.A.

Supplementary report
on the audit of the separate
financial statements
Financial Year ended
31 December 2015

The supplementary report contains 9 pages

The supplementary report on the audit
of the separate financial statements
for the financial year ended
31 December 2015

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

Contents

1.	General	3
1.1.	General information about the Company	3
1.1.1.	Company name	3
1.1.2.	Registered office	3
1.1.3.	Registration in the register of entrepreneurs of the National Court Register	3
1.1.4.	Management of the Company	3
1.2.	Key Certified Auditor and Audit Firm Information	4
1.2.1.	Key Certified Auditor information	4
1.2.2.	Audit Firm information	4
1.3.	Prior period financial statements	4
1.4.	Audit scope and responsibilities	4
2.	Financial analysis of the Company	6
2.1.	Summary analysis of the separate financial statements	6
2.1.1.	Separate statement of financial position	6
2.1.2.	Separate statement of comprehensive income	7
2.2.	Selected financial ratios	8
3.	Detailed report	9
3.1.	Accounting system	9
3.2.	Notes to the separate financial statements	9
3.3.	Report on the Company's activities	9

1. General

1.1. General information about the Company

1.1.1. Company name

PKP CARGO S.A.

1.1.2. Registered office

ul. Grójecka 17
02-021 Warszawa

1.1.3. Registration in the register of entrepreneurs of the National Court Register

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

1.1.4. Management of the Company

The Management Board is responsible for management of the Company.

As at 31 December 2015, the Management Board of the Company was comprised of the following members:

- Maciej Libiszewski – acting as President of the Management Board,
- Jacek Neska – Member of the Management Board,
- Łukasz Hadyś – Member of the Management Board,
- Wojciech Derda – Member of the Management Board,
- Dariusz Browarek – Member of the Management Board.

On 14 December 2015 Mr. Adam Purwin resigned from the position of President of the Management Board.

On the basis of the resolution of the Supervisory Board dated 18 December 2015 Mr. Maciej Libiszewski was appointed to the position of Member of the Management Board and to act as the President of the Management Board.

On the basis of the resolution of the Supervisory Board dated 19 January 2016 Mr. Maciej Libiszewski was appointed to the position of President of the Management Board.

On 24 February 2016 Mr. Łukasz Hadyś, Mr. Jacek Neska and Mr. Wojciech Derda resigned from the position of Members of the Management Board.

1.2. Key Certified Auditor and Audit Firm Information

1.2.1. Key Certified Auditor information

Name and surname: Monika Bartoszewicz
Registration number: 10268

1.2.2. Audit Firm information

Name: KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Address of registered office: ul. Inflancka 4A, 00-189 Warsaw
Registration number: KRS 0000339379
Registration court: District Court for the Capital City of Warsaw in Warsaw,
XII Commercial Department of the National Court Register
NIP number: 527-26-15-362

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

1.3. Prior period financial statements

The separate financial statements for the financial year ended 31 December 2014 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. and received an unmodified opinion.

The separate financial statements were approved at the General Meeting on 21 April 2015 where it was resolved to distribute the net profit for the prior financial year of PLN 58,610,399.18 as follows:

- PLN 53,921,567.25 to be paid as dividend,
- PLN 4,688,831.93 to reserve capital.

The separate financial statements were submitted to the Registry Court on 28 April 2015.

1.4. Audit scope and responsibilities

This report was prepared for the General Meeting of PKP CARGO S.A. with its registered office in Warsaw, ul. Grójecka 17 and relates to the separate financial statements comprising: the separate statement of financial position as at 31 December 2015, the separate statement of comprehensive income, the separate statement of changes in equity and the separate statement of cash flows for the year then ended and notes comprising a summary of significant accounting policies and other explanatory information.

The audited Company prepares its separate financial statements in accordance with International Financial Reporting Standards as adopted by the European Union on the basis of the decision of the General Meeting dated 8 July 2013.

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

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

We audited the separate financial statements at the Company during the period from 7 to 11 December 2015 and from 1 to 22 February 2016.

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

Our responsibility is to express an opinion and to prepare a supplementary report on the audit of the separate financial statements and whether the financial statements are derived from properly maintained accounting records based on our audit.

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

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

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

The Key Certified Auditor and the Audit Firm fulfill the independence requirements as described in Art. 56 points 3 and 4 of the Act on Certified Auditors and their Self-Governance, Audit Firms authorized to Audit Financial Statements and Public Oversight dated 7 May 2009 (Official Journal from 2015, item 1011 with amendments).

2. Financial analysis of the Company

2.1. Summary analysis of the separate financial statements

2.1.1. Separate statement of financial position

ASSETS	31.12.2015		31.12.2014	
	PLN '000	% of total	PLN '000	% of total
	(*)			
Non-current assets				
Property, plant and equipment	3,562,716	70.4	3,742,185	69.9
Intangible assets	59,236	1.2	55,990	1.0
Investments in subsidiaries and associates	734,643	14.6	262,846	4.9
Other long-term financial assets	6,021	0.1	6,021	0.1
Other long-term non-financial assets	18,927	0.3	1,464	0.1
Deferred tax assets	76,602	1.5	60,981	1.1
Total non-current assets	4,458,145	88.1	4,129,487	77.1
Current assets				
Inventories	60,743	1.2	75,759	1.4
Trade and other receivables	384,228	7.5	423,171	7.9
Other short-term financial assets	25,057	0.5	301,818	5.6
Other short-term non-financial assets	4,985	0.1	24,921	0.5
Cash and cash equivalents	84,097	1.7	381,420	7.1
	559,110	11.0	1,207,089	22.5
Assets classified as held for sale	44,061	0.9	17,560	0.3
Total current assets	603,171	11.9	1,224,649	22.9
TOTAL ASSETS	5,061,316	100.0	5,354,136	100.0
EQUITY AND LIABILITIES				
	31.12.2015		31.12.2014	
	PLN '000	% of total	PLN '000	% of total
	(*)			
Equity				
Share capital	2,239,346	44.2	2,239,346	41.8
Share premium	589,202	11.6	584,513	10.9
Other items of equity	3,726	0.1	(36,572)	(0.7)
Retained earnings	240,042	4.7	469,032	8.8
Total equity	3,072,316	60.7	3,256,319	60.8
Liabilities				
Long-term bank loans and credit facilities	459,305	9.1	206,112	3.8
Long-term finance lease liabilities and leases with purchase option	75,333	1.5	114,027	2.1
Long-term trade and other payables	22,389	0.4	67,938	1.3
Long-term provisions for employee benefits	549,280	10.9	637,783	12.0
Other long-term provisions	16,209	0.3	8,416	0.2
Other long-term financial liabilities	27,696	0.5	-	-
Total non-current liabilities	1,150,212	22.7	1,034,276	19.3
Short-term bank loans and credit facilities	129,914	2.6	87,971	1.6
Short-term finance lease liabilities and leases with purchase option	48,914	1.0	120,505	2.3
Short-term trade and other payables	568,085	11.2	457,602	8.5
Short-term provisions for employee benefits	81,581	1.6	318,600	6.0
Other short-term provisions	8,256	0.2	17,414	0.3
Other short-term financial liabilities	10	-	59,393	1.1
Current tax liabilities	2,028	-	2,056	-
Total current liabilities	838,788	16.6	1,063,541	19.9
Total liabilities	1,989,000	39.3	2,097,817	39.2
TOTAL EQUITY AND LIABILITIES	5,061,316	100.0	5,354,136	100.0

* data restarted

2.1.2. Separate statement of comprehensive income

	1.01.2015 - 31.12.2015	% of total sales	1.01.2014 - 31.12.2014	% of total sales
	PLN '000		PLN '000	(*)
Revenue from sales of services	3,472,945	98.8	3,775,863	97.3
Revenue from sales of goods and materials	9,435	0.3	28,809	0.7
Other operating revenue	31,774	0.9	75,509	2.0
Operating revenue	3,514,154	100.0	3,880,181	100.0
Operating expenses				
Depreciation/Amortization and impairment losses	(569,630)	16.2	(347,782)	9.0
Consumption of raw materials and energy	(595,633)	16.9	(587,736)	15.1
External services	(1,114,951)	31.7	(1,169,207)	30.1
Taxes and charges	(31,875)	0.9	(35,941)	0.9
Employee benefits	(1,229,890)	35.0	(1,553,670)	40.0
Other expenses by kind	(44,611)	1.3	(43,117)	1.1
Cost of merchandise and raw materials sold	(5,840)	0.2	(15,353)	0.3
Other operating expenses	(36,904)	1.1	(34,562)	0.9
	(3,629,334)	103.3	(3,787,368)	(97.6)
(Loss)/Profit on operating activities	(115,180)	3.3	92,813	2.4
Financial revenue	45,024	1.3	49,497	1.3
Financial expenses	(68,951)	2.0	(54,778)	1.4
(Loss)/Profit before tax	(139,107)	4.0	87,532	2.3
Income tax expense	24,982	0.8	(11,925)	0.3
Net (Loss)/Profit	(114,125)	(3.2)	75,607	2.0
Other comprehensive income that will not be reclassified to profit or loss				
Actuarial gains / (losses) on employee benefits after employment period	49,751	1.4	(32,927)	0.8
Income tax on other comprehensive income	(9,453)	0.3	6,256	0.2
Other comprehensive income	40,298	1.1	(26,671)	0.6
Total comprehensive income	(73,827)	2.0	48,936	1.4
Earnings per share (PLN)				
Basic earnings per share	(2.55)		1.70	
Diluted earnings per share	(2.55)		1.69	

* data restarted

2.2. Selected financial ratios

	2015	2014 (*)	2013 (*)
1. Return on sales			
<u>profit for the period x 100%</u> revenue	negative value	2.0%	2.2%
2. Return on equity			
<u>profit for the period x 100%</u> equity - profit for the period	negative value	2.4%	1.8%
3. Debtors' days			
<u>average trade receivables (gross) x 365 days</u> revenue	48 days	48 days	45 days
4. Debt ratio			
<u>liabilities x 100%</u> equity and liabilities	39.3%	39.2%	38.1%
5. Current ratio			
<u>current assets</u> current liabilities	0.7	1.2	1.5

* data restarted

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

3. Detailed report

3.1. Accounting system

The Company maintains current documentation describing the applied accounting principles adopted by the Management Board to the extent required by Art. 10 of the Accounting Act.

During the audit of the separate financial statements, we tested, on a sample basis, the operation of the accounting system.

On the basis of the work performed, we have not identified any material irregularities in the accounting system, which have not been corrected and that could have a material effect on the separate financial statements. Our audit was not conducted for the purpose of expressing a comprehensive opinion on the operation of the accounting system.

The Company performed a physical verification of its assets in accordance with the requirements and time frame specified in Art. 26 of the Accounting Act, and reconciled and recorded the result thereof in the accounting records.

3.2. Notes to the separate financial statements

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

3.3. Report on the Company's activities

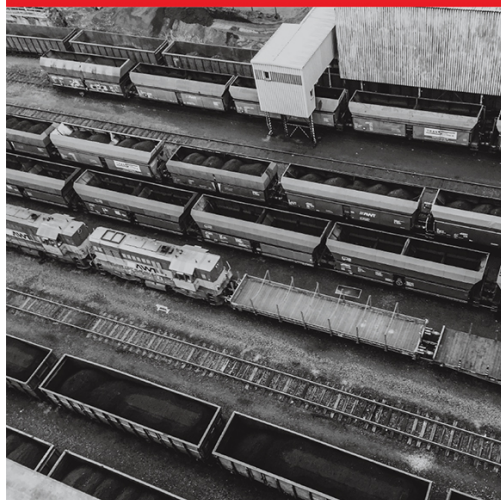
The report on the Company's activities includes, in all material respects, information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition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

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
ul. Inflancka 4A
00-189 Warsaw

Signed on the Polish original

.....
Monika Bartoszewicz
Key Certified Auditor
Registration No. 10268
Limited Liability Partner
with power of attorney

17 March 2016



pkpcargo.com



SEPARATE FINANCIAL STATEMENTS
OF THE PKP CARGO S.A.
FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015
PREPARED IN ACCORDANCE WITH IFRS AS ENDORSED
BY THE EUROPEAN UNION

TABLE OF CONTENTS

STATEMENT OF COMPREHENSIVE INCOME.....	2
STATEMENT OF FINANCIAL POSITION.....	4
STATEMENT OF CHANGES IN EQUITY.....	6
STATEMENT OF CASH FLOWS.....	7
1. General information.....	9
2. International Financial Reporting Standards applied.....	12
3. Material values based on professional judgment and estimates.....	14
4. Accounting policies.....	17
5. Change in accounting policy and presentation of financial data.....	25
6. Revenue from sales of services.....	32
7. Expenses by kind.....	34
8. Other operating revenue and expenses.....	36
9. Financial revenue.....	37
10. Financial expenses.....	38
11. Income tax.....	39
12. Property, plant and equipment.....	44
13. Intangible assets.....	48
14. Subsidiaries.....	49
15. Associates.....	52
16. Joint arrangements.....	53
17. Investments in subsidiaries and associates.....	53
18. Other financial assets.....	55
19. Other non-financial assets.....	56
20. Inventories.....	56
21. Trade and other receivables.....	57
22. Cash and cash equivalents.....	58
23. Explanation of changes of captions in the separate statement of financial position and other adjustments presented in the separate statement of cash flows.....	58
24. Non-monetary transactions.....	60
25. Non-current assets held for sale.....	61
26. Equity.....	62
27. Earnings per share.....	63
28. Credit facilities and loans received.....	64
29. Other financial liabilities.....	66
30. Finance lease liabilities and leases with purchase option.....	67
31. Trade and other payables.....	68
32. Employee benefits.....	69
33. Other provisions.....	72
34. Financial instruments and financial risk management.....	74
35. Related party transactions.....	84
36. Operating lease agreements.....	86
37. Commitments to incur expenses.....	87
38. The conditional agreement for the acquisition of assets by PKP Cargo Group entities.....	87
39. Contingent liabilities.....	88
40. Events after reporting date.....	88
41. Approval of the Separate Financial Statements.....	89

**STATEMENT OF COMPREHENSIVE INCOME
 FROM 1 JANUARY 2015 TO 31 DECEMBER 2015**

	Note	For the year ended 31/12/2015 (audited)	For the year ended 31/12/2014 (restated*)
		PLN thousand	PLN thousand
Revenue from sales of services	6	3 472 945	3 775 863
Revenue from sales of goods and materials		9 435	28 809
Other operating revenue	8.1	31 774	75 509
Total operating revenue		3 514 154	3 880 181
Depreciation / amortization and impairment losses	7.1	569 630	347 782
Consumption of raw materials and energy	7.2	595 633	587 736
External services	7.3	1 114 951	1 169 207
Taxes and charges		31 875	35 941
Employee benefits	7.4	1 229 890	1 553 670
Other expenses by kind	7.5	44 611	43 117
Cost of merchandise and raw materials sold		5 840	15 353
Other operating expenses	8.2	36 904	34 562
Total operating expenses		3 629 334	3 787 368
Profit / (Loss) on operating activities		(115 180)	92 813
Financial revenue	9	45 024	49 497
Financial expenses	10	68 951	54 778
Profit / (Loss) before tax		(139 107)	87 532
Income tax expense	11.1	(24 982)	11 925
NET PROFIT / (LOSS)		(114 125)	75 607

(*) restatement of comparative figures is described in Note 5 of these Separate Financial Statements

STATEMENT OF COMPREHENSIVE INCOME
FROM 1 JANUARY 2015 TO 31 DECEMBER 2015 (cont'd.)

	Note	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (restated*) PLN thousand
NET PROFIT / (LOSS)		(114 125)	75 607
Other comprehensive income			
Other comprehensive income that will not be reclassified to profit or loss:		40 298	(26 671)
Actuarial gains / (losses) on post-employment benefits	32	49 751	(32 927)
Income tax on other comprehensive income	11.2	(9 453)	6 256
Total other comprehensive income		40 298	(26 671)
TOTAL COMPREHENSIVE INCOME		(73 827)	48 936

Earnings per share (PLN per share):

Earnings per share on operations (basic):	(2.55)	1.70
Earnings per share on operations (diluted):	(2.55)	1.69

(*) restatement of comparative figures is described in Note 5 of these Separate Financial Statements

**STATEMENT OF FINANCIAL POSITION
 PREPARED AS AT 31 DECEMBER 2015**

	Note	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (restated*) PLN thousand	As at 01/01/2014 (restated*) PLN thousand
ASSETS				
Non-current assets				
Property, plant and equipment	12	3 562 716	3 742 185	3 545 913
Intangible assets	13	59 236	55 990	58 545
Investments in subsidiaries and associates	17	734 643	262 846	243 164
Other long-term financial assets	18	6 021	6 021	7 440
Other long-term non-financial assets	19	18 927	1 464	1 201
Deferred tax assets	11.4	76 602	60 981	65 003
Total non-current assets		4 458 145	4 129 487	3 921 266
Current assets				
Inventories	20	60 743	75 759	46 277
Trade and other receivables	21	384 228	423 171	477 236
Other short-term financial assets	18	25 057	301 818	689 157
Other short-term non-financial assets	19	4 985	24 921	24 743
Cash and cash equivalents	22	84 097	381 420	229 232
		559 110	1 207 089	1 466 645
Assets classified as held for sale	25	44 061	17 560	22 607
Total current assets		603 171	1 224 649	1 489 252
Total assets		5 061 316	5 354 136	5 410 518

(*) restatement of comparative figures is described in Note 5 of these Separate Financial Statements

STATEMENT OF FINANCIAL POSITION
PREPARED AS AT 31 DECEMBER 2015 (cont'd.)

	Note	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (restated*) PLN thousand	As at 01/01/2014 (restated*) PLN thousand
EQUITY AND LIABILITIES				
Equity				
Share capital	26.1	2 239 346	2 239 346	2 166 901
Share premium	26.2	589 202	584 513	651 472
Other items of equity		3 726	(36 572)	(9 901)
Retained earnings		240 042	469 032	538 448
Total equity		3 072 316	3 256 319	3 346 920
Non-current liabilities				
Long-term bank loans and credit facilities	28	459 305	206 112	115 654
Long-term finance lease liabilities and leases with purchase option	30	75 333	114 027	228 832
Long-term trade and other payables	31	22 389	67 938	113 509
Long-term provisions for employee benefits	32	549 280	637 783	580 213
Other long-term provisions	33	16 209	8 416	22 778
Other long-term financial liabilities	29	27 696	-	-
Non-current liabilities		1 150 212	1 034 276	1 060 986
Current liabilities				
Short-term bank loans and credit facilities	28	129 914	87 971	59 733
Short-term finance lease liabilities and leases with purchase option	30	48 914	120 505	108 770
Short-term trade and other payables	31	568 085	457 602	604 599
Short-term provisions for employee benefits	32	81 581	318 600	169 421
Other short-term provisions	33	8 256	17 414	20 449
Other short-term financial liabilities	29	10	59 393	39 640
Current tax liabilities	11.3	2 028	2 056	-
Total current liabilities		838 788	1 063 541	1 002 612
Total liabilities		1 989 000	2 097 817	2 063 598
Total equity and liabilities		5 061 316	5 354 136	5 410 518

(*) restatement of comparative figures is described in Note 5 of these Separate Financial Statements

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Share capital	Share premium	Other items of equity	Retained earnings	Total
		PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
As at 1/01/2014 (restated*)		2 166 901	651 472	(9 901)	538 448	3 346 920
Net profit for the period		-	-	-	75 607	75 607
Other net comprehensive income for the year		-	-	(26 671)	-	(26 671)
Total comprehensive income		-	-	(26 671)	75 607	48 936
Issuance of shares	26.1	72 445	25 530	-	-	97 975
Dividend payment		-	-	-	(137 496)	(137 496)
Share-based payment provision		-	(100 016)	-	-	(100 016)
Other changes in equity		-	7 527	-	(7 527)	-
As at 31/12/2014 (restated*)		2 239 346	584 513	(36 572)	469 032	3 256 319
As at 1/01/2015 (restated*)		2 239 346	584 513	(36 572)	469 032	3 256 319
Net result for the period		-	-	-	(114 125)	(114 125)
Other net comprehensive income for the period		-	-	40 298	-	40 298
Total comprehensive income		-	-	40 298	(114 125)	(73 827)
Dividend payment	26.2	-	-	-	(110 176)	(110 176)
Other changes in equity	26.2	-	4 689	-	(4 689)	-
As at 31/12/2015 (audited)		2 239 346	589 202	3 726	240 042	3 072 316

(*) restatement of comparative figures is described in Note 5 of these Separate Financial Statements

STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 1 JANUARY 2015 TO 31 DECEMBER 2015 [INDIRECT METHOD]

	Note	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (restated*) PLN thousand
Cash flows from operating activities			
Profit before tax		(139 107)	87 532
Adjustments:			
Depreciation and amortization of no-current assets	7.1	391 768	347 782
Impairment allowance of non-current assets	7.1	117 862	-
(Gain) / loss on disposal / liquidation of property, plant and equipment and intangible assets		(947)	(5 602)
(Profit) / loss on investing activities	9	(4 516)	-
Foreign exchange (gain) / loss		(1 940)	6 051
(Gains) / losses on interest, dividends		(14 054)	(28 990)
Other adjustments	23	49 751	(32 927)
Changes in working capital:			
(Increase) / decrease in trade and other receivables	23	38 293	21 989
(Increase) / decrease in inventories	23	19 595	(16 466)
(Increase) / decrease in other assets	23	14 800	1 791
Increase / (decrease) in trade and other payables ⁽¹⁾	23	95 912	(123 581)
Increase / (decrease) in other financial liabilities	23	27 073	633
Increase / (decrease) in provisions ⁽²⁾		(326 887)	189 350
Cash flows from operating activities		327 603	447 562
Interest received / (paid)		(268)	14 488
Income taxes received / (paid)		(1 459)	409
Net cash provided by operating activities		325 876	462 459

STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 1 JANUARY 2015 TO 31 DECEMBER 2015 [INDIRECT METHOD] (cont'd.)

	Note	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (restated*) PLN thousand
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(472 339)	(646 984)
Proceeds from sale of property, plant and equipment and intangible assets		6 002	22 435
Acquisition of subsidiaries, associates and joint venture		(461 102)	-
Interest received		5 618	20 586
Dividends received		33 062	18 723
Proceeds from loans granted		-	(5 030)
Repayments of loans granted		433	9 151
Proceeds from bank deposits over 3 months		300 000	302 737
Proceeds from the Employment Guarantees Program		-	70 300
Other proceeds from investment activity		3 468	-
Net cash used in investing activities		(584 858)	(208 082)
Cash flows from financing activities			
Proceeds from issuance of shares		-	8 763
Payments of liabilities under finance lease		(123 758)	(114 028)
Payments of interest under lease agreement	10	(4 697)	(7 546)
Proceeds from credit facilities / loans received		424 773	178 430
Repayments of credit facilities / loans received		(129 630)	(59 733)
Interest on credit facilities / loans received		(11 292)	(6 366)
Grants received		6 598	24 791
Dividends paid to shareholders	26.2	(110 176)	(137 496)
Cash pool inflows / (outflows)		(83 790)	18 675
Other outflows from financing activities		(6 369)	(7 679)
Net cash used in financing activities		(38 341)	(102 189)
Net increase / (decrease) in cash and cash equivalents		(297 323)	152 188
Opening balance of cash and cash equivalents	22	381 420	229 232
Closing balance of cash and cash equivalents	22	84 097	381 420

⁽¹⁾ In 12 months period ended 31 December 2015 an item includes increase in liabilities due to Voluntary Redundancy Program of PLN 47,352 thousand.

⁽²⁾ In 12 months period ended 31 December 2015 an item includes mainly a decrease in provision for Voluntary Redundancy Program of PLN 257,116 thousand and decrease in other provisions for employee benefits of PLN 68,406 thousand.

(*) restatement of comparative figures is described in Note 5 of these Separate Financial Statements

EXPLANATORY NOTES TO THE SEPARATE FINANCIAL STATEMENTS PREPARED AS AT 31 DECEMBER 2015

1. General information

1.1 Information about the Company

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

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

The financial year of the Company is the calendar year.

Principal activity of the Company is rail transport of goods. In addition to the rail transport services, the Company renders additional services:

- a) intermodal services,
- b) shipping (domestic and international),
- c) terminals,
- d) siding and traction services,
- e) maintenance and repair of rolling stock services.

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

Management Board:

Maciej Libiszewski	-	President of the Management Board
Dariusz Browarek	-	Member of the Management Board, Employees' representative in the Management Board

Supervisory Board:

Mirosław Pawłowski	-	Chairman of Supervisory Board
Kazimierz Jamrozik	-	Member
Andrzej Wach	-	Member
Stanisław Knaflewski	-	Member
Małgorzata Kryszkiewicz	-	Member
Czesław Warsewicz	-	Member
Raimondo Eggink	-	Member
Jerzy Kleniewski	-	Member

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

On 13 March 2015 Mr. Paweł Ruka resigned from the position of a Member of the Supervisory Board (effective from 13 March 2015).

On 13 April 2015 the Extraordinary General Meeting of Shareholders of the Company appointed Mr. Raimondo Eggink as a Member of the Supervisory Board.

On 9 June 2015 Mr. Zbigniew Klepacki resigned from the position of a Member of the Supervisory Board (effective from 9 June 2015).

On 15 September 2015 the Company's shareholder - PKP S.A. appointed Mr. Jarosław Bator as a Member of the Supervisory Board.

On 29 September 2015 Company's Extraordinary General Meeting dismissed Mr. Marek Podskalny and Mr. Krzysztof Czarnota from Supervisory Board.

On 14 December 2015 Mr. Adam Purwin resigned from the position of a President of the Management Board (effective from 14 December 2015).

On 17 December 2015 the following members of Supervisory Board resigned from their positions (effective from 17 December 2015):

- Mr. Jakub Karnowski,
- Mr. Piotr Ciżkowicz,
- Mr. Jarosław Bator,
- Mr. Sławomir Baniak,
- Mr. Jacek Leonkiewicz,
- Mr. Konrad Anuszkiewicz.

On 17 December 2015 the Company's shareholder - PKP S.A. appointed (effective from 17 December 2015) the following Supervisory Board members:

- Mr. Mirosław Pawłowski,
- Mr. Andrzej Wach,
- Mr. Maciej Libiszewski,
- Mrs. Małgorzata Kryszkiewicz,
- Mr. Czesław Warsewicz,
- Mr. Jerzy Kleniewski.

On 18 December 2015 the Supervisory Board adopted a resolution on declaring Mr. Maciej Libiszewski to perform the duties of a Member of the Management Board and entrusting him with the duties of a President of the Management Board.

On 19 January 2016 the Supervisory Board appointed Mr. Maciej Libiszewski to the position of President of the Management Board. The candidature of Mr. Maciej Libiszewski to the position of a President of the Management Board of the Company has been indicated by a shareholder of PKP SA, under the personal right in accordance with § 14 paragraph. 4 of the Company's Article of Association. The candidature was subsequently confirmed by the qualification procedure for the position of Chairman of the Management Board of the Company conducted by the Supervisory Board with the participation of professional recruitment consultant.

On 24 February 2015 the following members submitted resignation from the Management Board with immediate effect:

- Mr. Jacek Neska
- Mr. Łukasz Hadyś
- Mr. Wojciech Derda

Until the date of preparation of these Separate Financial Statements, the following changes were no registered in the National Court Register.

The Company's shareholder's structure as at 31 December 2015 is as follows:

Company	Registered office	Number of shares	% of share capital held	% of voting rights
PKP S.A. ⁽¹⁾	Warsaw	14 784 194	33.01%	33.01%
Nationale-Nederlanden OFE ⁽²⁾	Warsaw	5 771 555	12.89%	12.89%
Morgan Stanley ⁽³⁾	New York	2 380 008	5.31%	5.31%
Aviva OFE ⁽⁴⁾	Warsaw	2 338 371	5.22%	5.22%
Other shareholders		19 512 789	43.57%	43.57%
Total		44 786 917	100.00%	100.00%

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

⁽²⁾ In accordance with the notice sent by shareholder dated 12 November 2015. On 20 July 2015 name of shareholder ING OFE was changed to Nationale-Nedelanden OFE.

⁽³⁾ In accordance with the notice sent by shareholder dated 18 June 2014.

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

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

1.2 Information on the Group

As at the reporting date the composition of the PKP CARGO Group (hereinafter referred as the Group) comprised of PKP CARGO S.A. as the Parent company and 29 subsidiaries. Additionally, the Group includes 6 associates and shares in 4 joint ventures. Group prepared Consolidated Financial Statements for the year ended 31 December 2015.

Additional information about the subsidiaries and shares in associates and co-subsidiaries is presented in Notes 14,15,16 and 17.

The duration of the companies belonging to the Group is unlimited, except for companies in liquidation.

1.3 Functional currency and presentation currency

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

2. International Financial Reporting Standards applied

2.1 Statement of compliance

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

These Separate Financial Statements for the year ended 31 December 2015 have been prepared under the going concern assumption in the foreseeable future. As at the date of preparation of these Separate Financial Statements, there were no circumstances indicating a threat of going concern assumption of the Company during at least 12 months from the date of the financial statements.

During 2014-2015 the Company did not discontinue any activity that requires recognition in these Separate Financial Statements.

These Separate Financial Statements have been prepared on the historical cost basis, except for the derivatives measured at fair value and non-current assets classified as held for sale.

These Separate Financial Statements were approved for publication by the Management Board on 17 March 2016.

2.2 Status of endorsements of the Standards in the EU

The following amendments to existing standards issued by the International Accounting Standards Board and adopted by European Union are effective since 2015 for the annual periods that end at 31 December 2015.

- **Interpretation IFRIC 21 "Levies"** - applicable to the annual periods beginning on or after 17 June 2014.
- **Improvements to International Financial Reporting Standards 2011-2013** (annual improvements to IFRS from 2011-2013 contain 4 amendments to the standards, with consequential amendments to other standards and interpretations) - effective for annual periods beginning on or after 1 January 2015.

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

2.3 Standards and Interpretations adopted by the EU that are not yet effective

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

- **Amendment to IAS 19 "Employee Benefits"** entitled Defined Benefit Plans: Employee Contributions - effective for periods beginning on or after 1 February 2015.
- **Improvements to International Financial Reporting Standards 2010-2012** (annual improvements to IFRS 2010-2012 contain 8 changes to 7 standards, with consequential amendments to other standards and interpretations) - effective for periods beginning on or after 1 February 2015.
- **Amendments to IFRS 11 "Joint Arrangements"** entitled Accounting for Acquisitions of Interest in Joint Operations - applicable to the annual periods beginning on or after 1 January 2016.
- **Amendments to IAS 16 "Property, plant and Equipment" and IAS 38 "Intangible Assets"** entitled Clarification of Acceptable Methods of Depreciation and Amortization - applicable for annual periods beginning on or after 1 January 2016.
- **Amendments to IAS 16 "Property, plant and Equipment" and IAS 41 "Agriculture"** entitled Agriculture: Bearer Plants - applicable for annual periods beginning on or after 1 January 2016.
- **Amendments to IAS 27 "Separate Financial Statements"** entitled Equity Method in the Separate Financial Statements - applicable for periods beginning on or after 1 January 2016.
- **Amendments to IAS 1 "Presentation of Financial Statements"** entitled Disclosure Initiative - applicable for periods beginning on or after 1 January 2016.
- **Improvements to International Financial Reporting Standards 2012-2014** (annual improvements to IFRS 2012-2014 contain 4 amendments to the standards, with consequential amendments to other standards and interpretations) - applicable for periods beginning on or after 1 January 2016.

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

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

At present, IFRS as endorsed by the EU, do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in the EU as at 31 December 2015:

- **IFRS 9 "Financial Instruments"** - applicable to the periods beginning on or after 1 January 2018.
- **IFRS 14 "Regulatory Deferral Accounts"** - applicable to the annual periods beginning on or after 1 January 2016.
- **IFRS 15 "Revenue from Contracts with Customers"** - applicable for annual periods beginning on or after 1 January 2018.
- **IFRS 16 "Leasing"** - applicable for annual periods beginning on or after 1 January 2019.

The Company is currently analyzing an impact of published IFRS 9 "Financial Instruments", IFRS 15 "Revenue from Contracts with Customers" and IFRS 16 "Leasing" on the Company's accounting policy. The Company has analyzed the potential impact of other aforementioned standards, interpretations and amendments to standards used by the Company's accounting policy. According to the Management Board they will not result in a material impact on the currently used accounting policy.

3. Material values based on professional judgment and estimates

Applying accounting principles presented in Note 4, the Management Board of the Company is obliged to make estimates, judgments and assumptions in measuring assets and liabilities. The estimates and assumptions are based on historical experience and other significant factors. Actual results may differ from the estimated values.

3.1 Professional accounting judgement

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

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

3.2 Estimation uncertainty

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

3.2.1 Economic useful life of fixed assets and intangible assets

The Management Board of the Company estimates economic useful lives of particular fixed assets and intangible assets and determines depreciation rates of particular items. The estimations are based on expected economic useful lives of these assets. Depreciation rates may change in case of circumstances causing the change in expected useful life (e.g. technological changes, withdrawal from use, etc.). Consequently, the depreciation rates and the net carrying amount of fixed assets and intangible assets will also change. An analysis of useful life of fixed assets and intangible assets conducted in 2015 has not revealed the need to correct the previously applied depreciation rates.

3.2.2 Residual value of railroad fleet

The Company uses own and leased train engines and wagons. According to the IFRS, residual value of non-current assets should be recognised separately and it should not be depreciated as a part of the total initial value of the property plant and equipment item. The residual value is based on the current prices of classes of scrap. According to the applied accounting principles residual value was subject to revaluation, when the scrap prices change by more than 50% in comparison to scrap prices as at the end of preceding period. For the past years no significant changes in scrap prices occurred, therefore no adjustment to residual value was needed. In the fourth quarter 2015 a significant decrease in scrap prices was observed by approximately 30% in comparison to prices constituting the basis for residual values assessment. The company analyzed the impact of this change on the value of property, plant and equipment. It has been decided, that the decrease in prices significantly affects the financial statements, therefore accounting principles regarding estimates has been amended i.e. policy on reassessment of residual values in case of changes in scrap prices by 50% has been removed and a new policy was introduced to reassess residual values in each case when current scrap prices affect significantly financial statement.

As a result of the analysis, and based on applicable prices of particular scrap classes as at the end of 2015, an impairment allowance was recognized for railroad fleet without valid technical efficiency certificates, which was not depreciated and recognized in residual values of PLN 147.799 thousand.

3.2.3 Impairment of property, plant and equipment and intangible assets

The Company has analyzed the potential significant indications for impairment of assets, including market capitalization. According to the Management Board, there were no such events recorded, which clearly indicate a reduction in value of the company. The Company is currently implementing adopted Strategy for the years 2016 - 2020, according to which optimization actions and commercial activities will significantly and permanently increase the enterprise value until the year 2020. The market capitalization of the Company since early 2015 is very strongly correlated with the WIG 20 index (Pearson ratio is about 0.9), which reaches the lowest levels in relation to the last few years. Therefore, after analyzing major factors both external and internal

according to the Management Board, there are no indications for impairment, and therefore the Company does not perform impairment testing.

The reasons for recognized impairment allowances of property, plant and equipment for the year ended 31 December 2015 was presented in Note 3.2.2. and 12.1 of these Separate Financial Statements.

3.2.4 Impairment allowances for receivables

At the reporting date, the Company assesses whether there is objective evidence of impairment of the receivable or group of receivables. If the recoverable amount of the asset is less than its carrying value a write-down is recognized to the present value of the expected cash flows.

Detailed information on write-downs of trade receivables is presented in Note 21 of these Separate Financial Statements.

3.2.5 Deferred income tax

The Company recognizes deferred tax assets based on the assumption that the future taxable income will be achieved. Taxable profit deterioration in the future could cause that this assumption is unfounded. The Management Board verifies the estimates of the probability of recovery of deferred tax assets based on changes in the factors taken into account in their calculation, new information and past experience.

Information on deferred tax assets is presented in Note 11 of these Separate Financial Statements.

3.2.6 Employee benefits

Assumptions on discount rate, pay increases, expected average period of employment have a significant impact on the value of employee benefits provisions. Details on estimation of provisions are described in Note 4.20.1 and the results of the calculation of provisions for employee benefits are presented in Note 32 of the explanatory notes to the financial statements.

As at 31 December 2015 and 31 December 2014 the actuarial valuation of employee benefits is based on the following basic assumptions:

	31/12/2015	31/12/2014
	%	%
Discount rate	3.10	2.60
The average annual increase assumed for the basis of calculation of the provision for retirement benefits and jubilee bonuses	1.70	1.50
Assumed increase in the price of benefit entitlement	2.50	2.50
The average annual increase assumed for the basis of calculation of the provision for Social Benefit Fund	3.60	3.60
Weighted average employee mobility ratio	2.50	2.50
Inflation (annual)	1.7-2.5	2.50

Below is presented a sensitivity analysis of balances of provisions for employee benefits as at 31 December 2015 and 31 December 2014 for key assumptions underlying actuarial valuation. The key assumptions include: discount rate, pay increase ratio, employee mobility ratio.

	As at 31/12/2015 PLN thousand (audited)	Discount rate		Pay increase ratio		Employee mobility ratio	
		+0.30 pp.	-0.30 pp.	+0.25 pp.	-0.25 pp.	+0.25 pp.	-0.25 pp.
Jubilee benefits	283 972	(4 868)	5 036	5 285	(3 792)	(3 984)	4 082
Retirement benefits	137 658	(3 440)	3 592	3 518	(2 849)	(2 933)	3 031
Disability benefits	3 950	(77)	80	78	(60)	(60)	62
Death in service benefits	28 702	(656)	684	654	(497)	(523)	540
Social Benefit Fund	119 598	(4 756)	5 090	4 495	(4 265)	(641)	659
Transport benefits	33 350	(1 279)	1 366	1 221	(1 160)	(265)	274
Total	607 230	(15 076)	15 848	15 251	(12 623)	(8 406)	8 648

	As at 31/12/2014 PLN thousand (restated*)	Discount rate		Pay increase ratio		Employee mobility ratio	
		+0.25 pp.	-0.25 pp.	+0.25 pp.	-0.25 pp.	+0.25 pp.	-0.25 pp.
Jubilee benefits	290 716	(4 085)	4 203	4 239	(4 139)	(4 354)	4 464
Retirement benefits	142 141	(2 565)	2 656	2 678	(2 598)	(2 742)	2 831
Disability benefits	3 284	(39)	40	40	(39)	(41)	42
Death in service benefits	29 752	(446)	460	464	(452)	(477)	489
Social Benefit Fund	164 487	(5 075)	5 356	5 290	(5 039)	(811)	837
Transport benefits	37 587	(1 221)	1 288	1 286	(1 225)	(295)	304
Total	667 967	(13 431)	14 003	13 997	(13 492)	(8 720)	8 967

During the period covered by these Separate Financial Statements, there were no other significant changes in estimates and methodology of making estimates that would affect the current or future periods.

(*) restatement of comparative figures is described in Note 5 of these Separate Financial Statements

4. Accounting policies

4.1 Operating revenues

Revenue is measured at the fair value of the consideration received or receivable. The amount of revenue arising on a transaction is usually determined by agreement between the company and the buyer or user of the asset. It is measured at the fair value of the consideration owed or received taking into account the amount of trade discounts and volume rebates granted by the Company. Revenue includes only the gross inflows of economic benefits received and receivable by the company on its own account. Amounts collected on behalf of third parties such as value added tax are not economic benefits which flow to the Company and do not result in increases in equity. Therefore, they are excluded from revenue.

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

4.1.1 Revenue from sales of services

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

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

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

In case of foreign sales, the sale is recognized when the goods are transported across the border, which is confirmed by the Frontier Custom Office.

4.1.2 Revenue from sales of goods and materials

Revenue from sales of goods and materials is recognized at the time when the significant risks and rewards of ownership of the goods are transferred to the buyer according to the terms of delivery specified in sales contracts.

4.2 Costs by kind

Costs are recognized as any probable decrease of economic benefits in the reporting period, of a reliably determined value, in the form of a reduction in the value of assets or an increase in the value of liabilities and provisions that will lead to a decrease in equity or an increase in its deficit in other form than withdrawal of funds by the owners.

Costs are recognized in profit or loss based on the direct relationship between the costs incurred and the achievement of specific revenue, i.e. applying the matching principle through prepayments and accruals.

A company shall present the following costs by kind in the statement of comprehensive income:

- depreciation / amortization and impairment losses,
- consumption of raw materials and energy,
- external services,
- taxes and charges,
- employee benefits,
- other costs by kind,
- cost of merchandise and raw materials sold.

4.3 Other operating revenue and expenses

Other operating revenue and expenses are related indirectly to the operating activities of the company.

The other operating revenue and expenses include in particular:

- the acquisition and liquidation of tangible fixed assets, intangible assets and investment property,
- recognized and released provisions, with the exception of provisions related to financial operations or recognized in the costs by kind,
- recognized and released write-downs of receivables,
- transferring or acquiring assets free of charge, including donated assets and cash,
- the received, due or paid damages, complaints, penalties and fines,
- costs of removing the consequences of damage,
- provisions for certain or probable losses from the operations in progress,
- foreign exchange differences arising from the valuation and settlement of trade liabilities and receivables.

4.4 Financial revenue and expenses

Financial revenue and expenses includes in particular:

- sale of financial assets and shares,
- revaluation of financial instruments, with the exception of financial assets available for sale, for which revaluation results are recognized in revaluation reserve,
- share in the profits of other entities,
- interests,
- exchange rate differences on financial operations (not applicable for the valuation of trade settlements applied to operating activities),
- interest costs (discount) of the provisions for employee benefits,
- other items related to financial activities.

Interest revenues and expenses are recognised successively using the effective interest rate method in relation to the net carrying amount of the financial asset taking into account the materiality principle.

Dividends are recognized as at the moment of establishing shareholders' rights to their reception.

4.5 Tax

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

4.5.1 Current tax

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

4.5.2 Deferred tax

Deferred tax is recognised with respect to temporary tax differences between the carrying amount of assets and liabilities in the financial statements, and the corresponding tax base used for determination of the taxable income, and unrealized tax losses and tax relieves not used. A deferred tax liability is recognised for all taxable temporary differences. A deferred tax asset is recognised with respect to deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. Such deferred tax assets and liabilities are not recognised if the temporary differences result from the goodwill or initial recognition (except business combination) of other assets and liabilities related to the contract, which does not have any effect on the tax or accounting profit.

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

Investments in subsidiaries, associates and interest in joint ventures are recognised initially at cost and decreased subsequently by impairment allowances.

4.7 Leasing

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

4.7.1 Company as a lessee

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

It is assumed that all ownership risks and rewards are transferred to the lessee if:

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

Lease payments include interest expense and a reduction of the lease liability, so that the interest rate on the outstanding liability is fixed. All costs are recognised directly in the income statement, unless they can be directly attributed to the appropriate assets – then they are capitalized. Contingent lease payments are recognised in the period when they are incurred.

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

4.8 Foreign currencies

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

As at 31 December 2015 and 31 December 2014 the Company has applied the following exchange rates for the valuation of items in the statement of financial position denominated in foreign currencies:

Currency	31 December 2015	31 December 2014
EUR	4.2615	4.2623
CHF	3.9394	3.5447
USD	3.9011	3.5072
CZK	0.1577	0.1537

4.9 Government grants

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

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

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

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

4.10 Tangible fixed assets

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

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

Maintenance and repair costs (running costs) are charged to profit or loss when incurred except for repairs and periodic reviews and revisary repairs of wagons and train engines (P3, P4 and P5) which constitute important component and are depreciated between individual repairs.

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

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

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

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

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

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

Buildings, premises, civil and water engineering structures	from 5 to 75 years
Technical equipment and machinery	from 2 to 40 years
Vehicles, including:	
Freight wagons	from 36 to 48 years
Electric engines	from 32 to 45 years
Diesel engines	from 24 to 32 years
Other vehicles	from 2 to 10 years
Other fixed assets	from 2 to 20 years

4.11 Intangible assets

4.11.1 Intangible assets purchased

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

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

4.12 Impairment of tangible fixed assets and intangible assets

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

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

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

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

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

4.13 Non-current assets held for sale

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

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

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

4.14 Inventories

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

The Company recognises impairment losses on obsolete or damaged inventories and if the net realizable value is less than the carrying amount of the inventories. Impairment losses on inventory are presented as consumption of raw materials and energy.

4.15 Trade and other receivables

Trade receivables and are initially recognized at fair value. In a situation where the impact of value of money in time is not important, trade receivables are recognized at nominal value resulting from the issued sales invoices. After initial recognition, trade receivables and other receivables of a financial nature are valued at amortized cost using the effective interest rate method, less allowance for impairment. Other non-financial receivables are valued on the last day of the reporting period at the due amount.

Impairment allowances of receivables are recognized when there is objective evidence that the company will not be able to collect amounts due. Receivables allowance is recognized as the difference between the carrying amount and the recoverable value. Impairment loss is recognized as other operating expenses.

4.16 Cash and cash equivalents

Cash and cash equivalents presented in the statement of financial position refer to cash in bank and short term deposits with maturity date lower than three months.

4.17 Financial assets

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

4.17.1 Financial assets available for sale (AFS)

Available-for-sale financial assets are non-derivative financial assets not classified as loans and receivables, financial assets held to maturity and financial assets at fair value through profit or loss. AFS are recognized at fair value at each reporting date.

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

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

4.17.2 Loans and receivables

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

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

4.17.3 Impairment of financial assets

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

Financial assets recognised at amortized cost

If there are objective indications, an impairment loss of loans granted and receivables carried at amortized cost, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted using the original (i.e. at initial recognition) effective interest rate. The carrying amount of the asset is reduced by the impairment loss. The amount of the loss is recognised in profit or loss. If in the subsequent period the amount of impairment decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Subsequent reversal of an impairment loss is recognised in profit or loss to the extent that at the reversal date, the carrying amount of the asset does not exceed its amortized cost.

Financial assets recognised at cost

If there are objective indications, an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured or a derivative that is linked to and must be settled by the delivery of such an unquoted equity instrument, the amount impairment write-off is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for similar financial assets.

Financial assets available for sale

If there are objective indications, an impairment loss on a financial asset available for sale, then the amount of the difference between the purchase price of the asset (net of any repayment of capital and interest) and its current fair value, less any impairment loss of this asset previously recognised in profit or loss, is removed from equity and transferred to profit or loss. The reversal of impairment losses on equity instruments classified as available for sale cannot be recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument available for sale increases and the increase can be objectively related to an event occurring after the impairment loss of profit or loss, the amount of the reversed impairment loss is recognized in profit or loss.

4.18 Other non-financial assets

The company recognizes prepaid expenses and advance payments for purchase of tangible and intangible fixed assets as other non-financial assets.

Prepayments are established at the amount of reliably incurred expenses that relate to future periods and will generate future economic benefits. Write-offs of deferred expenses may occur pursuant to the lapse of time or the amount of benefits. The time and manner of settlement is justified by the nature of the expense, with the principle of prudence. The company mainly classifies costs of insurance, services and rental costs.

4.19 Share capital

Share capital in Separate Financial Statements is disclosed in the amount specified in the Articles of Association and registered in the National Court Register.

4.20 Provisions

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

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

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

4.20.1 Employee benefits provisions

According to the Collective Labour Agreement ("CLA") and the relevant provisions of law, the Company provides its employees long-term benefits during employment (jubilee) and post-employment benefits (retirement and disability benefits, transportation benefits and benefits from the Social Fund for pensioners, death in service benefits). Jubilee awards are paid to employees after a specified number of years. Retirement benefits are paid once at the time of retirement / pension. The amount of retirement, pension benefits depends on the length of service and average salary. Death in service benefits are paid after the employee's death. The Company creates a provision for future liabilities of the above titles in order to allocate costs to relevant periods to which they relate. In the statement of financial position, the Company recognizes these benefits at the present value of liabilities on the last day of reporting period.

The amount of long-term benefits during employment and post-employment benefits is calculated by independent actuarial company using the projected method. This method treats each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation, subject to discounting. The calculation is based on demographic assumptions concerning retirement age, future salary increases, employee turnover and financial assumptions concerning future interest rates.

Actuarial gains and losses on post-employment employee benefits are recognized in total in other comprehensive income and gains and losses from the jubilee awards are recognized in profit or loss.

Other increases and decreases in provisions are recognized in operating expenses, apart from interest costs on unwinding discount rate, which are presented in financial expenses.

4.21 Trade and other liabilities

Liabilities constitute present obligation of the company resulting from past events, the fulfilment of which is expected to result in an outflow of economic benefits from the Company.

Short-term liabilities include trade and other liabilities that become due within 12 months from the end of the reporting period. Liabilities are recognized initially at fair value, the valuation corresponds to the amount due or the amount of liability, and subsequently financial liabilities are recognized at amortized cost using the effective interest rate method (in the case of trade liabilities it corresponds to the amount due) and other non-financial liabilities- at the amount due.

Long-term liabilities are recognized initially at fair value less the transaction costs incurred and subsequently measured at amortized cost using the effective interest rate method. Increase (decrease) in liabilities due to the lapse of time is recognized as financial expense (revenue).

4.22 Credits and loans

Credits and loans are initially recognized at fair value less the transaction costs incurred.

After initial recognition, credit and loans are recognized at amortized cost using the effective interest rate method.

Any difference between the proceeds (less the transaction costs) and the redemption value is recognized using the effective interest rate in the financial result during the period of the contracts.

4.23 Derivatives

Derivatives are recognized at fair value on the contract date and are subsequently remeasured to fair value at each day of the reporting period. Derivatives are carried as assets if their value is positive and as liabilities - if their value is negative and the profit or loss from the valuation of the instruments is recognized in financial result of the company.

The instruments are presented as non-current assets or non-current liabilities if the remaining term to maturity of the instrument exceeds 12 months and it is not expected that it will be realized or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

5. Change in accounting policy and presentation of financial data

5.1 The capitalization of the costs of periodic reviews and repairs of rolling stock

In 2015 the company redefined components in the applied accounting policy in a way that periodic reviews of rolling stock (P3) have been recognized as a component repair in the light of IFRS EU. Periodic P3 reviews of wagons and locomotives are similar in their nature to the periodical P4 and P5 repairs, classified by the company so far as components of repair.

The company's rolling stock is carried out on five levels of maintenance under the scope of Regulation of the Minister of Infrastructure dated 12 October 2005 on the general technical conditions of railway vehicles (Official Journal 212, item. 1771). Detailed requirements for these activities are included at the Maintenance System Documentation (MSD) applicable to each of the exploited railway vehicles. Rolling stock is subjected to scheduled maintenance operations in accordance with time and/or mileage of vehicle operation specified at MSD maintenance cycles. Maintenance operation performed at levels 1 to 4 do not result in redesign of the rolling stock. On the fifth, highest level of maintenance it is possible to make the modernization of rolling stock. Maintenance operations at the highest levels 4 and 5 allow extending a lifetime of railway vehicle for a further period and/or limit of kilometres resulting from the cycle of maintenance. In order to use the wagon or locomotive in the entire period between maintenance activities performed at levels P4 and P5, the Company needs to perform at mid-cycle interim review on P3 level.

Technical efficiency of the rolling stock after maintenance activities on level 4 and 5 is confirmed in a certificate of technical efficiency issued after completion of the repair or modernization. Certificate of technical efficiency confirms the usability of the wagon to another repair on P4 or P5 level, under condition that throughout the period of validity of the certificate, P3 review is performed. In case P3 review is not performed level at mid-cycle, the rolling stock loses its operational efficiency and cannot be used for transport during the period of second half of the depreciation of repair components resulting from previous P4 and P5 repairs. Due to the close connection of P3 reviews with vehicle maintenance throughout the period of depreciation of P4 and P5 components, it was decided to change the approach and apply component accounting for P3 repairs. Before, periodic P3 repairs were recognized in profit or loss as incurred costs. Had the Company maintained the previous accounting policies, the financial data presented in these Separate Financial Statements as at and for the period ended 31 December 2015 would be as follows:

- net profit would be lower by approximately PLN 5,377 thousand,
- property, plant and equipment would be lower by approximately PLN 39,701 thousand,
- deferred tax assets would be higher by approximately PLN 4,292 thousand,
- equity would be lower by approximately PLN 33,496 thousand,
- short term liabilities would be lower by approximately PLN 1,913 thousand.

According to the Company revised accounting policy presents more reliably financial position of the company in terms of components' accounting as well as applies IFRS EU better.

5.2 Recognition of provisions for death in service benefits

According to the current Collective Labour Agreement, the Company is committed to death in service benefits payments. The basis of benefit severance is monthly salary of the employee. The amount of death in service benefit depends on the length of service in the company.

In previous reporting periods, the Company recognized only severances paid in the given reporting periods. Currently accounting policy was changed and provision for total benefits calculated according to the actuarial method was recognized.

According to the Company revised accounting policy presents more reliably financial position of the company in terms of liabilities imposed on the Company as well as applies better IFRS EU and ensures greater comparability to financial statements of other entities.

5.3 Presentation changes

Starting with the financial statements for the year ended 31 December 2015, the company changed its accounting policy in terms of recognizing interest expense on provisions for employee benefits as they are now recognized in financial expenses. In accordance with the previously applied accounting policy interest expenses were presented together with the current service costs in employee benefits. IAS 19.134 requires to present the current service cost and interest expenses in the profit and loss, however it does not define the specific line, but indicates that is recommended to refer in that respect to the provisions of IAS 1. Interest costs represent an increase during the reporting period of the present value of liabilities for employee benefits, which was established as a result of approaching the maturity of the benefits by one period. Therefore, this represents a typical financial cost, which should be presented in financial activities not operating.

In addition, presentation of received and imposed penalties that were previously recognized in other costs by kind was changed. Currently, they are recognized in other operating expenses and revenue.

According to the Company's management, revised accounting policy applies better IFRS EU and ensures greater comparability to financial statements of other entities.

5.4 Restatement of comparable data

In connection with above described changes the Company restated comparable data. Restatement effect is presented in the following tables. The information presented in the explanatory notes to Separate Financial Statements was restated accordingly.

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

	For the year ended 31/12/2014 (audited)	Capitalization of cost of periodical repairs	Reclassification of penalties and compensations	Reclassification of discount interest expenses for employee benefits	Recognition of provision for death in service benefits	For the year ended 31/12/2014 (restated)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Other operating revenue	37 935	-	37 574	-		75 509
Total operating revenue	3 842 607	-	37 574	-		3 880 181
Depreciation / amortization and impairment losses	332 191	15 591	-	-		347 782
Consumption of raw materials and energy	593 779	(6 043)	-	-		587 736
External services	1 191 505	(22 298)	-	-		1 169 207
Employee benefits	1 583 437	(8 230)	-	(22 078)	541	1 553 670
Other expenses by kind	19 009	-	24 108	-		43 117
Other operating expenses	21 096	-	13 466	-		34 562
Total operating expenses	3 792 311	(20 980)	37 574	(22 078)	541	3 787 368
Profit on operating activities	50 296	20 980	-	22 078	(541)	92 813
Financial expenses	31 592	-	-	22 078	1 108	54 778
Profit before tax	68 201	20 980	-	-	(1 649)	87 532
Income tax expense	9 591	2 647	-	-	(313)	11 925
NET PROFIT	58 610	18 333	-	-	(1 336)	75 607

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

	For the year ended 31/12/2014 (audited)	Capitalization of cost of periodical repairs	Reclassification of penalties and compensations	Reclassification of discount interest expenses for employee benefits	Recognition of provision for death in service benefits	For the year ended 31/12/2014 (restated)
	PLN thousand	PLN thousand	PLN thousand	PLN Thousand	PLN thousand	PLN thousand
NET PROFIT	58 610	18 333	-	-	(1 336)	75 607
Other comprehensive income that will not be reclassified to profit or loss	(29 741)	-	-	-	3 070	(26 671)
Actuarial gains / (losses) on post-employment benefits	(36 717)				3 790	(32 927)
Income tax on other comprehensive income	6 976				(720)	6 256
	(29 741)	-	-	-	3 070	(26 671)
TOTAL COMPREHENSIVE INCOME	28 869	18 333	-	-	1 734	48 936
Earnings per share (PLN per share):						
Earnings per share on operations (basic):	1.32	0.41	-	-	(0.03)	1.70
Earnings per share on operations (diluted):	1.31	0.41	-	-	(0.03)	1.69

STATEMENT OF FINANCIAL POSITION PREPARED AS AT 31 DECEMBER 2014

	As at 31/12/2014 (audited)	Capitalizatio n of cost of periodical repairs	Reclassification of penalties and compensations	Reclassification of discount interest expenses for employee benefits	Recognition of provision for death in service benefits	As at 31/12/2014 (restated)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
ASSETS						
Non-current assets						
Property, plant and equipment	3 709 121	33 064	-	-		3 742 185
Deferred tax assets	58 359	(3 031)	-	-	5 653	60 981
Total non-current assets	4 093 801	30 033	-	-	5 653	4 129 487
Total assets	5 318 450	30 033	-	-	5 653	5 354 136
EQUITY AND LIABILITIES						
Equity						
Other items of equity	(39 642)	-	-	-	3 070	(36 572)
Retained earnings	468 081	28 120	-	-	(27 169)	469 032
Total equity	3 252 298	28 120	-	-	(24 099)	3 256 319
Non-current liabilities						
Long-term provisions for employee benefits	611 418	-	-	-	26 365	637 783
Total non-current liabilities	1 007 911	-	-	-	26 365	1 034 276
Current liabilities						
Short-term provisions for employee benefits	315 213	-	-	-	3 387	318 600
Current tax liabilities	143	1 913	-	-		2 056
Total current liabilities	1 058 241	1 913	-	-	3 387	1 063 541
Total liabilities	2 066 152	1 913	-	-	29 752	2 097 817
Total equity and liabilities	5 318 450	30 033	-	-	5 653	5 354 136

STATEMENT OF FINANCIAL POSITION PREPARED AS AT 1 JANUARY 2014

	As at 01/01/2014 (audited)	Capitalization of cost of periodical repairs	Reclassification of penalties and compensations	Reclassification of discount interest expenses for employee benefits	Recognition of provision for death in service benefits	As at 01/01/2014 (restated)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
ASSETS						
Non-current assets						
Property, plant and equipment	3 533 830	12 083	-	-		3 545 913
Deferred tax assets	61 239	(2 296)	-	-	6 060	65 003
Total non-current assets	3 905 419	9 787	-	-	6 060	3 921 266
Total assets	5 394 671	9 787	-	-	6 060	5 410 518
EQUITY AND LIABILITIES						
Equity						
Retained earnings	554 494	9 787	-	-	(25 833)	538 448
Total equity	3 362 966	9 787	-	-	(25 833)	3 346 920
Non-current liabilities						
Long-term provisions for employee benefits	551 951	-	-	-	28 262	580 213
Total non-current liabilities	1 032 724	-	-	-	28 262	1 060 986
Current liabilities						
Short-term provisions for employee benefits	165 790	-	-	-	3 631	169 421
Total current liabilities	998 981	-	-	-	3 631	1 002 612
Total liabilities	2 031 705	-	-	-	31 893	2 063 598
Total equity and liabilities	5 394 671	9 787	-	-	6 060	5 410 518

STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY 2014 TO 31 DECEMBER 2014

	For the year ended 31/12/2014 (audited)	Capitalization of cost of periodical repairs	Reclassification of penalties and compensations	Reclassification of discount interest expenses for employee benefits	Recognition of provision for death in service benefits	For the year ended 31/12/2014 (restated)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
<i>Cash flows from operating activities</i>						
Profit before tax	68 201	20 980	-	-	(1 649)	87 532
Adjustments:						
Depreciation and amortization of non-current assets	332 191	15 591	-	-		347 782
Other adjustments	(36 717)	-	-	-	3 790	(32 927)
Changes in working capital:						
Increase / (decrease) in provisions	191 491	-	-	-	(2 141)	189 350
Net cash provided by operating activities	425 888	36 571	-	-	-	462 459
<i>Cash flows from investing activities</i>						
Acquisition of property, plant and equipment and intangible assets	(610 413)	(36 571)	-	-	-	(646 984)
Net cash used in investing activities	(171 511)	(36 571)	-	-	-	(208 082)
Net increase / (decrease) in cash and cash equivalents	152 188	-	-	-	-	152 188
Opening balance of cash and cash equivalents	229 232	-	-	-	-	229 232
Closing balance of cash and cash equivalents	381 420	-	-	-	-	381 420

6. Revenue from sales of services

6.1 Products and services of the operating segment

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

Revenues of the Company from external customers according to geographical areas are presented in note 6.2.

6.2 Geographical information

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

The Company operates in one main geographical area, Poland, which is its country of residence. The total revenue for all geographical areas except for Poland in 2015 and in 2014 did not exceed 11% of total revenue from sales of services. No other geographical area (except for Poland) exceeds 5% of revenue from sales of services.

Below is presented revenue from sales of services to external customers by location:

	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (audited) PLN thousand
Poland	3 114 232	3 370 035
Czech Republic	111 632	122 298
Germany	91 732	80 367
Slovakia	56 612	75 649
Cyprus	46 804	60 041
Other countries	51 933	67 473
Total	3 472 945	3 775 863

6.3 Information about major customers

In the period ended 31 December 2015, the share of the sale of two customers exceeded 10% and amounted to 11.7% and 11.4% of total revenues from the sale of services, respectively. In the period ended 31 December 2014, the share of the sale of one of the customers exceeded 10% and amounted to 10.5% of total revenues from the sale of services.

6.4 Sales revenues structure

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

	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (audited) PLN thousand
Transport revenue and railway shipping	3 360 873	3 646 968
Siding and traction revenue	69 352	84 319
Other revenue ⁽¹⁾	42 720	44 576
Total	3 472 945	3 775 863

⁽¹⁾ The position of other revenue for the year ended 31 December 2015 presents mainly revenue arising from renting of assets of PLN 24,781 thousand, revenue arising from administrative support of PLN 4,951 thousand and revenue arising from repair services of railroad fleet of PLN 4,441 thousand. For the corresponding period of 2014 this position presented mainly revenue arising from renting of assets of PLN 25,405 thousand, revenue arising from complex operational support services of PLN 4,366 thousand and revenue arising from repair services of railroad fleet of PLN 5,394.

7. Expenses by kind

7.1 Depreciation / amortization and impairment losses

	For the year ended 31/12/2015 (audited)	For the year ended 31/12/2014 (restated*)
	PLN thousand	PLN thousand
Depreciation of property, plant and equipment	376 008	332 258
Amortization of intangible assets	15 760	15 524
Recognized impairment allowances		
Property, plant and equipment	153 833	-
Non-current assets held for sale	24 029	-
Total depreciation / amortization and impairment losses	569 630	347 782

(*) restatement of comparative figures is described in Note 5 of these Separate Financial Statements

7.2 Consumption of raw materials and energy

	For the year ended 31/12/2015 (audited)	For the year ended 31/12/2014 (restated*)
	PLN thousand	PLN thousand
Fuel consumption	146 348	198 986
Consumption of materials	45 775	24 693
Electricity, gas and water consumption	396 907	382 127
Impairment losses recognised / (derecognised)	5 928	(19 324)
Other	675	1 254
Total consumption of materials and energy	595 633	587 736

(*) restatement of comparative figures is described in Note 5 of these Separate Financial Statements

7.3 External services

	For the year ended 31/12/2015 (audited)	For the year ended 31/12/2014 (restated*)
	PLN thousand	PLN thousand
Access to infrastructure connections	681 877	723 233
Repair services	59 620	50 118
Rent and lease fees (real estate and railroad fleet)	135 928	150 922
Transport services	79 387	101 793
Telecommunication services	7 535	10 735
Legal, advisory and similar services	29 736	21 393
IT services	49 836	53 101
Services related to property maintenance and operation of fixed assets	27 655	27 099
Cargo services	26 465	17 798
Other services	16 912	13 015
Total external services	1 114 951	1 169 207

(*) restatement of comparative figures is described in Note 5 of these Separate Financial Statements

7.4 Employee benefits

	For the year ended 31/12/2015 (audited)	For the year ended 31/12/2014 (restated*)
	PLN thousand	PLN thousand
Salaries and wages	902 296	993 567
Costs of social insurance	183 008	200 344
Appropriation to the Company's Social Benefits Fund	21 108	28 530
Other employee benefits during employment	31 862	34 854
Other post-employment benefits	1 626	10 344
Voluntary Redundancy Program	63 862	257 116
Changes in provisions for employee benefits	19 988	26 532
Other employee benefit costs	6 140	2 383
Total employee benefits	1 229 890	1 553 670

(*) restatement of comparative figures is described in Note 5 of these Separate Financial Statements

7.5 Other expenses by kind

	For the year ended 31/12/2015 (audited)	For the year ended 31/12/2014 (restated*)
	PLN thousand	PLN thousand
Business travels	26 719	23 641
Advertising and representation	8 223	7 600
Property insurance	7 296	9 065
Other	2 373	2 811
Total other expenses by kind	44 611	43 117

(*) restatement of comparative figures is described in Note 5 of these Separate Financial Statements

8. Other operating revenue and expenses

8.1 Other operating revenue

	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (restated*) PLN thousand
Gains on disposal of assets:		
Gain on sales of non-current assets	2 009	9 851
Derecognised impairment losses:		
Trade receivables	3 389	5 800
Other (including interest on receivables)	306	532
	3 695	6 332
Other operating revenue:		
Penalties and compensations	13 417	37 574
Release of provisions for the fine imposed by OCCP**	4 399	14 362
Release of other provisions	6 189	4 111
Interest on trade and other receivables	1 227	2 096
Other	838	1 183
Total other operating revenue	31 774	75 509

(*) restatement of comparative figures is described in Note 5 of these Separate Financial Statements

8.2 Other operating expenses

	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (restated*) PLN thousand
Recognised impairment losses:		
Trade receivables	2 364	7 884
Other (including on interest on receivables)	499	363
	2 863	8 247
Other operating expenses:		
Penalties and compensations	14 495	13 466
Provisions for the fines imposed by OCCP**	12 192	-
Other provisions	24	2 238
Costs of liquidation of non-current and current assets	2 971	6 648
Court and collection costs	747	679
Costs of transport benefits for non-employees	1 771	2 001
Interest on trade and other payables	173	102
Forex losses on trade receivables and payables	567	225
Other	1 101	956
Total other operating expenses	36 904	34 562

(*) restatement of comparative figures is described in Note 5 of these Separate Financial Statements

(**) translator's note: abbreviation for Office of Competition and Consumer Protection

9. Financial revenue

	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (audited) PLN thousand
Interest income:		
Bank deposits and accounts	3 407	17 462
Bid bonds and collateral	198	273
Loans granted	304	183
Other (including interest on state settlements)	143	12 856
	4 052	30 774
Dividends from capital investments	33 022	18 723
Total interest income and dividends	37 074	49 497
Other financial revenue		
Gains on shares:		
Reversal of impairment losses on shares ⁽¹⁾	4 516	-
Other financial revenue:		
Net result from exchange differences	3 434	-
Total financial revenue	45 024	49 497

⁽¹⁾ Item is described in Note 17.1 of these Separate Financial Statements

10. Financial expenses

	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (restated*) PLN thousand
Interest expense:		
Interest on loans and borrowings	11 566	6 366
Interest on liabilities under finance lease agreements	4 697	7 546
Interest on long-term liabilities	5 193	7 679
Interest on bid bonds and guarantees	298	446
Other (including interest on state settlements)	1 389	464
Total interest expense	23 143	22 501
Other financial expenses		
Losses on shares:		
Recognised impairment losses on shares	-	9
Losses on measurement of financial assets and liabilities at FVTPL ⁽¹⁾	27 073	2 857
Unwinding discount of employee benefits provision	17 609	23 186
Other financial expenses:		
Net forex result	-	6 051
Other financial expenses	1 126	174
Total financial expenses	68 951	54 778

⁽¹⁾ As at 31 December 2015 item include valuation of net liabilities from put and call option of PLN 27,696 thousand and valuation of currency forward contracts of PLN (623) thousand.

(*) restatement of comparative figures is described in Note 5 of these Separate Financial Statements

11. Income tax

11.1 Income tax recognised in profit and loss

	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (restated*) PLN thousand
Current income tax:		
Current tax expense	92	1 647
	92	1 647
Deferred income tax:		
Deferred tax that occurred in the reporting period	(25 074)	10 278
Total tax expense recognised in profit or loss	(24 982)	11 925

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

Reconciliation of tax profit to accounting profit:

	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (restated*) PLN thousand
Profit before tax	(139 107)	87 532
Income tax expense at 19% rate	(26 430)	16 631
Tax effect of non-taxable revenues pursuant to tax regulations, including:	(10 514)	(6 620)
Dividends	(6 274)	(3 490)
Release of non-taxable provisions and impairment losses	(3 215)	(2 729)
Other	(1 025)	(401)
Tax effect of non-tax deductible expenses pursuant to the tax regulations, including:	9 807	11 518
Disability Fund	3 752	4 294
Non-tax deductible provisions and impairment losses	2 741	80
Permanent differences related to property, plant and equipment	560	508
Representation costs	434	707
Penalties and compensations	1 595	2 172
Other	723	3 757
Tax losses unused/(deducted) during the period	2 157	(1 339)
Using of the tax relief on the acquisition of new technologies ⁽¹⁾	-	(8 265)
Income tax expense recognised in profit or loss	24 982	11 925
Income tax expense recognised in profit or loss	24 982	11 925

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

The current corporate income tax imposed by Polish tax regulations in years 2014-2015 amounted to 19%.

(*) restatement of comparative figures is described in Note 5 of these Separate Financial Statements

Since 1 January 2015 the Company operates within tax capital group under the name PKP CARGO LOGISTICS – Tax Capital Group pursuant to art. 1a of the Polish Corporate Income Tax Act (Official Journal from 2011, item 851 with amendments) (hereinafter “TCG”). TCG was established by an agreement in the form of a notarial deed on 29 September 2014. TCG consists of PKP CARGO S.A as representing company, PKP CARGO SERVICE Sp. z o.o., PKP CARGOTABOR Sp. z o.o., and CARGOTOR Sp. z o.o.

The Polish Corporate Income Tax Act treats tax capital group as a separate income tax payer. This means that companies within TCG are not treated as separate entities for corporate income tax purposes (CIT), with TCG being treated as one whole company instead. TCG’s tax base will constitute the group’s aggregate income, calculated as the excess of the income of the companies that make up the group over their losses. TCG is considered to be a separate company only for the purposes of corporate income tax. This should not be equated with a separate legal company. TCG is also not applicable to other taxes, in particular each of the companies within TCG continue to be a separate payer of VAT, tax on civil-law transactions, as well as withholding agent with respect to personal income tax.

According to the concluded agreements, in case when a company belonging to TCG achieves a tax income, it transfers appropriate amount of income tax to PKP CARGO S.A. which settles payables with tax office as the representing company. On the other hand, in case when a company belonging to TCG generates a tax loss, then tax benefit resulting from it falls on the representing company, i.e. PKP CARGO S.A. The final settlement between companies belonging to TCG is performed after submission of the annual declaration by the representing company. Then, the final amounts of tax attributable to each company are calculated taking into consideration pro rata share in tax income and utilisation of tax losses generated by other companies in TCG. Liabilities to companies comprising TCG are presented under trade and other payables and as at 31 December 2015 amounted to PLN 3,058 thousand.

Flows between companies included in the TCG are carried out within the year at the periods preceding payment of income tax advances.

The companies forming a tax capital group are obliged to meet a number of requirements including: the appropriate level of equity, the parent company’s share in companies comprising TCG at least at the level of 95%, no equity relationships between subsidiaries, no tax arrears, share of taxable income in total revenue at least at the level of 3% (calculated for whole TCG), concluding transactions with entities not belonging to TCG solely on market terms. The violation of these requirements will result in dissolution of the tax capital group and the loss of status of the taxpayer.

In the year ended 31 December 2015, the TCG did not achieve assumed profitability of 3% and because of that second tax year of TCG will end on 31 March 2016 and therefore the TCG will cease to exist.

11.2 Income tax recognized in other comprehensive income

	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (restated*) PLN thousand
Deferred income tax		
Deferred income tax on actuarial gains and losses of post-employment benefits	9 453	(6 256)
Income tax recognised in other comprehensive income	9 453	(6 256)

11.3 Income tax liabilities

	As at 31/12/2015 (audited)	As at 31/12/2014 (restated*)
	PLN thousand	PLN thousand
Income tax liabilities	<u>2 028</u>	<u>2 056</u>

11.4 Deferred tax assets and liabilities

	As at 31/12/2015 (audited)	As at 31/12/2014 (restated*)
	PLN thousand	PLN thousand
Deferred tax assets	148 156	211 836
Deferred tax liabilities	(71 554)	(150 855)
Total	<u>76 602</u>	<u>60 981</u>

(*) restatement of comparative figures is described in Note 5 of these Separate Financial Statements

11.4.1 Table of movements of deferred income tax

For the year ended 31/12/2015 (audited)	As at 01/01/2015	Recognised in	Recognised in	As at 31/12/2015
	(restated*)	profit or loss	other	(audited)
	PLN thousand	PLN thousand	comprehensive income PLN thousand	PLN thousand
Temporary differences resulting in items of deferred tax (liabilities) / assets:				
Property, plant and equipment, intangible assets and non-current assets held for sale	(140 505)	74 430	-	(66 075)
Trade payables	-	3 788	-	3 788
Long-term liabilities	(1 574)	987	-	(587)
Inventories	(1 212)	1 144	-	(68)
Receivables - impairment allowances	3 853	(406)	-	3 447
Accrued interest on assets	(528)	446	-	(82)
Provisions for employee benefits	181 712	(52 397)	(9 453)	119 862
Other provisions	1 246	(148)	-	1 098
Accrued expenses	5 980	240	-	6 220
Deferred income	(7 036)	2 294	-	(4 742)
Unpaid employee benefits	7 036	(1 048)	-	5 988
Forex losses	6 956	(5 388)	-	1 568
Valuation of derivatives	120	5 144	-	5 264
Other	-	921	-	921
	56 048	30 007	(9 453)	76 602
Unused tax losses				
Tax losses	4 933	(4 933)	-	-
Total deferred tax assets (liabilities)	60 981	25 074	(9 453)	76 602

(*) restatement of comparative figures is described in Note 5 of these Separate Financial Statements

11.4.1 Table of movements of deferred income tax (cont'd)

For the year ended 31/12/2014 (restated*)	As at 01/01/2014 (restated*) PLN thousand	Recognised in profit or loss PLN thousand	Recognised in other comprehensive income PLN thousand	As at 31/12/2014 (restated*) PLN thousand
Temporary differences resulting in items of deferred tax (liabilities) / assets				
Property, plant and equipment, intangible assets and non-current assets held for sale	(156 932)	16 427	-	(140 505)
Long-term liabilities	(3 031)	1 457	-	(1 574)
Inventories	4 328	(5 540)	-	(1 212)
Receivables - impairment allowance	9 612	(5 759)	-	3 853
Accrued interest on assets	(2 097)	1 569	-	(528)
Provisions for employee benefits	159 649	15 807	6 256	181 712
Other provisions	1 137	109	-	1 246
Accrued expenses	5 654	326	-	5 980
Deferred income	(2 665)	(4 371)	-	(7 036)
Unpaid employee benefits	8 018	(982)	-	7 036
Forex losses	9 347	(2 391)	-	6 956
Valuation of derivatives	(423)	543	-	120
	32 597	17 195	6 256	56 048
Unused tax losses				
Tax losses ⁽¹⁾	32 406	(27 473)	-	4 933
Total deferred tax assets (liabilities)	65 003	(10 278)	6 256	60 981

⁽¹⁾ As at 31 December 2014 the deferred tax on tax losses to use in future periods represented loss of the Company (of PLN 25,975 thousand).

(*) restatement of comparative figures is described in Note 5 of these Separate Financial Statements

11.5 Tax losses unrecognised in calculation of deferred tax assets

As at 31 December 2015 and 31 December 2014 no unrecognised deferred tax assets and unused tax reliefs occurred.

12. Property, plant and equipment

Carrying amounts	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (restated*) PLN thousand
Land	123 576	125 393
Buildings, premises, civil and water engineering structures	388 628	396 770
Technical equipment and machinery	69 535	72 759
Means of transport	2 960 348	3 131 541
Other fixed assets	6 557	4 868
Fixed assets under construction	14 072	10 854
	3 562 716	3 742 185

Including finance lease	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (restated*) PLN thousand
Technical equipment and machinery	6 950	4 355
Means of transport	186 768	243 732
	193 718	248 087

Fixed assets under construction	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (restated*) PLN thousand
Gross value		
Opening balance	12 654	20 454
Additions	417 996	566 023
Grants to property, plants and equipment	(6 544)	(13 999)
Disposals - transfer to non-current assets	(407 532)	(559 824)
Closing balance	16 574	12 654
 <i>Accumulated impairment</i>		
Opening balance	1 800	1 800
Additions	702	-
Disposals	-	-
Closing balance	2 502	1 800
 Net value		
Closing balance	14 072	10 854

(*) restatement of comparative figures is described in Note 5 of these Separate Financial Statements

12. Property, plant and equipment (cont'd.)

For the year ended 31 December 2014 (restated*)	Buildings, premises, civil and water engineering structures					Total PLN thousand
	Land	PLN thousand	PLN thousand	PLN thousand	PLN thousand	
	PLN thousand					
Gross value						
As at 1 January 2014 (restated*)	127 256	450 380	170 554	4 079 975	18 293	4 846 458
<i>Additions:</i>						
Acquisition	-	19 343	14 934	522 128	954	557 359
finance leases	-	-	-	2 465	-	2 465
Other	-	-	152	-	-	152
<i>Disposals</i>						
Sales	(1 863)	(8 267)	(200)	(317)	(2)	(10 649)
Liquidation	-	(9 584)	(553)	(209 108)	(32)	(219 277)
Other	-	-	-	-	(152)	(152)
As at 31 December 2014 (restated*)	125 393	451 872	184 887	4 395 143	19 061	5 176 356
Accumulated depreciation						
As at 1 January 2014 (restated*)	-	41 433	91 152	1 162 838	12 475	1 307 898
<i>Additions</i>						
Depreciation charges	-	16 082	21 288	293 006	1 882	332 258
Other	-	-	130	-	-	130
<i>Disposals</i>						
Sales	-	(4 194)	(103)	(148)	(3)	(4 448)
Liquidation	-	(909)	(339)	(192 094)	(31)	(193 373)
Other	-	-	-	-	(130)	(130)
As at 31 December 2014 (restated*)	-	52 412	112 128	1 263 602	14 193	1 442 335
Accumulated impairment loss						
As at 1 January 2014 (restated*)	-	11 300	-	-	-	11 300
<i>Disposals</i>						
Impairment loss utilization	-	(8 610)	-	-	-	(8 610)
As at 31 December 2014 (restated*)	-	2 690	-	-	-	2 690
Net value						
As at 31 December 2014 (restated*)	125 393	396 770	72 759	3 131 541	4 868	3 731 331

(*) restatement of comparative figures is described in Note 5 of these Separate Financial Statements

12. Property, plant and equipment (cont'd.)

For the year ended 31 December 2015 (audited)	Buildings, premises, civil and water engineering structures					Total PLN thousand
	Land	PLN thousand	Technical equipment and machinery	Means of transport	Other fixed assets	
	PLN thousand		PLN thousand	PLN thousand	PLN thousand	
Gross value						
As at 1 January 2015 (restated*)	125 393	451 872	184 887	4 395 143	19 061	5 176 356
<i>Additions:</i>						
Acquisition	-	19 404	11 652	364 765	4 581	400 402
Finance leases	-	-	4 471	2 659	-	7 130
Other	-	-	-	576	-	576
<i>Disposals</i>						
Sales	-	-	(163)	(733)	(158)	(1 054)
Contribution in kind	-	-	(4 293)	-	-	(4 293)
Liquidation	-	-	(162)	(147 510)	(228)	(147 900)
Reclassification to assets held for sale	(1 817)	(5 830)	-	(91 969)	-	(99 616)
Other	-	-	-	(67)	(1)	(68)
As at 31 December 2015 (audited)	123 576	465 446	196 392	4 522 864	23 255	5 331 533
Accumulated depreciation						
As at 1 January 2015 (restated*)	-	52 412	112 128	1 263 602	14 193	1 442 335
<i>Additions</i>						
Depreciation charges	-	18 031	17 786	337 394	2 797	376 008
Other	-	-	-	28	-	28
<i>Disposals</i>						
Sales	-	-	(48)	(733)	(158)	(939)
Contribution in kind	-	-	(2 882)	-	-	(2 882)
Liquidation	-	-	(127)	(142 257)	(133)	(142 517)
Reclassification to assets held for sale	-	(1 647)	-	(43 300)	-	(44 947)
Other	-	-	-	(17)	(1)	(18)
As at 31 December 2015 (audited)	-	68 796	126 857	1 414 719	16 698	1 627 068
Accumulated impairment loss						
As at 1 January 2015 (restated*)	-	2 690	-	-	-	2 690
<i>Additions</i>						
Recognition of impairment allowance	-	5 332	-	147 799	-	153 131
As at 31 December 2015 (audited)	-	8 022	-	147 799	-	155 821
Net value						
As at 31 December 2015 (audited)	123 576	388 628	69 535	2 960 348	6 557	3 548 644

(*) restatement of comparative figures is described in Note 5 of these Separate Financial Statements

12.1 Impairment of property, plant and equipment

As at 31 December 2015 and 31 December 2014 impairment of property, plant and equipment amounted to PLN 158,323 thousand and PLN 4,490 thousand, respectively.

For the year ended 31 December 2015 the Company recognized impairment allowance of property, plant and equipment of PLN 153,833 thousand. Increase of the allowance by PLN 147,799 thousand related to adjustment of residual value of railroad fleet without valid technical efficiency certificates, further described in Note 3.2.2. Other increases of impairment allowance related to individual items of property, plant and equipment located in leased spaces that has lost their usability for the Company.

12.2 Assets used as collateral

As at 31 December 2014 the Company used as collateral the following items of property, plant and equipment:

- a) train engines which were subject of registered pledge up to the amount of PLN 90,000 thousand, and
- b) land property covered by mortgage up to the amount of PLN 20,000 thousand.

Aforementioned assets were used as collateral of the investment loans received by the Company. In 2015 as a result of concluded annex to the investment loan agreement, the collateral on train engines has been released. Total amount of liabilities was paid in 2015.

As at 31 December 2015 the Company used as a collateral one land property covered by mortgage, but liability which is secured by this land property was fully settled as at the reporting date. Because of that, on 13 January 2016, the mortgage was released from the land and mortgage register.

12.3. Grants to property, land and equipment

Within the framework of the Operational Programme "Infrastructure and Environment" the Company carries out with the Centre for EU Transport Projects (CEUTP) two agreements for financial support of investment activities.

The first agreement, signed on 15 October 2012, concerns construction and equipment of railway intermodal terminal at the Poznań Franowo station. Under this agreement, until 31 December 2015, the Company received grants in total amount of PLN 8,740 thousand.

The second agreement, signed on 24 October 2013, concerns purchase and supply of newly built wagons series Sggrss. Under this agreement, until 31 December 2015, the Company received grants in total amount of PLN 23,541 thousand.

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

As at 31 December 2015 and 31 December 2014 there were no unfulfilled conditions related to the government grants.

13. Intangible assets

Carrying amounts	As at 31/1/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Licenses	42 414	27 738
Other intangible assets	985	2 264
Intangible assets under development	15 837	25 988
	59 236	55 990

For the year ended 31 December 2014 (audited)	Licenses – computer software PLN thousand	Other intangible assets PLN thousand	Intangible assets under development PLN thousand	Total PLN thousand
Gross value				
As at 1 January 2014 (audited)	97 981	6 877	27 053	131 911
Additions – acquisitions	-	-	12 969	12 969
Putting intangible assets under construction into use	14 034	-	(14 034)	-
As at 31 December 2014 (audited)	112 015	6 877	25 988	144 880
Accumulated amortization				
As at 1 January 2014 (audited)	70 128	3 238	-	73 366
Amortization charges	14 149	1 375	-	15 524
As at 31 December 2014 (audited)	84 277	4 613	-	88 890
Net value				
As at 31 December 2014 (audited)	27 738	2 264	25 988	55 990

For the year ended 31 December 2015 (audited)	Licenses – computer software PLN thousand	Other intangible assets PLN thousand	Intangible assets under development PLN thousand	Total PLN thousand
Gross value				
As at 1 January 2015 (audited)	112 015	6 877	25 988	144 880
Additions – acquisitions	-	-	19 006	19 006
Putting intangible assets under construction into use	29 157	-	(29 157)	-
As at 31 December 2015 (audited)	141 172	6 877	15 837	163 886
Accumulated amortization				
As at 1 January 2015 (audited)	84 277	4 613	-	88 890
Amortization charges	14 481	1 279	-	15 760
As at 31 December 2015 (audited)	98 758	5 892	-	104 650
Net value				
As at 31 December 2015 (audited)	42 414	985	15 837	59 236

As at 31 December 2015 as a result of performed impairment analysis, no necessity was identified to recognise impairment loss of intangible assets under construction.

14. Subsidiaries

Detailed information regarding subsidiaries which are directly dependent as at 31 December 2015 and 31 December 2014 are as follows:

No.	Name of subsidiary	Core business	Place of registration and operation	% of interests held by the Company	
				As at 31/12/2015	As at 31/12/2014
1	CARGOSPED Sp. z o.o. ⁽⁶⁾	Forwarding services (transport of aggregate as well as domestic and international intermodal transport)	Warsaw	-	100.0%
2	PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	Services supporting land transport, transshipment of goods, wholesale and retail sale of waste and metal scrap	Małaszewicze	100.0%	100.0%
3	PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o.	Transshipment of goods in other terminals	Żurawica	100.0%	100.0%
4	PKP CARGO SERVICE Sp. z o.o.	Siding services	Warsaw	100.0%	100.0%
5	PKP CARGO International a.s. in liquidation ⁽¹⁾	Shipping services	Bratislava	-	51.0%
6	PKP CARGO CONNECT Sp. z o.o. ^{(2),(6)}	Shipping services	Warsaw	100.0%	55.6%
7	PKP CARGOTABOR Sp. z o.o.	Repair and maintenance of railroad fleet	Warsaw	100.0%	100.0%
8	PKP CARGOTABOR USŁUGI Sp. z o.o. ⁽⁵⁾	Collection, processing and disposal of waste; recovery of recyclable materials	Warsaw	100.0%	100.0%
9	CARGOTOR Sp. z o.o.	Management of logistics infrastructure including railway sidings and tracks	Warsaw	100.0%	100.0%
10	ONECARGO Sp. z o.o. ⁽³⁾	Rail transport of goods	Warsaw	100.0%	-
11	ONECARGO CONNECT Sp. z o.o. ⁽³⁾	Services supporting land transport	Warsaw	100.0%	-
12	Advanced World Transport B.V. ⁽⁴⁾	Holding and financial activity	Amsterdam	80.0%	-

⁽¹⁾ On 5 February the Company acquired from Rail Cargo Spedition a.s. 49% shares in PKP CARGO International a.s. in liquidation. The purchase price amounted in PLN 1,619 thousand, and as a result the Company became the sole shareholder of PKP CARGO International a.s. in liquidation. On 29 July 2015 the General Shareholders Meeting of PKP CARGO International a.s. passed a resolution on distribution of liquidation mass resulting in pay off to the sole shareholder – PKP CARGO S.A. Pay off occurred on 5 August 2015. On 26 November 2015 the company PKP CARGO International a.s. in liquidation was removed from the Slovak commercial register.

⁽²⁾ On 5 February 2015 the Company acquired 44.44% shares in PS TRADE TRANS Sp. z o.o. from Trade Trans Invest a.s. The purchase price amounted to PLN 40,451 thousand. On 30 October 2015 the change of name of the company PS TRADE TRANS Sp. z o.o. to PKP CARGO CONNECT Sp. z o.o. was registered in the Polish commercial register. As at 31 December 2015 the Company owns 100% of the shares in PKP CARGO CONNECT Sp. z o.o.

⁽³⁾ In March 2015 two companies were registered, the Company owns 100% of the share capital in these companies. These are:

- ONECARGO Sp. z o.o.
- ONECARGO CONNECT Sp. z o.o.

⁽⁴⁾ On 28 May 2015 the Company has acquired from Mr. Zdenek Bakala and The Bakala Trust 80% shares in share capital of Advanced World Transport B.V. (hereinafter "AWT B.V.") with headquarters in Amsterdam. AWT B.V. is a Parent company in AWT Group, which as at the date of acquisition included:

- 8 subsidiaries – controlled directly by AWT B.V.,
- 7 entities controlled indirectly by AWT B.V.,
- 1 company jointly controlled by the subsidiary of AWT B.V.,
- 2 entities in which subsidiaries of AWT B.V. hold a minority stake in the share capital.

Core business of AWT Group is mainly complex railway cargo shipping services.

The purchase price of the acquired shares amounted to PLN 427,300 thousand.

Simultaneously, based on the Shareholders Agreement, the Company has concluded with a minority shareholder of AWT B.V. an agreement on the purchase option (call) and sale option (put) of a minority shares in AWT B.V. Detailed information is presented in Note 29 of these Separate Financial Statements.

⁽⁵⁾ On 1 April 2015 the company PKP CARGOTABOR USŁUGI Sp. z o.o. suspended its business activities for the period of 9 months, i.e. until the end of 2015, however on 1 July 2015 it was resumed.

⁽⁶⁾ On 29 September 2015 the Management Boards of PS TRADE TRANS Sp. z o.o. (currently PKP CARGO CONNECT Sp. z o.o.) and CARGOSPED Sp. z o.o. signed „Plan of the merger of the entities: PS TRADE TRANS Sp. z o.o. and CARGOSPED Sp. z o.o.”

On 31 December 2015 the merger of PKP CARGO CONNECT Sp. z o.o. and CARGOSPED Sp. z o.o. took place pursuant to art. 492 § 1 item 1) of the Polish Commercial Companies code, by transferring all the assets of CARGOSPED Sp. z o.o. as the acquired company to PKP CARGO CONNECT Sp. z o.o. as the acquiring company. As a result of the merger, the share capital of the acquiring company (PKP CARGO CONNECT Sp. z o.o.) was increased by PLN 4,050 thousand and as at 31 December 2015 amounted to PLN 20,050 thousand. PKP CARGO S.A. owns 100% of the share capital of this company.

Information on the companies which are indirectly dependent (belonging to **PKP CARGO CONNECT Sp. z o.o.**) is as follows:

	Name of subsidiary	Core business	Place of registration and operation	% of interests held by the subsidiary (nominal value)	
				As at 31/12/2015	As at 31/12/2014
13	Trade Trans Karya Sp. z o.o.	Transshipment of goods, customs depot	Lublin	100.0%	100.0%
14	Transgaz S.A.	Transport agency	Zalesie k. Małaszewicz	64.0%	64.0%
15	Trade Trans Finance Sp. z o.o.	Financial and accounting services	Warsaw	100.0%	100.0%
16	PPHU "Ukpol" Sp. z o.o.	Transshipment of goods, trade services	Werchrata	100.0%	100.0%
17	Cargosped Terminal Braniewo Sp. z o.o.	Transshipment of goods, customs depot	Braniewo	100.0%	100.0%

Information on the companies which are indirectly dependent (belonging to **AWT Group**) is as follows:

	Name of subsidiary	Core business	Place of registration and operation	% of interests held by the subsidiary (nominal value)	
				As at 31/12/2015	As at 31/12/2014
18	Advanced World Transport a.s.	Providing complex services: rail transport, railway shipping, siding services, repair of railroad fleet	Ostrava	100.0%	-
19	AWT ROSCO a.s.	Managing and lease of railroad fleet	Ostrava	100.0%	-
20	AWT Čechofracht a.s.	Railway shipping and customs service	Prague	100.0%	-
21	AWT Rekultivace a.s.	Providing complex services: reclamation of land, construction services, waste management, designing of land development	Havířov-Prostřední Suchá	100.0%	-
22	AWT Rail HU Zrt.	Providing complex services: rail transport, railway shipping, siding services,	Budapest	100.0%	-
23	AWT Coal Logistics s.r.o.	Railway shipping	Prague	100.0%	-
24	AWT Rail SK, a. s	rail transport, railway shipping	Bratislava	100.0%	-
25	AWT Rail PL Sp.z o.o. ⁽¹⁾	Railway shipping	Rybnik	100.0%	-
26	AWT DLT s.r.o.	Siding services	Kladno	100.0%	-
27	XZD a.s. in liquidation ⁽²⁾	Railway shipping	Bratislava	-	-
28	G.I.B., s.r.o. in liquidation	Railway shipping	Prague	100.0%	-
29	AWT Trading s.r.o.	Trading of military purpose products	Petřvald	100.0%	-
30	AWT Rekultivace PL Sp. z o.o.	Providing complex services: reclamation of land, construction services, waste management, designing of land development	Cieszyn	100.0%	-
31	Spedrapid Sp. z o.o.	Railway shipping	Gdynia	66.0%	-
32	RND s.r.o.	Railway shipping, monitoring	Olomouc	51.0%	-

⁽¹⁾ On 7 August 2015 at the Extraordinary Shareholders Meeting of AWT Rail PL Sp. z o.o. the resolution on opening of liquidation proceedings of this company was adopted. This change is awaiting registration in court.

⁽²⁾ On 5 November 2015 the company AWT Čechofracht a.s. with headquarters in Prague sold 80% of shares of XZD a.s. in liquidation to law firm Ecker Khan, whereas remaining 20% of shares were sold on 1 December 2015. As at 31 December 2015 AWT Čechofracht a.s does not hold any shares in XZD a.s. in liquidation.

15. Associates

Detailed information regarding associates as at 31 December 2015 and 31 December 2014 is as follows:

	Name of subsidiary	Core business	Place of registration and operation	% of interests held by the Company (nominal value)	
				As at 31/12/2015	As at 31/12/2014
1	COSCO POLAND Sp. z o.o.	Sea-land service of container cargo	Gdynia	20.0%	20.0%
2	Międzynarodowa Spedycja MIRTRANS Sp. z o.o. in liquidation	Shipping services	Gdynia	44.0%	44.0%

Information about the associates which are indirectly dependent (belonging to **PKP CARGO CONNECT Sp. z o.o.**) is as follows:

	Name of subsidiary	Core business	Place of registration and operation	% of interests held by the subsidiary (nominal value)	
				As at 31/12/2015	As at 31/12/2014
3	Rentrans Cargo Sp. z o.o.	Railway transport	Szczecin	29.3%	26.5%
4	Rail Cargo Service Sp. z o.o. ⁽¹⁾	Railway transport, IT services	Wrocław	-	20.0%
5	Rail Cargo Spedition GmbH ⁽¹⁾	Railway transport	Vienna	-	37.7%
6	S.C. Trade Trans Terminal SRL ⁽¹⁾	Transshipment, transport, shipping services	Curtici	-	23.9%
7	Gdański Terminal Kontenerowy S.A.	Handling, storage, transport and forwarding	Gdańsk	41.9%	41.9%

⁽¹⁾ On 5 February 2015 PS TRADE TRANS Sp. z o.o. (currently PKP CARGO CONNECT Sp. z o.o.) has sold to Trade Trans Invest a.s. 20% of shares held in Rail Cargo Service Sp. z o.o., 37.7% of shares held in Rail Cargo Spedition GmbH and 23.9% of shares held in S.C. Trade Trans Terminal SRL. As at 31 December 2015 PKP CARGO CONNECT Sp. z o.o. has no shares in these entities.

Information about the associates which are indirectly dependent (belonging to **AWT Group**) is as follows:

	Name of subsidiary	Core business	Place of registration and operation	% of interests held by the subsidiary (nominal value)	
				As at 31/12/2015	As at 31/12/2014
8	CD Logistics, a.s.	Railway shipping	Prague	22.0%	-
9	DEPOS Horni Sucha, a.s.	Waste management	Horni Sucha	20.6%	-

16. Joint arrangements

The Company owns directly and indirectly through its subsidiaries: **PKP CARGO CONNECT Sp. z o.o.**, **AWT B.V.** the following shares in joint arrangements:

	Name of joint venture (jointly controlled company)	Core business	Place of registration and operation	% of interests held by the Company and subsidiary (nominal value)	
				As at 31/12/2015	As at 31/12/2014
1	PKP CARGO CFL International S.A. in liquidation ⁽¹⁾	Forwarding and shipping services	Bratislava	-	50.0%
2	Terminale Przeladunkowe Sławków - Medyka Sp. z o.o.	Terminal service in intermodal transport, transhipment and security palletized cargo shipping and mass metallurgical goods	Sławków	50.0%	50.0%
3	POL – RAIL S.r.l.	International railway transport	Rome	50.0%	50.0%
4	Cargosped Składy Celne Sp. z o.o. in liquidation ⁽²⁾	Storage of goods in a customs depot, storage of goods in a domestic warehouse and service of stored goods	Gdańsk	50.0%	50.0%
5	LEX Logistics Express, s.r.o.	Forwarding and shipping services, property rental	Prague	50.0%	-

⁽¹⁾ On 31 March 2015 PKP CARGO International a.s. in liquidation sold 31 shares (representing 50% of share capital) in PKP CARGO CFL International S.A. in liquidation to other shareholder – CFL CARGO S.A.

⁽²⁾ On 10 August 2015 the Extraordinary Shareholders Meeting of Cargosped Składy Celne Sp. z o.o. passed a resolution on opening of company's liquidation and appointment of the liquidator.

17. Investments in subsidiaries and associates

	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Advanced World Transport B.V.	427 300	-
CARGOSPED Sp. z o.o.	-	20 599
CARGOTOR Sp. z o.o.	20 182	20 182
COSCO POLAND Sp. z o.o.	1 100	1 100
ONECARGO Sp. z o.o.	5	-
ONECARGO CONNECT Sp. z o.o.	5	-
PKP CARGO International a.s. in liquidation	-	-
PKP CARGOTABOR Sp. z o.o.	84 181	84 181
PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	40 439	40 439
PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o.	10 703	6 666
PKP CARGO SERVICE Sp. z o.o.	12 676	12 676
PKP CARGOTABOR USŁUGI Sp. z o.o.	16 319	16 319
POL – RAIL S.r.l.	1 870	1 870
PKP CARGO CONNECT Sp. z o.o.	119 863	58 814
Total	734 643	262 846

17.1 Investments in related parties

	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Investments in subsidiaries		
Opening balance	259 876	240 194
<i>including impairment allowance</i>	(7 561)	(7 561)
Additions	475 306	19 682
Acquisition ⁽¹⁾	470 790	19 682
Reversal of impairment allowance ⁽²⁾	4 516	-
Disposals	3 509	-
Other ⁽³⁾	3 509	-
Closing balance	731 673	259 876
<i>including impairment allowance</i>	(2 696)	(7 561)
Investments in associates		
Opening balance	2 970	2 970
<i>including impairment allowance</i>	(1 018)	(1 018)
Closing balance	2 970	2 970
<i>including impairment allowance</i>	(1 018)	(1 018)

⁽¹⁾ In the period ended 31 December 2015 additions include mainly acquisition of shares in AWT B.V., PKP CARGO CONNECT Sp. z o.o. and PKP CARGO International a.s. in liquidation. Share purchase transactions are described in Note 14 of these Separate Financial Statements.

Moreover, according to the Resolution no. 437/2015 of the Management Board of PKP CARGO S.A. from 18 November 2015, the share capital of PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o. was increased through the issuance of new shares of PLN 1,411 thousand covered in non-cash contribution.

⁽²⁾ In connection with proceeds from liquidation mass, which was described in Note 14, the Company reversed impairment allowance on shares in PKP CARGO International a.s. in liquidation of PLN 1,890 thousand.

Furthermore, the Company reversed impairment allowance on shares in PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o. of PLN 2,626 thousand.

⁽³⁾ Amount of other disposals constitutes mainly equivalent of received proceeds from liquidation mass from PKP CARGO International a.s. in liquidation. Detailed information regarding liquidation of PKP CARGO International a.s. in liquidation is described in Note 14 of these Separate Financial Statements.

18. Other financial assets

	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Investments in shares		
Shares in Polish entities ⁽¹⁾	6 021	6 021
Loans and receivables measured at amortized cost		
Loans granted to other entities	-	433
Deposits over 3 months	-	301 385
	-	301 818
Other financial assets		
Cash pool ⁽²⁾	25 057	-
Total	31 078	307 839
Non-current assets	6 021	6 021
Current assets	25 057	301 818
Total	31 078	307 839

⁽¹⁾ As at 31 December 2015 and as at 31 December 2014 the impairment allowance on investments in shares amounted to PLN 11,833 thousand.

⁽²⁾ On 10 December 2013 selected companies of PKP CARGO Group including the Company, signed an agreement for cash management, so called cash pooling, which was based on overdraft credit facility of the Company. The purpose of this agreement is to optimize cash flow management and therefore ensuring the solvency of all companies. Each of the companies may borrow up to the amount established for their individual liquidity limit. The total debt of all the companies at one time may not exceed the amount of PLN 100,000 thousand. In case when the Company lends cash to its subsidiaries, the balance of cash pooling is presented in other financial assets while when the Company borrows cash from its subsidiaries, it is presented as other financial liabilities.

19. Other non-financial assets

	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Advances for purchase of fixed assets ⁽¹⁾	13 385	1 059
Prepayments ⁽²⁾	9 839	24 165
Other	688	1 161
Total	23 912	26 385
Non-current assets	18 927	1 464
Current assets	4 985	24 921
Total	23 912	26 385

⁽¹⁾ As at 31 December 2015, the position includes mainly an advance of PLN 12,326 thousand paid under concluded agreement on delivery of 15 multisystem train engines. According to the scheduled terms of the agreement, train engines will be delivered during the period from February 2016 until June 2017. Detailed information on the aforementioned agreement is described in Note 37 to these Separate Financial Statements.

⁽²⁾ As at 31 December 2015 the most significant items of prepayments are: cost of prepaid insurance of PLN 6,793 thousand, IT services of PLN 1,070 thousand and rents of PLN 1,188 thousand. As at 31 December 2014 the most significant items were: advances for purchase of traction energy of PLN 16,534 thousand, cost of prepaid IT services of PLN 3,613 thousand and cost rents of PLN 1,764 thousand.

20. Inventories

	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Materials (gross)	70 124	79 212
Impairment allowances	(9 381)	(3 453)
Materials (net)	60 743	75 759

Changes in inventories impairment allowance	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Opening balance	3 453	22 777
Impairment allowance recognition	5 928	212
Impairment allowance derecognition	-	(19 536)
Closing balance	9 381	3 453

In the period ended 31 December 2015, the Company recognized impairment allowance for inventory of PLN 5,928 thousand. Increase in the allowance relates mainly to decrease in scrap prices, which are the basis of valuation of exploited rolling stock which is under liquidation.

In the period ended 31 December 2014 as a result of the verification of usefulness of inventory, the Company derecognised the impairment allowance on spare parts for rolling stock of PLN 17,034 thousand due to the fact that they are strategic and full-value inventories which are used for repairing rolling stock owned by the Company. As for the other items of inventory, in the period ended 31 December 2014, the Company derecognised the impairment allowance of PLN 2,502 thousand and recognised the impairment allowance of PLN 212 thousand.

21. Trade and other receivables

	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Trade receivables	435 341	472 002
Impairment allowance for receivables	(58 008)	(59 600)
Total	377 333	412 402
Receivables from sales of non-financial non-current assets	4	-
State receivables	3 948	4 917
VAT settlements	648	4 491
Other receivables	2 295	1 361
Total	384 228	423 171
Current assets	384 228	423 171
Total	384 228	423 171

Trade and other receivables include trade receivables and other receivables from related parties. Detailed information about trade receivables from related parties is presented in Note 35.1 of these Separate Financial Statements.

21.1 Trade receivables

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

Trade receivables	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Current receivables	340 548	374 210
Overdue receivables		
Up to 90 days	31 970	34 003
From 91 to 365 days	3 458	4 186
Over 365 days	1 357	3
Total	377 333	412 402
Average debt age (days)	40	39

Changes in impairment allowance for receivables at risk

Trade receivables	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Opening balance	59 600	81 417
Recognised impairment allowance for receivables	2 863	20 462
Utilized during the year	(760)	(30 661)
Derecognised impairment allowance	(3 695)	(11 618)
Closing balance	58 008	59 600

22. Cash and cash equivalents

For the purpose of preparation of the statement of cash flows, cash and cash equivalents consist of cash at bank, including bank deposits up to 3 months maturity. Cash and cash equivalents presented in the statement of cash flows at the end of the financial year can be reconciled to the balance sheet items in the following manner:

	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Cash at bank	79 467	63 188
Bank deposits up to 3 months	4 630	318 232
Total	84 097	381 420
including:		
Restricted cash	9 478	9 194

As at 31 December 2015 restricted cash comprised mainly bid and guarantee deposits of PLN 9,475 thousand. As at 31 December 2014 restricted cash comprised mainly bid and guarantee deposits of PLN 9,192 thousand.

23. Explanation of changes of captions in the separate statement of financial position and other adjustments presented in the separate statement of cash flows

(Increase) / decrease in trade and other receivables	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (audited) PLN thousand
Change in the statement of financial position	38 943	54 065
Change in receivables from sale of non-financial assets	4	(1 337)
Change in interest receivable	(654)	(275)
Change in receivables contributed in kind	-	(19 682)
Change in receivables from subsidies to non-financial assets	-	(10 782)
Change in trade receivables and other receivables in the statement of cash flows	38 293	21 989

(Increase) / decrease in inventories	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (audited) PLN thousand
Change in the statement of financial position	15 016	(29 482)
Change in inventories reclassified from fixed assets	4 579	13 016
Change in inventories in the statement of cash flows	19 595	(16 466)

(Increase) / decrease in other assets	For the year ended 31/12/2015 (audited)	For the year ended 31/12/2014 (audited)
	PLN thousand	PLN thousand
Change in the statement of financial position	279 234	388 317
Change in advances paid for purchase of fixed assets	12 326	-
Change in other assets from bank deposits over 3 months	(300 000)	(302 737)
Change in receivables from loans granted	(433)	(3 938)
Cash flows related to shares issuance	-	(79 614)
Change in cash pool receivables	25 057	-
Other	(1 384)	(237)
Change in other assets in the statement of cash flows	14 800	1 791

Increase / (decrease) in trade and other payables	For the year ended 31/12/2015 (audited)	For the year ended 31/12/2014 (audited)
	PLN thousand	PLN thousand
Change in the statement of financial position	64 934	(192 566)
Change in payables for purchase of fixed assets	29 638	70 477
Other	1 340	(1 492)
Change in trade payables and other payables in the statement of cash flows	95 912	(123 581)

Increase / (decrease) in other financial liabilities	For the year ended 31/12/2015 (audited)	For the year ended 31/12/2014 (audited)
	PLN thousand	PLN thousand
Change in the statement of financial position	(31 687)	19 753
Change in cash pool liabilities	58 760	(19 120)
Change in other payables in the statement of cash flows	27 073	633

Other adjustments	For the year ended 31/12/2015 (audited)	For the year ended 31/12/2014 (restated*)
	PLN thousand	PLN thousand
Actuarial gains/(losses) recognised in the statement of comprehensive income	49 751	(32 927)
Other adjustments in the statement of cash flows	49 751	(32 927)

(*) restatement of comparative figures is described in Note 5 of these Separate Financial Statements

24. Non-monetary transactions

In the 12 month period ended 31 December 2015 and 31 December 2014, the main non-monetary investing and financial transactions, which were not reflected in the statement of cash flows were as follows:

Contributions in kind granted to subsidiaries

In 2015, the company made a contribution in kind in the form of property, plant and equipment of PLN 1,411 thousand to its subsidiary PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o. The contribution in kind increased share capital of the subsidiary.

In 2014, the company made a contribution in kind in the form of the receivable from PKP S.A. from the sale of undepreciated investment expenditures to its subsidiary CARGOTOR Sp. z o.o., in the gross amount PLN 19,682 thousand. The contribution in kind increased share capital of the subsidiary.

Acquisition of assets in the form of financial leasing

In 2015, the company acquired fixed assets of PLN 7,130 thousand under finance lease agreements.

In 2014, the value of fixed assets acquired under finance lease agreements amounted to PLN 2,465 thousand.

Liquidation of rolling stock

When the decision to liquidate component of rolling stock is taken, its residual value is recognized in inventories. In 2015, the residual value of fixed assets reclassified to inventories amounted to PLN 4,579 thousand, while in 2014 amounted to PLN 13,016 thousand.

25. Non-current assets held for sale

As at 31 December 2015 and 31 December 2014 non-current assets held for sale are presented as follows:

Non-current assets classified as held for sale	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Properties	10 994	4 994
Means of transport	33 067	12 566
Total	44 061	17 560

Non-current assets held for sale included land properties and rolling stock in the form of wagons and locomotives. As a result of the occurrence of events beyond the Company's control, sale of above mentioned assets have not been finalized within 12 months from the date of classification as assets held for sale (AHS). However, the Company is still determined to carry out the plan of sale and takes active steps to finalize it. Rolling stock is offered for sale through auctions announced by the Company. The Company also conducts an active program to find a buyer for the properties.

In the period ended 31 December 2015, the changes in the non-current assets classified as held for sale were as follows:

For the year ended 31 December 2015 (audited)	Properties	Means of transport	Total
	PLN thousand	PLN thousand	PLN thousand
As at 1 January 2015 (audited)	4 994	12 566	17 560
Reclassification from Property, Plant and equipment	6 000	48 669	54 669
Sales	-	(4 139)	(4 139)
Recognition of impairment allowance	-	(24 029)	(24 029)
As at 31 December 2015 (audited)	10 994	33 067	44 061

As at 31 December 2015 as a result of observable decrease of scrap prices in 4 quarter 2015, the Company adjusted fair value of assets classified as AHS. An impairment allowance of PLN 24,029 thousand was recognized in the position of depreciation/amortization and impairment losses.

In the period ended 31 December 2014, there were no changes in the non-current assets classified as held for sale.

26. Equity

26.1 Share capital

	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Share capital consists of:		
Ordinary shares, fully paid and registered	2 239 346	2 239 346
Total share capital	2 239 346	2 239 346

As at 31 December 2015 and as at 31 December 2014 share capital consisted of ordinary shares with the nominal value of PLN 50 each. The fully paid ordinary shares with a nominal value of PLN 50 are equivalent to one vote at the meeting of shareholders and bear the right to dividend.

During the fiscal year ended 31 December 2015 there were no changes in the share capital of the Company.

In the corresponding period of the previous year ended 31 December 2014 the changes in the share capital of the Company were as follows:

	Number of shares unit	Share capital PLN thousand
As at 1 January 2014	43 338 015	2 166 901
Issuance of shares series C	1 448 902	72 445
As at 31 December 2014	44 786 917	2 239 346

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

26.2 Share premium

	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Share premium, including:	589 202	584 513
Agio	201 260	201 260
Profit appropriation (statutory)	48 712	44 023
Profit appropriation (above the statutory minimum)	199 248	199 248
Capital created from shares redemption	139 982	139 982

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

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

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

On 21 April 2015 the Ordinary General Meeting of Shareholders of the Company adopted a resolution on distribution of net profit of PLN 58,610 thousand achieved in 2014, as follows:

- a) the amount of PLN 4,689 thousand was allocated to the share premium,
- b) the amount of PLN 53,921 thousand was allocated to the payment of the dividend.

In addition, it was decided to allocate to the payment of the dividend of PLN 56,255 thousand derived from retained earnings. The dividend in the amount of PLN 110,176 thousand was paid on 26 June 2015.

Until the date of approval of these Financial Statements, no decision has been made as to the amount of the dividend for the year ended 31 December 2015.

27. Earnings per share

Profit / (loss) used to calculate basic earnings and diluted earnings per share:

	For the year ended 31/12/2015 (audited)	For the year ended 31/12/2014 (restated*)
	PLN thousand	PLN thousand
Profit / (loss) attributable to shareholders	(114 125)	75 607

27.1 Basic earnings per share

	For the year ended 31/12/2015 (audited)	For the year ended 31/12/2014 (restated*)
Weighted average number of ordinary shares (units)	44 786 917	44 524 924
Basic earnings per share (PLN per share)	(2.55)	1.70

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

27.2 Diluted earnings per share

	For the year ended 31/12/2015 (audited)	For the year ended 31/12/2014 (restated*)
Weighted average number of ordinary shares (units)	44 786 917	44 790 878
Diluted earnings per share (PLN per share)	(2.55)	1.69

The diluted number of shares was calculated as the weighted average of ordinary shares adjusted as if they were converted into shares that result in dilution of potential ordinary shares.

In the period ended 31 December 2014, the Company prepares diluted earnings per share calculation taking into account the potential shares which are issued conditionally under the incentive program - Employment Guarantees Program.

(*) restatement of comparative figures is described in Note 5 of these Separate Financial Statements

28. Credit facilities and loans received

	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Credit facilities and loans received measured at amortized cost		
Bank loans - pledged on assets	-	36 325
Bank loans - other	589 219	257 758
Total	589 219	294 083
Non-current liabilities	459 305	206 112
Current liabilities	129 914	87 971
Total	589 219	294 083

28.1 Summary of loan and borrowings agreements

Investment loan agreements in the Company were signed mainly to finance the investment plan and financing of acquisitions / takeovers. The reference rate for loan agreements is WIBOR 1M and 3M plus margin and EURIBOR 3M plus margin. The agreements are usually signed for the period from 5 years. According to signed agreements repayment is made in PLN and EUR. Details concerning the bank loans of the Company are presented below:

As at 31 December 2015

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in currency	Contractual amount in PLN thousand	Liability in PLN thousand
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	21.03.2016	Bank enforcement	36 400	36 400	1 630
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.03.2016	Bank enforcement	36 600	36 600	2 233
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Bank enforcement	39 000	39 000	12 690
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2017	Bank enforcement	49 200	49 200	19 680
Investment loan	Bank Gospodarstwa Krajowego	PLN	WIBOR 1M + margin	31.03.2021	Bank enforcement	515 200	515 200	464 123
Investment loan	European Investment Bank	PLN	WIBOR 3M + margin	29.05.2020	No pledges	240 000	240 000	76 500
Investment loan	Bank Gospodarstwa Krajowego ⁽¹⁾	EUR	EURIBOR 3M + margin	20.12.2026	Notarial deed - statement of submission to enforcement	15 000	63 923	12 363
Total							589 219	

¹⁾ On 16 November 2015, the company signed two investment loan agreements with Bank Gospodarstwa Krajowego up to the maximum amount of EUR 100,000 thousand. The loan is dedicated to finance the purchase of multi-system engines. Until 31 December 2015 loan was available in the amount of EUR 15,000 thousand (of which as at 31 December 2015 the amount of EUR 2,901 thousand has been utilized), while from 1 January 2016 the loan will be available in the amount of EUR 85,000 thousand after establishment of collateral. Unutilized credit and overdraft facilities are presented in Note 28.2 of these Separate Financial Statements.

As at 31 December 2014

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

Total 294 083

28.2 Unutilized credit and overdraft facilities

Type of loan	Name of bank	Currency	As at 31/12/2015	As at 31/12/2014
			PLN thousand	PLN thousand
Investment loan	Bank Gospodarstwa Krajowego	PLN	5 627	336 771
Investment loan	European Investment Bank	PLN	-	240 000
Investment loan	Bank Gospodarstwa Krajowego	EUR	51 560	-
Investment loan	Bank Pekao S.A. ⁽¹⁾	PLN	100 000	-
Investment loan	The European Bank for Reconstruction and Development ⁽²⁾	EUR	426 150	-
Overdraft facility	mBank S.A.	PLN	100 000	100 000
Overdraft facility	ING BANK Śląski S.A.	PLN	19 000	-
Total not utilized credit and overdraft facilities			702 337	676 771

⁽¹⁾ On 16 November 2015, the company signed a loan agreement with Bank Pekao S.A., on the basis of which investment loan was granted up to the maximum amount of PLN 700,000 thousand, dedicated for financing planned acquisitions and capital expenditures. Until 31 December 2015 loan was available in the amount of PLN 100,000 thousand, while from 1 January 2016 the remaining part of the loan will be available in the amount of PLN 600,000 thousand.

⁽²⁾ On 23 December 2015 the Company conducted a loan agreement with the European Bank for Reconstruction and Development, on the basis of which investment loan was granted up to a maximum amount of EUR 100,000 thousand, intended for the refinancing of AWT acquisition.

28.3 Events of default in loan agreement

Within the period covered by this Separate Financial Statement no breaches of covenants in loan agreements occurred.

29. Other financial liabilities

	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Financial instruments		
Interest rate swap (IRS)	10	633
Net liability due to put and call option for minority shares in AWT B.V. ⁽¹⁾	27 696	-
Other financial liabilities		
Cash pool	-	58 760
Total	27 706	59 393
Non-current liabilities		
Non-current liabilities	27 696	-
Current liabilities		
Current liabilities	10	59 393
Total	27 706	59 393

⁽¹⁾ Based on the Shareholders Agreement, the Company has concluded with a minority shareholder of AWT B.V. an agreement on the purchase option (call) and sale option (put) of a minority shares in AWT B.V. Based on the agreement, the Company is both buyer of a call option (call) and the issuer of put option (put), and therefore has both the right to purchase the remaining shares in AWT B.V. through call option (call) and an obligation to purchase shares in AWT B.V. when the minority shareholder will realize a put option (put).

Period of execution sale option (put) has been set from 1 January 2017 to 31 December 2020, while the purchase option period (call) has been set from 1 January 2017 to 31 December 2021. Net liabilities related to the purchase option (call) and sale option (put) of shares in AWT B.V. from a minority shareholder recognized were initially at fair value at the date of taking control of the AWT B.V. After the initial recognition net liabilities due to the purchase option (call) and sale option (put) are measured at fair value through profit or loss in accordance with IAS 39. The fair value is estimated as the current present value of discounted future result of settlement of options. Any changes in net liabilities due to the purchase option (call) and sale option (put) are recognized in financial revenues/expenses.

Due to the fact that the sale option (put) and purchase option (call) have been concluded at the same time, between the same parties, and the implementation of one of the options disables the ability of the second, the valuation of both options is presented in the compensated value as an asset or a liability, depending on which of them has the greater value. As at 31 December 2015 net valuation of both options was presented as other financial liabilities. The basic assumptions considered in the valuation of options are: EBITDA, net debt, discount rate and the ratio of EUR / PLN.

30. Finance lease liabilities and leases with purchase option

30.1 General terms of lease

The Company uses cargo wagons, computer hardware, equipment of technical facilities, cars and train engines under finance leases. The leases are concluded from 3 to 7 years. EURIBOR 3M, 6M is the reference rate for contracts denominated in EUR, LIBOR 6M is the reference rate for those denominated in CHF, and WIBOR 1M and 3M is the reference rate for those denominated in PLN.

30.2 Finance lease liabilities

	Minimum lease payments	
	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Up to one year	52 016	125 417
Over one year, up to five years	77 302	119 115
	129 318	244 532
Less future lease charges	(5 071)	(10 000)
Present value of minimum lease payments	124 247	234 532

	Present value of minimum lease payments	
	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Up to one year	48 914	120 505
Over one year, up to five years	75 333	114 027
Present value of minimum lease payments	124 247	234 532

	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
	Included in the financial statements as:	
Long-term finance lease liabilities and leases with purchase option	75 333	114 027
Short-term finance lease liabilities and leases with purchase option	48 914	120 505
Total	124 247	234 532

31. Trade and other payables

	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Trade payables	252 337	191 770
Accruals	23 779	19 837
Liabilities due to purchase of non-financial non-current assets	103 179	132 817
Liabilities related to securities (deposits, bid bonds)	17 652	17 297
State settlements	79 610	93 204
Liabilities due to Voluntary Redundancy Program ⁽¹⁾	47 352	-
Other settlements with employees	61 372	70 002
Other settlements	5 193	613
Total	590 474	525 540
Non-current liabilities ⁽²⁾	22 389	67 938
Current liabilities	568 085	457 602
Total	590 474	525 540

⁽¹⁾ Voluntary Redundancy Program liabilities are described in Note 32 of these Separate Financial Statements

⁽²⁾ Non-current liabilities include in particular payments regarding the modernization of rolling-stock in Company. Payments are made in accordance with pre-defined schedules.

32. Employee benefits

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

	For the year ended 31/12/2015 (audited)	For the year ended 31/12/2014 (restated*)
	PLN thousand	PLN thousand
<u>Post-employment defined benefit plans</u>		
– retirement benefits	13 564	9 250
– appropriations to the Social Benefit Fund for pensioners	5 646	6 748
– death in service benefits	1 058	2 292
– transport benefits	1 436	1 887
<u>Other employee benefits</u>		
– jubilee bonuses	28 944	29 406
– other employee benefits (unused holidays / bonuses)	(12 415)	135
– provision for Voluntary Redundancy Program (VRP)	63 862	257 116
Total	94 696	306 834

(*) restatement of comparative figures is described in Note 5 of these Separate Financial Statements

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

	For the year ended 31/12/2015 (audited)	For the year ended 31/12/2014 (restated*)
	PLN thousand	PLN thousand
<u>Post-employment defined benefit plans</u>		
– retirement benefits	(334)	14 028
– appropriations to the Social Benefit Fund for pensioners	(43 633)	21 729
– death in service benefits	(1 305)	(3 790)
– transport benefits	(4 479)	960
Total	(49 751)	32 927

The total costs of employee benefits recognized in the statement of comprehensive income:

	For the year ended 31/12/2015 (audited)	For the year ended 31/12/2014 (restated*)
	PLN thousand	PLN thousand
Employee benefits	83 850	283 648
Financial expenses	17 609	23 186
External services	636	-
Total recognized in profit before tax	102 095	306 834
The amount recognized in other comprehensive income	(49 751)	32 927
Total recognized in comprehensive income	52 344	339 761

(*) restatement of comparative figures is described in Note 5 of these Separate Financial Statements

Amount recognised in the separate statement of financial position in relation to Company's liabilities arising from employee benefit plans:

	As at 31/12/2015 (audited)	As at 31/12/2014 (restated*)
	PLN thousand	PLN thousand
Post-employment defined benefit plans		
– retirement benefits	141 608	145 424
– appropriations to the Social Benefit Fund for pensioners	119 598	164 487
– death in service benefits	28 702	29 752
– transport benefits	33 350	37 587
Other employee benefits		
– jubilee bonuses	283 972	290 716
– other employee benefits (unused holidays / bonuses)	23 631	31 301
– provision for Voluntary Redundancy Program (VRP)	-	257 116
Total	630 861	956 383
including:		
– long-term	549 280	637 783
– short-term	81 581	318 600
Total	630 861	956 383

(*) restatement of comparative figures is described in Note 5 of these Separate Financial Statements

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

	For the year ended 31/12/2015 (audited)	For the year ended 31/12/2014 (restated*)
	PLN thousand	PLN thousand
Opening balance of defined benefit plan liabilities	956 383	749 634
Current service cost	18 616	19 202
Past service costs, to which rights were acquired	4 850	-
Other employee benefits	(12 415)	136
Interest expense	17 609	23 186
Actuarial losses/ (gains) - post-employment benefits	(49 751)	32 927
Actuarial losses/ (gains) - other long term employee benefits	9 573	7 194
Benefits paid	(330 514)	(66 715)
Employment Guarantees Program	-	(66 297)
Voluntary Redundancy Program	63 862	257 116
VRP reclassification to trade and other payables	(47 352)	-
Closing balance of defined benefit plan liabilities	630 861	956 383

(*) restatement of comparative figures is described in Note 5 of these Separate Financial Statements

Actuarial (gains) / losses incurred in 2015 arise from:

	changes in demographic assumptions	changes in financial assumptions	other changes	Total
	PLN	PLN	PLN	PLN
	thousand	thousand	thousand	thousand
<u>Actuarial losses/ (gains) - post-employment benefits</u>				
– retirement benefits	(3 566)	(6 389)	9 621	(334)
– provision for Employment Guarantees Program (EGP)	(8 632)	(8 683)	(26 318)	(43 633)
– transport benefits	(2 573)	(2 329)	422	(4 479)
– death in service benefits	7 994	(873)	(8 426)	(1 305)
<u>Actuarial losses/ (gains) - other long term employee benefits</u>				
– jubilee bonuses	(2 814)	(8 615)	21 002	9 573
Total	(9 591)	(26 888)	(3 699)	(40 178)

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

	changes in demographic assumptions	changes in financial assumptions	other changes	Total
	PLN	PLN	PLN	PLN
	thousand	thousand	thousand	thousand
<u>Actuarial losses/ (gains) - post-employment benefits</u>				
– retirement benefits	612	13 501	(85)	14 028
– provision for Employment Guarantees Program (EGP)	1 945	25 303	(5 519)	21 729
– transport benefits	409	6 082	(5 531)	960
– death in service benefits	(1 515)	2 341	(4 616)	(3 790)
<u>Actuarial losses/ (gains) - other long term employee benefits</u>				
– jubilee bonuses	948	21 483	(15 238)	7 193
Total	2 399	68 710	(30 989)	40 120

As at 31 December 2015 weighted average period of liabilities arising from employee benefits amounts to 10,3 years.

32.1 Employee benefits - Voluntary Redundancy Program

Based on Resolution No. 229/2015 of the Management Board of PKP CARGO S.A. from 18 June 2015 and Resolution No. 1439/V/2015 of the Supervisory Board of PKP CARGO S.A. from 23 June 2015 PKP CARGO S.A. introduced the Voluntary Redundancy Program for its employees (VRP or Program). The main purpose of the Program was restructuring of employment in PKP Cargo S.A. The Program did not result in collective redundancies in the Company pursuant to Act of 13 March 2003 on the specific principles of terminating labour relationship for reasons not attributable to employees.

From 1 June 2015 to 17 June 2015 the employees of PKP CARGO S.A. were allowed to apply to join the Voluntary Redundancy Program. As a result of the verification of declarations of employees, the Company agreed that 874 employees could benefit from the Program. Employees who benefited from the Program, except for a statutory severance pay, dependent on the length of service, received also additional compensation, amount of which depended on whether an employee was beneficiary of an employment guarantee and, if so, on the type of it (4- or 10- year). The total value of liabilities resulting from the implemented Program amounted to PLN 63,862 thousand. Benefits related to the VRP were paid in two tranches.

The first tranche of PLN 54,362 thousand was paid in July 2015 together with the salary for June 2015. The second tranche of PLN 9,500 thousand was paid in February 2016.

As at 31 December 2015 the Company recognized also has liabilities arising from the Program introduced in 2014 of PLN 37,852 thousand, which were paid in January 2016.

Amount relating to the Company's liabilities concerning the Voluntary Redundancy Program recognised in the Separate Statement of Financial Position is as follows:

	As at 31/12/2015 (audited)	As at 31/12/2014 (restated*)
	PLN thousand	PLN thousand
Long-term employee benefits	-	37 852
Short-term employee benefits	-	219 264
Trade and other payables	47 352	-

Amounts recognized in the statement of comprehensive income in relation to the Voluntary Redundancy Program are presented in Note 7.4.

(*) restatement of comparative figures is described in Note 5 of these Separate Financial Statements

33. Other provisions

	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Provision for the fine imposed by OCCP	16 209	8 416
Other provisions	8 256	17 414
Total	24 465	25 830
Long-term provisions	16 209	8 416
Short-term provisions	8 256	17 414
Total	24 465	25 830

Other provisions	Provision for the fine imposed by OCCP	Other provisions	Total
	PLN thousand	PLN thousand	PLN thousand
As at 1 January 2014 (audited)	22 778	20 449	43 227
Provisions recognised	-	2 239	2 239
Derecognised	(14 362)	(5 274)	(19 636)
As at 31 December 2014 (audited)	8 416	17 414	25 830
As at 1 January 2015 (audited)	8 416	17 414	25 830
Provisions recognised	12 192	24	12 216
Derecognised	(4 399)	(6 189)	(10 588)
Utilised	-	(2 993)	(2 993)
As at 31 December 2015 (audited)	16 209	8 256	24 465

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

As at 31 December 2015, the provision represents the estimate of the Management Board of the Company in connection with the probability to pay three fines imposed on the Company by the Office of Competition and Consumer Protection.

First fine (in the amount of PLN 1,786 thousand on the basis of the decision no. DOK-4/2012 dated on 26 July 2012) related to delay in implementation of the OCCP's President's decision dated on 31 December 2004 concerning unjustified differentiation of discounts in the carriage of coal. By judgment of 3 November 2014 the Court of Competition and Consumer Protection dismissed the appeal of the company while maintaining the same decisions of the OCCP's President's no DOK-4/2012 dated on 26 July 2012 including a quantification of the fine. On 22 December 2014, the company has appealed against the above mentioned judgment. Any obligation to pay fines will arise after the judgment of the Court of Appeal. The date of the hearing of the Court of Appeal has not been determined yet. The hearing of the Court of Appeal took place on 8 March 2016. The Company expects that final judgement will be given to end of March 2016.

The second penalty was issued in connection with legal anti-monopoly proceedings in previous periods on abuse of the Company's dominant position on the national freight market (the proceedings as a result of which the decision no. DOK-3/2009 was issued). On 22 August 2014, the company has been informed by the President of the OCCP about further conduction of the proceedings. After reconducting the proceedings under decision no. DOK-5/2015 of 31 December 2015, the President of the OCCP found the Company's dominant position on the national freight market abusing, consisting of counteracting the formation of conditions necessary for the emergence or growth of competition, through the induction on 1 May 2006 changes in the Rules of the Sale, which entitled the company to refuse to sign special contracts with entrepreneurs recognized as competitors. The President of OCCP stated the abandonment of application of the above practice and imposed a fine on the company in the amount of PLN 14,224 thousand. On 4 February 2016, the Company filed an appeal against the decision of the President of the OCCP. A provision for the fine imposed by OCCP in the amount of PLN 12,192 thousand was recognized as a result of the risk assessment performed by the Management Board, considering that it represents the best estimate of amount of which payment is probable.

Based on the OCCP's President decision no. RWR 44/2014 imposed on 31 December 2012, on the basis of which the company was accused of blocking the possibility to compete with shipping companies belonging to PKP CARGO Capital Group, a fine was imposed on the company amounting PLN 16,576 thousand. In 2013 as a result of reassessment of quantifiable risk related to OCCP's proceedings, the Company derecognized the provision in the amount of PLN 9,946 thousand, acknowledging that provision in amount of PLN 6,630 thousand represents the best estimate of probable payments. On 23 November 2015 the Warsaw Regional Court issued a judgment on the Company's appeal from the decision of President of OCCP no. RWR 44/2012 of 31 December 2012. The Court of First Instance changed the contested decision and declined significantly a penalty originally imposed in the amount of PLN 16,576 thousand to PLN 2,231 thousand. As a result of re-evaluation of the facts and circumstances, the Management Board decided to release the previously created provisions in the amount of PLN 4,399 thousand. On 19 January 2016 the Company appealed against part of the judgment dated 23 November 2015.

In the above described proceedings OCCP decisions are non-final.

As a result of future events, the assessment of the Management Board may change in next reporting periods.

Other provisions

According to the Management Board of Company the amount of other provisions as at 31 December 2015 and 31 December 2014 represents the best estimate of probable payment. If any penalties are imposed, their value is dependent on the future events with uncertain result. Consequently, the amount of provisions may change in future periods.

34. Financial instruments and financial risk management

34.1 Financial risk management objectives and principles

In the period covered by this Separate Financial Statements, the company was exposed to the following financial risk types:

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

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

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

According to the adopted financial risk policy the Company concluded in 2015 currency forward transactions for EUR/PLN currency pair.

Details of liquidity, currency, interest rate and credit risk management are presented in notes 34.3., 34.4., 34.5 and 34.6 respectively.

34.1.1 Equity management

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

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

	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (restated*) PLN thousand
Equity (i)	3 072 316	3 256 319
Debt (ii)	1 989 000	2 097 817
Cash and cash equivalents	<u>(84 097)</u>	<u>(381 420)</u>
Net debt	<u>1 904 903</u>	<u>1 716 397</u>
Balance sheet total	<u>5 061 316</u>	<u>5 354 136</u>
Net debt to balance sheet total	38%	32%

(i) Equity equals to total equity.

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

Equity management is performed at the PKP CARGO Group level and is designed to ensure the Group's ability to continue its operations.

34.2 Categories of financial instruments

Financial assets by categories	As at 31/12/2015	As at 31/12/2014
	(audited)	(audited)
	PLN thousand	PLN thousand
Financial assets available for sale	6 021	6 021
Shares in unquoted companies	6 021	6 021
Loans and receivables	486 491	1 095 640
Trade receivables	377 333	412 402
Receivables from sale of non-current assets	4	-
Loans granted	-	433
Bank deposits	-	301 385
Cash pool	25 057	-
Cash and cash equivalents	84 097	381 420
Total financial assets	492 512	1 101 661

Financial liabilities by categories	As at 31/12/2015	As at 31/12/2014
	(audited)	(audited)
	PLN thousand	PLN thousand
Financial liabilities measured at fair value through profit or loss	27 706	633
<i>Held for trading</i>		
Derivatives	10	633
<i>Liabilities measured at fair value on initial recognition</i>		
Net liability due to put and call option for minority share	27 696	-
Financial liabilities at amortized cost	968 514	697 267
Credits and loans	589 219	294 083
Trade payables	276 116	211 607
Payables arising from purchase of non-current assets	103 179	132 817
Cash pool	-	58 760
Financial liabilities excluded from the scope of IAS 39	124 247	234 532
Total financial liabilities	1 120 467	932 432

Impairment losses for shares in unquoted companies and trade receivables are described in Notes 17 and Note 21 of these Separate Financial Statements.

34.2.1 Fair value hierarchy

As at 31 December 2015 and 31 December 2014 the only financial instruments measured at fair value were derivative financial instruments. Date of maturity of those instruments falls after the reporting period. In terms of valuation techniques these instruments qualify for level 2 and 3 of fair value hierarchy.

Financial assets and liabilities measured at fair value	As at 31/12/2015 (audited)		As at 31/12/2014 (audited)	
	Level 2	Level 3	Level 2	Level 3
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Liabilities	10	27 696	633	-
Derivatives - forward currency contracts	10	-	633	-
Derivatives - put / call option for minority shares in AWT	-	27 696	-	-

Methods for measuring the fair value of these derivatives qualified for level 2. of fair value hierarchy are described in Note 34.3.2 and in Note 29 of these Separate Financial Statements.

Disclosures in the methods of valuation and the measurement of fair value of financial instruments qualified for level 3. of fair value hierarchy are described in Note 29 of these Separate Financial Statements.

For the categories of financial instruments, listed in Note 34.2, other than shares held in entities not quoted on active market, which are not measured at fair value, the Company does not disclose the fair value due to the fact that the fair value of these financial instruments as at 31 December 2015 and 31 December 2014 did not significantly differ from their values presented in the statement of financial position.

Moreover, the company did not disclose the fair value of shares held in entities not quoted on active markets that are classified as financial assets available for sale. The company is not able to determine reliably the fair value of the shares held in companies not quoted on active markets. At the reporting date they are valued at acquisition price less accumulated impairment losses.

Shares in subsidiaries and associates in accordance with the accounting policy of the company are also valued at acquisition price less accumulated impairment losses.

34.2.2 Revenues, expenses, gains and losses, included in the statement of comprehensive income according to categories of financial instruments:

As at 31/12/2015 (audited)	Loans and receivables	Financial liabilities measured at fair value through profit or loss	Financial liabilities at amortized cost	Financial liabilities excluded from the scope of IAS 39	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Interest income / (expense)	4 937	-	(16 932)	(4 697)	(16 692)
Foreign exchange differences	9 556	-	(344)	(6 344)	2 868
Impairment losses / revaluations	832	(27 073)	-	-	(26 241)
Fees related to loans and debt securities	-	-	(1 007)	-	(1 007)
Net profit / (loss)	15 325	(27 073)	(18 283)	(11 041)	(41 072)

As at 31/12/2014 (audited)	Loans and receivables	Financial liabilities measured at fair value through profit or loss	Financial liabilities at amortized cost	Financial liabilities excluded from the scope of IAS 39	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Interest income / (expense)	19 740	-	(14 593)	(7 546)	(2 399)
Foreign exchange differences	3 347	-	(1 130)	(8 492)	(6 275)
Impairment losses / revaluations	(1 915)	(2 857)	-	-	(4 772)
Fees related to loans and debt securities	-	-	(56)	-	(56)
Net profit / (loss)	21 172	(2 857)	(15 779)	(16 038)	(13 502)

34.3 Currency risk management

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

Forex gains and losses are recognised as a result of measurement of receivables and liabilities denominated in foreign currencies as at the reporting date and due to settlement of amounts of receivable and payable denominated in foreign currencies. Their values fluctuate during the year due to exchange rate fluctuations.

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

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

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

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

	ASSETS		LIABILITIES	
	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
USD	517	285	-	56
EUR	35 134	45 242	164 972	163 700
CHF	1 014	588	7 703	73 817
CZK	-	-	1 088	1 003
Other	-	-	2	-

34.3.1 Currency risk sensitivity

The company is exposed to fluctuations in the USD / PLN, EUR / PLN, CHF / PLN, CZK / PLN in connection with its operating and financial activities. The following tables present exposure of the Company to currency risk in the years 2015 and 2014.

As at 31/12/2015 (audited)		Currency risk		Currency risk		Currency risk		Currency risk	
Financial statements item	Carrying amount in PLN thousand	USD/PLN		EUR/PLN		CHF/PLN		CZK/PLN	
		Impact on profit or loss		Impact on profit or loss		Impact on profit or loss		Impact on profit or loss	
		+12%	-12%	+9%	-9%	+18%	-18%	+10%	-10%
ASSETS									
Trade and other receivables	34 389	57	(57)	2 973	(2 973)	158	(158)	-	-
Cash and cash equivalents	2 276	5	(5)	189	(189)	24	(24)	-	-
EQUITY AND LIABILITIES									
Non-current liabilities									
Long-term bank loans and credit facilities	12 363	-	-	(1 113)	1 113	-	-	-	-
Long-term finance lease liabilities and leases with purchase option	61 654	-	-	(5 549)	5 549	-	-	-	-
Other long-term financial liabilities	27 696			(2 493)	2 493				
Current liabilities									
Short-term finance lease liabilities and leases with purchase option	40 706	-	-	(3 592)	3 592	(142)	142	-	-
Short-term trade and other payables	31 346	-	-	(2 101)	2 101	(1 244)	1 244	(109)	109
Total gross effect		62	(62)	(11 686)	11 686	(1 204)	1 204	(109)	109

As at 31/12/2014 (audited)		Currency risk		Currency risk		Currency risk		Currency risk	
Financial statements item	Carrying amount in PLN thousand	USD/PLN		EUR/PLN		CHF/PLN		CZK/PLN	
		Impact on profit or loss		Impact on profit or loss		Impact on profit or loss		Impact on profit or loss	
		+15%	-15%	+5%	+5%	+5%	-5%	+5%	-5%
ASSETS									
Trade and other receivables	40 344	42	(42)	1 973	(1 973)	29	(29)	-	-
Other short-term financial assets	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	5 770	-	-	289	(289)	-	-	-	-
LIABILITIES									
Non-current liabilities									
Long-term finance lease liabilities and leases with purchase option	98 215	-	-	(4 875)	4 875	(35)	35	-	-
Current liabilities									
Short-term finance lease liabilities and leases with purchase option	112 125	-	-	(2 139)	2 139	(3 468)	3 468	-	-
Short-term trade and other payables	28 235	(8)	8	(1 171)	1 171	(187)	187	(50)	50
Total gross effect		34	(34)	(5 923)	5 923	(3 661)	3 661	(50)	50

34.3.2 Currency forward transactions

For the purposes of currency risk management the Company used in 2015 and 2014 PLN/EUR forward contracts.

Details of the currency risk management are disclosed in Note 34.3.

The following notes present details of unrealized currency forward transactions as at 31 December 2015 and 31 December 2014 respectively:

As at 31 December 2015:

Company	Transaction type	Transaction date	Settlement date	Currency pair	Base currency amount	Floating currency amount	Fair value (*)
						PLN thousand	PLN thousand
BZ WBK	forward	08.2015 - 10.2015	01.2016 - 06.2016	EUR/PLN	1 000	4 259	(18)
mBank	forward	08.2015 - 12.2015	02.2016 - 11.2016	EUR/PLN	3 200	13 723	(15)
Pekao	forward	06.2015 - 12.2015	01.2016 - 12.2016	EUR/PLN	4 500	19 322	(1)
PKO BP	forward	07.2015 - 12.2015	01.2016 - 12.2016	EUR/PLN	12 400	53 330	24
Total					21 100	90 634	(10)

As at 31 December 2014:

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

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

34.4 Interest rate risk management

Bank deposits, that were concluded for the period ranging from a few days to 3 months depending on liquidity needs accounted for the most financial investments of the Company in 2015. The average weighted interest rate of term deposits in 2015 amounted to 1.81 % in comparison to 2.96% in 2014 (a consequence of the reduction of interest rates by the Monetary Policy Council). Further, the Company is exposed to the risk of fluctuating cash flows arising from interest on bank loans and floating rate based leases. Interest on leases was accrued in line with reference rates increased by the creditor's margin. EURIBOR 3M, 6M is the reference rate for contracts denominated in EUR, while LIBOR 6M CHF is the reference rate for those denominated in CHF. Interest rate risk in leases is realized by revaluation of lease instalments over the period of one month, three months and six months, depending on a contract.

Interest on loan agreements was calculated at WIBOR 1M and WIBOR 3M reference rate increased by the bank's margin. Interest rate risk in loan agreements is realized by revaluation of loan instalments on a monthly, quarterly and half-yearly basis.

34.4.1 Sensitivity to interest rate fluctuations

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

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

As at 31/12/2015 (audited)		Interest rate risk		Interest rate risk		Interest rate risk	
Financial statements item	Carrying amount in PLN thousand	WIBOR		EURIBOR		LIBOR	
		Impact on profit or loss		Impact on profit or loss		Impact on profit or loss	
		+ 100 pb	- 100 pb	+ 70 pb	- 70 pb	+ 70 pb	- 70 pb
ASSETS							
Other short-term financial assets	25 057	250	(250)	-	-	-	-
Cash and cash equivalents	84 097	841	(841)	-	-	-	-
EQUITY AND LIABILITIES							
Non-current liabilities							
Long-term bank loans and credit facilities	459 305	(4 469)	4 469	(87)	87	-	-
Long-term finance lease liabilities and leases with purchase option	75 333	(137)	137	(432)	432	-	-
Current liabilities							
Short-term bank loans and credit facilities	129 914	(1 299)	1 299	-	-	-	-
Long-term finance lease liabilities and leases with purchase option	48 914	(88)	88	(279)	279	(6)	6
Cash pool	-	-	-	-	-	-	-
Total gross effect		(4 902)	4 902	(798)	798	(6)	6

As at 31/12/2014 (audited)		Interest rate risk		Interest rate risk		Interest rate risk	
Financial statements item	Carrying amount in PLN thousand	WIBOR		EURIBOR		LIBOR	
		Impact on profit or loss		Impact on profit or loss		Impact on profit or loss	
		+ 100 pb	- 100 pb	+ 70 pb	- 70 pb	+ 70 pb	- 70 pb
ASSETS							
Other short-term financial assets	301 818	3 018	(3 018)	-	-	-	-
Cash and cash equivalents	381 420	3 814	(3 814)	-	-	-	-
EQUITY AND LIABILITIES							
Non-current liabilities							
Long-term bank loans and credit facilities	206 112	(2 061)	2 061	-	-	-	-
Long-term finance lease liabilities and leases with purchase option	114 027	(158)	158	(683)	683	(5)	5
Current liabilities							
Short-term bank loans and credit facilities	87 971	(880)	880	-	-	-	-
Long-term finance lease liabilities and leases with purchase option	120 505	(126)	126	(299)	299	(462)	462
Cash pool	58 760	(587)	587	-	-	-	-
Total gross effect		3 020	(3 020)	(982)	982	(467)	467

34.5 Credit risk management

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

Receivables are monitored on a regular basis. In the case of receivables that are past due, the sales are suspended and debt collection proceedings are run in line with applicable internal procedures.

Concentration of risk related to trade receivables is limited due to a large number of counterparties with trade credits distributed among different sectors. Further, in order to minimize the risk of trade receivables turning into bad debts, the company accepts collateral from its clients in the form of: bank/insurance guarantees, contract assignment, lock on bank accounts and promissory notes.

Maximum exposure to credit risk is equal to the carrying amount of receivables held by the company as at 31 December 2015 in the amount of PLN 377,333 thousand. This exposure is limited by the pledges established in favour of the company (in the form of bank / insurance guarantees or guarantee deposits).

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

34.6 Liquidity risk management

The company may be exposed to liquidity risk arising from the relationship between current assets and net short-term liabilities (those without short-term provisions). The current ratio as at 31 December 2015 and as at 31 December 2014 is presented below. In order to ensure additional sources of funds necessary to maintain short-term liquidity, the company used an overdraft facility. Additionally, in order to ensure long-term liquidity, the company used investment loans and leases (to finance property, plant and equipment).

	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (restated*) PLN thousand
Current assets	559 110	1 207 089
Current liabilities	838 788	1 063 541
Short-term provisions for employee benefits	(81 581)	(318 600)
Other short-term provisions	(8 256)	(17 414)
Current liabilities, net	748 951	727 527
Current ratio	0,75	1,66

As at 31 December 2015 current liquidity ratio decreased from 1.66 to 0.75. This decrease is a result of the AWT acquisition as well as payments under Voluntary Redundancy Program, financed from its own funds. In order to improve the liquidity situation as at December 2015, the company entered into long-term loan agreement with the European Bank for Reconstruction and Development to refinance the acquisition of AWT in the amount of EUR 100,000 thousand. Additionally, in November long-term loan agreement has been concluded to finance the planned acquisitions and capital expenditures in the amount of PLN 700,000 thousand, of which the amount available as at 31 December 2015 amounted to PLN 100,000 thousand. The steps taken will improve the current liquidity ratio in subsequent reporting periods. Detailed information on available sources of external financing is presented in Note 28.2 of these Separate Financial Statements.

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

As at 31/12/2015	Below 3 months	From 3 to 12 months	From 1 year to 5 years	Above 5 years	Total PLN thousand
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	
Interest-bearing credit facilities and loans	30 697	110 777	458 735	19 385	619 594
Trade liabilities	276 116	-	-	-	276 116
Liabilities due to purchase of property, plant and equipment	47 798	35 579	22 896	-	106 273
Finance lease liabilities	16 406	35 610	77 302	-	129 318
Derivatives	-	10	27 696	-	27 706
Total	371 017	181 976	586 629	19 385	1 159 007

As at 31/12/2014	Below 3 months	From 3 to 12 months	From 1 year to 5 years	Above 5 years	Total PLN thousand
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	
Interest-bearing credit facilities and loans	22 261	72 824	210 543	5 297	310 925
Trade liabilities	211 606	-	-	-	211 606
Liabilities due to purchase of property, plant and equipment	32 373	37 699	71 033	-	141 105
Finance lease liabilities	37 557	87 860	119 115	-	244 532
Derivatives	-	633	-	-	633
Other financial liabilities - Cash pool	58 760	-	-	-	58 760
Total	362 557	199 016	400 691	5 297	967 561

35. Related party transactions

In 2015 and in 2014, the State Treasury was the higher level parent entity of the Company. As a result, all entities belonging to the State Treasury (directly and indirectly) are the Company's related parties. The Management Board of the Company disclosed in these Separate Financial Statements transactions with significant related parties that have been identified as related parties on the basis of the best knowledge of the Management Board.

35.1.1 Transactions with related parties from PKP S.A. Group

In the period covered by these Separate Financial Statements, the Company concluded the following commercial transactions with related parties:

	Year 2015			
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Parent company (PKP S.A.)	787	64 607	1 085	4 072
Subsidiaries / co-subsiidiaries	508 881	355 879	67 481	72 292
Associates	73	-	1	-
Other related parties from PKP S.A. Group	36 994	1 022 473	2 044	96 438

	Year 2014			
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Parent company (PKP S.A.)	(593)	69 003	998	5 608
Subsidiaries / co-subsiidiaries	544 051	475 976	62 755	32 915
Associates	97	-	9	-
Other related parties from PKP S.A. Group	61 444	1 217 024	9 452	83 995

Purchase transactions with the Parent company (PKP S.A.) include in particular lease of property, media supply and occupational health care services.

Sales transactions concluded within PKP CARGO Group included transport of goods, lease of machinery and equipment, sub-lease of real estate property. Purchase transactions included among others maintenance and repair of railroad fleet, shipping services, handling services, intermodal transport services.

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

Apart from commercial transactions the Company granted sureties to subsidiaries described in Note 39.

35.1.2 Transactions with the State Treasury

In the financial years ended 31 December 2015 and 31 December 2014, no individual significant transactions concluded between the Company and the State Treasury and the entities belonging to the State Treasury have been identified that would be significant taking into consideration their non-standard range and amount. Transactions for the period from 1 January 2015 to 31 December 2015 and for the period from 1 January 2014 to 31 December 2014 concluded with other entities controlled by the State Treasury are connected with the current operating activities of the Company. In 2015 the most significant suppliers

controlled by the State Treasury were the following entities: LOTOS Paliwa Sp. z o.o. and PKN ORLEN S.A. The most significant customers controlled by the State Treasury were the following entities: Jastrzębska Spółka Węglowa S.A., Węglokoks S.A., PKN ORLEN S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A.

All intercompany transactions were concluded on the arm's length basis.

35.2 Loans granted to / received from related parties

	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand

Loans granted to related parties	-	433
----------------------------------	---	-----

In addition, as at 31 December 2015 and 31 December 2014 the Company presented settlements of the cash pool described in Notes 18 and 29 of these Separate Financial Statements.

35.3 Remuneration of executive management

Remuneration of Members of the Management Board in the financial year:	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand

Short-term benefits	3 964	2 763
Post-employment benefits	69	855
Employment termination benefits	315	631
Total	4 348	4 249

Remuneration of Members of the Supervisory Board in the financial year:	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand

Short-term benefits	1 219	837
Total	1 219	837

Remuneration of other executive management (Proxies - Managing Directors) in the financial year:	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand

Short-term benefits	1 999	1 422
Post-employment benefits	181	-
Share-based payments	-	11
Employment termination benefits	204	19
Total	2 384	1 452

During 2015 and 2014 Members of the Management Board and Supervisory Board of the company did not grant or receive any loans or guarantees.

36. Operating lease agreements

36.1 Company as a lessee

36.1.1 Terms of lease

Agreements of the operating lease include the leasing of lands in particular along with the building development and leasing of train engines.

In additions, this item includes an agreement for rent of new headquarters building in Katowice, concluded in the course of 2015. The agreement is valid until the end of September 2022.

For some of built-up land, the Company entered into sublease agreements with related parties, providing for them the right to use the property in exchange for a fee specified in the contracts.

36.1.2 Rents recognized as an expense during the period

	For the year ended 31/12/2015 (audited)	For the year ended 31/12/2014 (audited)
	PLN thousand	PLN thousand
Minimum lease payments	77 027	77 526
Subleases fees received	(11 879)	(10 136)
	65 148	67 390

36.1.2.1 Future minimum lease payments under non-cancellable operating leases

	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Up to 1 year	42 071	60 540
1 year – 5 years	12 140	6 580
Above 5 years	5 811	-
	60 022	67 120

36.1.3 Future minimum sublease payments expected to be received under non-cancellable subleases

	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Up to 1 year	2 393	9 526
	2 393	9 526

37. Commitments to incur expenses

In 2015 the company concluded an agreement for delivery and maintenance of 15 multisystem engines. The contract agreement covers the supply of 15 multisystem engines, hardware and computer software, spare parts and full maintenance of engines within 8 years period. The agreement also includes the service of first overhaul after 8 years of exploitation, with an option to withdraw. According to the schedule engines will be delivered between January 2016 and June 2017. As at 31 December 2015 the future value of liabilities connected with the aforementioned agreement amounts to EUR 72,083 thousand, which is equivalent of PLN 307,182 thousand.

The agreement also provides for the possibility of extending the delivery for further 5 multisystem engines with additional services. The contract value of additional purchase amounts to EUR 26,038 thousand, which is equivalent of PLN 110,961 thousand.

In addition, as at 31 December 2015, the Company has future investment liabilities connected with concluded in previous years' agreements that are unrealized as at the reporting date:

- a) an agreement regarding modernisation of SM-48 series diesel engines, amounting to PLN 13,920 thousand,
- b) an agreement for construction and delivery of Sggrss container wagons, amounting to PLN 5,750 thousand. The agreement is covered by subsidies up to 30% of the value of contract.

38. The conditional agreement for the acquisition of assets by PKP Cargo Group entities

On 16 November 2015:

- PKP CARGOTABOR USŁUGI Sp. z o.o. (hereinafter referred to as "PKP CU") as a buyer, PKP CARGO S.A. as guarantor and PKN ORLEN SA as the seller, concluded a conditional sale agreement of 40,796 shares representing approx. 99.85% of the share capital of ORLEN KolTrans Sp. z o.o. (hereinafter referred to as "KolTrans") for a total price of PLN 192,248 thousand,

- PKP CARGO S.A. concluded with Euronaft Trzebinia Sp. z o.o. (hereinafter referred to as "Euronaft") a conditional requiring agreement for the sale of an organized part of the enterprise (ZCP) Euronaft, under which Euronaft provides rail transport services, railway sidings support services as well as trackwork services and repair services of rolling stock for a total price of PLN 59,397 thousand. ZCP will be acquired by PKP CARGO S.A. or another company from PKP CARGO Group, including KolTrans after the acquisition of KolTrans shares by PKP CARGO S.A.

The agreements provide the guarantee payments in the event of a failure to perform obligations of the agreement by the parties.

In the case of a KolTrans sale agreement the highest guarantee payments are equal to:

- a) 25% of the shares sale price for the benefit of PKP CU,
- b) 35% of the shares sale price for the benefit of PKN ORLEN S.A.;

In the case of the ZCP sale agreement the highest guarantee payments are equal to:

- a) 25% of the sale price for the benefit of PKP CARGO S.A. or another subsidiary,
- b) 35% of the sale price for the benefit of Euronaft.

Parties are not entitled to claim any amounts exceeding the guarantee limits reserved.

For the transaction to be completed, it is necessary to satisfy several suspensory conditions, including obtaining the OCCP approval. The company expects to obtain a decision of the OCCP in the first half of 2016 which determines the finalization of the transaction.

Until the date of preparation of these Separate Financial Statements, PKP CU received a notification from PKN ORLEN S.A. on the satisfaction of two suspensory conditions.

39. Contingent liabilities

	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Sureties granted to subsidiaries (i)	24 451	24 518
Guarantees issued on request of PKP Cargo S.A. (ii)	23 811	22 759
Proceedings carried out by OCCP (iii)	-	9 946
Other contingent liabilities (iv)	68 100	48 000
Total	116 362	105 223

(i) Sureties and guarantees granted to subsidiaries

As at 30 June 2015 and as at 31 December 2014 the following sureties granted by the Company were valid: PKP Cargo Service Sp. z o.o. (surety regarding a multi-currency credit facility agreement), PKP CARGOTABOR Sp. z o.o. (surety regarding an operating lease, surety regarding three credit agreements and surety regarding a loan agreement).

(ii) Guarantees issued by banks on behalf of PKP CARGO

As at 31 December 2015 a number of guarantees issued by banks on behalf of the Company to counterparties were effective. The guarantees included bid bonds (worth PLN 1,730 thousand), good performance bonds (worth PLN 19,709 thousand) and payment bonds (worth PLN 2,372 thousand).

As at 31 December 2014 a number of guarantees issued by banks on behalf of the Company to counterparties were effective. The guarantees included bid bonds (worth PLN 240 thousand), good performance bonds (worth PLN 18,286 thousand) and payment bonds (worth PLN 4,233 thousand).

(iii) OCCP proceedings

In connection with a judgement of District Court in Warsaw from 23 November 2015 on decision of the President of OCCP no. RWR 44/2015 of 31 December 2012, the Company ceased to recognize contingent liability to OCCP. Information on the above proceeding is described in Note 33 of these Separate Financial Statements.

(iv) Other liabilities

The item includes requests for payment received and claims raised during judicial proceedings against the company, for which the probability of an outflow of cash is assessed as low. As a result of future events, this assessment may change in next reporting periods.

As a result of an agreement concluded on 11 January 2016 between the company and one of the contractors, parties of this agreement renounced their mutual claims against each other, therefore subsequent to the reporting date, liabilities of the Company decreased by PLN 15,281 thousand.

On 30 January 2015, the company has received a notification of the initiation of administrative proceedings by the President of UTK on the imposition of a fine on the company for carrying out activities without an entitling document i.e. the management of railway infrastructure without safety authorization. As at 31 December 2015 the amount of potential contingent liability resulting from the proceedings and the probability of payment are not known. In the above proceeding, the Company has exercised the right to comment on collected evidence and materials and submitted claims before a decision is taken. On 1 March 2016 the Company received a notification from the President of UTK on setting a new deadline for the settlement of the case on 31 May 2016.

40. Events after reporting date

After the reporting date, there were no significant events affecting the Company's operations.

41. Approval of the Separate Financial Statements

These Separate Financial Statements were approved for publication by the Management Board of the Company on 17 March 2016.

Management Board of the Company

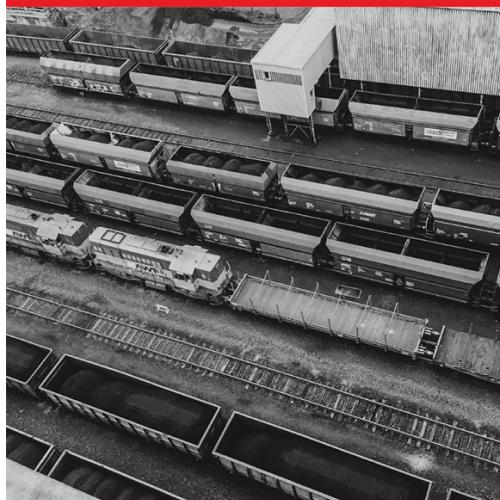
Maciej Libiszewski

President of the Management Board

Dariusz Browarek

Member of the Management Board

Warsaw, 17 March 2016



pkpcargo.com



MANAGEMENT BOARD'S REPORT OF THE ACTIVITIES
OF PKP CARGO S.A.
IN 2015

**MANAGEMENT BOARD REPORT ON THE ACTIVITY OF PKP CARGO S.A.
FOR THE FINANCIAL YEAR 2015**

TABLE OF CONTENTS

1. Financial highlights of PKP CARGO S.A.	5
2. Highlights on PKP CARGO S.A. and the PKP CARGO Group	7
2.1. Highlights on the Company	7
2.2. Units subject to consolidation.....	7
2.3. The Company's organizational structure.....	10
2.4. Organizational structure of the PKP CARGO Group.....	11
2.5. Changes to the structure of the Company and the Group	13
2.6. Changes to the fundamental principles of managing the Company and the Group	15
2.7. Information on organizational or capital ties of PKP CARGO S.A. with other entities, taking into account the following groups of entities.....	16
3. Key areas of PKP CARGO S.A.'s activity	17
3.1. Macroeconomic environment.....	17
3.2. Freight transportation activity	20
3.2.1. Rail transport market in Poland.....	20
3.2.2. Position of PKP CARGO S.A. in the rail transport market in Poland	21
3.2.3. Rail transport by PKP CARGO S.A.	23
3.3. Other services.....	25
3.4. Information on selling markets and sources of supply	26
3.5. Headcount.....	27
3.6. PKP CARGO S.A. investments	28
3.6.1. Capital expenditures.....	28
3.6.2. Assessment of the capacity to execute investment plans.....	29
4. Analysis of the economic and financial situation of PKP CARGO S.A.	30
4.1. Key economic and financial figures	30
4.1.1. Statement of comprehensive income.....	30
4.1.2. Description of the asset and liability structure.....	34
4.1.3. Cash flow statement.....	36
4.1.4. Selected financial and operating ratios	37
4.2. Information about production assets.....	38
4.2.1. Rolling stock.....	38
4.2.2. Real estate.....	39
4.3. Key information about PKP CARGO S.A.'s financial standing.....	39
4.3.1. Information on loan and credit agreements executed and terminated.....	39
4.3.2. Information about granted loans	40
4.3.3. Information about granted and received sureties and guarantees	40
4.3.4. Issues, redemptions and repayments of debt securities and equity securities	40
4.3.5. Assessment of management of financial resources	40
4.3.6. Current and forecasted financial standing of PKP CARGO S.A.	41
4.4. Key risk factors and threats	41
4.4.1. Description of the key threats and risks	41
4.4.2. Information on financial instruments with respect to the risk and financial risk management objectives and methods adopted by PKP CARGO S.A.	46
5. Key events and information on PKP CARGO S.A.'s activity	47
5.1. Key information and events	47
5.2. Evaluation of factors and unusual events affecting the result recorded by PKP CARGO S.A.	54
5.3. Information on contracts of significance for the business of PKP CARGO S.A.	56
5.4. The Management Board's stance with respect to the possibility of realizing previously published result forecasts for the year	60
6. Development policy of PKP CARGO S.A.	61
6.1. Characteristics of external and internal factors of relevance for the development of PKP CARGO S.A.	61
6.2. Description of the growth prospects and development policy of PKP CARGO S.A. at least in the next financial year	62
7. Other key information and events	64
7.1. Information on PKP CARGO S.A. shares	64

7.1.1.	Issue of securities and use of proceeds from the issue	64
7.1.2.	Information about agreements which may in the future cause changes to the proportions of shares held by the current shareholders	64
7.1.3.	Acquisition of treasury stock	64
7.1.4.	Information on the employee share plan control system	64
7.1.5.	Shares held by management board and supervisory board members	64
7.1.6.	Dividends paid or declared	66
7.2.	Information on transactions with related parties	66
7.3.	Proceedings pending before courts, arbitration bodies or public administration authorities	66
7.4.	Major achievements in research and development	66
7.5.	Information on natural environment issues	68
7.6.	Description of the Company's sponsoring, charitable or other similar activities	69
7.7.	Information on rules for compensating Management Board and Supervisory Board members and key managers at PKP CARGO S.A.	71
7.7.1.	General information about the compensation system accepted in the Company	71
7.7.2.	Value of compensation and fringe benefits of Management Board and Supervisory Board members	71
7.7.3.	Agreements entered into between PKP CARGO S.A. and managers which provide for compensation in specific cases	73
7.7.4.	Indication of material changes introduced in the compensation policy in the last financial year or information on absence of such changes	73
7.7.5.	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	73
7.8.	Information about the financial statements	74
7.8.1.	Information about the agreement entered into with an entity authorized to audit financial statements	74
7.8.2.	Rules for preparation of annual financial statements	74
7.8.3.	Description of unusual items in the standalone financial statements of PKP CARGO S.A.	74
8.	Representation on the application of corporate governance	75
8.1.	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	75
8.2.	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	75
8.3.	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	76
8.4.	Shareholders holding directly or indirectly significant blocks of shares	77
8.5.	Holders of securities giving special controlling rights and a description of such rights	79
8.6.	Restrictions regarding the exercise of voting rights	79
8.7.	Restrictions on the transfer of ownership title to PKP CARGO S.A. securities	80
8.8.	Rules for appointment and dismissal of managers and their rights	81
8.9.	Rules for amending the Articles of Association of PKP CARGO S.A.	82
8.10.	Manner of operation and key powers of the Shareholder Meeting, description of shareholders' rights and the manner of their exercise	83
8.11.	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	84
9.	Investor Relations	93
10.	Other information of relevance for evaluation of the employment situation, financial standing, financial results, 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	96

LIST OF TABLES

Table 1 Financial highlights of PKP CARGO S.A.	5
Table 2 Reconciliation of the differences between reported and adjusted profit (loss) on operating activities	6
Table 3 Companies in which PKP CARGO S.A. owned shares directly as at 31 December 2015.....	16
Table 4 PKP CARGO S.A. freight turnover in 2014 and 2015 and in Q4 2014 and 2015*	24
Table 5 PKP CARGO S.A. freight volume in 2014 and 2015 and in Q4 2014 and 2015.....	25
Table 6 PKP CARGO S.A. average haul in 2014 and 2015 and in Q4 2014 and 2015*	25
Table 7 Headcount in 2015 and Q4 2015 in PKP CARGO S.A. (active employees only)	27
Table 8 Headcount in 2014 and Q4 2014 in PKP CARGO S.A. (active employees only)	27
Table 9 Average headcount in 2015 and 2014 in PKP CARGO S.A. (active employees only)	27
Table 10 Changes in the headcount structure in 2015 and Q4 2015 in PKP CARGO S.A. (active employees only).....	27
Table 11 Changes in the headcount structure in 2014 and Q4 2014 in PKP CARGO S.A. (active employees only)	27
Table 12 Capital expenditures in property, plant and equipment and intangible assets in PKP CARGO S.A. in 2015 as compared to 2014 (thousands of PLN).....	28
Table 13 Results of PKP CARGO S.A. in 2015 as compared to 2014. (PLN thousands)	30
Table 14 Operating revenue of PKP CARGO S.A. in 2015 as compared to 2014. (PLN thousands).....	31
Table 15 Operating expenses of PKP CARGO S.A. in 2015 as compared to 2014. (PLN thousands)	32
Table 16 Financial activities of PKP CARGO S.A. in 2015 as compared to 2014. (PLN thousands)	33
Table 17 Horizontal and vertical analysis of assets (PLN thousands).....	34
Table 18 Days inventory on 31 December 2015 compared to 31 December 2014.....	35
Table 19 Horizontal and vertical analysis of equity and liabilities (PLN thousands)	35
Table 20 Key line items in PKP CARGO S.A.'s cash flow statement in 2015 compared to 2014.	36
Table 21 Selected financial and operating ratios in 2015 compared to 2014.....	37
Table 22 Structure of the locomotives used by PKP CARGO S.A. by traction type and ownership	38
Table 23 Structure of the wagons used by PKP CARGO S.A., by ownership	38
Table 24 Real estate owned and used by PKP CARGO S.A. as at 31 December 2015 compared to 31 December 2014.....	39
Table 25 Key information and events which occurred in 2015 and after the balance sheet date.....	47
Table 26 PKP CARGO S.A. shares held by Management Board members	65
Table 27 PKP CARGO S.A. shares held by Supervisory Board members.....	65
Table 28 Expenses on salaries and fringe benefits for PKP CARGO S.A. Management Board members in 2015 (PLN).....	72
Table 29 Expenses on salaries and fringe benefits of members of the PKP CARGO S.A. Supervisory Board in 2015 (PLN)	73
Table 30 Total fees of the entities authorized to audit financial statements (PLN, net).....	74
Table 31 Shareholder structure of PKP CARGO S.A. as at 31 December 2014.....	77
Table 32 Shareholder structure of PKP CARGO S.A. as at 31 December 2015.....	78
Table 33 Shareholder structure of PKP CARGO S.A. as at the date of submission of this report	79
Table 34 Structure of PKP CARGO S.A.'s share capital.....	79
Table 35 Composition of the PKP CARGO S.A. Management Board from 1 January 2015 to the date of submission of this report	85
Table 36 Composition of the PKP CARGO S.A. Supervisory Board from 1 January 2015 to the date of submission of this report	89
Table 37 Composition of the Audit Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2015 to the date of submission of this report.....	92
Table 38 Composition of the Nomination Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2015 to the date of submission of this report.....	92
Table 39 Events and activities in the area of investor relations in 2015	95

LIST OF FIGURES

Figure 1 Structure of the PKP CARGO Group as at 31 December 2015	12
Figure 2 Structure of the AWT Group as at 31 December 2015	13
Figure 3 GDP growth in Poland in 2011-2014 per annum and forecast for 2015 and 2016.....	17
Figure 4 Coal prices on ARA vs. RB markets*	19
Figure 5 Rail freight volumes in Poland (in million tons) in individual quarters of 2013-2015.....	21
Figure 6 Rail freight volumes in Poland (in billions tkm) in individual quarters of 2013-2015.....	21
Figure 7 Share of the PKP CARGO S.A. in freight volume in 2014 and in 2015 in Poland	21
Figure 8 Share of the PKP CARGO S.A. in freight turnover in 2014 and 2015 in Poland	22
Figure 9 Rail operators' market shares by freight volume and freight turnover in 2015 in Poland	22
Figure 10 Duties and responsibilities of the PKP CARGO S.A. Management Board Members	86

1. Financial highlights of PKP CARGO S.A.

Table 1 Financial highlights of PKP CARGO S.A.

PKP CARGO S.A.	PLN 000s		EUR 000s	
	12 months*	12 months**	12 months	12 months
	2015 (audited)	2014 restated data*****	2015 (audited)	2014 restated data*****
Operating revenues	3,514,154	3,880,181	839,742	926,212
Profit (loss) on operating activities	-115,180	92,813	-27,523	22,155
Profit (loss) before tax	-139,107	87,532	-33,241	20,894
Net profit (loss) from continuing operations	-114,125	75,607	-27,271	18,048
Comprehensive income	-73,827	48,936	-17,642	11,681
Adjusted profit (loss) on operating activities***	126,544	349,929	30,239	83,529
Adjusted profit (loss) before tax***	102,617	344,648	24,521	82,269
Adjusted net profit (loss) ***	81,671	283,871	19,516	67,761
Adjusted comprehensive income***	121,969	257,200	29,146	61,394
Weighted average number of shares (units)	44,786,917	44,524,924	44,786,917	44,524,924
Weighted average number of shares used to calculate diluted profit (units)	44,786,917	44,790,878	44,786,917	44,790,878
Earnings per share (PLN, EUR)	-2.55	1.70	-0.61	0.41
Adjusted earnings per share (PLN, EUR)***	1.82	6.38	0.44	1.52
Diluted earnings per share (PLN, EUR)	-2.55	1.69	-0.61	0.40
Net cash flow from operating activities****	325,876	462,459	77,871	110,391
Net cash flow from investing activities	-584,858	-208,082	-139,758	-49,670
Net cash flow from financing activities	-38,341	-102,189	-9,162	-24,393
Movement in cash and cash equivalents	-297,323	152,188	-71,048	36,328

	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Non-current assets	4,458,145	4,129,487	1,046,145	968,840
Current assets	559,110	1,207,089	131,200	283,201
Assets classified as held for sale	44,061	17,560	10,339	4,120
Share capital	2,239,346	2,239,346	525,483	525,384
Equity	3,072,316	3,256,319	720,947	763,982
Non-current liabilities	1,150,212	1,034,276	269,908	242,657
Current liabilities	838,788	1,063,541	196,829	249,523

Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2015 prepared according to EU IFRS

* Each time whenever the Report mentions the year 2015, it should be understood as 12 months ended 31 December 2015

** Each time whenever the Report mentions the year 2014, it should be understood as 12 months ended 31 December 2014

*** The 2014 data were adjusted for presentation purposes for the costs following from the implemented 1st Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Board and Supervisory Board of PKP CARGO S.A. in the amount of PLN 257.1 million; the 2015 data were adjusted for presentation purposes for the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolution adopted by the Management Board and Supervisory Board of PKP CARGO S.A. in the amount of PLN 63.9 million and the impairment loss on property plant and equipment and assets classified as held for sale in the amount of PLN 177.9 million

**** Including the performance of liabilities stemming from the implemented 1st and 2nd Voluntary Redundancy Program in the amount of PLN 273.7 million

***** Translation of comparable data is described in detail in Note 5 to the Standalone Financial Statements

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:

- exchange rate prevailing on the last day of the reporting period: 31 December 2015 – 4.2615 PLN/EUR, 31 December 2014 – 4.2623 PLN/EUR,
- the average exchange rate in the period calculated as the arithmetic mean of the FX rates prevailing on the last day of each month in a given period: 1 January – 31 December 2015 – 4.1848 PLN/EUR, 1 January – 31 December 2014 – 4.1893 PLN/EUR.

Table 2 Reconciliation of the differences between reported and adjusted profit (loss) on operating activities

PKP CARGO S.A.	PLN 000s		EUR 000s	
	2015	2014 restated data**	2015	2014 restated data**
Profit (loss) on operating activities	-115,180	92,813	-27,523	22,155
Corrections:				
Operating expenses:				
VRP I	-	257,116	-	61,374
VRP II	63,862	-	15,260	-
Impairment loss on property plant and equipment	177,862	-	42,502	-
Adjusted profit (loss) on operating activities*	126,544	349,929	30,239	83,529

Source: Proprietary material

* The 2014 data were adjusted for presentation purposes for the costs following from the implemented 1st Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Board and Supervisory Board of PKP CARGO S.A. in the amount of PLN 257.1 million; the 2015 data were adjusted for presentation purposes for the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolution adopted by the Management Board and Supervisory Board of PKP CARGO S.A. in the amount of PLN 63.9 million and the impairment loss on property plant and equipment and assets classified as held for sale in the amount of PLN 177.9 million

** Translation of comparable data is described in detail in Note 5 to the Standalone Financial Statements

2. Highlights on PKP CARGO S.A. and the PKP CARGO Group

2.1. Highlights on the Company¹

PKP CARGO S.A. is the biggest rail freight operator in Poland and the second one in Europe with regard to the volume of completed freight shipments. The Company's development is focused on enhancing and extending its operations in terms of its product range and geographic area. At present, the Company remains the leader on the Polish market (according to the Office of Rail Transport - UTK²). Notwithstanding the areas mentioned above, the Company conducts operations that it is constantly developing in the Czech Republic, Slovakia, Germany, Austria, Belgium, the Netherlands, Lithuania and Hungary.

PKP CARGO S.A. offers domestic and international transport of goods as well as comprehensive logistics services for rail freight. In addition, the following services are provided to support clients and supplement the offering:

- intermodal logistics;
- freight forwarding (domestic and international);
- terminal services - freight transshipment and storage on intermodal and conventional terminals;
- siding and traction services;
- maintenance and repair of rolling stock;
- reclamation activity.

2.2. Units subject to consolidation

The Consolidated Financial Statements for the financial year ended on 31 December 2015 encompass PKP CARGO S.A. and 15 subsidiaries consolidated by the full method:

1. PKP CARGO SERVICE Sp. z o.o.
2. PKP CARGOTABOR Sp. z o.o.
3. PKP CARGOTABOR USŁUGI Sp. z o.o.
4. PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.
5. PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o.
6. CARGOSPED Terminal Braniewo Sp. z o.o.
7. CARGOTOR Sp. z o.o.
8. PKP CARGO CONNECT Sp. z o.o.
9. Advanced World Transport B.V. ("AWT B.V.", "AWT")
10. Advanced World Transport a.s. ("AWT a.s.")
11. AWT ROSCO a.s.
12. AWT Čechofracht a.s.
13. AWT Rekultivace a.s.
14. AWT Coal Logistics s.r.o.
15. AWT Rail HU Zrt.

In addition, the following companies are measured using the equity method as at 31 December 2015 in the PKP CARGO Group's Consolidated Financial Statements:

- COSCO POLAND Sp. z o.o.
- Pol – Rail S.r.l.

¹ Whenever the Report mentions:

- The Company or Parent Company, it should be construed to mean PKP CARGO S.A.,
- PKP CARGO Group, Group or Capital Group, it should be construed to mean PKP CARGO S.A. and its subsidiaries collectively.

²Office of Rail Transport

- Terminale Przeładunkowe Sławków – Medyka Sp. z o.o.
- Trade Trans Karya Sp. z o.o.
- Transgaz S.A.
- Trade Trans Finance Sp. z o.o.
- PPHU "Ukpol" Sp. z o.o.
- Rentrans Cargo Sp. z o.o.
- Gdański Terminal Kontenerowy S.A.
- AWT Rail SK a.s.

A short description of the companies whose financial statements are subject to consolidation by the full method has been presented below.

PKP CARGO S.A.

The Parent Company was established by the power of article 14 of the Act of 8 September 2000 on Commercialization, Restructuring and Privatization of the state-owned enterprise "Polskie Koleje Państwowe". The Company was founded by a notary deed of 29 June 2001, and subsequently registered under the name of PKP CARGO Spółka Akcyjna in the District Court in Katowice, 8th Commercial Division of the National Court Register under file number KRS 0000027702. As a consequence of moving the Company's registered office, which as of 7 October 2002 has been specified as Warsaw, ul. Grójecka 17, the registration files are kept by the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register. From its inception, the Company has functioned within the PKP Group. The Company's core business is domestic and international rail freight transportation.

PKP CARGO SERVICE Sp. z o.o.

PKP CARGO SERVICE Sp. z o.o. was established as Agencje Celne PKP CARGO Sp. z o.o. on 11 July 2002 by PKP CARGO S.A. It launched operations on 1 December 2002. The company's core business is to provide services concerning the comprehensive handling of sidings as well as transporting cargo by rail transport. In areas where the company concentrates its rail siding services activity, "execution areas" are created to handle rail sidings.

PKP CARGOTABOR Sp. z o.o.

On 1 July 2014, the operations of companies belonging to the PKP CARGO Group dedicated to the repair and maintenance of rolling stock were consolidated. At present, the competences in this area are concentrated in PKP CARGOTABOR Sp. z o.o. This company's core business entails services in the area of repair and maintenance of rolling stock and the physical decommissioning of wagons and locomotives. Moreover, this company renders comprehensive services concerning repairs of electrical machines and wheelsets as well as weighing and regulating rolling stock. This company focuses on repairing and maintaining rolling stock in the PKP CARGO Group.

PKP CARGOTABOR USŁUGI Sp. z o.o.

Until 22 October 2014, PKP CARGOTABOR USŁUGI Sp. z o.o. did business under the name of PKP CARGOLOK Sp. z o.o. The Company's line of business includes activity related to collecting, processing and neutralizing waste and recovery of raw materials.

As of 1 April 2015, PKP CARGOTABOR USŁUGI Sp. z o.o. suspended business activity for 9 months, i.e. until the end of 2015; however, as of 1 July 2015, it resumed activity.

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

PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o. was established on 22 February 2010. This company's line of business is to provide comprehensive cargo handling through transshipment, storage, segregation, packaging, crushing and a number of other border services. PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o. holds terminals that facilitate the transshipment of bulk and unit commodities, including containers.

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

PKP CARGO Centrum Logistyczne Medyka - Żurawica Sp. z o.o. was established on 5 January 2011. It has been conducting business since 1 February 2011. The company's line of business is to provide comprehensive cargo handling through transshipment, storage, segregation, packaging, crushing and a number of other border services. The company has the ability to offer rail gauge switching services (change of carriages at an intersection point between normal, i.e. 1,435 mm, and wide, i.e. 1,520 mm gauge rail tracks), chiefly in the transport of hazardous materials and the transshipment of oversized consignments necessitating the usage of specialized transshipment equipment.

PKP CARGO CONNECT Sp. z o.o.

PKP CARGO CONNECT Sp. z o.o. was established on 8 March 1990 under the business name Przedsiębiorstwo Spedycyjne TRADE TRANS Sp. z o.o. (PS TRADE TRANS Sp. z o.o.). On 17 August 2015, the Extraordinary Shareholder Meeting of the company was held and adopted a Resolution to change the company's business name, from PS TRADE TRANS sp. z o.o. to PKP CARGO CONNECT Sp. z o.o. The change was registered on 30 October 2015.

On 29 September 2015, the Management Boards of the companies: PS TRADE TRANS Sp. z o.o. (as the Acquiring Company) and CARGOSPED Sp. z o.o. (as the Acquired Company) signed the "Merger Plan for equity companies: Przedsiębiorstwo Spedycyjne TRADE TRANS Sp. z o.o. and CARGOSPED Sp. z o.o.". The merger of the companies was registered on 31 December 2015 following the procedure set forth in Article 492 § 1 item 1) of the Commercial Company Code, by transferring all the assets of CARGOSPED Sp. z o.o. to PS TRADE TRANS sp. z o.o. in exchange for the shares that PKP CARGO CONNECT Sp. z o.o. issued to PKP CARGO S.A. as the sole shareholder of CARGOSPED Sp. z o.o.

The company's core business involves freight forwarding and logistics services in Poland and abroad. The company provides comprehensive logistics services using rail and vehicle, marine and inland water transportation organizing transport, transshipment, storage, warehousing, packaging and distribution. The company also provides overall customs service to clients of the PKP CARGO Group.

Cargosped Terminal Braniewo Sp. z o. o.

Cargosped Terminal Braniewo Sp. z o.o. has been part of the PKP CARGO Group since January 2010, when it was acquired by CARGOSPED Sp. z o.o. The company's major areas of activity constitute transshipment of goods and buying and selling 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.

CARGOTOR Sp. z o.o. was registered on 13 November 2013 and PKP CARGO S.A. subscribed for a 100% equity stake. This company does business across Poland in the area of managing track and service infrastructure in the form of rail sidings and track systems along with the requisite plant and buildings. It also makes infrastructure available to rail operators on commercial terms.

In April 2015, the President of the Office of Rail Transport (UTK) issued CARGOTOR Sp. z o.o. a railway infrastructure manager security authorization, which makes it possible to make the railway infrastructure available to operators.

Advanced World Transport B.V.

The parent company in the AWT Group. The company's line of business is to discharge the function of the holding company. The company was established under Dutch law on 11 June 2007. PKP CARGO S.A. acquired an 80% stake in the Company on 28 May 2015.

Advanced World Transport a.s.

ADVANCED WORLD TRANSPORT a.s. was established on 1 January 1994 doing business as OKD DOPRAVA, a.s. The company is the largest entity in the structure of the AWT Group. The company's line of business is to render comprehensive rail freight transport and siding handling services. At present, the company is the second largest rail operator in the Czech Republic. Rail freight transport service is also rendered by the company in Slovakia and Poland.

On top of providing transportation service on its own leveraging its own authorizations, the company continues to be active as a rail freight forwarder throughout Central and Eastern Europe.

In addition, the company manages an intermodal terminal located in the community of Paskov in the north of the Czech Republic and it offers comprehensive services to make deliveries and pick-ups by road transport ("last mile").

AWT Čechofracht a.s.

AWT ČECHOFRACHT a.s. was established on 1 January 1991. The company's primary line of business is to offer international freight forwarding services.

AWT Rekultivace a.s.

The company was established on 1 January 1994 with its registered offices in Hawierzów and is specialized in civil engineering construction activity. The company's core offering consists of managing and revitalizing post-industrial areas (including mining areas), work to raze objects, managing facilities allocated to utilize waste, eliminate underground mining pits, de-contaminate the soil, providing specialist technical resources, storage of coal, etc.

On account of the nature of this activity, the services rendered by the company frequently require transportation handling, which in the event of AWT a.s. handling the rail transport, makes it possible to generate added value and ensure comprehensive service for its clients.

AWT ROSCO a.s.

Since 1 May 2010, the company has been operating within the group under the business name of AWT VADS a.s. In July 2011, the company's name was changed to AWT ROSCO a.s. The company is dedicated to the AWT Group's wagon fleet management. Within the scope of its operations, the company's fundamental mission is to provide the rolling stock needed for the AWT Group's transportation companies to perform transportation services. The company's operations involve the rental of rail wagons and the cleaning of rail and automobile cisterns.

AWT Coal Logistics s.r.o.

The company was registered on 4 April 2013. The Company's main line of business is railway freight forwarding focused on catering to the transportation of hard coal from mines belonging to OKD a.s.

AWT Rail HU Zrt.

The company was registered on 31 December 2008. It offers rail transport services and rail siding handling in Hungary on the basis of its own rail operator's license. The company's development is an element of the Group's international expansion. At present, the company is participating in handling a large amount of international transportation taken care of in cooperation with other Group entities.

2.3. The Company's organizational structure

The Company's Management Board performs its tasks with the aid of subordinate organizational units and organizational cells making them up.

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

- The Company's Head Office, which is made up of departments, each of them managed by its director. The directors are supervised by Managing Directors or directly by the Management Board members;
- Units performing the Company's tasks in specific areas of Poland. The activity of a Unit is organized in functional divisions managed by the Unit director and Regional Directors respectively. Unit Directors report to the Management Board.

In the Company's organizational structure, starting on 1 March according to Resolution No. 56/2016 of the PKP CARGO S.A. Management Board dated 1 March 2016 the positions of 2 Managing Directors operate: Managing Director on Information and Telecommunications Technology, Managing Director on Freight Organization supervising the offices of the Head Office. Managing Director on Information and Telecommunications Technology reports directly to the Company's Management Board, while the Managing Director on Freight Organization reports directly to the Management Board Member in charge of Operations.

Within the Company's organizational structure, there are organizational cells which perform tasks in specific areas of activity. Areas of activity make up functional divisions managed by Management Board members or Managing Directors. Managing

areas of activity within functional divisions includes tasks performed at the level of the Company's Head Office and those performed in the Company's units respectively. Functional divisions include the organizational structures of the Company's Head Office and units competent with regard to substantive issues in particular areas of activity. The organization of divisions may be modelled appropriately to the Company management needs.

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 management and handling the Company's affairs regarding clients and business partners, administration and coordination of the freight procedure.

Departments of the Company's Head Office are organizational units reporting to the President of the Management Board or particular Management Board members or through Managing Directors supervising specific areas of the Company's business activity and its organizational units.

Units

The key tasks of the Units is to organize and perform cargo deliveries in accordance with the executed agreements with the use of 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 are managed by the Unit Directors who perform at the same time the representative function in external contacts. Directors have the right to perform legal acts in the scope and on the basis of powers-of-attorney granted to them by the Management Board.

The Units of the Company are as follows:

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

2.4. Organizational structure of the PKP CARGO Group

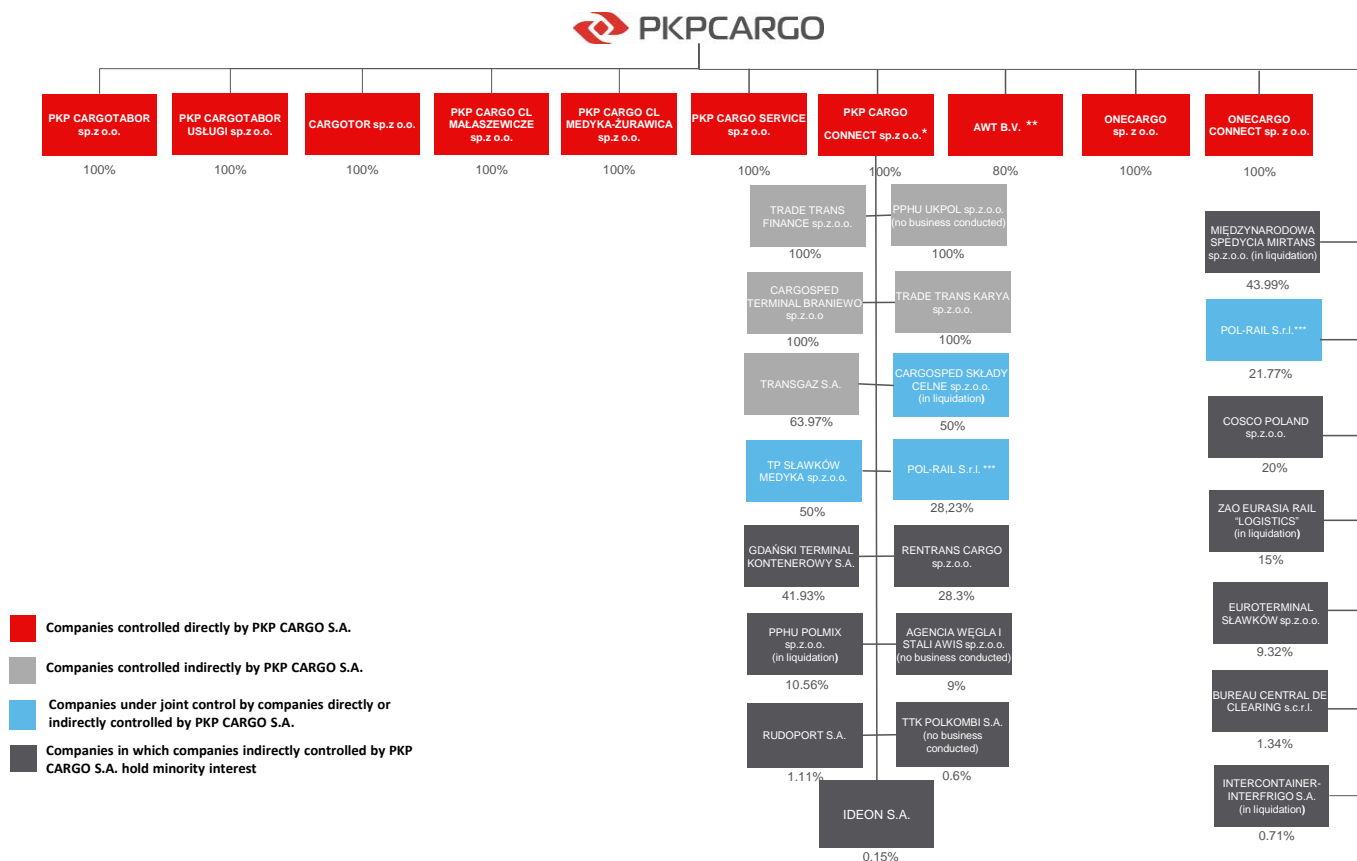
As of 31 December 2015, the PKP CARGO Group consisted of the following entities besides PKP CARGO S.A.: 29 subsidiaries of PKP CARGO S.A., controlled directly or indirectly (by entities controlled by PKP CARGO S.A.), including:

- 10 subsidiaries controlled directly by PKP CARGO S.A.,
- 13 subsidiaries controlled directly by companies directly controlled by PKP CARGO S.A. (and indirectly controlled by PKP CARGO S.A.), including 5 companies directly controlled by PKP CARGO CONNECT Sp. z o.o. and 8 companies directly controlled by AWT B.V.,
- 6 AWT Group companies controlled directly by companies indirectly controlled by PKP CARGO S.A. (indirectly controlled by PKP CARGO S.A.);

In addition the Group had 6 associated entities and shares in 4 joint ventures.

The figure below presents the organizational links between PKP CARGO S.A. and other entities as at 31 December 2015:

Figure 1 Structure of the PKP CARGO Group as at 31 December 2015



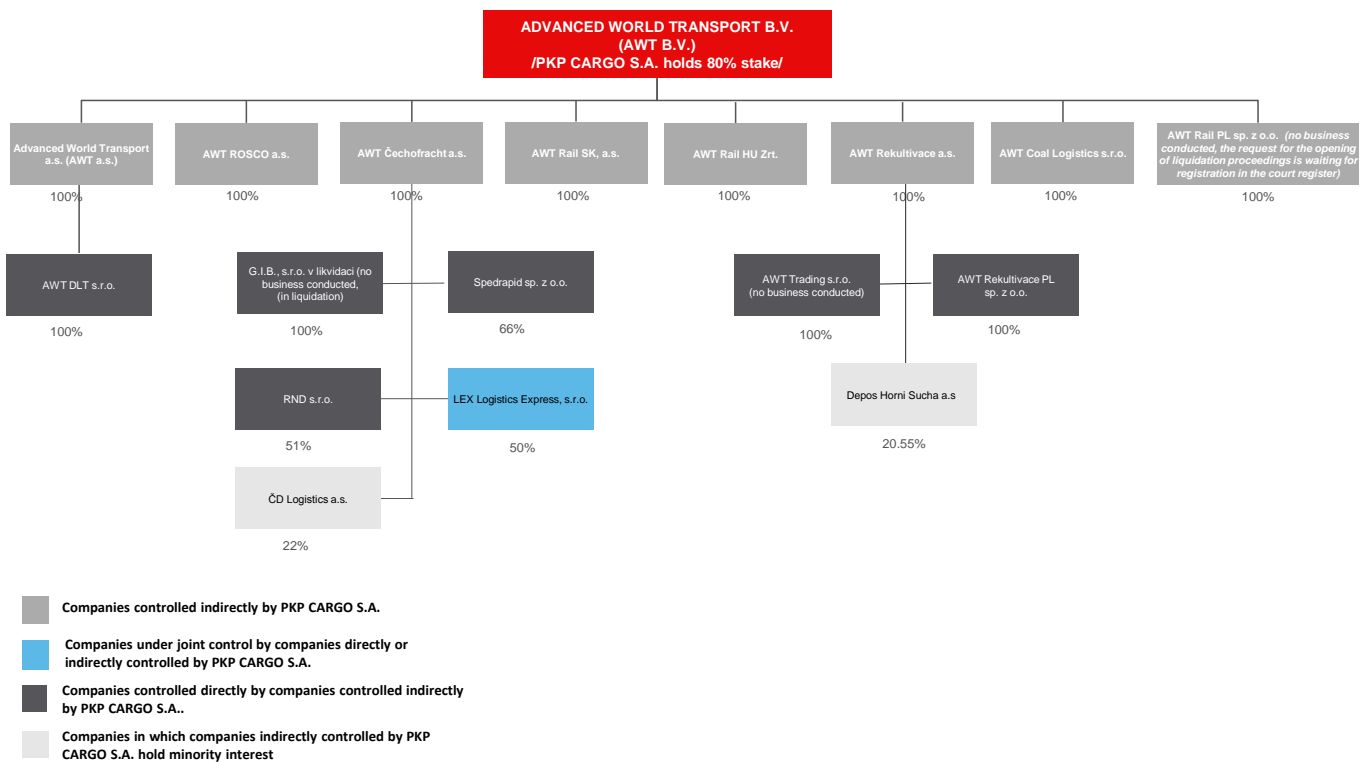
Source: Proprietary material

* On 31 December 2015, the merger of PKP CARGO CONNECT Sp. z o.o. and CARGOSPED Sp. z o.o. was registered in the National Court Register (KRS).

** Figure 2 depicts the AWT Group's full structure and capital ties with companies in which the AWT Group's companies hold shares or interests (minority stakes)

*** both PKP CARGO S.A. and one of the companies controlled directly by PKP CARGO S.A. - PKP CARGO CONNECT sp. z o.o. hold shares in POL-RAIL s.r.l. with its registered office in Rome in such a manner that in total these two entities belonging to the PKP CARGO Group hold a 50% equity stake in the share capital of POL-RAIL s.r.l.

Figure 2 Structure of the AWT Group as at 31 December 2015



Source: Proprietary material

2.5. Changes to the structure of the Company and the Group

In 2015, PKP CARGO S.A. acquired shares in its subsidiaries:

- on 5 February 2015, PKP CARGO S.A. acquired 640 shares in PS TRADE TRANS sp. z o.o. (at present: PKP CARGO CONNECT sp. z o.o.) with its registered office in Warsaw, representing in total a 44.44% stake in this company's share capital in the possession of Trade Trans Invest a.s. with its registered office in Bratislava. As a result of this transaction, PKP CARGO S.A. became this company's sole shareholder with a 100% equity stake in its share capital. These changes intend to acquire full control over the company to optimize the structure of the PKP CARGO Group, including inter alia the conduct of freight forwarding and terminal activity.
- on 5 February 2015 PKP CARGO S.A. acquired 490 shares in PKP CARGO International, a.s. w likwidacji (in liquidation) with its registered office in Bratislava, representing in total a 49% stake in this company's share capital in the possession of Rail Cargo Spedition, a.s. with its registered office in Bratislava. As a result of this transaction, PKP CARGO S.A. became this company's sole shareholder with a 100% equity stake in its share capital. In July 2015, The Extraordinary Shareholder Meeting of PKP CARGO International a.s. w likwidacji divided the company's liquidation assets. Cash from liquidation assets was paid to the sole shareholder, PKP CARGO S.A., on 5 August 2015. The liquidation procedure of PKP CARGO International a.s. ended on 26 November 2015 (the company was deleted from the Slovak business register). The purpose of the above-described acquisition of shares in the Company PKP CARGO International a.s. in liquidation it was to accelerate the process of liquidation of the company.

In parallel, in the PKP CARGO Group, on 5 February 2015, PS TRADE TRANS Sp. z o.o. (at present: PKP CARGO CONNECT sp. z o.o.) sold to Trade Trans Invest a 20% stake in Rail Cargo Service Sp. z o.o. with its registered office in Wrocław, a 37.7% stake in Rail Cargo Spedition GmbH with its registered office in Vienna (Austria) and a 23.9% stake in S.C. Trade Trans Terminal SRL with its registered office in Curtici (Romania). As a result of these transactions, PKP CARGO CONNECT sp. z o.o. no longer holds any shares in these companies. These transactions were aimed at optimizing the structure of the Group CARGO CONNECT.

On 31 March 2015, PKP CARGO International, a.s. w likwidacji (in liquidation) entered into an agreement with CFL CARGO S.A. to sell 31 shares (all the shares it held - 50% of the share capital) in PKP CARGO CFL International S.A. w likwidacji (in

liquidation). As a result of this transaction PKP CARGO International a.s. w likwidacji (in liquidation) no longer holds any shares in PKP CARGO CFL International S.A. w likwidacji (in liquidation). The above-described sale of shares in the company PKP CARGO CFL International SA in liquidation it was to accelerate the process of liquidation of the company PKP CARGO International a.s. in liquidation.

Furthermore, PKP CARGO S.A. subscribed for shares in newly-established capital companies in which it holds 100% of the shares in their share capital (companies wholly-owned by PKP CARGO S.A.). The companies were registered in the Register of Entrepreneurs of the National Court Register. These companies are as follows:

- ONECARGO CONNECT Sp. z o.o. with its registered office in Warsaw (date of registration in the National Court Register: 11 March 2015) and
- ONECARGO Sp. z o.o. with its registered office in Warsaw (date of registration in the National Court Register: 13 March 2015).

As of 28 May 2015, PKP CARGO S.A. acquired 60,000 shares, representing in total 80% of the share capital, in Advanced World Transport B.V. with its registered office in Amsterdam (Netherlands). Another shareholder in this company, holding 15,000 shares, representing in total 20% of the share capital of AWT B.V., is MINEZIT SE with its registered office in Prague (Czech Republic). AWT B.V. has in its group:

- 8 subsidiaries - directly controlled by AWT B.V.,
- 7 subsidiaries indirectly controlled by AWT B.V.,
- 1 subsidiary under joint control of an AWT B.V.'s subsidiary,
- 2 companies in which AWT B.V.'s subsidiaries hold a minority stake in the share capital.

AWT's line of business includes mainly comprehensive rail cargo transport services. AWT provides services mainly in the Czech Republic. Following the acquisition, the Group increased its presence on that market.

In parallel with the AWT B.V. acquisition agreement, PKP CARGO S.A. also entered into a shareholder agreement with Minezit SE ("MSE") regarding AWT ("Shareholder Agreement"). The agreement provides for, among others, MSE's right to request the Company to purchase all the AWT shares held by MSE ("Put Option") and the Company's right to request MSE to sell the AWT shares held by MSE to the Company ("Call Option"). Additionally, the Shareholder Agreement awards the Company the pre-emption rights to purchase the AWT shares held by MSE when MSE sells them and provides for MSE's tag along right in case the Company sells its AWT shares.

The Put Option may be exercised by MSW in the period from 1 January 2017 to 31 December 2020 for the market price calculated using the formula provided in the Shareholder Agreement, where the price depends on AWT Group's consolidated EBITDA and its net debt, but will not be less than EUR 27 million.

The Company will be able to exercise the Call Option in the period from 1 January 2017 to 31 December 2021 for the market price calculated using the formula provided in the Shareholder Agreement in reference to AWT Group's EBITDA and its net debt, but no less than the difference between (i) EUR 40 million and (ii) the amount of all dividend and similar payments made by AWT to MSE.

Details are presented in Note 29 to the Standalone Financial Statements of PKP CARGO S.A.

As of 1 April 2015 PKP CARGO TABOR USŁUGI Sp. z o.o. suspended business activity for 9 months, i.e. until the end of 2015. The suspension of business activity by the company had no effect on the operating activity of the PKP CARGO Group. The company's operations were recommenced as of 1 July 2015.

On 7 August 2015, the Extraordinary Shareholder Meeting of AWT Rail PL Sp. z o.o. adopted a resolution to dissolve AWT Rail PL and open its liquidation as of 7 August 2015. Opening of the liquidation of the company AWT Rail PL was dictated by the lack of a business justification for the continued existence of the company. The change is waiting for registration in the court register but it will have no effect on the Group's operating activity.

On 10 August 2015, the Extraordinary Shareholder Meeting of CARGOSPED SKŁADY CELNE Sp. z o.o. adopted a resolution to liquidate the Company and appoint a liquidator. On 20 August 2015, an announcement about opening the liquidation of CARGOSPED SKŁADY CELNE Sp. z o.o. was published in Monitor Sądowy i Gospodarczy, with a summons to creditors to report their accounts receivable. The opening of the company's liquidation CARGOSPED SKŁADY CELNE was dictated by the lack of a business justification for the continued existence of the company. This change had no material impact on the Group's operations.

On 5 November 2015, AWT Čechofracht a.s. with its registered office in Prague, sold 80% of shares held in XZD a.s. in favor of the legal firm Ecker Khan. On 1 December 2015, the remaining 20% of shares were sold. As of 31 December 2015, the AWT Čechofracht a.s. no longer holds any shares in XZD a.s. The above-described sale of shares in XZD a.s. is aimed at streamlining the process of liquidation of the company. The change had no effect on the Group's operating activity.

On 17 August 2015, the Extraordinary Shareholder Meeting of PS TRADE TRANS Sp. z o.o. was held and adopted a Resolution to amend the Articles of Association of PS TRADE TRANS sp. z o.o. in the part concerning the company's business name, from PS TRADE TRANS sp. z o.o. to PKP CARGO CONNECT sp. z o.o. The change was registered on 30 October 2015.

On 29 September 2015, the Management Boards of the companies: PS TRADE TRANS Sp. z o.o. (as the Acquiring Company) and CARGOSPED Sp. z o.o. (as the Acquired Company) signed the "Merger Plan for equity companies: Przedsiębiorstwo Spedycyjne TRADE TRANS Sp. z o.o. and CARGOSPED Sp. z o.o.". The merger was intended to enhance the capacity of companies and experienced staff, as well as the presentation of offers integrated logistics services. It was registered on 31 December 2015 following the procedure set forth in Article 492 § 1 item 1) of the Commercial Company Code, by transferring all the assets of CARGOSPED Sp. z o.o. to PKP CARGO CONNECT sp. z o.o. in exchange for the shares that PKP CARGO CONNECT Sp. z o.o. issued to PKP CARGO S.A. as the sole shareholder of CARGOSPED Sp. z o.o.

PKP CARGO CONNECT Sp. z o.o. is responsible for providing commercial and freight forwarding support to the PKP CARGO Group and will also offer cargo transshipment and storage services. The comprehensive logistic services will be provided on the Polish market and internationally.

On 16 November 2015, PKP CARGOTABOR Usługi Sp. z o.o. ("PKP CU"), a wholly-owned subsidiary of PKP CARGO S.A., as Purchaser, PKP CARGO S.A., as Guarantor, and PKN ORLEN S.A., as Seller ("PKN ORLEN"), entered into a conditional binding sales agreement for 40,796 shares, representing approx. 99.85% of the shares in the share capital of ORLEN KolTrans Sp. z o.o. ("KolTrans") for the total amount of PLN 192,248,367.05. At present, work is underway to fulfill the conditions precedent, including in particular, to obtain consent to a concentration from the President of the Competition and Consumer Protection Office.

Furthermore, on 16 November 2015, PKP CARGO S.A. and Euronaft Trzebinia Sp. z o.o. ("Euronaft") entered into a conditional binding sales agreement for an organized part of Euronaft's enterprise, based on which Euronaft provides rail transport services, rail siding service and the services of track works and repair of rolling stock ("ZCP Kolej") for a total amount of PLN 59,397,000.00. At present, work is underway to fulfill the conditions precedent, including in particular, to obtain consent to a concentration from the President of the Competition and Consumer Protection Office.

The ongoing acquisition ORLEN KolTrans Sp. o.o. and ZCP Kolej aims to strengthen the position of the Group PKP CARGO on the Polish market, a segment that guarantees extend the competences of the Group's increased profitability and competitiveness.

2.6. Changes to the fundamental principles of managing the Company and the Group

The Parent Company

In 2015, no changes to the principles of managing the Company were introduced.

PKP CARGO Group

Mergers of companies dedicated to freight forwarding activity

On 29 September 2015, the Management Boards of the companies: PKP CARGO CONNECT sp. z o.o. (as the Acquiring Company) and CARGOSPED Sp. z o.o. (as the Acquired Company) signed the merger plan for the companies. In addition, on 30 September 2015, this merger plan was submitted to the relevant court of registration. The merger of the companies was registered on 31 December 2015 following the procedure set forth in Article 492 § 1 item 1) of the Commercial Company Code, by transferring all the assets of CARGOSPED Sp. z o.o. to PS TRADE TRANS sp. z o.o. in exchange for the shares that PKP CARGO CONNECT Sp. z o.o. issued to PKP CARGO S.A. as the sole shareholder of CARGOSPED Sp. z o.o.

PKP CARGO CONNECT Sp. z o.o. is responsible for providing commercial and freight forwarding support to the PKP CARGO Group and also offers cargo transshipment and storage services. The comprehensive logistic services will be provided on the Polish market and internationally. The establishment of the entity makes it possible to an improved use of the potential of the companies and experienced staff, which allows for offering integrated logistics services, namely cargo transport, transshipment, storage, customs services and "door-to-door" delivery.

2.7. Information on organizational or capital ties of PKP CARGO S.A. with other entities, taking into account the following groups of entities

The table below shows a list of all the shares owned directly by PKP CARGO S.A. as at 31 December 2015.

Table 3 Companies in which PKP CARGO S.A. owned shares directly as at 31 December 2015

Item	Company name	Place in the PKP CARGO Group	Registered office	Share capital amount	Value of 1 share	Number of shares held	% of the share capital
SUBSIDIARIES in which PKP CARGO S.A. has over 50% shares and COMPANIES WITH PARTICIPATION OF PKP CARGO S.A.'S SUBSIDIARIES							
1.	PKP CARGO SERVICE Sp. z o.o.	daughter	Warsaw	PLN 30,827,000	PLN 500	61,654	100%
2.	PKP CARGOTABOR Sp. z o.o.	daughter	Warsaw	PLN 88,087,000	PLN 1,000	88,087	100%
3.	PKP CARGOTABOR USŁUGI Sp. z o.o.	daughter	Warsaw	PLN 18,138,000	PLN 1,000	18,138	100%
4.	PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	daughter	Małaszewicze	PLN 54,016,000	PLN 1,000	54,016	100%
5.	PKP CARGO CENTRUM LOGISTYCZNE MEDYKA-ŻURAWICA Sp. z o.o.	daughter	Żurawica	PLN 13,086,000	PLN 1,000	13,086	100%
6.	CARGOTOR Sp. z o.o.	daughter	Warsaw	PLN 20,181,000	PLN 1,000	20,181	100%
7.	PKP CARGO CONNECT Sp. z o.o. (formerly: PS TRADE TRANS Sp. z o.o.)	daughter	Warsaw	PLN 20,050,000	PLN 10,000	1,845	100%
8.	ONECARGO Sp. z o.o.	daughter	Warsaw	PLN 5,000	PLN 50	100	100%
9.	ONECARGO CONNECT sp. z o.o.	daughter	Warsaw	PLN 5,000	PLN 50	100	100%
10.	ADVANCED WORLD TRANSPORT B.V. (AWT B.V.)	daughter	Amsterdam, Holland	EUR 75,000	EUR 1	60,000	80%
ASSOCIATES in which PKP CARGO S.A. has no less than 20% and no more than 50% shares							
11.	Międzynarodowa Spedycja MIRTRANS Sp. z o.o. (in liquidation)	company with participation of PKP CARGO S.A.	Gdynia	PLN 1,114,000	PLN 2,000	245	43.99%
12.	POL-RAIL Societa' a responsabilita' limitata	company with participation of PKP CARGO S.A.	Rome, Italy	EUR 2,000,000	shares of varied value	1 share worth EUR 435,443	21.77%
13.	COSCO POLAND Sp. z o.o.	company with participation of PKP CARGO S.A.	Gdynia	PLN 250,000	PLN 2,500	20	20%
OTHER COMPANIES WITH PARTICIPATION of PKP CARGO S.A. in which PKP CARGO S.A. has less than 20% shares							
14.	ZAO "Eurasia Rail Logistics" in liquidation	company with participation of PKP CARGO S.A.	Moscow, Russia	RUB 1,670,000	RUB 1,670	150	15%
15.	EUROTERMINAL SŁAWKÓW Sp. z o.o.	company with participation of PKP CARGO S.A.	Sławków	PLN 182,479,000	PLN 50	340,000	9.32%
16.	Bureau Central de Clearing s.c.r.l.	company with participation of PKP CARGO S.A.	Brussels, Belgium	EUR 110,250	EUR 750	2	1.34%
17.	Intercontainer-Interfrigo S.A. in liquidation	company with participation of PKP CARGO S.A.	Brussels, Belgium	-	-	-	0.71%

Source: Proprietary material

A list of all the subsidiaries and associates can be found in Notes 14-16 to the Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2015 prepared according to EU IFRS.

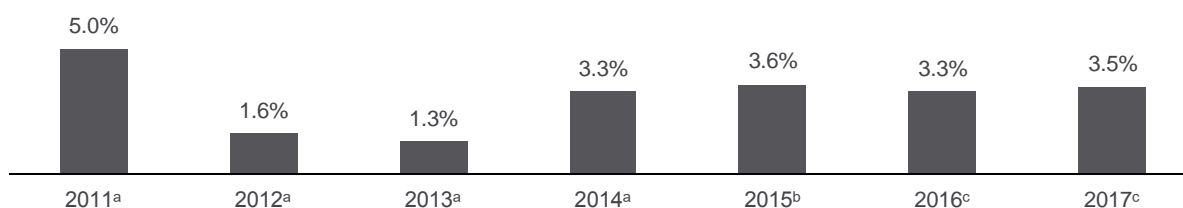
3. Key areas of PKP CARGO S.A.'s activity

3.1. Macroeconomic environment

Polish economy

According to the preliminary estimates of the Central Statistical Office of Poland, the Polish economy achieved growth of 3.6% yoy in 2015.³ Forecasts for the coming years are positive, however GDP growth will not be as high as it was in 2015. It is expected that GDP growth in 2016 will be 3.3% yoy and will reach 3.5% yoy in 2017.⁴ The current positive economic situation is confirmed by good business conditions in the industry: preliminary estimates show that sales in industry grew by 4.9% yoy and construction and installation production by 3.0% yoy. In December 2015, PMI (*Purchasing Managers Index*) was 52.1. This confirms the increased economic activity, which however was not as high as in December 2014 when PMI was 52.8. In spite of the reduction of its GDP growth forecasts by the NBP (*National Bank of Poland*), the estimated growth of Poland's economy is still higher than the average growth in other EU economies.

Figure 3 GDP growth in Poland in 2011-2014 per annum and forecast for 2015 and 2016



Source: Central Statistical Office of Poland (note: in 2014, the Central Statistical Office of Poland aligned its GDP calculation methodology with the ESA 2010 standards; this modified methodology has also been applied to adjust GDP readings in the previous years)

^a the change results from the revision of estimates by the Central Statistical Office of Poland (of 16 October 2015)

^b preliminary estimates of the Central Statistical Office of Poland (of 26 January 2016)

^c National Bank of Poland forecast (November 2015)

European economy

It is the third year of the economic recovery in the European Union, which is to be maintained at a similar level, despite the difficult situation in the global economy. The European Commission estimates that in 2015, GDP growth in real terms was 1.9% yoy and is expected to be 1.9% yoy and 2.0% yoy in 2016 and 2017, respectively.⁵ The factors that work to the benefit of the European economy include: accommodating monetary policy, weak Euro and lower prices of oil, which are to be maintained in 2016. Moreover, the increase in GDP in real terms is to be supported by greater availability of credit, continuing reduction of debt, higher investments and productivity of work, which contributes to the increase in income in real terms. The European Union's public debt is expected to stay at the current level of 87% of GDP, even though Greece's debt increased to about 179% of GDP in 2015 and is expected to increase to 185% in 2016. The level of the EU's deficit and budget debt fell to 2.5% of GDP in 2015. It is expected to decline to the level of 2.2% of GDP in 2016 and 1.8% of GDP in 2017.⁶

Unfortunately, the impact of the above factors has been reduced by the negative impact of the slow-down of emerging economies and international trade and the continuing geopolitical tension. The Chinese economy is one of primary importance. The European Commission estimates that it will post a 6.9% yoy growth in 2015, only to drop to 6.2% yoy in 2017.⁷

The industry PMI is an important factor indicating an improving condition of the Euro zone economy. In December 2014 it was 50.6 rising to 53.1 in December 2015⁸, indicating improving sentiments of managers in the production industry. The improving

³ GUS

⁴ NBP's forecast (July 2015) and the Budget Act for 2015 (September 2014)

⁵ EC forecasts, European Economic Forecast Winter 2016.

⁶ EC forecasts, European Economic Forecast Winter 2016.

⁷ EC forecasts, European Economic Forecast Winter 2016.

⁸ Stooq.pl

business conditions are also forecast through inflation: in 2015 it remained flat at 0%, while in 2016 and 2017 it is expected to increase to 0.5% yoy and 1.6% yoy, respectively.⁹

The influx of refugees and migrants to EU member states has been a very important factor affecting the EU economy in recent months. The policy of proper use of the migrating human potential may constitute a threat as well as an opportunity. According to an European Commission forecast incorporating the additional budget expenditures for actions associated with the refugee and migrant issue, but also the potential inflow of additional workforce, the GDP in 2017 may increase by the additional 0.2-0.3% yoy annually.¹⁰

Industry in Poland

Cargo freight transport is strongly correlated to the economic condition of all Poland's key industries. Those include, in particular: mining, steel and construction. The chemical, wood and automotive industries are also important.

Over the entire year 2015, sales in industry increased by 4.9% yoy, compared to 4.1% yoy in 2014. The decline in industrial sales was recorded in just three sectors, while 31 other posted growth. Industries with higher sales included, among others: other transport equipment (+17.8% yoy), including locomotives and rolling stock (+60.7% yoy); motor vehicles, trailers and semi-trailers (+10.7% yoy); metal products (+6.0% yoy); chemicals and chemical products (+5.2% yoy); wood products (+5.0%). Overall, in the processing industry a 5.8% yoy increase was observed, including 3.4% yoy in water supply, sewerage, waste management and remediation and 1.8% yoy in mining and quarrying.¹¹ Coal sales were very positively affected by the increased efficiency of mining in the restructured mines and a decline in mining costs from PLN 300 to PLN 240 per tonne after the end of Q2 2015.¹²¹³

We should note in particular the production of metals, which increased by 1.2% yoy in 2015, despite the concerning situation on the global commodity market, which drives down the prices of metals and metal products. The situation in the steel industry was positively affected by the change in regulations on the certificates to use "green energy". The solution proposed within the framework of the "Program for Silesia" has also had a positive effect. That program will provide excise tax relief for electricity, which will be very beneficial for energy-intensive industries, including the metallurgical industry. Since the beginning of the previous year, the industry may also benefit from a partial exemption from excise tax for electricity. For energy-intensive branches of the industry, this represents a significant decrease of production costs.¹⁴

In 2015 the situation on the scrap market was very unstable, recorded declines in scrap prices at the level of over 20%. The reason for the low price was the influx of cheap raw material exports (mainly from China), and its purchase by the Polish steelworks. Low prices persist to the present.

The sales of crude oil and refined petroleum products were affected by events such as: the nuclear deal with Iran and abolishment of an embargo for this commodity and an increase of its reserves in the USA. In January 2016, the US Department of Energy announced that its crude oil reserves rose to 482.56 million barrels. This means an increase of oil oversupply, which will exert even stronger price pressures on oil and oil derivatives. As at 31 December 2015, the price per barrel was USD 37.04. A comparable price per barrel was recorded in September 2003.¹⁵

The prices of industrial production fell by 2.2% yoy, following a 1.5% yoy decline in 2014. This was driven by lower prices in the mining and extraction industry (by 3.9% yoy) and in processing industry (by 2.6% yoy). The decline in prices in mining was caused by the progressing price pressures in ARA ports and in extraction by the declining oil prices.

Mining industry

In 2015, the output of Poland's coal mining sector was 72.5 million tons, compared to 73.3 million tons in 2014, down by 1.1% yoy. Average monthly ARA prices were subject to increased pressures during the year. In December 2015, the average ARA price was 47.83 USD/t, down by 22.53 USD/t from the average ARA of 70.36 USD/t in December 2014.¹⁶ The mining industry was adversely affected by the levels of stockpiled coal inventories. Despite the reduction to 5.82 million tons in December 2015 from 8.21 million tons in December 2014 (down by 29.1%), the inventories remain high.¹⁷

⁹ EC forecasts, European Economic Forecast Winter 2016.

¹⁰ EC forecasts, European Economic Forecast Autumn 2015.

¹¹ GUS Statistical Bulletin (includes data of enterprises employing more than 9 people)

¹² Information Center on the Energy Market

¹³ Information Center on the Energy Market

¹⁴ PAP Business

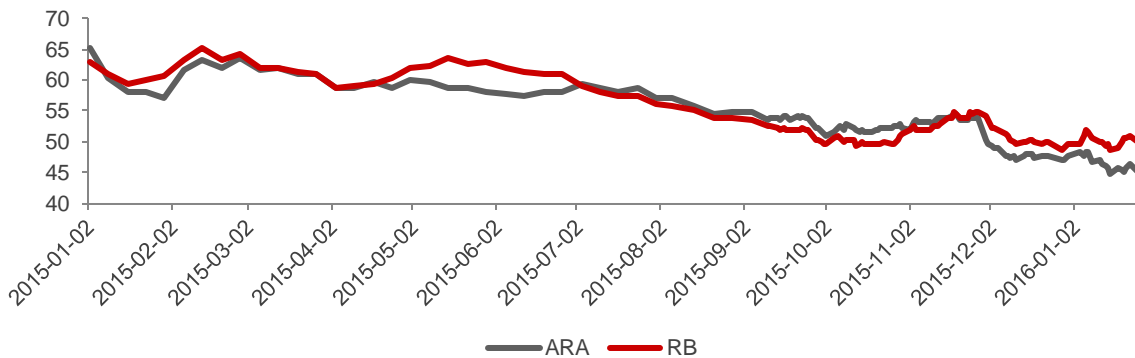
¹⁵ Forsal

¹⁶ Virtual New Industry

¹⁷ Polish Coal Market

The Polish mining industry has been materially affected by the restructuring process of the unprofitable Kompania Węglowa mines, which has been planned and is to be implemented by the end of the first half of 2016. The structural transformation process is to be supported by stock market companies: PGE, Energa and PGNiG Termika.¹⁸ Additionally in 2016, private investors will be able to enter the market after they obtain a mining concession. Through private businesses, it will be possible to create mines with mining efficiencies superior to that of those currently operating in Poland. It is expected that such projects will result in the stabilization of the mining market.¹⁹

Figure 4 Coal prices on ARA vs. RB markets*



Source: Virtual New Industry

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

Steel industry

It may be inferred from the World Steel Association data that Poland was one of the few European countries that increased its steel output: by approx. 6.0% from 8.6 million tons in 2014 to 9.1 million tons in 2015²⁰. When compared to the overall production in Europe, which dropped from 169.3 million tons to 166.2 million tons in 2015 (down by 1.8% yoy), those are indeed very good figures. The Polish Steel Association calculated that the consumption of steel increased to 12.5 million tons, from 12.3 million tons in 2014. In 2015, two thirds of the demand were satisfied by imports.²¹ The analysts forecast steel production and consumption to increase by 2-3% in 2016 and 2017 if no changes in the demand occur. Of special importance is to maintain the current consumption levels in construction, road, railway and power industry investment projects. Other sectors with significant influence on the increase in the production and consumption of steel are the construction, engineering and automotive industries.

A decline in prices, caused by price pressures on the raw materials for steel production, is a very important factor affecting the business conditions of the steelmaking industry. The pressures resulted from the general crisis on the market for raw materials and an economic slowdown in China. It is speculated that raw material prices have already reached the minimum levels and they should return to a growth path in 2016.²²

The decline in the prices of raw materials and semi-finished products also caused a decline in prices of metal products by 1.0% yoy²³. At the same time, the sales of industrial production in the metal products industry increased by 6.0% yoy²⁴. We should note that in the metals sector, prices increased by 1.2% yoy²⁵, while the volume of sales rose by 0.3% yoy.²⁶

The prices in international trade in iron ore have been falling continuously since August 2015, reaching 39.6 USD/t in December, down by as much as 42.4% yoy from 68.8 USD/t in December 2014. The highest prices of almost 190 USD/t and 150 USD/t were recorded in 2011 and 2013, respectively.²⁷

¹⁸Virtual New Industry

¹⁹Virtual New Industry

²⁰World Steel Association

²¹Inzynieria.com

²²PAP Biznes

²³GUS Statistical Bulletin (includes data of more than 3.3 thousand enterprises, employing more than 9 people)

²⁴GUS Statistical Bulletin (includes data of industrial and non-industrial enterprises, no limit on the number of employees)

²⁵GUS Statistical Bulletin (includes data of more than 3.3 thousand enterprises, employing more than 9 people)

²⁶GUS Statistical Bulletin (includes data of industrial and non-industrial enterprises, no limit on the number of employees)

²⁷<http://www.indexmundi.com>

Construction industry

The indicator of construction and installation production in businesses with more than 9 employees increased by 2.8% yoy in 2015 (cs. 3.6% in 2014). Positive growth in construction and installation production was recorded in land and water engineering (up by 4.2% yoy 2015, up by 8.6% in 2014), specialist construction works (up by 2.5% yoy vs. 7.5 yoy in 2014) and in building construction (up by 1.4% yoy vs. -4.0% yoy in 2014). During the year, investment project construction declined by -2.1% yoy, compared with an increase of 1.8% yoy in 2014²⁸.

In December, the business tendency indicator in construction reached -16.1, compared with -11.6 in November and -19.0 in December 2014. The construction sector businesses, which influenced the level of the indicator, estimated that since September 2015, the order portfolio, construction and installation production and the financial standing had been deteriorating, however the decline in employment may be slightly lower than anticipated in November. In 2015, the construction industry recorded a 5.8% yoy decrease in employment. In 2014 average employment growth was -7.7% yoy. This is correlated with the barriers for business activity. The businesses mention mainly the high cost of employment (important for 60.6% of businesses, vs. 61.2% one year before), high amounts due to the State Treasury (41.9% vs. 40.5% in December 2014) and unclear and inconsistent legal regulations (31.9% vs. 29.7% in December 2014)²⁹.

The good outlook for the construction industry may be ensured by an increase in the value of infrastructural investments, which are yet to begin (also those for which tender procedures were completed in 2015). Additionally, the record high investments in residential housing have a positive effect on the forecasts. One threat for the construction sector is the expected decline in corporate investments in architecture.³⁰

Another possible threat is the lack of financial resources to implement the National Road Building Program in 2014-2023 with the outlook towards 2025. It was initially assumed that the execution of the infrastructural works will cost PLN 93 billion, however following an extension of the program, the cost of construction rose to PLN 107 billion. The main reason is the completion or significant reduction of EU financing after the EU framework 2014-2020 ends and significant costs of maintaining and repairing the existing roads.³¹

3.2. Freight transportation activity

3.2.1. Rail transport market in Poland

In 2015, there were 66 licensed rail freight carriers on the market, while in 2014 there were 67 carriers operating on the Polish rail freight market; 1 carrier left the market yoy. Each of the operators held a license to carry out rail freight operations.

In 2015 224.8 million tons of cargo were transported by rail. Given the freight volume of 228.9 million tons in 2014, this was a decrease by -1.79% yoy. Actual freight turnover, at 50.6 billion tkm was 1.04% higher than the year before and average haul rose by 6.3 km yoy (+2.87% yoy) to 225.2 km.

The reduction in freight volume in 2015 was caused by: delays associated with the launch of road and railway investment projects or delays associated with the resolution of tenders for such projects (lower levels of transported aggregate); crisis on the raw material market and China's economic slowdown (lower volume of metals transports and coke, which is needed for metal processing); the armed conflict in the Donbass area in the Ukraine (effect on the transportation of metals); strikes in Jastrzębska Spółka Węglowa ("JSW") and Kompania Węglowa (in January/February 2015) lower coal production caused by high inventories on mine dumps.

Aggregate, sand and gravel are some of the key cargo categories for rail transport. The road and railway construction investment in the framework implementation of projects financed from EU funds for the years 2007-2014 have been completed and the allocation of funds for investment projects in the budget framework of 2014-2020 is in its initial stage. This is a consequence of delays in tendering decisions in some of the planned construction projects and the deferral of the commencement of work to the next building season in 2016.

According to the forecasts, production of and demand for aggregate in 2015 was lower than in the preceding year. In 2014 the production was 240 million tons, declining to 210 million tons in 2015.³² It is estimated that, because of the shifting execution periods of road and railway investment projects, there is a chance for improvement in this cargo category. It is expected that

²⁸ GUS Statistical Bulletin (includes data of enterprises employing more than 9 people)

²⁹ Central Statistical Office of Poland

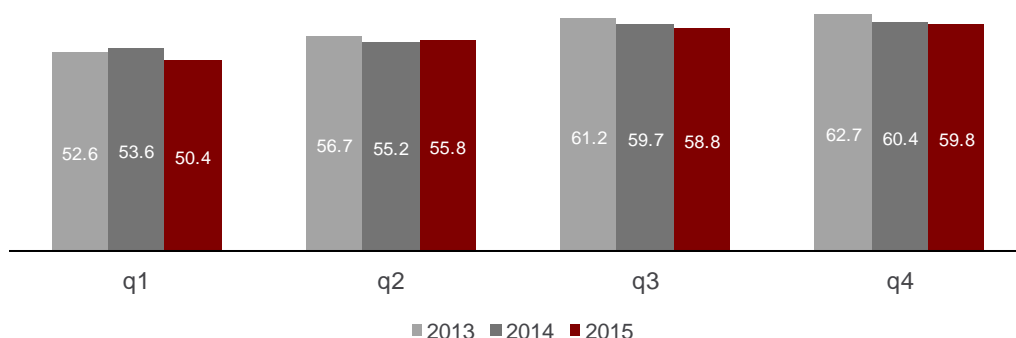
³⁰ Infrastructure Market

³¹ Biznes.pl

³² Virtual New Industry

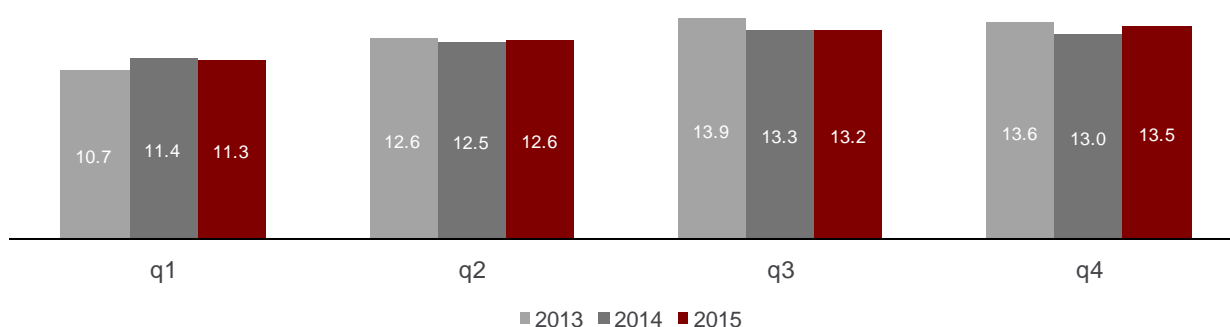
demand for aggregate may increase by 10% in 2016 to 230 million tons of material. The second half of 2016, when particularly dynamic growth is expected, should be especially important.³³

Figure 5 Rail freight volumes in Poland (in million tons) in individual quarters of 2013-2015



Source: Office of Rail Transport

Figure 6 Rail freight volumes in Poland (in billions tkm) in individual quarters of 2013-2015

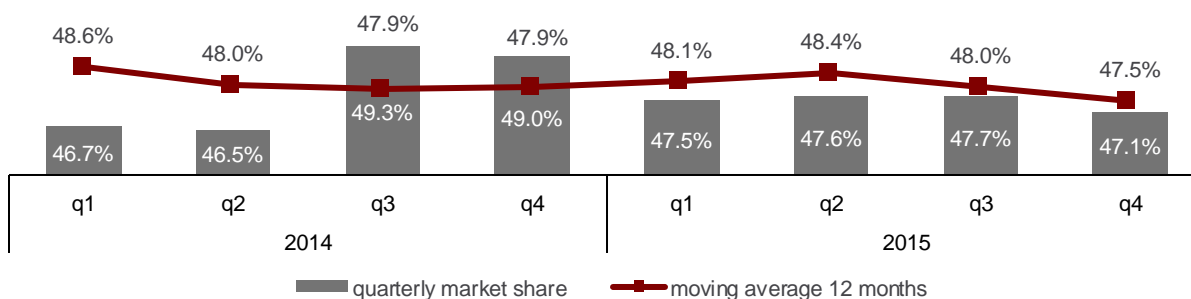


Source: Office of Rail Transport

3.2.2. Position of PKP CARGO S.A. in the rail transport market in Poland

In 2015, PKP CARGO S.A. retained the leading position on the railway cargo transport market with a 47.5% market share (-0.4 p.p. yoy) in terms of freight volume and a 55.7% market share in terms of freight turnover (-1.1 p.p. yoy).

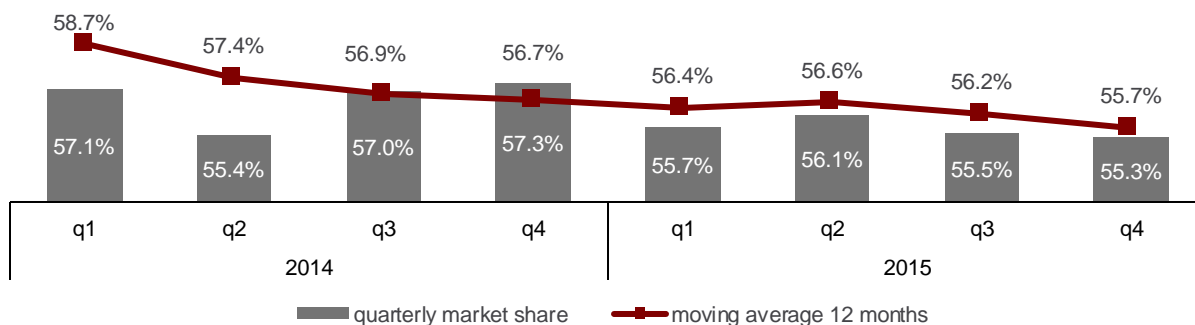
Figure 7 Share of the PKP CARGO S.A. in freight volume in 2014 and in 2015 in Poland



Source: Proprietary material

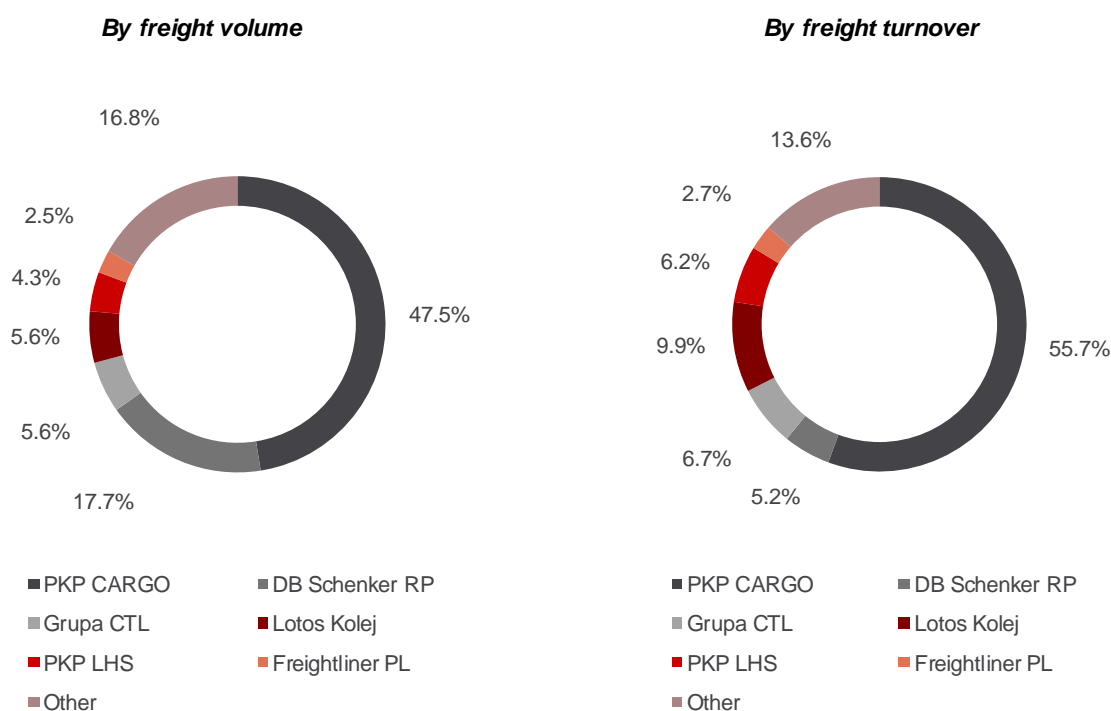
³³ Virtual New Industry

Figure 8 Share of the PKP CARGO S.A. in freight turnover in 2014 and 2015 in Poland



Source: Proprietary material

Figure 9 Rail operators' market shares by freight volume and freight turnover in 2015 in Poland



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

The leading operators on the Polish railway transport market include, in addition to PKP CARGO S.A.: DB Schenker Group, CTL Group, Lotos Kolej, PKP LHS and Freightliner PL.

In 2015, PKP CARGO S.A.'s closest competitors in terms of freight volume included: DB Schenker, CTL Group and Lotos Kolej, which held market shares of 17.7%, 5.6% and 5.6%, respectively. The key competitors in terms of freight turnover included: Lotos Kolej, CTL Group and PKP LHS, with market shares of 9.9%, 6.7% and 6.2%, respectively.

In 2015, the largest increases in freight turnover vs. 2014 were posted by the following competitive rail freight operators: Lotos Kolej (+577.6 million tkm, which resulted in a +1.1 p.p. market share in terms of freight turnover) and DB Schenker (+61.9 million tkm, which resulted in a +0.1 p.p. market share in terms of freight turnover).

3.2.3. Rail transport by PKP CARGO S.A.

The data on rail transport operations performed by PKP CARGO S.A. in 2015 and 2014 contain data for PKP CARGO S.A., a PKP CARGO Group company. In connection with the acquisition of AWT, foreign transports started to be presented under own licenses and the data concerning freight turnover performed in Poland were unified with the data delivered to the Office of Rail Transport (freight turnover achieved on the lines of infrastructure managers other than PKP PLK was added), hence data for 2014 have been updated.

In 2015, PKP CARGO S.A. conducted rail freight business in the territory of Poland and eight other European Union states, i.e.: Germany, the Czech Republic, Slovakia, Austria, Belgium, the Netherlands, Hungary and Lithuania. The presence in these markets is a growth opportunity for PKP CARGO S.A., since it allows it to independently handle the volumes transported from/to key European seaports, including those located in the North Sea (Amsterdam, Rotterdam, Zeebrugge, Antwerp, Hamburg) and those located in the Adriatic Sea (Koper, Trieste, Rijeka). The size of the rail freight market in the countries where the PKP CARGO S.A. operates was over 920 million tons in 2014.³⁴

Regardless of foreign ports, PKP CARGO S.A. remains actively involved in the operation and further development of overland transport as part of a route leading from China through Poland to Western Europe, which has led to cooperation with Zhengzhou International Hub, aimed at developing a whole-train rail link between China and Europe via Małaszewicze and developing strategic cooperation in the field of transshipment activity in Małaszewicze. The primary objective of the project is to increase the volumes of intermodal transport between China and Western Europe through Małaszewicze and back to Asia.

PKP CARGO S.A. has worked with the largest Polish and global groups, including ArcelorMittal, PKN Orlen, PGNiG, Lafarge Group, Azoty Group, Węglkokos, Jastrzębska Spółka Węglowa, Tauron Group, Kompania Węglowa, Enea Group, PGE Group and International Paper. The contracts with these counterparties are regularly renewed, which confirms the high quality of the transportation services provided by PKP Cargo S.A. This is exemplified by won tender procedures for transport of coal (ENEA Wytwarzanie, Veolia Group, Tauron), transport of timber and wood chips (International Paper Kwidzyn, Kronospan Szczecinek, Mondi Świecie), and aggregates for the construction of roads and rail infrastructure.

In 2015, PKP CARGO S.A. carried 107.5 million tons of cargo (-2% yoy) and achieved freight turnover of 28.7 billion tkm (0% yoy). PKP CARGO S.A.'s transport results in 2015 were positively affected by the transports in Q2 2015 when the transportation activity recovered, resulting in an increase in freight volume by 4% yoy and freight turnover by 3% yoy. In the remaining quarters, freight volume dropped: in Q1 2015 (-4% yoy), Q3 (-4% yoy) and Q4 (-4% yoy), while the freight turnover increased in Q4 (+1% yoy), with a decrease in Q1 2015 (-3% yoy), Q3 (-2% yoy). The performance was materially affected by the increase in international transports, which reached 3.7 million tons (+36% yoy) while freight turnover of 0.6 billion tkm (+50% yoy) was achieved.

PKP CARGO S.A.'s transport activity in 2015 was characterized by increased inter-branch and intra-branch price competition. Solid fuels were the main type of goods carried by PKP CARGO S.A., with hard coal being the dominating cargo. Transportation of solid fuels accounted for 53% of transported volumes and 45% of realized freight turnover by PKP CARGO S.A. in 2015. In the same period, transportation of solid fuels was higher in terms of freight turnover by 9% yoy and 2% yoy in terms of freight volume. As a result of an active trading policy, freight turnover in coal transport increased by 13% yoy, including an increase in Poland by 10% yoy and significant growth in international freight (+709% yoy) in connection with new transports from the Czech Republic to Slovakia obtained in 2015. Freight turnover in the solid fuels segment also affected the average haul of hard coal in 2015 (+9% yoy) and especially in Q4 2015 (+14% yoy) driven by an increase in transports to ports and international transports, which are characterized by longer distances. An unfavorable impact on the transport of solid fuels in 2015 was exerted by the transport of coke within Poland, whose volume was 14% lower yoy, mainly due to decreasing demand for coke transport to Germany and in exports via seaports.

Aggregates and construction materials were the second largest group of products carried by PKP CARGO S.A. in 2015, with an 18% share in total freight turnover (21% in the corresponding period of 2014). The transportation of aggregates and construction materials in 2015 (decrease by 12% yoy in terms of freight volume) was affected by the stagnation in infrastructural investment projects while waiting for the decisions on pending tenders and commencement of work on new infrastructural investment projects (since the beginning of 2016, GDDKiA signed 12 contracts in the total amount of PLN 4.2 billion to build about several sections of roads, including S3, S5, S6, S8, S11, S17 and the A1 highway). One should note that the year 2014 saw intensification of transport in connection with the need to urgently complete the investments from the EU framework for 2007-2013.

³⁴ Eurostat

Products associated with the metallurgical industry, i.e. metals and iron ore, are another important market area serviced by PKP CARGO S.A. The share of this group of commodities in the PKP CARGO S.A.'s freight turnover in 2015 was 13% (unchanged compared to the corresponding period of 2014). A slight decline in freight volume was recorded in this segment (-1% yoy) including lower metal transports (-17% yoy) while iron ore transports rose (+20% yoy). The changes that occurred in freight transports in this segment are a result of the relocation of selected production processes from Ukraine to other countries, among others to Poland, the situation in the metallurgical industry in the global markets and the situation in the scrap market in Poland – inflow of cheap steel from China and low raw material prices decreased the demand for scrap and led a significant price reduction. In Q4 2015, in connection with the changes in the freight routes (average haul increasing by 12%) with only a slight decline in freight volume (-1% yoy), freight turnover increased (+11% yoy).

In the chemicals transportation segment in 2015, freight turnover increased by 3% yoy, driven by an increased share of transports to seaports, offset to some extent by a reduction of domestic transports (average haul increase of 10%). In Q4 2015, freight volume and freight turnover fell by 12% yoy and 7% yoy, respectively, following a decrease in domestic and export transports.

In 2015, a 12% yoy decline in freight turnover in timber and agricultural produce was recorded, which was driven by lower volume of timber (including biomass) carried from Belarus (mainly due to high raw material prices). In Q4 2015, freight volume and freight turnover fell by 10% yoy and 8% yoy, respectively.

PKP CARGO S.A. continues to lead the Polish market in intermodal transport, which is an important element of the Group's growth strategy. In 2015, the transport of intermodal units increased in terms of container freight volume by 3% yoy, while freight turnover increased by 5% yoy. In Q4 2015, both freight volume and freight turnover increased significantly by 18% yoy and 19% yoy, respectively. The increase in intermodal transport results from the acquisition of new clients and freight routes, including the launch of trains from China to Duisburg, from Łódź to Piacenza and domestic operator trains to/from Poznań Franowo and Warsaw Praga terminal, which is closely associated with the development of this segment of freight services. The HUB terminal located in Poznań Franowo, which has had its warehousing capacity increased by nearly 40%, is of fundamental importance for the expansion of the intermodal connection network.

Table 4 PKP CARGO S.A. freight turnover in 2014 and 2015 and in Q4 2014 and 2015*

Item	2015	2014	Change	% change	2015	2014	Q4 2015	Q4 2014	% change
	<i>(million tkm)</i>				<i>percentage of total (%)</i>		<i>(million tkm)</i>		<i>%</i>
Solid fuels ¹	13,059	12,025	1,034	9%	45%	42%	3,664	3,283	12%
<i>of which hard coal</i>	11,967	10,601	1,366	13%	42%	37%	3,423	2,914	17%
Aggregates and construction materials ²	5,216	6,123	-907	-15%	18%	21%	1,240	1,607	-23%
Metals and ores ³	3,654	3,650	4	0%	13%	13%	965	868	11%
Chemicals ⁴	1,963	1,903	60	3%	7%	6%	460	497	-7%
Liquid fuels ⁵	743	781	-38	-5%	3%	3%	210	210	0%
Timber and agricultural produce ⁶	1,483	1,694	-211	-12%	5%	6%	364	394	-8%
Intermodal transport	1,928	1,832	96	5%	7%	6%	537	451	19%
Other ⁷	673	764	-91	-12%	2%	3%	164	189	-13%
Total	28,719	28,772	-53	0%	100%	100%	7,604	7,499	1%

Source: Proprietary material

* In connection with the acquisition of AWT, foreign transports started to be presented under PKP CARGO S.A.'s own licenses and the presentation of data concerning freight turnover performed in Poland were unified with the data delivered to the Office of Rail Transport (freight turnover achieved in the area of infrastructure managers other than PKP PLK was added), hence data for 2014 have been updated.

Table 5 PKP CARGO S.A. freight volume in 2014 and 2015 and in Q4 2014 and 2015

Item	2015	2014	Change	% change	2015	2014	Q4 2015	Q4 2014	% change
	(000s tons)				percentage of total (%)		(000s tons)		
Solid fuels ¹	57,491	56,237	1,254	2%	54%	51%	16,127	15,967	1%
<i>of which hard coal</i>	53,232	51,294	1,938	4%	50%	47%	15,130	14,670	3%
Aggregates and construction materials ²	18,706	21,221	-2,515	-12%	17%	19%	4,464	5,610	-20%
Metals and ores ³	12,148	12,293	-145	-1%	11%	11%	2,916	2,932	-1%
Chemicals ⁴	5,581	5,961	-380	-6%	5%	6%	1,306	1,491	-12%
Liquid fuels ⁵	2,725	2,692	33	1%	3%	3%	741	759	-2%
Timber and agricultural produce ⁶	4,321	4,709	-388	-8%	4%	4%	1,071	1,187	-10%
Intermodal transport	4,671	4,536	135	3%	4%	4%	1,312	1,113	18%
Other ⁷	1,857	2,072	-215	-10%	2%	2%	460	513	-10%
Total	107,500	109,721	-2,221	-2%	100%	100%	28,397	29,572	-4%

Source: Proprietary material

Table 6 PKP CARGO S.A. average haul in 2014 and 2015 and in Q4 2014 and 2015*

Item	2015	2014	Change	% change	Q4 2015	Q4 2014	% change
	km				km		
Solid fuels ¹	227	214	13	6%	227	206	10%
<i>of which hard coal</i>	225	207	18	9%	226	199	14%
Aggregates and construction materials ²	279	289	-10	-3%	278	286	-3%
Metals and ores ³	301	297	4	1%	331	296	12%
Chemicals ⁴	352	319	33	10%	352	333	6%
Liquid fuels ⁵	273	290	-17	-6%	284	276	3%
Timber and agricultural produce ⁶	343	360	-17	-5%	340	332	2%
Intermodal transport	413	404	9	2%	409	406	1%
Other ⁷	362	369	-7	-2%	357	368	-3%
Total	267	262	5	2%	268	254	6%

Source: Proprietary material

*In connection with the acquisition of AWT, foreign transports started to be presented under PKP CARGO S.A.'s own licenses and the presentation of data concerning freight turnover performed in Poland were unified with the data delivered to the Office of Rail Transport (freight turnover achieved in the area of infrastructure managers other than PKP PLK was added), hence data for 2014 have been updated.

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 ferry transportation and other freight.

From the point of view of the directions in which PKP CARGO S.A.'s transportation services were provided, the dominant share was transportation within Poland (98% of the realized freight turnover).

3.3. Other services

PKP CARGO S.A., by using services offered by its subsidiaries, offers auxiliary services:

- traction services and locomotive lease services which involve the provision of a traction unit with an operating team to perform a railway transport operation or to ensure its readiness, e.g. to propel repair or rescue trains. Such services are provided on the Polish market and abroad;
- comprehensive siding services, entailing among others formation of trains, 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. Siding services are offered in Poland, the Czech Republic, Slovakia and Hungary;

- transshipment services – transshipment activity developed 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., PS TRADE TRANS Sp. z o.o., CARGOSPED Sp. z o.o. and AWT a.s.;
- intermodal logistics services – all the elements of the logistics chain are secured, 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 offer;
- other forwarding services – the freight forwarding offering consists of comprehensive logistics services using vehicle, marine and inland water transportation incorporating transshipment, storage, warehousing and packaging. The Group also offers customs handling. The comprehensive transport solutions designed and implemented (3PL solutions) are an additional strength for the services. Freight forwarding services are provided chiefly by PKP CARGO CONNECT Sp. z o.o. and AWT Čechofracht, a.s.;
- rolling stock repairs – maintenance of the Group’s rolling stock is provided mainly by a dedicated company 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.;
- land reclamation services – the service offering in this area consists of managing and revitalizing post-industrial premises (including mining areas), work to raze objects, managing facilities allocated to utilize waste, 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 Company does not distinguish operating segments of its activity, since it has one main product, which incorporates all the material services provided by the Company. PKP CARGO S.A. conducts its business activity within one main segment – domestic and international cargo freight and provision of comprehensive logistic services relating to rail freight. The Management Board of the Parent Company analyzes financial data in the layout in which they were presented in the Standalone Financial Statements of the Company.

3.4. Information on selling markets and sources of supply.

Key customers

PKP CARGO S.A. operates in one principal geographic area, i.e. Poland, where its registered offices are also located. The sum of revenues for all geographic areas (registered offices of its customers) outside of Poland has not exceeded 11% of total revenues from sales of services. There is no single geographic area (outside of Poland) which generates more than 5% of revenues from sales of services.

The Company’s revenues from external clients, broken down into individual locations, are described in Note 6.2 “Geographic Information” for the Standalone Financial Statements.

In the period ended 31 December 2015, sales to the ArcelorMittal Group represented 11.4% of total revenues from sales of services, up from 10.5% in the period ended 31 December 2014.

In the period ended 31 December 2015, sales to PKP CARGO CONNECT sp. z o.o. represented 11.7% of total revenues from sales of services, up from less than 10% in the period ended 31 December 2014.

Key suppliers

PKP CARGO S.A. as a freight transport operator, in terms of access to the infrastructure relies on the largest supplier of access to the rail infrastructure in Poland, PKP Polskie Linie Kolejowe S.A. (PKP PLK). It is a domestic provider, which gives access to the major part of the rail infrastructure in Poland, according to the price list approved annually by the President of the Office of Rail Transport. This infrastructure is made provided against payment, on the same terms to all the carriers conducting the passenger and cargo rail transport business. PKP PLK provides PKP CARGO S.A. with services including the provision of access to the rail infrastructure, the provision of access to traction network devices, the directing and carrying of traffic and access to train handling devices. In 2015, the share of PKP PLK in the costs of the Company’s purchases (defined as the sum of the cost of external services and consumption of raw materials and supplies) was 36.1%.

Additionally, PKP Energetyka S.A. is the Company's main supplier in respect to traction fuel and traction energy. This supplier specializes in selling and supplying electricity, selling liquid fuels and providing energy-related services. In 2014, the share of PKP Energetyka S.A. in the costs of the Company's purchases (defined as the sum of the cost of external services and consumption of raw materials and supplies) was 25.4%.

3.5. Headcount

Information on changes in the headcount in PKP CARGO S.A. in 2015 and 2014 is provided below.

Table 7 Headcount in 2015 and Q4 2015 in PKP CARGO S.A. (active employees only)

Item	Headcount as at:			Change YTD	Change in Q4 2015
	31 December 2015	30 September 2015	31 December 2014		
Company	17,979	17,819	20,830	-2,851	160

Source: Proprietary material

Table 8 Headcount in 2014 and Q4 2014 in PKP CARGO S.A. (active employees only)

Item	Headcount as at:			Change YTD	Change in Q4 2014
	31 December 2014	30 September 2014	31 December 2013		
Company	20,830	21,870	22,480	-1,650	-1,040

Source: Proprietary material

Table 9 Average headcount in 2015 and 2014 in PKP CARGO S.A. (active employees only)

Item	Average headcount in FTEs		Change	Average headcount in persons		Change
	2015	2014		2015	2014	
Company	18,484	22,010	-3,526	18,486	22,012	-3,526

Source: Proprietary material

Table 10 Changes in the headcount structure in 2015 and Q4 2015 in PKP CARGO S.A. (active employees only)

Item	Headcount as at:			Change YTD	Change in Q4 2015
	31 December 2015	30 September 2015	31 December 2014		
White-collar positions	3,863	3,819	4,462	-599	44
Blue-collar positions	14,116	14,000	16,368	-2,252	116
Total	17,979	17,819	20,830	-2,851	160

Source: Proprietary material

Table 11 Changes in the headcount structure in 2014 and Q4 2014 in PKP CARGO S.A. (active employees only)

Item	Headcount as at:			Change YTD	Change in Q4 2014
	31 December 2014	30 September 2014	31 December 2013		
White-collar positions	4,462	4,577	4,706	-244	-115
Blue-collar positions	16,368	17,293	17,774	-1,406	-925
Total	20,830	21,870	22,480	-1,650	-1,040

Source: Proprietary material

In 2015, the average headcount in PKP CARGO S.A. decreased by 3,526 FTEs in comparison to 2014, mainly as a result of the headcount optimization process in the form of Voluntary Redundancy Program.

As a result of verification of applications for the first Voluntary Redundancy Program, 2,894 employees were given consent to take advantage of the Program. They stopped being employees as of 1 February 2015.

As a result of verification of applications for the second Voluntary Redundancy Program, 874 employees were given consent to take advantage of the Program. They stopped being employees of PKP CARGO S.A. as of 1 July 2015.

In Q4 2015, train crew vacancies were filled (285 persons).

The reduction of employment in PKP CARGO S.A. in 2015 was greater than assumed in the PKP CARGO S.A. Prospectus prepared in connection with the initial public offering. Reduction was driven mainly by the the Voluntary Redundancy Program. The Management Board assumes that the rate of change of employment will be similar to those indicated in the Prospectus.

3.6. PKP CARGO S.A. investments

3.6.1. Capital expenditures

In 2015, the Company incurred capital expenditures for the acquisition of property, plant and equipment and intangible assets in the form of purchases, modernizations and the so-called overhaul component (scheduled overhauls of the rolling stock P4 and P5 and P3³⁵ periodic inspections) in the amount of PLN 437.0 million, which accounted for 75% of the actuals for 2014.

Detailed information about the changes of the accounting policy in respect to the capitalization of rolling stock repair and periodic inspection costs is presented in Note 5 to the Standalone Financial Statements.

The Company has not made any capital expenditures in property, plant and equipment or intangible assets outside of Poland.

The biggest part of capital expenditures in the Company in 2015 was allocated for the execution of investment tasks associated with the rolling stock, mainly for scheduled overhauls of the rolling stock, including periodic inspections (the number of scheduled overhauls P4 and P5 and periodic inspections P3 performed in individual periods is derived from the number of cycles specified in the MSD³⁶ of the rolling stock approved by the Office of Rail Transport and the number size of the rolling stock being maintained for production as required for the provision of transportation services), modernization of locomotives (15 locomotives) and purchase of wagons (70 platform wagons for transporting containers) – for the total amount of PLN 373.3 million. Additionally, the expenditures for IT development, i.e. the purchase of hardware and intangible assets (software) and modernization of servers were PLN 32.3 million (including: implementation of IT systems in the trading and transportation areas), for construction investments at PLN 19.9 million (including: construction and furnishing of a railway intermodal terminal and expansion of the repair yard in Poznań Franowo, modernization of sewage management in Kamieniec Żąbkowicki, modernization of buildings in Gdynia, Wrocław and Jaworzna Szczakowa) and other purchases at PLN 11.5 million.

Table 12 Capital expenditures in property, plant and equipment and intangible assets in PKP CARGO S.A. in 2015 as compared to 2014 (thousands of PLN)

Item	2015*	2014 restated*	Change	Change %
Investment construction activity	19,870	11,135	8,735	78%
Modernization of locomotives	69,642	48,242	21,400	44%
Purchase of wagons	20,063	57,224	-37,161	-65%
Machinery and equipment	6,051	5,900	151	3%
IT	32,294	20,615	11,679	57%
Other	5,473	2,673	2,800	105%
Components in overhaul:	283,609	433,203	-149,594	-35%
<i>Scheduled overhauls of locomotives</i>	<i>137,824</i>	<i>125,198</i>	<i>12,626</i>	<i>10%</i>
<i>Scheduled overhauls of wagons</i>	<i>145,785</i>	<i>308,005</i>	<i>-162,220</i>	<i>-53%</i>
Total	437,002	578,992	-141,990	-25%

Source: Proprietary material

*In 2014 and 2015, the components in overhaul item included periodic inspections of locomotives and wagons (P3) in the amount of PLN 33,025 thousand in 2015 and PLN 36,571 thousand in 2014, resulting from a change made in the Company's accounting policy in respect to the capitalization of periodic inspections of the rolling stock; translation of comparable data is described in detail in Note 5 to the Standalone Financial Statements

³⁵ Periodic inspections of wagons and major inspections of locomotives set forth in the Maintenance System Documentation (MSD)

³⁶ Maintenance System Documentation

The financing structure of capital expenditures towards property, plant and equipment and intangible assets was as follows: PLN 243.3 million from own funds, PLN 180.1 million from loans, PLN 7.1 million as a lease and PLN 6.5 million from the Cohesion Fund, which the Company received under the "Infrastructure and Environment" Operational Programme.

Additionally, in 2015 the Company used a loan to finance the advance payment in the amount of PLN 12.3 million for purchase of multi-system locomotives to be delivered and settled in 2016. In 2015 the Company also used loans to refinance capital expenditures from previous years in the amount of PLN 232.3 million.

Overall, credit facilities were drawn for a total amount of PLN 424.7 million, of which:

- PLN 180.1 million to finance the 2015 expenditures,
- PLN 232.3 million to refinance expenditures from previous years,
- PLN 12.3 million to finance an advance payment for the purchase of multi-system locomotives.

In addition to capital expenditures on property, plant and equipment and intangible assets, as part of capital investments in 2015, PKP CARGO S.A.:

- acquired 640 shares in PS TRADE TRANS sp. z o.o. (currently: PKP CARGO CONNECT Sp. z o.o.) representing in total a 44.44% stake in this company's share capital, having incurred expenditures of PLN 40.5 million;
- acquired 490 shares in PKP CARGO International a.s. in liquidation, representing in total a 49% stake in this company's share capital, having incurred expenditures of PLN 1.6 million;
- acquired 60,000 shares in Advanced World Transport B.V., representing in total an 80% stake in this company's share capital, having incurred expenditures of PLN 427.3 million;

In 2016, the Company plans to increase the share of funding for capital expenditures of foreign capital.

3.6.2. Assessment of the capacity to execute investment plans

PKP CARGO S.A. is able to finance its investment plans using both current and planned financial surplus from its operating activity, available credit facilities and by contracting new investment loans and facilities. The permitted financial ratios agreed with its strategic lenders have allowed the Company to increase the scale of external funding of its investment plans without the risk of defaulting on the financial covenants in the existing loan agreements.

In 2016, the Group plans to increase the percentage of debt capital used to finance capital expenditures.

4. Analysis of the economic and financial situation of PKP CARGO S.A.

4.1. Key economic and financial figures

4.1.1. Statement of comprehensive income

The analysis of basic economic and financial figures of PKP CARGO S.A. presented in this chapter takes into account a presentation adjustment of data in 2015. The data were adjusted for presentation purposes for the costs following from the implemented 1st Voluntary Redundancy Program and 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Board and Supervisory Board of PKP CARGO S.A. in the amount of PLN 257.1 million and PLN 63.9 million and the impairment loss on property plant and equipment and assets classified as held for sale in the amount of PLN 177.9 million. These amounts resulting from VRP were included in employee benefits, while the position of the impairment loss was recognized in depreciation item corrects depreciation and impairment losses.

In 2015 the Company redefined the components in its accounting policy, as a result of which the P3 periodic inspections of rolling stock were recognized as a repair component in light of EU IFRS. P3 periodic inspections of wagons and locomotives are of similar nature to P4 and P5 scheduled overhauls, so far classified by the Company as overhaul components.

Starting from the the financial statements for the year ended 31 December 2015 the Company changed its accounting policy as regards recognition of the costs of interest on provisions for employee benefits and they are currently recognized in financial expenses. In accordance with previously applied accounting policy, interest expenses were presented together with the costs of current employment in the cost of employee benefits line. Additionally, the method of presentation of received and imposed penalties, which used to be presented in other expenses by kind, was changed. At present they are recognized in other operating expenses and other operating revenue.

Moreover, the cost of employee benefits and financial costs included a provision for death benefits. In previous reporting periods, the Company recognized in the books only severance payments paid in the given reporting period. Currently the accounting policies were changed in this regard and the provision for all benefits, calculated according to the actuarial method was recognized. all benefits calculated.

Detailed information about the changes of the accounting policy is presented in Note 5 to the Standalone Financial Statements.

In 2015, PKP CARGO S.A. transported 107.5 million tons of cargo (i.e. 2% more than in 2014) and recorded freight turnover at the level of 28.7 billion tkm (i.e. the same as in 2014), which is described in detail in the "PKP CARGO S.A. rail transport" chapter.

PKP CARGO S.A.'s operating revenues in 2015 dropped 9.4% yoy and operating expenses 4.2% yoy. In 2015, the Company generated result on operating activities and net result in the amount of PLN -115,2 million and PLN -114,1 million, respectively. PKP CARGO S.A.'s adjusted results are: profit on operating activities in the amount of PLN 126,5 million and net profit in the amount of PLN 81,7 million.

The details of individual line items of the Statement of comprehensive income are presented in the further part of this section. The table below presents the results of PKP CARGO S.A. in 2015 as compared to the corresponding period of 2014.

Table 13 Results of PKP CARGO S.A. in 2015 as compared to 2014. (PLN thousands)

No.	Item	2015	2014	2015	2014	Change 2015-2014	Change rate
			restated data***	Adjusted**	Adjusted*	Adjusted**,*	Adjusted**,*
1	Total operating revenue	3,514,154	3,880,181	3,514,154	3,880,181	-366,027	-9.4%
2	Total operating expenses	3,629,334	3,787,368	3,387,610	3,530,252	-142,642	-4.0%
3	Profit (loss) on operating activities	-115,180	92,813	126,544	349,929	-223,385	-63.8%
4	Financial revenue	45,024	49,497	45,024	49,497	-4,473	-9.0%
5	Financial expenses	68,951	54,778	68,951	54,778	14,173	25.9%
6	Profit (loss) before tax	-139,107	87,532	102,617	344,648	-242,031	-70.2%
7	Income tax	-24,982	11,925	20,945	60,777	-39,832	-65.5%
8	NET PROFIT (LOSS)	-114,125	75,607	81,671	283,871	-202,200	-71.2%

Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2015 prepared according to EU IFRS

* The 2014 data were adjusted for presentation purposes for the costs following from the implemented 1st Voluntary Redundancy Program in the amount of PLN 257.1 million;

** The 2015 data were adjusted for presentation purposes for the costs following from the implemented 2nd Voluntary Redundancy Program in the amount of PLN 63.9 million and the impairment loss on property plant and equipment and assets classified as held for sale in the amount of PLN 177.9 million

*** Translation of comparable data is described in Note 5 to the Standalone Financial Statements

Operating revenues

Table 14 Operating revenue of PKP CARGO S.A. in 2015 as compared to 2014. (PLN thousands)

No.	Item	2015	2014 restated data*	Change 2015-2014	Change rate 2015/2014
1	Revenue from sales of services, including:	3,472,945	3,775,863	-302,918	-8.0%
1.1	Revenue from rail transportation and freight forwarding services	3,360,873	3,646,968	-286,095	-7.8%
2	Revenue from sales of goods and materials	9,435	28,809	-19,374	-67.2%
3	Other operating revenue	31,774	75,509	-43,735	-57.9%
4	Total operating revenue	3,514,154	3,880,181	-366,028	-9.4%

Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2015 prepared according to EU IFRS

* Translation of comparable data is described in Note 5 to the Standalone Financial Statements

In PKP CARGO S.A.'s total operating revenue the biggest item was revenue from sales of services (98.8% in 2015, with 97.3% in 2014). Revenue from sales of services comprises mainly: transport revenue, revenue from siding and traction services and revenue from the lease of rolling stock. The remaining part of operating revenue of PKP CARGO S.A. comprises revenue from sales of goods and materials, which comprises, among others, sales of steel and cast iron scrap, as well as other operating revenue comprising, among others, sales of fixed assets, change of the balance of receivables impairment losses and interest on receivables, and change of the balance of provisions for liabilities, fines and compensations.

Revenues from the sale of services in 2015 compared to the year before were lower by PLN 302.9 million, i.e. 8.0%, mainly due to the decrease of revenues from railway transport services. This change is attributable, among other things, to strong price pressure in the rail freight market and decrease of revenues from transport of aggregates and construction materials, resulting from the early stage of development of road and railway investments while waiting for resolution of tenders and commencement of work on new infrastructural projects. One should note that the year 2014 saw intensification of transport in connection with the need to urgently complete the investments from the EU framework for 2007-2013. In addition, revenues from transport of metal and ores decreased in 2015 as a result of change of the transport structure in this cargo category, resulting from relocation of selected production processes from Ukraine to other countries, among others to Poland, the situation in the metallurgical industry in the global markets and the situation in the scrap market. Additionally, decrease of revenues from railway transport services in the timber and agricultural produce cargo category resulted from higher timber prices in the Belarusian market and lower imports of this raw material from Belarus.

Decrease of revenue from sales of goods and materials in 2015 by PLN 19.4 million (i.e. 67.2% less than in 2014) was caused primarily by the low scrap prices in the market. Inflow of cheap steel from China and low raw material prices decreased the demand for scrap and led a significant price reduction – more than 20% to the amount of approx. 550 PLN/t. Due to lack of interest in the market in purchase of rolling stock at the offered prices, the Company significantly reduced the sale of redundant rolling stock and consequently, the revenues from sales of scrap declined.

Decrease of other operating revenue in 2015 by PLN 43.7 million (i.e. 57.9% less than in the corresponding period of 2014) was caused by the lower fines and compensations by PLN 24.2 million and lower profit on sales of fixed asset components by PLN 7.8 million.

Operating expenses

Table 15 Operating expenses of PKP CARGO S.A. in 2015 as compared to 2014. (PLN thousands)

No.	Item	2015	2014	2015	2014	Change 2015-2014	Change rate 2015/2014
			restated data***	Adjusted**	Adjusted*	Adjusted**,*	Adjusted**,*
1	Depreciation / amortisation and impairment losses	569,630	347,782	391,768	347,782	43,986	12.6%
2	Consumption of materials and energy	595,633	587,736	595,633	587,736	7,897	1.3%
3	External services	1,114,951	1,169,207	1,114,951	1,169,207	-54,256	-4.6%
4	Taxes and charges	31,875	35,941	31,875	35,941	-4,066	-11.3%
5	Employee benefits	1,229,890	1,553,670	1,166,028	1,296,554	-130,526	-10.1%
6	Other expenses by kind	44,611	43,117	44,611	43,117	1,494	3.5%
7	Cost of goods and materials sold	5,840	15,353	5,840	15,353	-9,513	-62.0%
8	Other operating expenses	36,904	34,562	36,904	34,562	2,342	6.8%
9	Total operating expenses	3,629,334	3,787,368	3,387,610	3,530,252	-142,642	-4.0%

Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2015 prepared according to EU IFRS

* The 2014 data were adjusted for presentation purposes for the costs following from the implemented 1st Voluntary Redundancy Program in the amount of PLN 257.1 million;

** The 2015 data were adjusted for presentation purposes for the costs following from the implemented 2nd Voluntary Redundancy Program in the amount of PLN 63.9 million and the impairment loss on property plant and equipment and assets classified as held for sale in the amount of PLN 177.9 million

*** Translation of comparable data is described in Note 5 to the Standalone Financial Statements

In 2015, the adjusted operating expenses decreased by PLN 142.6 million, i.e. by 4.0% yoy, to PLN 3,876 million. This resulted from the costs of employee benefits, which were PLN 130.5 million lower, and costs of external services, which were PLN 54.3 million lower.

2015 saw an increase cost of depreciation / amortisation and impairment losses by PLN 221.8 million (i.e. 63.8% yoy) to PLN 569.6 million as a result of a high level of capital expenditures in particular periodic repairs in 2014 gradual execution of scheduled overhauls in 2015 and recognition of the impairment loss on property plant and equipment and assets classified as held for sale in the amount of PLN 177.9 million - the are details are presented in Note 3.2.2 to Standalone Financial Statements of PKP CARGO S.A. Adjusted depreciation / amortization and impairment losses amounted to PLN 391.8 million in 2015 vs. PLN 347.8 million in 2014 which represents an increase by PLN 44.0 million i.e. 12.6% yoy.

The costs of external services dropped by 4.6% yoy and reached the level of PLN 1,115 million. This resulted primarily from decrease of the costs of access to infrastructure by PLN 41.4 million (i.e. by 5.7% yoy) to PLN 681.9 million, decrease of the costs of transportation services by PLN 22.4 million (i.e. by 22.0% yoy) to PLN 79.4 million, and decrease of rents and fees for the use of real estate and rolling stock by PLN 15.0 million (i.e. by 9.9% yoy) to PLN 135.9 million.

At the same time the costs of consumption of materials and energy increased by PLN 7.9 million - this was directly attributable to an increase of the rates for electricity for PKP Energetyka S.A. from April 2015 and changed the value of impairment in the amount of PLN 25.3 million yoy (details are presented in Note 20 to Standalone Financial Statements of PKP CARGO S.A.) and increased in the cost of materials by PLN 21.1 million yoy, , while fuel cost decreased by PLN 52.6 million i.e. by 26.5% yoy which resulted from lower fuel prices.

2015 saw a decrease of adjusted employee benefits, which reached the level of PLN 1,166,0 million, compared to PLN 1,296,6 million in the corresponding period of 2014, dropping 10.1% yoy. This was associated with the decrease of headcount resulting from implementation of the headcount optimization model in the form of the Voluntary Redundancy Program and termination of employment contracts in connection with obtaining retirement rights. Consequently, the average headcount in 2015 decreased by 3,526 FTEs yoy. Changes of headcount are presented in section "Headcount".

In 2015 the value of goods and materials sold decreased by PLN 9.5 million, i.e. 62.0% to PLN 5.8 million, following the decrease of revenue from sales of scrap.

Other operating expenses in 2015 increased by PLN 2.3 million, i.e. 6.8% yoy to PLN 36.9 million. The reason of that change was recognition of a provision for a UOKIK penalty in the amount of PLN 12.2 million and impairment losses for trade receivables in the amount of PLN 5.5 million.

Profit on operating activities

As a result of the aforementioned changes of operating revenue and operating expenses, adjusted profit on operating activities in 2015 reached PLN 126.5 million, which corresponds to a decrease by 63.8% yoy.

EBITDA

The adjusted result on operating activities increased by the line item "Depreciation/amortization and impairment losses" referred to as EBITDA, amounted to PLN 518.3 million in 2015, which corresponds to a 25.7% decrease yoy.

Financial activities

Table 16 Financial activities of PKP CARGO S.A. in 2015 as compared to 2014. (PLN thousands)

No.	Item	2015	2014 restated data*	Change 2015-2014	Change rate 2015/2014
1	Financial revenue	45,024	49,497	-4,473	-9.0%
2	Financial expenses	68,951	54,778	14,173	25.9%
3	Result on financial activities	-23,927	-5,281	-18,646	353%

Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2015 prepared according to EU IFRS

* Translation of comparable data is described in Note 5 to the Standalone Financial Statements

In 2015, PKP CARGO S.A. recorded a loss on financial activities in the amount of PLN 23.9 million.

The decrease of the results on financial activities by PLN 18.6 million yoy was attributable to a decreased of interest income from deposits and bank accounts by PLN 14.1 million (i.e. by 80.5% yoy), decreased of the other line item (including interest on public-law settlements) by PLN 12.7 million (i.e. by 98.9%) to PLN 0.1 million and in 2014, financial revenue included returned of percentage of penalties charged OCCP in the amount of PLN 12.6 million. . In addition, in 2015, financial revenue from dividends increased PLN 14.3 million (i.e. 76.4% yoy) to PLN 33.0 million.

Financial expenses increased PLN 14.2 million (i.e. 25.9% yoy) to PLN 69.0 million. This is attributable to increase of the Company's debt and, consequently, increase of the costs of the interest on credits and loans by PLN 5.2 million (i.e. 81.7% yoy) to PLN 11.6 million. In addition, the increase of costs was attributable to the valuation of AWT's shares. The resulting liability at the end of 2015 amounted to PLN 27.7 million. Positive impact on financial expenses was exerted by the settlement of the discount from the provisions for employee benefits - decrease by PLN 5.6 million (i.e. 24.1% yoy) to PLN 17.6 million. The details were presented in Notes 9-10 to the Standalone Financial Statements.

Profit before tax

In 2015, adjusted profit before tax decreased by PLN 242,0 million or 70.2% yoy to PLN 102,6 million. The decrease resulted from lower adjusted profit on operating activities by PLN 223.4 million and the result on financial activities by PLN 18.6 million.

Income tax

In 2015, PKP CARGO S.A. reported income tax in the amount of PLN -25.0 million, of which current tax was PLN 0.1 million and deferred tax was PLN -25.1 million.

Net profit

In 2015, the Company generated net profit of PLN -114.1 million while adjusted net profit was PLN 81.7 million compared to PLN 283.9 million in 2014.

4.1.2. Description of the asset and liability structure

ASSETS

Table 17 Horizontal and vertical analysis of assets (PLN thousands)

Item	As at	As at 31/12/2014	Asset structure		Change	
	31/12/2015	restated data*	31 December 2015	31 December 2014		
	(audited)			restated data*		
ASSETS						
Non-current assets						
Property, plant and equipment	3,562,716	3,742,185	70.4%	70.0%	-179,469	-4.8%
Intangible assets	59,236	55,990	1.2%	1.0%	3,246	5.8%
Investments in associates and subsidiaries	734,643	262,846	14.5%	4.9%	471,797	179.5%
Other long-term financial assets	6,021	6,021	0.1%	0.1%	0	0.0%
Other long-term non-financial assets	18,927	1,464	0.4%	0.0%	17,463	1192.8%
Deferred tax assets	76,602	60,981	1.5%	1.1%	15,621	25.6%
Total non-current assets	4,458,145	4,129,487	88.1%	77.1%	328,658	8.0%
Current assets						
Inventories	60,743	75,759	1.2%	1.4%	-15,016	-19.8%
Trade and other receivables	384,228	423,171	7.5%	8.0%	-38,943	-9.2%
Other short-term financial assets	25,057	301,818	0.5%	5.6%	-276,761	-91.7%
Other short-term non-financial assets	4,985	24,921	0.1%	0.5%	-19,936	-80.0%
Cash and cash equivalents	84,097	381,420	1.7%	7.1%	-297,323	-78.0%
Assets classified as held for sale	44,061	17,560	0.9%	0.3%	26,501	150.9%
Total current assets	603,171	1,224,649	11.9%	22.9%	-621,478	-50.7%
Total assets	5,061,316	5,354,136	100.0%	100.0%	-292,820	-5.5%

Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2015 prepared according to EU IFRS

* Translation of comparable data is described in Note 5 to the Standalone Financial Statements

Non-current assets

The biggest share in the asset structure was held by property, plant and equipment, which, as at the end of 2015, amounted to 70.4% of total assets, compared to 70.0% at the end of 2014. Means of transport (PLN 3.0 billion) should be cited as belonging to the most important items shaping the level of property, plant and equipment, which decrease by PLN 171.2 million (i.e. 5.5% yoy), as a result from the impairment loss on property plant and equipment. Investments in associates and subsidiaries were the second key item in the assets; in 2015 they increased PLN 471.8 million (i.e. 179.5% yoy). The main reason for the increase of this line item was the purchase of AWT shares.

Current assets

Current assets dropped at the end of 2015 by nearly PLN 621.5 million, i.e. by 50.7%, in relation to the end of 2014, mainly as a result of lower other short-term financial assets by 91.7% yoy and cash and cash equivalents by 78.0% yoy - this was directly related to the acquisition of an 80% stake in AWT and performance of the obligations following from the 1st and 2nd Voluntary Redundancy Program. The share of total current assets in total assets dropped from 22.9% as at 31 December 2014 to 11.9% as at 31 December 2015.

The biggest share in the structure of total current assets was held by trade and other receivables (63.7%), cash and cash equivalents (13.9%) and inventories (10.1%).

Table 18 Days inventory on 31 December 2015 compared to 31 December 2014.

Item	2015	2014	Change 2015-2014	Change rate 2015/2014
Days inventory	87.1	77.5	9.6	12.4%

Source: Proprietary material

The actual net days inventory as at the end of 31 December 2015 amounts to 87.1 days and increased by 9.6 compared to the end of 31 December 2014, with:

- material inventories of PLN 60.7 million
- net value of materials sold of PLN 5.8 million
- consumption of materials, together with employee benefits of PLN 245.1 million³⁷

Increase of days inventory occurred due to significant decrease of the value of materials sold and decrease of consumption of materials (mainly due to the decrease of fuel prices) with health and safety benefits.

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 20 "Inventories" to the Standalone Financial Statements.

EQUITY AND LIABILITIES

Table 19 Horizontal and vertical analysis of equity and liabilities (PLN thousands)

Item	As at 31/12/2015	As at 31/12/2014	Structure of equity and liabilities		Change	
	(audited)	restated data*	31 December 2015	31 December 2014 restated data*		
EQUITY AND LIABILITIES						
Equity						
Share capital	2,239,346	2,239,346	44.3%	41.8%	-	0.0%
Share premium	589,202	584,513	11.6%	10.9%	4,689	0.8%
Other items of equity	3,726	-36,572	0.1%	-0.7%	40,298	-
Retained earnings / (Accumulated losses)	240,042	469,032	4.7%	8.8%	-228,990	-48.8%
Total equity	3,072,316	3,256,319	60.7%	60.8%	-184,003	-5.7%
Non-current liabilities						
Long-term bank loans and credit facilities	459,305	206,112	9.1%	3.8%	253,193	122.8%
Long-term finance lease liabilities and leases with purchase option	75,333	114,027	1.5%	2.1%	-38,694	-33.9%
Long-term trade and other payables	22,389	67,938	0.4%	1.3%	-45,549	-67.0%
Long-term provisions for employee benefits	549,280	637,783	10.9%	11.9%	-88,503	-13.9%
Other long-term provisions	16,209	8,416	0.3%	0.2%	7,793	92.6%
Other long-term financial liabilities	27,696	0	0.5%	0.0%	27,696	100%
Non-current liabilities, total	1,150,212	1,034,276	22.7%	19.3%	115,936	11.2%
Current liabilities						
Short-term bank loans and credit facilities	129,914	87,971	2.6%	1.6%	41,943	47.7%
Long-term finance lease liabilities and leases with purchase option	48,914	120,505	1.0%	2.3%	-71,591	-59.4%
Short-term trade and other payables	568,085	457,602	11.2%	8.6%	110,483	24.1%
Short-term provisions for employee benefits	81,581	318,600	1.6%	6.0%	-237,019	-74.4%
Other short-term provisions	8,256	17,414	0.2%	0.3%	-9,158	-52.6%
Other short-term financial liabilities	10	59,393	0.0%	1.1%	-59,383	-100.0%
Current tax liabilities	2,028	2,056	0.0%	0.0%	-28	-1.4%
Current liabilities, total	838,788	1,063,541	16.6%	19.9%	-224,753	-21.1%
Total liabilities	1,989,000	2,097,817	39.3%	39.2%	-108,817	-5.2%
Total liabilities and equity	5,061,316	5,354,136	100.0%	100.0%	-292,820	-5.5%

Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2015 prepared according to EU IFRS

* Translation of comparable data is described in Note 5 to the Standalone Financial Statements

³⁷consumption of materials - comprising consumption of materials for OPEX, CAPEX, fuel consumption and employee benefits

Equity

The share of equity in total assets as at 31 December 2015 was 60.7% compared to 60.8% at 31 December 2014. The value of equity declined by PLN 184.0 million (i.e. by 5.7% in relation to the end of 2014). The decline is caused mainly by the decrease of retained earnings as a result of payout of part of the dividend by the Company and negative net profit result in 2015.

Non-current liabilities

Non-current liabilities at the end of 2015 rose by PLN 115.9 million, i.e. by 11.2%, compared to 31 December 2014. Long-term loans and credit facilities increased PLN 253.2 million (122.8%) – this is attributable to disbursement of individual tranches of the loan in Bank Gospodarstwa Krajowego (“BGK”) and the loan from the European Investment Bank (“EIB”). Additionally, in 2015 the Company used a loan to finance the advance payment in the amount of PLN 12.3 million for purchase of multi-system locomotives to be delivered and settled in 2016. In addition, in 2015 the Company used loans to refinance capital expenditures from previous years in the amount of PLN 232.3 million. At the same time, a decrease of long-term provisions for employee benefits by PLN 88.5 million was recorded, primarily as a result of updating the actuarial provision and using the provision for the Voluntary Redundancy Program.

Current liabilities

Current liabilities dropped as at the end of 2015 compared to the end of 2014 by PLN 224.8 million (i.e. 21.1%). The largest movements were recorded in the following line items:

- short-term provisions for employee benefits – down by PLN 237.0 million. This was directly related to the disbursement of benefits under the Voluntary Redundancy Program;
- short-term trade and other payables - growth of PLN 110.5 million. This resulted mainly from an increase of trade liabilities by PLN 60.6 million and liabilities related to the Voluntary Redundancy Program by PLN 47.3 million
- short-term finance lease liabilities and leases with purchase option - decrease by PLN 71.6 million (i.e. by 59.4%).

4.1.3. Cash flow statement

The table below depicts the main line items in PKP CARGO S.A.’s cash flow statement in 2015 compared to 2014.

Table 20 Key line items in PKP CARGO S.A.’s cash flow statement in 2015 compared to 2014.

Item	2015	2014 restated data*	Change	Change
			2015 - 2014	2015/2014
Net cash on operating activities	325,876	462,459	-136,583	-29.5%
Net cash used in connection with investing activities	-584,858	-208,082	-376,776	181.1%
Net cash used in connection with financing activities	-38,341	-102,189	63,848	-62.5%
Net increase / (decrease) in cash and cash equivalents	-297,323	152,188	-449,511	-295.4%
Cash and cash equivalents at the beginning of the reporting period	381,420	229,232	152,188	66.4%
Impact exerted by FX rate movements on the cash balance in foreign currencies				
Cash and cash equivalents at the end of the reporting period	84,097	381,420	-297,323	-78.0%

Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2015 prepared according to EU IFRS

* Translation of comparable data is described in Note 5 to the Standalone Financial Statements

Cash flow on operating activities

In 2015 net cash flow from operating activities was PLN 325.9 million compared to PLN 462.5 million in the same period of 2014. The cash flow was generated on gross loss of PLN -139,1.9 million and amortization and depreciation of PLN 569.6 million.

Cash flow from investing activities

In 2015 net cash flow used in connection with investing activities was PLN -584.9 million vs. PLN -208.1 million in the same period of the previous year. An increase in expenditure is related to the AWT acquisition; this transaction’s impact after

deducting the acquired cash is PLN 326.0 million. Expenditures to acquire property, plant and equipment and intangible assets in 2015 were PLN 472.3 million versus PLN 647.0 million in the corresponding period of 2014. Moreover, in 2015 a 44.44% stake was acquired in PKP CARGO CONNECT sp. z o.o. for PLN 40.5 million.

Cash flow from financial activities

Net cash flow from financing activities in 2015 was PLN -38.3 million vs. PLN -102.2 million in the same period in 2014. Proceeds of PLN 424.8 million were obtained from loans taken out in 2015, compared to PLN 178.4 million in the corresponding period of 2014. In the analyzed period of 2015, total cash expenditures for leases and to repay bank credits and loans together with interest on leases and credits and loans were PLN 269.4 million versus PLN 187.7 million in 2014. The dividend paid out in the amount of PLN 110.2 million in 2015 compared to PLN 137.5 million in 2014 also contributed to change.

4.1.4. Selected financial and operating ratios

The table below presents PKP CARGO S.A.'s key financial and operating ratios in 2015 compared to 2014.

Table 21 Selected financial and operating ratios in 2015 compared to 2014

Item	2015	2014	2015	2014	Change	Change
		restated data**	Adjusted*	Adjusted*	2015 - 2014	2015/2014
			restated data**	restated data**	Adjusted*	Adjusted*
EBITDA margin ¹	12.9%	11.4%	14.7%	18.0%	3.3 p.p.	18.3%
Net profit margin ²	-3.2%	1.9%	2.3%	7.3%	-5.0 p.p.	-68.5%
Net financial debt to EBITDA ratio ³	1.4	-0.2	1.2	-0.1	1.3	-
ROA ⁴	-2.3%	1.4%	1.6%	5.3%	-3.7 p.p.	-69.8%
ROE ⁵	-3.7%	2.3%	2.7%	8.7%	-6.0 p.p.	-69.0%
Average distance covered by one locomotive (km/day) ⁶	240.6	243.9	240.6	243.9	-3.3	-1.4%
Average gross train tonnage per operating locomotive (tonnes) ⁷	1,523	1,481	1,523	1,481	42.0	2.8%
Average running time of train locomotives (hours per day) ⁸	15.2	15.4	15.2	15.4	-0.2	-1.3%
Freight turnover per employee (thousands tkm/employee) ⁹	1,554	1,307	1,554	1,307	247	18.9%

Source: Proprietary material

* The 2015 data were adjusted for presentation purposes for (1) the costs following from the implemented 1st Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Board and Supervisory Board of the companies and PKP CARGO S.A. These liabilities were estimated at PLN 257.1 million, (2) the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Board and Supervisory Board of PKP CARGO S.A. in the amount of PLN 63.9 million, (3) and the impairment loss on property plant and equipment and assets classified as held for sale in the amount of PLN 177.9 million

The adjustment concerns only data from the Statement of comprehensive income.

** Translation of comparable data is described in detail in Note 5 to the Standalone Financial Statements

1. Calculated as the quotient of profit on operating activities plus amortization/depreciation and impairment losses by total operating revenue

2. Calculated as the quotient of net profit and total operating revenue

3. Calculated as the quotient of net financial debt (constituting the sum of (i) long-term bank loans and credit facilities; (ii) short-term bank loans and credit facilities, (iii) long-term finance lease liabilities and leases with purchase option; (iv) short-term finance lease liabilities and leases with purchase option; and (v) other short-term financial liabilities and (iv) other long-term financial liabilities, minus (i) cash and cash equivalents; and (ii) other short-term financial assets) and EBITDA for the last 12 months (profit on operating activities plus amortization and impairment charges).

4. Calculated as the quotient of net profit for the past 12 months and total assets.

5. Calculated as the quotient of net profit for the past 12 months and 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 (in Poland and abroad) by the average headcount (in FTEs) in the Company in the given period.

In 2015, due to reasons described in chapter 4, the key profitability ratios, i.e. net profit margin, ROA, ROE were lower than in the same period of the previous year. The net financial debt to EBITDA ratio also deteriorated. It increased from -0.2 in 2014 to 1.4 in the same period of 2015. The deterioration of the ratio is attributable to increased spending of cash associated with

capital expenditures and execution of the liabilities under the 1st Voluntary Redundancy Program and 2nd Voluntary Redundancy Program.

If performance is adjusted, the foregoing ratios (ROA, ROE, net financial debt/EBITDA) are better than the figures reported in 2015. This is largely attributable to the costs related to optimization of headcount in the form of Voluntary Redundancy Programs (adjustment by PLN 257.1 million in 2014 and PLN 63.9 million in 2015 in the case of the first and the second Voluntary Redundancy Program) and the impairment loss on property plant and equipment and assets classified as held for sale in the amount of PLN 177.9 million.

In 2014 the average daily mileage of locomotives was 243.9 km/day. In 2015, this figure fell by 3.3 km/day, reaching 240.6 km/day. Hence the average daily mileage shrunk by 1.4%. The larger number of closures and operating difficulties in the PKP PLK grid constituted the main cause of this phenomenon.

The average gross train tonnage per locomotive moved up from 1,481.0 tons (2014) to 1,523.0 tons (2015). Hence an increase of the average tonnage of driven trains of 42.0 tons was recorded (i.e. by 2.8%). This is the effect of optimization of the transportation process.

In 2014, the average running time of locomotives was 15.4 hours/day. In 2015, this figure fell by 0.2 hours/day, reaching 15.2 hours/day. Hence the average daily running time of locomotives decreased 1.3%. The drop of this figure stems from how the freight turnover process is run, the growing number of closures and operating difficulties, and growth in the number of active locomotives which are doing the work with changing freight turnover.

The freight turnover per employee ratio in 2015 amounted to 1,554 (thous. tkm / per employee) and increased by 247 (thous. tkm / per employee), i.e. 18.9% yoy mainly as a result of decrease of average headcount in the Company by 16% yoy with no change of the freight turnover.

4.2. Information about production assets

4.2.1. Rolling stock

Wagons and traction rolling stock are the main elements of PKP CARGO S.A.'s production assets. Changes in the Company's rolling stock levels result directly from such actions as liquidation and sale of rolling stock and purchase of rolling stock. In Q4 2015 alone, the number of diesel locomotives dedined as a result of their sale, while the reduction of owned wagons resulted from removing them from the books following a decision to liquidate them (due to the technical condition).

The tables below present the structure of the locomotives and wagons used, by type and ownership during the reporting period.

Table 22 Structure of the locomotives used by PKP CARGO S.A. by traction type and ownership

Item	31 December 2015	30 September 2015	31 December 2014	Change YTD	Change in Q4 2015
diesel locomotives	1,231	1,245	1,256	-25	-14
electric locomotives	1,158	1,162	1,162	-4	-4
Total	2,389	2,407	2,418	-29	-18
owned locomotives (including financial lease)	2,380	2,398	2,409	-29	-18
locomotives in operational lease or rented	9	9	9	0	0
Total	2,389	2,407	2,418	-29	-18

Source: Proprietary material

Table 23 Structure of the wagons used by PKP CARGO S.A., by ownership

Item	31 December 2015	30 September 2015	31 December 2014	Change YTD	Change in Q4 2015
owned wagons (including financial lease)	61,324	61,388	61,593	-269	-64
wagons in operational lease or rented	0	0	0	0	0
Total	61,324	61,388	61,593	-269	-64

Source: Proprietary material

On 24 October 2013, PKP CARGO S.A. signed an amendment to the agreement on co-financing from European Union funds of a project under the name "Purchase and delivery of newly built platform 80' wagons for transport of containers". Under the project, PKP CARGO S.A. will purchase 330 series Sggrss 80' container platforms, under an agreement concluded on

25 September 2013 with the contractor selected in an unlimited tender - European Railway Consortium "Wagon" Sp. z o.o. The net value of the wagon delivery agreement is PLN 94,875,000.00. The maximum value of the project co-financing from the Infrastructure and Environment Operational Program amounted to PLN 28,366,090.26.

On 18 December 2015 an annex to the Agreement on co-financing of the Project "Purchase and delivery of newly built platform 80' wagons for transport of containers". The material scope of the Project changed - it currently comprises purchase and delivery of 310 80' platform wagons (series Sggrs) for transport of intermodal containers (before there were 330 wagons) Due to the change of the Project value, also the amount of possible co-financing changed - it now amounts to PLN 26,487,951.84.

By 31 December 2015, 310 wagons were delivered under the delivery agreement.

4.2.2. 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 Company is used on the basis of lease and rental agreements. The table below presents change of the balance of real estate owned and used by PKP CARGO S.A. in 2015.

Table 24 Real estate owned and used by PKP CARGO S.A. as at 31 December 2015 compared to 31 December 2014.

Item	31 December 2015	31 December 2014	Change YTD
Land - owned, in perpetual usufruct and leased from other entities [ha]	585	583	2
Buildings - owned, leased and rented from other entities [sqm]	592,893	601,269	-8,376

Source: Proprietary material

The decrease of the surface area of the buildings leased by PKP CARGO S.A. results from the on-going verification of the size of the assets used by the Company's reporting entities.

4.3. Key information about PKP CARGO S.A.'s financial standing

4.3.1. Information on loan and credit agreements executed and terminated

On 19 January 2015, PKP CARGO S.A. concluded with ING BANK Śląski S.A. a Current Account Overdraft Agreement up to the amount of PLN 19,000,000.00 (WIBOR 0/N + margin). The final repayment date was 18 January 2016.

On 10 March 2015, PKP CARGO S.A. entered into an annex to the Investment Loan Agreement with EIB shortening the loan repayment term to 5 years and cancelling the collateral for the agreement.

On 1 June 2015, PKP CARGO S.A. entered into an annex to the Current Account Overdraft Agreement with mBank S.A. extending the final repayment date to 31 May 2017. (WIBOR 0/N + margin).

On 16 November 2015, PKP CARGO S.A. entered into two investment loan agreements with Bank Gospodarstwa Krajowego for the maximum total amount of EUR 100,000,000.00 (EURIBOR 3M + margin). The loans were granted for financing and/or refinancing of purchase of multi-system locomotives, investments following from the investment plans and financing of mergers and acquisitions. The loans are available till 31 December 2016. They will be repaid within 10 years of the end of the availability period. The final loan repayment date is 20 December 2026. The loans are not collateralized on the Company's assets.

On 16 November 2015, PKP CARGO S.A. entered into an investment loan agreement with Bank Polska Kasa Opieki S.A. for the maximum amount of PLN 700,000,000.00 (WIBOR 3M + margin). The loan was granted for financing and/or refinancing of the investment plan and/or financing of mergers/acquisitions.

The loan was granted in two parts:

Part I – repayment - 7 years of the end of the availability period, i.e. 31 December 2023 - up to PLN 315,000,000.00 with the possibility of increasing up to the maximum amount of PLN 350,000,000.00 if the companies from the PKP CARGO Group do not use up the limit granted to them by the Bank on the basis of the separate investment loan agreements entered into between the Bank and the companies from the PKP CARGO Group, up to the maximum amount of PLN 35,000,000.00.

Part II – repayment - 10 years of the end of the availability period, i.e. 31 December 2026 - up to PLN 315,000,000.00 with the possibility of increasing up to the maximum amount of PLN 350,000,000.00 if the companies from the PKP CARGO Group do not use up the limit granted to them by the Bank on the basis of the separate investment loan agreements entered into between the Bank and the companies from the PKP CARGO Group, up to the maximum amount of PLN 35,000,000.00.

Availability period for the aforementioned parts of the loan elapses on 31 December 2016.

On 23 December 2015, PKP CARGO S.A. entered into an investment loan agreement with European Bank of Reconstruction and Development for the maximum amount of EUR 100,000,000.00 (EURIBOR or WIBOR 6M + margin). The loan was granted for refinancing of the acquisition of AWT. The loan is available till 31 December 2016. The loan may be disbursed in EUR or PLN. The full loan repayment should take place by 25 September 2027.

On 28 December 2015, PKP CARGO S.A. made an early repayment of the loan under the agreement of 22 August 2012 with Bank Millennium S.A.

On 31 December 2015, PKP CARGO S.A. made an early repayment of the loan under the agreement of 13 June 2011 with FM Bank PBP S.A.

In 2015, no loan agreement with the Company was terminated.

The details regarding the bank loans, including the type and interest rate, currency and maturity, are presented in Note 28 to the Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2015.

4.3.2. Information about granted loans

In 2015 PKP CARGO S.A. did not grant any loans to companies entities from the PKP CARGO Group.

4.3.3. Information about granted and received sureties and guarantees

The value of guarantees issued by banks in 2015, on PKP CARGO S.A.'s request, and prevailing on the 31 December 2015, was PLN 14.6 million.

As at 31 December 2015, PKP CARGO S.A. had bank guarantees issued for counterparties for the total amount of PLN 23.8 million.

No sureties were granted to subsidiaries in 2015.

4.3.4. Issues, redemptions and repayments of debt securities and equity securities

In the analyzed period, in PKP CARGO S.A. there were no issues, redemptions and repayments of debt securities and equity securities.

4.3.5. Assessment of management of financial resources

PKP CARGO S.A. effectively manages the cash management cycle by matching the maturity of receivables and repayment of liabilities. To secure the risk associated with shortage of cash in the short run, PKP CARGO S.A. had current account overdraft agreements with limits amounting to PLN 100 million and PLN 19 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 finances. Excess cash generated by the Company were invested in fixed rate bank deposits with maturities of up to approx. 3 months. Decisions made with regard to bank deposits are based on maximizing the rate of return. The structure of assets, including cash and short-term investments, secured the Company's ability to settle its liabilities in a timely manner.

PKP CARGO S.A.'s finance management system was supplemented by the implemented cash concentration management mechanism (cash pooling), which makes it possible to limit 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 H2 2015, the Company entered into a bank guarantee limit agreement on the basis of which it was 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 and made the guarantees independent of the financial standing of the given company.

In 2015 the Company had full capacity to settle its liabilities at maturity and in practice did not make use of the current account overdraft.

4.3.6. Current and forecasted financial standing of PKP CARGO S.A.

PKP CARGO S.A. has full capacity to settle its liabilities at maturity. The acquisition activities take into account the Company's financial capacity.

4.4. Key risk factors and threats

4.4.1. Description of the key threats and risks

Risks related to the economic and market environment

Risk of deterioration in business conditions- Transport, both rail and road, is a key component of every economy. The economic situation, both in Poland and globally, has strong impact on the growth rate of the rail transport sector. The growth rate of industry and development of its import-intensive sectors that have direct impact on international trade exchange, are important factors that have a strong bearing on rail transport. Also the situation in the road transport sector has direct impact on the rail transport sector constituting its close substitute.

The economic situation in Greece continues to be an important risk factor for the EU economy. In August 2015 Greece was granted an aid package of EUR 86 billion. In early October 2015, the government of Alexis Tsipras, a co-author of the agreement, got the vote of confidence of the Greek parliament, which points to Greece's readiness to fulfill its obligations towards its creditors.³⁸

Economic growth and overall macroeconomic situation of the country point to high correlation with the sector constituting PKP CARGO S.A.'s area of activity. The production and commercial activity sectors have seen long-term fluctuations within the economic cycle. They have strong impact on the Company's operations. One can also note that changes of Poland's GDP demonstrate strong correlation with the growth rate of the freight turnover in rail transport.

Freight transportation activity involving rail freight transport in Poland and internationally is the main source of PKP CARGO S.A.'s revenues. Hence the market situation not just in Poland also in countries that are the main trading partners materially affects PKP CARGO S.A.'s operations and financial results. The financial results are closely dependent on the overall situation in the home markets and in the countries which constitute the existing or potential areas of the Company's activities. Hence worse situation has negative impact on the Group's financial performance.

In addition, the situation in Central and Eastern Europe (CEE) is under noticeable influence of the standing of Chinese economy, driven to the largest extent by the prices of industrial raw materials and global economy. The collapse in the Chinese market brought a strong depreciation of the currencies of emerging markets, including the Polish zloty. Additionally, medium-term predictions assume continuation of the slowdown in China. This will affect particularly the Russian economy which, after relaxing its relations with the West, started closer cooperation with the Chinese market, hoping for drawing more benefits from its development. However after the crisis was declared, at the Chinese exchange the prices of oil - Russia's main raw material generating significant budget revenues - dropped by 20% in January 2016 to approx. 30 USD.

As of the end of 2015 the sanctions for exports of oil from Iran were lifted. This is the outcome of a nuclear agreement with Western states. Iran's efforts to regain its former position in the global oil market will allow it to gradually increase oil sales, which will definitely contribute to further decrease of global oil prices.³⁹

Risk associated with the 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 container transport. The growth rate of the volumes of freight transported by PKP CARGO S.A. is strongly linked to changes in the transport in the aforementioned cargo categories.

The coal transport market depends on the situation in the mining industry, determined primarily by:

³⁸ <http://www.money.pl/gospodarka/unia-europejska/wiadomosci/artykul/reformy-oszczednosciowe-w-grecji-rzad,61,0,1926205.html>

³⁹ <http://www.forbes.pl/iran-znow-w-grze-polskie-firmy-moga-na-tym-zarobic,artykuly,197438,1,1.html>

- decreases in global coal prices – the average ARA price in December 2014 was 70.36 USD /t, while in December 2015 it was 47.83 USD /t (down by 32.0% yoy), which is the worst result in the analyzed period.
- decreasing but still relatively high levels of coal inventories in Poland – at the end of November 2015 there were 5.88 million tons – down by 8.21 million tons in December 2014, i.e. by 28.4%,⁴⁰
- increasing role of Renewable Energy Sources (“RES”) – it is estimated that in 2014 in Poland renewable energy accounted for 11.5%⁴¹ of gross final energy consumption (compared to 11.3% in 2013); ultimately in 2020 it is to reach 15%; in the Czech Republic RES provided an estimated 11% of electricity while the plan is to obtain 13% by 2020⁴²,

In the period of the first 11 months of 2015, 65.9 million tons of hard coal were mined in Poland, which was 1.1% less than in the corresponding period of 2014. This decline is the outcome of excess coal supply on the domestic market (the large amount of inventories on coal yards) and decreases of global coal prices.

The persisting trend concerning the generation of electricity in power plants in Poland is another material risk factor. According to the National Electrical Energy System and the Balancing Market, 161,772 GWh of electricity were generated in Poland in 2015, signifying generation growth by 3.3% yoy in relation to 2014 (156,567 GWh). In turn, the energy mix in 2015 proved to be less favorable to brown coal (the generation of energy using this raw material receded by 1.2% yoy) coupled with growth in the generation of electricity using hard coal-fired power plants (2.0% growth yoy) and wind power plants (increase by 39.8% yoy).

Risk associated with the rail freight sector – Polish rail transport market is characterized by strong competition among the operators. The number of PKP CARGO S.A.’s competitors is variable, which is attributable to liberalization of the regulations governing the activity in these markets.

While PKP CARGO S.A. is the largest Polish rail freight operator, the competition holds a total of approximately 52.3% of the market share measured by freight volume (data for 2015). Currently 66 entities operate in the Polish rail freight market.

Relatively strong competition stimulates looking for new markets and expanding the range of the services offered by the Company.

The leading players on the rail freight market in Poland are: the PKP CARGO S.A., DB Schenker Rail Polska, Lotos Kolej and CTL Logistics. The activity of competing rail operators entails among others whole train transport of coal, aggregate and other dry bulk commodities, liquid fuels, chemical articles and intermodal transport.

The diminished demand for steam coal, the delays in the process of road and rail investments and the unstable volume of transshipment at the Polish-Ukrainian border in connection with the political crisis in Ukraine are the main areas of risk pertaining to the Company’s freight transport.

Risks in the operations conducted

Risk associated with the rail infrastructure – The business of PKP CARGO S.A. depends on the condition of railway infrastructure. However, the railway network used by the Company is of low quality. An intensive railway network modernization program, although ultimately it will entail improvement of operating conditions, during the course of the construction and renovation work will cause hindrances and a necessity to route the railway traffic using detours.

Risk associated with changes of legal regulations – In accordance with the current EU Commission bills, the obligation to install quiet brakes in wagons will be implemented in Poland as of 2026. Implementation of this obligation in all PKP CARGO S.A.’s wagons is an investment estimated at approx. PLN 360 million. In other European countries this obligation is to be introduced as of 2020 (Germany already applies higher rates for access to infrastructure for wagons which do not have this kind of brakes).

Risk associated with change of the conditions of access to rail infrastructure and conditions of access to/availability of service infrastructure facilities – The PKP CARGO Group conducts its core business based on access to rail infrastructure and a new category being designed by the legislator – service infrastructure facilities. In addition the Group uses facilities which (according to the contemplated regulations) are likely to be designated as service infrastructure facilities. Change of the conditions is associated with implementation in the Polish legal order of the Directive 2012/34/EU of the European Parliament and of the Council of 21 November 2012 establishing a single European railway area. The planned amendments may lead to

⁴⁰ <http://www.polskirynekwegla.pl/raport-dy-namiczny/stan-zapasow-wegla-kamiennego-caly-okres-czasu>

⁴¹ <http://wy.sokienapiecie.pl/oze/749-oze-w-polsce-udzial-nowelizacja-ustawy-o-oze>

⁴² [Wy.sokienapiecie.pl](http://wy.sokienapiecie.pl)

changes in the payments for access to rail infrastructure, which will depend on the execution plan. In addition conditions for availability of the rail infrastructure facilities will be introduced. Currently, public consultations are under way.

Risk of changes to the rules for calculating the rates for access to the rail infrastructure – Draft amendment to the Railway Transport Act provides the possibility of rates for access to the rail infrastructure to depend on the trains going according to the schedule. This will have a direct impact on the amount of fees paid by freight carriers, including PKP CARGO SA. The demand for transport services is result of production tasks of companies cooperating with the Company (mainly mines), manufacturing process and the specifics of their operation which does not allow to precisely plan the transport tasks.

Risk of fuel price growth - The current global petroleum oil prices are at minimum levels in several years. If the largest global producers elect to limit the current high production levels of this commodity, it is possible that the current trends will reverse and this commodity's price will rise, which as a result will contribute to higher prices for liquid fuels.

Road transport constitutes increasing competition for the Company – In the territory of Poland, road freight transport is the most serious competitor for rail transport. For the past few years an intensive program has been executed to modernize the road network. This has contributed to significant improvement of the surface of the existing roads and increase of the density of the road network. The focus was mainly on development of the motorway and express road network. At the end of 2015, there were 1,553.2 km of motorways and 1,495.7 km of express roads in use.⁴³ In total the network comprised 3,048.9 km of roads of key importance for the road transport. By the end of 2020 the total length of motorways and express roads is expected to increase by 1,770 km.⁴⁴ The key source of financing for the road investments are the EU funds budgeted for this purpose in the 2014-2020 framework.

Expansion of the road network will bring reduction of the costs of transport of goods and reduction of the transport time. The possibility of delivery of goods directly to the destination indicated by the principal is also an important advantage. In the case of rail transport the cargo is transported to the nearest terminal or transshipment station and delivery of the cargo to the specified address requires change of the means of transport. All these advantages of the road transport may continue to contribute to reduction of the significance of rail transport.

The abolishment of sanctions on the exports of Iranian oil by the end of 2015 may result in a significant reduction of rail transportation. Low prices of the raw material from Iran increase the economic attractiveness of road transport and hence make it often more competitive than rail transport.

The Company's customer base is highly dependent on a limited number of industries and their suppliers – Long-term agreements have a predominant share in the structure of contracts concluded with customers. Although they include, among others, the declared volumes of transport orders, there is a certain risk of periodic or total loss of contracts to competitors in the transport industry. Also change of the contracted transport volume is a threat - it may translate directly into reduction of the actual volumes of transported freight. In the case of loss of one of the Group's key customers it is not certain that it will be able to find other counterparties who would be willing to use the transportation services of similar scale as in the previously negotiated contracts that have been lost.

Structural changes in the activity of key customers – The Company's activity is dependent on, inter alia, the structure of the activity of its key customers. Transformations of the structure of entities using the Company's services may manifest themselves for example in establishment of subsidiaries focusing on the transport of the goods manufactured by the company. Among PKP CARGO S.A.'s customers there are also enterprises which currently have subsidiary companies which are rail operators but transport only some of their freight using the subsidiaries. One should bear in mind, however, that the aforementioned transportation entities may take over increasing shares of the services for their parent companies for which the Company has been their service provider so far. What is more, these entities may expand their activities to include transportation services provided to PKP CARGO S.A.'s other customers, i.e. start activities competitive in relation to the Company.

Changes in the structure of the activity conducted by the Company's customers may comprise also change of the production cycle and change of the location of the company or place of business. This may contribute to change of the scale of the transport services provided.

Risk associated with acquisition activity - The results of the acquisition processes in which PKP CARGO S.A. participated and presently participates will have impact on the Company's results. The transactions may not bring the expected business and financial results.

⁴³ PSWNA – Polish Association of Asphalt Surface Contractors

⁴⁴ GDDKiA

To finalize the transaction associated with purchase of the shares of ORLEN KolTrans and ZCP Kolej it is necessary to obtain the consent of the Office of Competition and Consumer Protection (due to the necessity to carry out a market research, OCCP extended by 4 months the date of completion of the procedure), but also fulfilment of other conditions precedent. The sales agreement can be terminated if not all conditions precedent are fulfilled (waived) before elapse of the deadline agreed in the sale agreement.

Risk of continuation of collective disputes and strike – In connection with the collective dispute in the Company as of 2 July 2015, on 16 December 2015, PKP CARGO S.A. concluded a memorandum of agreement with the National Protest and Strike Committee under which the parties undertook to take steps leading to the execution, by no later than 31 March 2016, of a memorandum of agreement ending the collective dispute. In connection with the above arrangements KKPS resolved to suspend the announced general strike and not to undertake any protest and strike activities until 31 March 2016. A potential protest and strike may have negative impact on the Company's financial results.

On 15 March 2016, parties of the Collective Labour Agreement have reached an agreement, within which Trade Union committed itself to close down the KKPS and its counterparts on a plant level and to cancel any protest and strike activities regarding structural and organizational changes in the Company. Furthermore, the parties of the agreement have committed itself to establish an agreement on wage policies until 30 June 2016 as a consequence of a group dispute's postulate and a liability under § 5 of the Employee Guarantee Treaty of 2 September 2013.

Risk of increase of salaries – In 2016 the risk of increase of salaries will be enhanced especially by two circumstances:

- the undertaking of the parties to the Employee Guarantee Package of 2 September 2013 as regards annual negotiation of increase of the salaries and its execution no later than by 1 July, depending on the performance and financial standing of the Parent Company (permanent, predictable risk),
- the trade unions' attitude of the negotiations with the Management Board in connection with subject to the collective dispute of 2 July 2015.

The situation in the next few months may change because the parties to the CCBA undertook to finally resolve the issues following from the remuneration postulate by concluding a memorandum of agreement by the end of June 2016.

As of now, it is not possible to determine the impact of the remuneration pressure on the Parent Company's result for 2016 because the resolutions in this respect will depend, on the one hand, on the Company's financial standing and, on the other hand, on the willingness to reach an agreement by the trade unions.

Financial risks

Liquidity risk - The Company is exposed to liquidity risk following from the ratio of current assets to net current liabilities (current liabilities without short-term provisions).

The current liquidity ratio amounted to 0.75 and 1.66, respectively, as at 31 December 2015 and 31 December 2014.

To ensure an additional source of funds required to secure its financial liquidity the Company had a limit for current account overdraft facilities, investment loans and leasing.

Market risk - PKP CARGO S.A. 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 Company manages market risks 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 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 change of the balance sheet value and the risk of cash flow changes. Transactions are concluded only with reliable partners, admitted to participation as a result of application of internal procedures and execution of appropriate documentation.

FX risk - PKP CARGO S.A. was exposed to FX risk resulting from its receivables, cash and payables. PKP CARGO S.A.'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 leasing liabilities with maturities up to 4 years.

Balance sheet valuation of the receivables and liabilities expressed in foreign currencies, and 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 of the exchange rates.

Due to the maturities exceeding 12 months, leasing liabilities denominated in EUR and CHF have the biggest share in financial revenue and expenses, and cause volatility in the Company's result on the level of financial expenses and revenues on account of unrealized FX differences.

Short-term receivables expressed in foreign currencies (mainly EUR) amount on average to approx. EUR 8.2 million per month. Large part of the short-term receivables were receivables from international transport.

Cash in foreign currencies deposited on bank accounts follow from timing mismatch of receipts and expenditures and the surplus of receipts over expenditures. PKP CARGO S.A. generates a sustainable surplus in EUR - on average approx. EUR 4.7 million per month. 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 sales revenues in EUR are partly balanced out by costs in the same currency. The FX risk management transactions used by the Company 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 Company, in 2015, the Company used FX risk management transactions for the EUR/PLN currency pair. Due to the stable exchange rate of the EUR/CHF currency pair in 2015 no FX risk management transactions were used for this pair (according to the adopted assumptions following from the Company's policy, this was treated as natural hedging).

Forward transactions were used to hedge FX risk in 2015. In 2015, the Company hedged the surplus in EUR through forward transactions for the EUR/PLN pair up 75% of the forecast EUR/PLN exposure in each month.

As at 31 December 2015 the Company had unsettled forward contracts in the amount of EUR 21,100,000.

Interest rate risk – Most financial investments made by PKP CARGO S.A. were bank deposits which are concluded for the period of up to approx. 3 months, depending on the Company's liquidity needs. Interest on PLN deposits was accrued in the range from 1.35 to 3.05% (depending on the day when the deposit started and depending on the term of the deposit). The weighted average of the interest rates on term deposits in 2015 was 1.81%, compared to 2.96% in 2014 (as consequence of interest rate cuts by the Monetary Policy Council).

In addition, PKP CARGO S.A. is exposed to the risk of volatility of interest rate cash flows following from bank loans, leasing based on variable interest rates. The value of interest on leasing liabilities paid in 2015 amounted to PLN 4,697.0 thousand. Interest on leasing 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 3M and 6M and for agreements denominated in CHF – LIBOR 6M CHF.

The interest rate risk in leasing agreements is executed through revaluation of leasing installments in the periods of 1 month, 3 months, 6 months, depending on the agreement. The value of interest on loan liabilities paid in 2015 amounted to PLN 11,292.0 thousand. Interest on loan agreements were accrued according to the WIBOR 1M, WIBOR 3M and EURIBOR 3M reference rate plus the banks' margin. The interest rate risk in loan agreements is executed through revaluation of loan installments in monthly and quarterly periods.

The Company did not use transactions hedging against the interest rate risk in 2015.

Credit risk - Conducting its commercial activity the Company 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 Company 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 counterparty's condition and positive history of cooperation.

Counterparties' receivables 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 counterparties 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 from their customers securities in the form of, among others: bank/insurance guarantees, assignment of contracts, blockage on bank accounts, and promissory notes.

The credit risk associated with cash and bank deposits is perceived as low. All entities in which the Company invests free cash operate in the financial sector. These include domestic banks, foreign banks and branches of foreign banks.

4.4.2. Information on financial instruments with respect to the risk and financial risk management objectives and methods adopted by PKP CARGO S.A.

In 2015 PKP CARGO S.A. did not record any significant cash flow disruptions and loss of financial liquidity.

The principles of market risk management are implemented through assigned organizational units under the supervision of the Company's Management Board. Financial risk in PKP CARGO S.A. 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 2015, PKP CARGO S.A. did not apply hedge accounting.

5. Key events and information on PKP CARGO S.A.'s activity

5.1. Key information and events

Table 25 Key information and events which occurred in 2015 and after the balance sheet date

Period	Event
	<ul style="list-style-type: none"> Implementation of the headcount optimization model in PKP CARGO S.A. in the form of the Voluntary Redundancy Program ("VRP"). The application process for the Voluntary Redundancy Program started on 29 December 2014 and lasted till 15 January 2015. A condition for an employee's eligibility for the Voluntary Redundancy Program was to obtain the employer's consent. As a result of verification of applications for the Voluntary Redundancy Program, on 26 January 2015, 2,894 employees (including 23% on white-collar positions) were given consent to take advantage of the Program. The final total value of liabilities following from implementation of the Voluntary Redundancy Program amounted to PLN 257.1 million. This amount, as a provision for future liabilities under the Voluntary Redundancy Program, was reflected in the ledgers and charged to PKP CARGO S.A.'s result for Q4 2014. The people who obtained the employers' consent stopped being employees as of 1 February 2015. Payment of severance pays under the Voluntary Redundancy Program will be made in two tranches: The first tranche in the amount of approx. PLN 219,3 million was paid out together with the salaries for January 2015 and the second tranche in the amount of approx. PLN 37,8 million was paid out in January 2016. PKP CARGO S.A. announced a tender for the purchase of 20 multi-system locomotives for cross-border connections, out of which 5 are optional. The total value of the order may amount to PLN 400 million. The hand-over of the first new locomotives for operation is planned for H2 2016. They will take trains to Germany, Czech Republic, Slovakia, Austria, Hungary and Netherlands.
January	<ul style="list-style-type: none"> PKP CARGO S.A. signed a railway infrastructure access agreement with PKP PLK S.A. The agreement is in effect from 14 December 2014 to 12 December 2015. The expected value of the Agreement during its term will total PLN 684,713,941 net (PLN 842,198,147 gross). The Company submitted a notification of a collective dispute with a trade union organization - Federation of Trade Unions of Polish Rail Employees (FZZPPK), active in PKP CARGO S.A. Due to elapse of the deadline for acceptance of the demands (mainly of compensation nature) and presentation of the method of meeting them, the Company embarked on a collective dispute with FZZPPK, effective as of 13 January 2015. PKP CARGO S.A. decided to expand the Poznań - Franowo terminal. The storage area was to increase from the existing 1,280 TEUs to 1,760 TEUs. The expansion was to be co-financed in 50% from EU funds. The total value of the investment project was estimated at PLN 5.8 million. Completion of the construction work was scheduled for November 2015. A tax group under the name of PKP CARGO LOGISTICS – Tax Group ("Tax Group") started to operate in the Group. The agreement will be in effect for 3 years till 31 December 2017. The Tax Group at the moment of creation comprises PKP CARGO S.A., as the representative company, CARGOSPED Sp. z o.o., PKP CARGO SERVICE Sp. z o.o., PKP CARGOTABOR Sp. z o.o. and CARGOTOR Sp. z o.o.
February	<ul style="list-style-type: none"> PKP CARGO S.A. entered into a memorandum of agreement ending the collective dispute effective as of 30 October 2014. The memorandum of agreement envisages partial fulfilment of the postulates pertaining primarily to: a benefit paid on the occasion of the Railway Man Day, introduction of a benefit for change of the work schedule, increase of daily rates for purchase of supportive meals and regenerative meals, introduction of an allocation and incentive allowance, and organizational matters. Receipt of a notice that as a result of a sale of the Company's shares in a block trade, the European Bank for Reconstruction and Development reduced its shareholding below 5% of the total number of votes at the PKP CARGO S.A. shareholder meeting. Before the Transaction EBRD held 5.10% of the Company's share capital and was entitled to 5.10% of the total number of votes. PKP CARGO S.A. and KGHM Polska Miedź S.A. entered into a preliminary agreement on potential acquisition, by PKP CARGO S.A., of 49% shares in Pol-Miedź Trans (PMT), which is currently wholly-owned by KGHM. PKP CARGO S.A. received information from Mr. Zdenek Bakala and The Bakala Trust on the fulfillment of one of the conditions precedent laid down in the agreement on acquisition, by PKP CARGO S.A., of 80% shares in the share capital of Advanced World Transport B.V. (AWT), involving convalidation of the transfer of the legal title to a collective share slip of AWT.

- PKP CARGO S.A. signed a purchase agreement for 44.44% shares in PKP CARGO CONNECT sp. z o.o. from Trade Trans Invest a.s. Currently PKP CARGO S.A. owns 100% shares in the company.
- PKP CARGO S.A. signed an agreement for the acquisition of 49% of shares in PKP CARGO International a.s. in liquidation from Rail Cargo Spedition a.s. Currently, PKP CARGO S.A. holds 100% shares in the company.

March

- PKP CARGO S.A. received information from Mr. Zdenek Bakala and The Bakala Trust on the fulfillment of the second condition precedent laid down in the agreement on acquisition, by PKP CARGO S.A., of 80% shares in the share capital of Advanced World Transport B.V. (AWT), involving the obtaining of confirmation by some AWT group companies from banks and other financial institutions funding the AWT Group's activities that the transaction will not constitute a breach of the agreements with these institutions.
- PKP CARGO S.A. signed a strategic cooperation agreement with HŽ Cargo, a Croatian national rail freight carrier. Both companies will cooperate in providing services to their existing customers, transporting goods in the North-South corridor and will prepare a joint logistic offering for prospective new customers.
- PKP CARGO S.A. signed agreements with three leaders of the Polish industries using wood – International Paper Kwidzyn, Kronospan Szczecinek and Mondi Świecie. These are agreements for transport of, among other things, timber, wooden products and wood chips. The total volume of the goods transported by PKP CARGO S.A. over 2 years will exceed 5 million tons, out of which 65% will be transport of timber.

April

- Annual Shareholder Meeting (ASM) adopted a resolution on distributing the profit earned in 2014 - the ASM resolved to allocate the net profit of PLN 58,610,399.18 for:
 1. payment of dividend in the amount of PLN 53,921,567.25;
 2. supplementary capital in the amount of PLN 4,688,831.93.Additionally, the ASM resolved to earmark for dividend the amount of PLN 56,254,248.57 from retained earnings. At the same time, the Company's ASM set 15 June 2015 as the dividend record date and 26 June 2015 as the dividend payment date. The total value of the dividend is PLN 110,175,815.82, i.e. PLN 2.46 per share. The dividend applies to all 44,786,917 shares of the Company. The contents of the ASM resolution were consistent with the Company's Management Board recommendation regarding distribution of the profit earned in 2014. As for allocation of the additional amount for dividend from retained earnings, the Management Board recommended the amount of PLN 56,078,432.75.
- The President of the Office of Rail Transport issued to PKP CARGO S.A. for 5 years safety certificate part B no. PL 1220150006 valid from 23 April 2015, being an extension of safety certificate part B no. PL 1220100001 dated 22 April 2010. The safety certificate confirms acceptance of the regulations adopted by the rail company to satisfy the national requirements regarding security of transport in a given network, in accordance with Directive 2004/49/EC and pertinent national regulations.
- Commencement of the consolidation process of freight forwarding activity in the Group. Freight forwarding services provided by PKP CARGO S.A. were currently spread between three companies: PKP CARGO CONNECT, CARGOSPED and PKP CARGO S.A. itself. The objective of the process is to harmonize the provision of services primarily from the customer's perspective.
- The Extraordinary Shareholder Meeting adopted changes in PKP CARGO S.A.'s Articles of Association; the Supervisory Board adopted the consolidated version of the Company's Articles of Association.

May

- On 10 May 2015, the Management Board of PKP CARGO S.A. adopted a resolution to continue the optimization of headcount in the Company through the implementation of the Voluntary Redundancy Program. The anticipated value of liabilities arising from the implemented Program has been estimated at approx. PLN 20 million. This amount of liabilities is based on the assumption that approx. 250 employees will take advantage of the Voluntary Redundancy Program. A condition for an employee's eligibility for the Voluntary Redundancy Program was to obtain the employer's consent.
- The PKP CARGO S.A. Management Board reported that the last condition precedent has been fulfilled, i.e. that the Company has obtained, from the relevant antitrust authorities, approval of the concentration between the Company and AWT as laid down in the agreement for the Company's acquisition of a 80% stake in AWT's share capital. The transfer of legal title to shares in AWT's share capital took place on 28 May 2015 under a Dutch notarial deed in return for the Company's payment of the purchase price.
- PKP CARGO S.A. won a tender for the transportation of coal for PLN 62.5 million and will continue to deliver coal from Bogdanka in Lublin and from the Silesian mines to ENEA Wytwarzanie's Koźienice Power Plant. The new contract is in force for 12 months, starting in July 2015. The total volume of fuel to be transported under this agreement will be in excess of 5 million tons.

- In the performance of a share purchase agreement entered into on 30 December 2014, PKP CARGO S.A. acquired 60,000 shares in AWT's share capital with a par value of EUR 1 each, representing 80% of AWT's total share capital and carrying the right to exercise 80% of the total number of votes at AWT's shareholder meeting, following the Company's execution of an agreement transferring ownership of the shares to the Company and the Company's payment of EUR 103,200 thousand (PLN 427,300 thousand).

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- The final value of liabilities following from running the 2nd Voluntary Redundancy Program is PLN 63.9 million. 1,193 employees in the Company in total filed applications to enroll in the 2nd Voluntary Redundancy Program. Considering the need to preserve continuity in running processes and the economic conditions, 319 interested employees did not receive consent to take advantage of this Program. The 874 employees in the Company who received their employers' consent to enroll in the 2nd Voluntary Redundancy Program ceased to be employed by the Company starting on 1 July 2015. Severance payments in the 2nd Voluntary Redundancy Program will be made in two tranches: The first tranche in the amount of approx. PLN 54.5 million was paid out with the salaries for June 2015; the second tranche in the amount of approx. PLN 9.5 million was paid out in February 2016. The liability of PLN 63.9 million under the 2nd Voluntary Redundancy Program was recognized in the Company's financial result for Q2 2015.

- Execution by PKP CARGO S.A. of an annex to the Overdraft Facility Agreement with mBank S.A. changing the repayment date to 31 May 2017.

June

- PKP CARGO S.A. concluded a letter of intent for cooperation with Zhengzhou International Hub Development and Construction Co., Ltd. in which the Parties declared that they would establish an international logistics operator dedicated to supporting container transport to/from China from/to Western Europe through Malaszewicze. The Parties will pursue the objective of taking joint actions towards further development and increase in efficiency of a whole-train rail link between the Zhengzhou in China and the Western Europe, consolidation of trade relations between China and Poland and development of strategic cooperation in the field of transshipment activity in the Malaszewicze container terminal.
- PKP CARGO S.A. signed a three-year agreement with Veolia in Poland to transport 4.25 million tons of hard coal. This contract will be performed in 2016-2018. This contract chiefly anticipates coal supplies from Silesian mines to central and western Poland.

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- Signing of a letter of intent between PKP CARGO S.A. and Greenbrier Europe Wagony Świdnica on launching the production of wagons in Szczecin. As part of this cooperation, Greenbrier will furnish the indispensable documentation, technology, quality control standards and the production line equipment. PKP CARGOTABOR Sp. z o.o. (a company from the PKP CARGO Group) will be charged among others with providing qualified production and administrative staff and workshops.

July

- On 8 July 2015 the Company filed a notification with the State Labor Inspection Service on the emergence of a collective dispute with the trade union organizations operating in the Company. By letter dated 2 July 2015, four trade union organizations operating in the Company requested the implementation of their demands pertaining to increases in employee compensation, setting a five-day time limit, expiring on 7 July 2015, for such implementation. The demands put forward by the trade unions in their letter of 2 July 2015 concerned the following issues:
 1. Implementing a wage increase as of 1 July 2015 in base salary in the amount of PLN 250 for all employees paid in accordance with the Collective Bargaining Agreement ("CBA") for persons employed in PKP CARGO S.A. as of 1 July 2015;
 2. Implementing a change in the base for the ratio in Q4 2014 for PKP CARGO S.A.'s employees paid on a ratio basis according to the Management Board's Resolution, where the consequence of the refusal to fulfill these demands will be entry into a collective dispute in respect of each one of the postulates described above. According to the Company's estimates, the annual cost of fulfillment of the demands put forward by the trade union organizations would amount to approx. PLN 120 million. The PKP CARGO S.A. Management Board, in its letter dated 7 July 2015, refused to fulfill the demands formulated by the trade unions in their letter of 2 July 2015, as a result of which a collective dispute emerged with effect from 2 July 2015. The Management Board refused to accept the demands put forward by the social side during the mediation held on 30 July 2015. A consequence of the failure to reach an agreement was to complete the mediation within the framework of a collective dispute by preparing a discrepancy report, which took place on 30 July 2015. The completion of the mediation stage entitles the trade unions to take strike action.
- On 29 July 2015, the Company's Management Board adopted a resolution to increase employee salaries as of 1 July 2015: (i) for employees remunerated under the Company Collective Bargaining Agreement, the gross base salary increased by PLN 110, (ii) for employees remunerated on the basis of coefficients, the net salary increased by PLN 110. The Management Board announced that it will request the Supervisory Board for consent to raise the salaries. According to the Company's estimates, the cost of such a raise, including associated payments, is approx. PLN 50 million per full calendar year.
- PKP CARGO S.A. commenced an expansion of the container terminal in Poznań-Franowo, whose capacity upon completion was to increase by nearly 40%. This investment was slated for completion in December 2015. In the future

this terminal will form part of the Logistics Center in Poznań, which renders comprehensive logistics services. As a result of this expansion, the terminal in Poznań Franowo was to obtain a new maneuvering plaza and storage yard with an area of 8.2 thousand square meters, while this facility's storage capacity in Franowo was to grow from its current 1,280 TEUs to nearly 1,800 TEUs. The expansion was co-financed in 50% from EU funds. The total net value of the investment project was estimated at PLN 6.8 million.

- The Extraordinary Shareholder Meeting of PKP CARGO International a.s. w likwidacji divided the company's liquidation assets. Cash from liquidation assets was paid to the sole shareholder, PKP CARGO S.A., on 5 August 2015. Completion of the PKP CARGO International a.s. in liquidation process was conditional upon obtaining consents of relevant administrative bodies with geographic jurisdiction over the company.
- The PKP CARGO S.A. Supervisory Board expressed its consent for the sale of additional part of the rolling stock.

August

- In a resolution adopted on 10 August 2015, the Company's Supervisory Board issued a positive opinion on the resolution adopted by the Management Board of PKP CARGO S.A. on 29 July 2015 providing for salary increases for employees working for employers operating in the Company in the following amounts: (i) PLN 110 gross for employees remunerated under the Company Collective Bargaining Agreement, (ii) PLN 110 net for employees remunerated on the basis of coefficients, with the change in salaries due to take effect as of 1 July 2015.

September

- Signing on 23 September 2015, with the Consortium composed of Siemens Sp. z o.o. in Warsaw as the Consortium leader and Siemens A.G. in Munich as a Consortium member, an agreement for delivery of 15 multi-system locomotives in three batches from 31 January 2016 to 30 June 2017 (the basic order) with an option to purchase 5 additional locomotives at basic order prices, where PKP CARGO S.A. must take the decision to exercise this option no later than on 31 December 2017 (the optional order). The net value of the agreement will not exceed EUR 75 million under the basic order (15 locomotives) and EUR 26 million under the optional order (5 locomotives), however for deliveries and maintenance services under the optional order a one-time price restatement mechanism was introduced with a specified negative and positive rate, which will not exceed +/-2% of the initial prices.
- Approval by the PKP CARGO S.A. Supervisory Board of the "PKP CARGO Group's Strategy for 2016-2020". The Strategy assumed that by 2020, PKP CARGO S.A. would become the leading logistics operator in Central and Eastern Europe. The planned outcome of its implementation is the growth of transport performed entirely beyond Poland from the current 2% to approx. 22% and almost doubling the intermodal transport, among others through increase of transport to and from China. Diversification of revenues should make the PKP CARGO Group more independent from transport of its basic cargo, i.e. coal and aggregates. The PKP CARGO S.A. Group will be developing its rail transport in Central Europe using the assets of PKP CARGO S.A. and the Czech company AWT acquired in 2015. The main directions of expansion (organic and through acquisitions) will involve the services provided in the North-South and East-West corridors.

October

- PKP CARGO S.A. began the consolidation of part of the sales services in a single company – PKP CARGO CONNECT. Its line of business will include sales of PKP CARGO S.A.'s comprehensive logistical services in Poland and on international markets. That company will be responsible for commercial and freight forwarding services of the PKP CARGO Group. It will combine the services provided to international clients with a comprehensive logistical offer based on PKP CARGO Group's assets (sidings, terminals, know-how related to freight forwarding, intermodal logistic and customs administration). PKP CARGO CONNECT will be also responsible for the terminal business and will offer cargo transshipment and storage services.
- End of ban on disposing employee shares (lock-up) – pursuant to §6 sec. 5 of the Company's Articles of Association, employee shares were subject to a lock-up for two years from the floating date on the Warsaw Stock Exchange, i.e. until 30 October 2015.
- Registering changes to PKP CARGO S.A.'s Articles of Association concerning, among other things, defining the authorities of supervisory board members, in particular those elected by employees, and management board members (they 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).
- Approval by the President of Office of Rail Transport of the new price list of PKP PLK S.A. As of 13 December 2015 (i.e. as of the new schedule), the unit rates of the basic charged and certain unit rates of the basic charge for access to the train control devices on the rail network administrated by PKP PLK S.A. increased. In addition, as of the new schedule, PKP PLK S.A. introduced, as part of separate regulations (which are not subject to the Rail Transport Act of 28 March 2003), the new type of broad-gauge (1520 mm) rail infrastructure access charges.
- The Company's Management Board received a letter from the National Protest and Strike Committee active in PKP CARGO S.A. ("KKPS") in which KKPS announced a decision to carry out, on 9 November 2015, a rolling general strike

in the Company.

- The Management Board of Krajowy Depozyt Papierów Wartościowych S.A. (National Securities Depository, "KDPW") adopted a resolution on conversion of the Company's series C registered shares to bearer shares.
- The Company's Management Board received a resolution adopted by the Management Board of Gielda Papierów Wartościowych S.A. (Stock Exchange, "GPW") to admit the Company's series C bearer common shares and introduce them into stock exchange trading on GPW's Main Market.
- On 6 November 2015, the Management Board of KDPW decided to assimilate 1,448,902 Company's shares designated by code PLPKPCR00045 with 43,338,015 Company's shares designated by code PLPKPCR00011. The Management Board of KDPW asserted that as at 6 November 2015, 44,786,917 of the Company's shares have been designated by code PLPKPCR00011. Accordingly, the condition for introducing the Company's series C shares into stock exchange trading has been fulfilled.

November

- The Extraordinary Shareholder Meeting of CARGOSPED Sp. z o.o. and the Extraordinary Shareholder Meeting of PKP CARGO CONNECT Sp. z o.o. gave consent and adopted a resolution to merge CARGOSPED Sp. z o.o. (as the Acquired Company) with PKP CARGO CONNECT Sp. z o.o. (as the Acquiring Company). In connection with the adopted resolutions on the merger and share capital increase in PKP CARGO CONNECT Sp. z o.o., PKP CARGO S.A. subscribed to all the shares in the increased share capital of PKP CARGO CONNECT Sp. z o.o. in exchange for the shares held by PKP CARGO S.A. in CARGOSPED Sp. z o.o.
- The Company and the employers acting on the Company's behalf filed a claim to rule non-existence of collective disputes in the Company's individual plants and on the level of the entire Company. The above claims were filed because, in the opinion of the Company's Management Board, the manner in which the collective dispute was conducted by the trade union organizations active in the Company was unlawful. These statements of claim comprised also petitions for injunctive relief in the form of prohibiting an industrial action until the claims of the statements of claim are resolved.
- KKPS notified the Company's Management Board about suspension of commencement of the general strike in the Company till 9 December 2015. KKPS reserved the right, however, to immediately start a strike in individual Company plants before 9 December 2015 if the employer takes restructuring actions or makes decisions on relocation of employees.
- On 11 November 2015, PKP CARGO S.A. entered into an agreement with PKP Informatyka Sp. z o.o. on purchase of an organized part of the enterprise for PLN 21.1 million. The agreement on the purchase of an organized part of the enterprise from PKP Informatyka expired on 1 January 2016 without any legal consequences due to failure to satisfy the condition precedent of obtaining the consent of the Minister of Infrastructure and Construction.
- Receipt of a notice from Nationale-Nederlanden PTE S.A. on increasing the stake held by Nationale-Nederlanden OFE ("Fund") in the Company, as a result of the acquisition of shares in the Company in transactions executed on the Warsaw Stock Exchange and settled on 5 November 2015. Prior to the acquisition of the shares, the Fund held 5,620,103 shares representing 12.55% of the Company's share capital and was entitled to 5,620,103 votes at the Shareholder Meeting representing 12.55% of the total number of votes. On 12 November 2015, the Fund's securities account showed 5,771,555 shares, which accounted for 12.89% of the Company's share capital. The shares entitled the holder to 5,771,555 votes at the Company's Shareholder Meeting representing 12.89% of the total number of votes.
- PKP CARGO S.A. entered into two investment loan agreements with Bank Gospodarstwa Krajowego for the maximum total amount of EUR 100 million, exceeding 10% of the Company's equity.
- PKP CARGO S.A. and Bank Polska Kasa Opieki S.A. entered into a loan agreement pursuant to which the Company received an investment loan for up to PLN 700 million, earmarked for financing and/or refinancing of an investment plan and/or financing and/or refinancing of mergers/acquisitions.
- PKP CARGO S.A. entered into with PGE Górnictwo i Energetyka Konwencjonalna S.A. 3 agreements for rail transport of the following cargo: hard coal and/or limestone sorbents with the total maximum 13,28 mln tons. The estimate maximum net value of the agreements during their term, i.e. from 1 January 2016 to 31 December 2018, amounts to PLN 288.9 million.
- PKP Cargotabor Usługi Sp. z o.o. as the purchaser, PKP CARGO S.A., as the guarantor, and PKN ORLEN S.A., as the seller, entered into a conditional binding sales agreement for 40,796 shares with the nominal value of PLN 1,000 each, with the total nominal value of PLN 40,796,000, representing approx. 99.85% of the shares in the share capital of ORLEN KolTrans Sp. z o.o. for the total amount of PLN 192,248,367.05.
- PKP CARGO S.A. and Euronaft Trzebinia Sp. z o.o. ("Euronaft") entered into a conditional binding sales agreement for an organized part of Euronaft's enterprise, based on which Euronaft provides rail transport services, rail siding service

and the services of track works and repair of rolling stock ("ZCP Kolej") for a total amount of PLN 59,397,000.00.

- Regional Court in Warsaw – Court for the Protection of Competition and Consumers (SOKiK), in its verdict of 23 November 2015 changed the challenged decision of the President of the Competition and Consumer Protection Office no. RWR 44/2012 in the part imposing on PKP CARGO S.A. a fine by reducing its original amount PLN 16,575,676.95 to PLN 2,231,719.95. PKP CARGO S.A. appealed against the part of the judgment.
- On 26 November 2015 the liquidation procedure of PKP CARGO International a.s. ended (the company was deleted from the Slovak business register).

- PKP CARGO S.A. signed with PKP Polskie Linie Kolejowe S.A. a rail infrastructure access agreement for cargo transport covering the 2015/2016 timetable. The agreement is in effect from 13 December 2015 to 10 December 2016. The expected value of the Agreement during its term will total PLN 646.8 million net (PLN 795.6 million gross).

- On 16 December 2015, PKP CARGO S.A. entered into a memorandum of agreement with the National Protest and Strike Committee under which the parties undertook to take steps leading to the execution, by 31 March 2016, of a memorandum of agreement ending the collective dispute pending in the Company since 2 July 2015. Until 31 March 2016 the parties will conduct negotiations in good faith in order to implement the statement of the Regional Labor Inspector of 15 October 2015 in the matter of changes to the terms of remuneration in the form of additional protocols to the Company Collective Bargaining Agreement.

Additionally, the parties signed the "Memorandum of Agreement between the parties to the Company Collective Bargaining Agreement for employees of PKP CARGO S.A. plants" ("CCBA Memorandum of Agreement") on the basis of which they resolved to:

- 1) suspend until 31 March 2016 introduction of organizational changes in the Company associated with the transfer of the Logistics and Dispatch functions from the Plants to the Head Office, transfer of Commercial Sections from the Plants to PKP CARGO Connect Sp. z o.o., a PKP CARGO S.A. subsidiary, relocation of Head Office and Plant employees and separation of the rolling stock maintenance and repair function to the PKP CARGOTABOR Sp. z o.o. subsidiary or to another entity,
- 2) cancel, by 31 December 2015, all the decisions to release employees from the obligation to provide work prevailing as the date of the CCBA Memorandum of Agreement.

- After Mr. Adam Purw in submitted, on 14 December 2015, his resignation from the Company's Management Board and the function of President of the Management Board, on 18 December 2015 the PKP CARGO S.A. Supervisory Board adopted a resolution according to which it resolved to delegate Mr. Maciej Andrzej Libiszewski to temporarily, i.e. until 18 March 2016, perform the duties of the Company's Management Board member and to entrust him with the duties of the President of the PKP CARGO S.A. Management Board.

December

- PKP CARGO S.A. ("Borrower") executed a loan agreement with the European Bank of Reconstruction and Development under which an investment loan ("Loan") will be made available to the Company up to a maximum value of EUR 100 million, earmarked to refinance the acquisition of AWT. The loan will be available till 31 December 2016 and may be disbursed in EUR or PLN. The Borrower is obligated to repay the Loan in semiannual installments however the full repayment of the Loan should take place by 25 September 2027. The interest rate applicable to every utilization of the Loan is equal to the floating EURIBOR/WIBOR rate for 6-month deposits plus the Bank's margin. The Agreement provides for the possibility of early Loan repayment without the Borrower having to remit any additional fees. This Loan is not collateralized against the Company's assets.

- On 31 December 2015, the court registered the merger of PS TRADE TRANS Sp. z o.o. (currently PKP CARGO CONNECT Sp. z o.o.) and CARGOSPED Sp. z o.o. by transferring all the assets of CARGOSPED Sp. z o.o. to PKP CARGO CONNECT sp. z o.o. in exchange for the shares that PKP CARGO CONNECT Sp. z o.o. issued to PKP CARGO S.A. as the sole shareholder of CARGOSPED Sp. z o.o.

- The expansion of the intermodal terminal in Poznań Franowo was completed - it brought the second maneuvering plaza and storage yard and improved access road system. The area of the new yard exceeds 8 thousand square meters, thanks to which the facility is ready to handle additional containers transported between the Baltic and the Adriatic.

- The Company's Management Board received a decision of the President of the Competition and Consumer Protection Office ("President of UOKiK") No. DOK-5/2015 of 31 December 2015 pursuant to which the President of UOKiK:
 - i. concluded that the Company abused the dominant position in the domestic rail freight market by preventing development of conditions required for emergence or development of competition through introduction, as of 1 May 2006, of changes to the "Rules of sale of freight services by PKP CARGO S.A." in particular § 5 sec. 6 -10 contained in chapter I of these rules which authorized the Company to refuse to sign special agreements with entrepreneurs considered as the Company's competitors;
 - ii. concluded that the aforementioned practice was abandoned as of 1 July 2007; and
 - iii. imposed on the Company a fine in the amount of PLN 14,224,272.18.

In the opinion of the Company's Management Board, the decision of the President of the UOKiK of 31 December 2015 was groundless. PKP CARGO S.A. filed the appeal to the Competition and Consumer Protection Court.

January 2016

- PKP CARGOTABOR USŁUGI Sp. z o.o. ("PKP CU") was notified by PKN ORLEN S.A. about fulfillment of the first condition precedent specified in the conditional binding sales agreement for 99.85% shares in the share capital of Orlen KolTrans Sp. z o.o. ("KolTrans") entered into by and between PKP CU as the buyer, PKP CARGO S.A. as the guarantor and PKN Orlen as the seller, as none of KolTrans' minority shareholders exercised its priority right to purchase KolTrans' shares they had pursuant to the KolTrans articles of association within the deadline prescribed therein.
- The PKP CARGO S.A. Supervisory Board, following a recruitment procedure, on 19 January 2016 appointed Maciej Libiszewski to the position of President of the PKP CARGO Management Board. On the same day, Maciej Libiszewski resigned from the position of member of the Company's Supervisory Board.
- Commencement of performance of the agreement with a consortium of Siemens Group companies for delivery of multi-system locomotives - the first 3 out of a total of 15 locomotives to be operated by PKP CARGO S.A. on international routes were delivered.

**February
2016**

- As at 31 December 2015, the Tax Capital Group did not achieve the assumed profitability of 3%. On the last day of the month in which the tax return for 2015 is filed, the financial year will end and the Tax Capital Group will cease to exist.
- Resignations from the PKP CARGO S.A. Management Board submitted by Mr. Łukasz Hadyś, Management Board Member in charge of Finance, Mr. Jacek Neska, Management Board Member in charge of Commerce, and Mr. Wojciech Derda, Management Board Member in charge of Operations. These resignations entered into force with immediate effect.
- Satisfied was the other condition precedent provided for in the conditional binding agreement for the purchase of shares in Orlen KolTrans sp. z o.o., consisting of registration, by the competent court of registration, of amendments to KolTrans's articles of association agreed upon in the Purchase Agreement concerning, among others, the termination of PKN ORLEN's rights to appoint and dismiss members of KolTrans's corporate authorities upon sale by PKN ORLEN of all shares held in KolTrans's share capital.
- PKP CARGO SA made the first disbursement concluded with the Polish Bank Pekao SA on 16 November 2015

**March
2016**

- Following a material decline in the market prices of scrap metal in Q4 2015, the Company's Management Board, having analyzed the impact of this change on the 2015 standalone and consolidated financial statements, decided to recognize impairment losses based on the prices of appropriate scrap metal classes as at the end of 2015, on the following assets:
 - 1) property, plant and equipment – rolling stock, in the amount of PLN 147,799 thousand,
 - 2) inventories, in the amount of PLN 5,288 thousand,
 - 3) non-current assets classified as held for sale, in the amount of PLN 24,029 thousand.

The total amount of the impairment losses in the 2015 standalone and consolidated financial statements is PLN 143,464 thousand, which includes the effect of tax.
 The impairment losses are non-cash items and have no effect on PKP CARGO's liquidity and do not affect its compliance with financial covenants under the existing loan agreements.
- On 15 March 2016 a memorandum of agreement was executed between the parties to the Company Collective Bargaining Agreement for Employees Hired by the Establishments of PKP CARGO S.A. ("CCBA Memorandum of Agreement"), in particular with respect to the collective dispute commenced on 2 July 2015. By the power of the CCBA Memorandum of Agreement, the trade union party undertakes to dissolve the National Protest and Strike Committee and to bring about the dissolution of the Protest and Strike Committees at the establishment level and to call off any and all protest and strike-related actions pertaining to the Company's structural and organizational changes. Moreover, the parties to the CCBA Memorandum of Agreement undertake to enter into a memorandum of agreement pertaining to the collective dispute commenced on 2 July 2015 by 30 June 2016 to implement, in particular, the post-inspection report of the District Labor Inspector in Warsaw of 15 October 2015 on making changes to the terms and conditions of salary in the form of additional protocols to the Company Collective Bargaining Agreement.
- On 16 March 2016 The Management Board of PKP CARGO S.A. ("Company") became aware of a notification from Morgan Stanley (Institutional Securities Group and Global Wealth Management) concerning a reduction of the stake held by Morgan Stanley (Institutional Securities Group and Global Wealth Management) below 5% of the overall number of votes at the Company's extraordinary shareholder meeting ("SM"). This threshold was crossed by selling the Company's shares on the Warsaw Stock Exchange on 10 March 2016 ("Transaction"). Before the Transaction, Morgan Stanley (Institutional Securities Group and Global Wealth Management) held 2,380,008 shares of the Company representing 5.31% of the Company's share capital and 2,380,008 votes at the SM, which is 5.31% of all the votes. After the Transaction, Morgan Stanley (Institutional Securities Group and Global Wealth Management) holds 2,225,827 shares of the Company representing 4.97% of the Company's share capital and 2,225,827 votes at the SM, that is 4.97% of all the votes.

Source: Proprietary material

5.2. Evaluation of factors and unusual events affecting the result recorded by PKP CARGO S.A.

Introduction of the Voluntary Redundancy Program

To optimize its headcount, PKP CARGO S.A. introduced the Voluntary Redundancy Program ("VRP"). The application process for the Voluntary Redundancy Program started on 29 December 2014 and lasted till 15 January 2015. As a result of verification of VRP applications, 2,894 employees were given consent to take advantage of the Program. The value of liabilities following from implementation of the Voluntary Redundancy Program amounted to PLN 257.1 million. This amount, as a provision for future liabilities under the Voluntary Redundancy Program, was reflected in the ledgers and charged to the Company's result for Q4 2014. The people who obtained the employer's consent stopped being employees as of 1 February 2015. Payment of severance pays under the Voluntary Redundancy Program will be made in two tranches: The first tranche in the amount of approx. PLN 219,3 million was paid out together with the salaries for January 2015 and the second tranche in the amount of approx. PLN 37,8 million was paid out in January 2016.

On 10 May 2015, the Management Board of PKP CARGO S.A. adopted a resolution to continue the optimization of headcount in the Company through the implementation of the Voluntary Redundancy Program. The total value of liabilities following from running VRP 2 was PLN 63.9 million. As a result of verification of applications for the Voluntary Redundancy Program, 874 employees of the Company were given consent to take advantage of the Program. They stopped being employed by the Company as of 1 July 2015. The severance pays under the Voluntary Redundancy Program will be paid out in two tranches: The first tranche in the amount of approx. PLN 54.4 million was paid out with the salaries for June 2015; the second tranche in the amount of approx. PLN 9.5 million was paid out in February 2016. The liability of PLN 63.9 million under the Voluntary Redundancy Program was recognized in the Company's financial result for Q2 2015.

In total, as part of the programs implemented in 2015, more than 3,000 persons left the Company, which enabled it in the coming years to generate in 2015 savings of more than PLN 120 million.

Resolution to increase salary

On 29 July 2015, the Management Board of the Company adopted a resolution to increase salaries for its employees as of 1 July 2015:

- for employees remunerated under the Company Collective Bargaining Agreement, the gross basic salary is to increase by PLN 110,
- for employees remunerated on the basis of co-efficients, the net salary is to increase by PLN 110.

In a resolution adopted on 10 August 2015, the Company's Supervisory Board issued a positive opinion on the resolution adopted by the Management Board of PKP CARGO S.A. on 29 July 2015 providing for the salary increase of the employees working for employers operating in the Company. According to the Company's estimates, the cost of such a raise, including associated payments, is about PLN 50 million per full calendar year. The impact on the costs in 2015 was approx. PLN 25.0 million.

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 container transport. The growth rate of the volumes of freight transported by PKP CARGO S.A. is strongly linked to changes in the transport in the aforementioned cargo categories.

The coal transport market depends on the uncertain situation in the mining industry, determined primarily by:

- decreases in global coal prices – the average ARA price in December 2014 was⁴⁵ 70.36 USD /t, while in December 2015 it was 47.83 USD /t⁴⁶ (down by 32.0% yoy), which is the worst result in the analyzed period.
- decreasing but still relatively high levels of coal inventories in Poland – at the end of November 2015 there were 5.88 million tons – down by 8.21 million tons in December 2014, down by 28.4%,⁴⁷

⁴⁵ http://gornictwo.wnp.pl/notowania/ceny_wegla/

⁴⁶ http://gornictwo.wnp.pl/notowania/ceny_wegla/

⁴⁷ <http://www.polskirynekwegla.pl/raport-dy-namiczny/stan-zapasow-wegla-kamiennego-caly-okres-czasu>

- increasing role of Renewable Energy Sources (“RES”) – it is estimated that in 2014 in Poland renewable energy accounted for 11.5%⁴⁸ gross final energy consumption (compared to 11.3% in 2013); ultimately in 2020 it is to reach 15%; in the Czech Republic RES provided an estimated 11% of electricity while the plan is to obtain 13% by 2020.⁴⁹

In the period of the first 11 months of 2015, 65.9 million tons of hard coal were mined in Poland, which was 1.1% less than in the corresponding period of 2014. This decline is the outcome of excess coal supply on the domestic market (the large amount of inventories on coal yards) and decreases of global coal prices.

The persisting trend concerning the generation of electricity in power plants in Poland is another material risk factor. According to the National Electrical Energy System and the Balancing Market, 161,772 GWh of electricity were generated in Poland in 2015, signifying generation growth in relation to 2014 (156,567 GWh) means an increase in production by 3.3% yoy. In turn, the energy mix in 2015 proved to be less favorable to brown coal (the generation of energy using this raw material receded by 1.2% yoy) coupled with growth in the generation of electricity using hard coal-fired power plants (2.0% growth yoy) and wind power plants (increase by 39.8% yoy).

The abolishment of sanctions on the exports of Iranian oil by the end of 2015 may result in a significant reduction of rail transportation. Low prices of the raw material from Iran increase the economic attractiveness of road transport and hence makes it often more competitive than rail transport.

The situation in the transportation market had negative impact on the revenues earned on transportation services – PLN 220 million.

Costs of access to infrastructure

PKP CARGO S.A.'s business results largely depend on the amount of rail infrastructure access charges. The cost of access to infrastructure in 2015 accounted for approx. 18.8% of PKP CARGO S.A.'s operating expenses.

Since 13 December 2015 (the launch of the new timetable), the infrastructure managed by PKP PLK S.A. is subject to a new price list for the use of 1435 mm gauge rail infrastructure on a per-unit basis, as approved by the President of the Office of Rail Transport (UTK) on 23 October 2015, and to a separate type of fee for the use of broad gauge (1520 mm) infrastructure. The above price lists are tied to pertinent provisions of the Rules of train route allotment and use of allotted routes by licensed railway carriers within the 2015/2016 timetable.

The new timetable has also taken into account the changes in fees charged for the use of lines managed by private operators. PKP CARGO S.A. provides some of its transportation services also using part of that infrastructure.

Additionally, the Company's activities depend on the condition of the railway infrastructure and the railway network is characterized by low quality. An intense railway network modernization program, although expected to ultimately result in improved operating conditions, during the course of the construction and renovation work will cause hindrances and the need to route railway traffic through detours.

Technical regulations regarding rolling stock

The rolling stock used in rail transport must satisfy appropriate technical standards and requirements that determine the extent of the Company's modernization and repair activities. The investments in this area depend directly on the current technical condition of the rolling stock owned and the resulting mandatory periodic repairs.

In 2015 capital expenditures incurred in connection with periodic repairs P4 and P5 and P3 inspections of the rolling stock amounted to PLN 283.6 million.

Acquisition activities

The outcome of pending acquisition processes in which PKP CARGO S.A. has participated and is currently participating will influence the Company's results.

The finalization of the acquisition of an 80% stake in AWT B.V. in May 2015 was a key element of international expansion. This transaction enabled the Company to harness Poland's strategic location even better, especially Silesia, to develop new connections and render comprehensive logistics and transportation services in the Baltic - Adriatic - North Sea triangle.

⁴⁸ <http://wy.sokienapiec.pl/oze/749-oze-w-polsce-udzial-nowelizacja-ustawy-o-oze>

⁴⁹ Wy.sokienapiec.pl

To further grow the Company in the area of local and international freight forwarding, in February PKP CARGO S.A. finalized the share purchase transaction (44.44%) in PKP CARGO CONNECT sp. z o.o. and became its sole owner. These changes will make it possible to optimize the structure of the PKP CARGO S.A. Group in the future, including, inter alia, the conduct of freight forwarding and terminal activity.

On 16 November 2015, conditional agreements on the sale of shares in ORLEN KolTrans Sp. z o.o. and an organized part of the enterprise of Euronaft were concluded. At present, work is underway to fulfill the conditions precedent, including in particular, to obtain consent to a concentration from the President of the Competition and Consumer Protection Office.

PKP CARGO S.A. has a preliminary memorandum of agreement with KGHM Polska Miedź S.A. under which it is planning to acquire 49% shares in Pol - Miedź Trans Sp. z o.o.

The adopted "Strategy of the PKP CARGO Group for 2016-2020" assumes acquisition activities which will, however, depend on the market situation and attractiveness of potential acquisition targets.

Call and put option

In parallel with the AWT B.V. acquisition agreement, PKP CARGO S.A. also concluded a shareholder agreement with Minezite SE ("MSE") regarding AWT ("Shareholder Agreement"). The agreement provides for, among others, MSE's right to request the Company to purchase all the AWT shares held by MSE ("Put Option") and the Company's right to request MSE to sell the AWT shares held by MSE to the Company ("Call Option"). Additionally, the Shareholder Agreement awards the Company the priority right to purchase the AWT shares held by MSE when MSE sells them and provides for MSE's tag along right in case the Company sells its AWT shares.

The Put Option may be exercised by MSW in the period from 1 January 2017 to 31 December 2020 for the market price calculated using the formula provided in the Shareholder Agreement, where the price depends on AWT Group's consolidated EBITDA and its net debt, but will not be less than EUR 27 million.

The Company will be able to exercise the Call Option in the period from 1 January 2017 to 31 December 2021 for the market price calculated using the formula provided in the Shareholder Agreement in reference to AWT Group's EBITDA and its net debt, but no less than the difference between (i) EUR 40 million and (ii) the amount of all dividend and similar payments made by AWT to MSE.

Energy and fuel price level

In 2015, a PLN 52.6 million, or 26.5% yoy decrease in the fuel consumption costs was recorded. This is directly related to a decline in fuel market prices. Energy and utilities costs in 2015 increased by PLN 14.8 million, i.e. 3.9%, as a result of increase of unit prices for PKP Energetyka S.A.

Scrap price level

Decrease of revenue from sales of goods and materials in 2015 by PLN 19.4 million (i.e. 67.2% less than in 2014) was caused primarily by the low scrap prices in the market. Inflow of cheap steel from China and low raw material prices decreased the demand for scrap and led a significant price reduction - to over 20% to the amount of approx. 550 PLN/t.

5.3. Information on contracts of significance for the business of PKP CARGO S.A.

Contracts with vendors

Execution of significant contracts with PKP PLK S.A.

On 8 January 2015 PKP CARGO S.A. signed with PKP Polskie Linie Kolejowe S.A a rail infrastructure access agreement for cargo transport covering the 2014/2015 timetable. The agreement prevailed from 14 December 2014 to 12 December 2015.

The fees for the use of rail infrastructure were calculated based on the Price list for the use of rail infrastructure managed by PKP PLK, effective from 14 December 2014 approved by the President of the Office of Rail Transport by Decision No. DRRK-WKL.9110.6/2014 of 9 July 2014 and DRRK-WKL.9110.11/2014 of 28 October 2014 and the provisions of the Rules of train route allotment and use of allotted routes by licensed railway carriers within the 2014/2015 timetable. The expected total value of the Agreement during its term was PLN 684.7 million net (PLN 842.2 million gross).

The agreements pertained to provision of access for the Company, by the infrastructure manager, to the line infrastructure and railway sections managed by PKP PLK for the purpose of fulfilment of the train timetable by the Company. Under the agreement, PKP PLK provided basic services of minimum access to rail infrastructure that comprised, among others, the preparation of an annual timetable in consultation with the carrier, the provision of access to the rail infrastructure in accordance with the allotted train routes, the provision of access to traction network devices, the directing and carrying of traffic and delivery of information regarding train passage, if so requested by the Company, and basic services regarding access to devices associated with train handling and a number of additional services comprising support in connection with non-standard loads and preparation and allotment of additional trains.

On 11 December 2015, PKP CARGO S.A. signed with PKP Polskie Linie Kolejowe S.A a rail infrastructure access agreement for cargo transport covering the 2015/2016 timetable. The Agreement will be in effect from 13 December 2015 to 10 December 2016.

Under the Agreement, PKP PLK provides the Company with access to rail infrastructure to perform cargo transport operations in accordance with the 2015/2016 timetable. Under the Agreement, the Administrator provides basic services of minimum access to rail infrastructure that comprises, among others, the preparation of an annual timetable in consultation with the Carrier, the provision of access to the rail infrastructure in accordance with the allotted train routes, the provision of access to traction network devices, the directing and carrying of traffic and delivery of information regarding train passage, if so requested by the Company. Under the Agreement, the Administrator also render basic services involving access to facilities related to the servicing of trains and certain additional services comprising the provision of assistance in connection with unusual loads and the preparation and commissioning of trains.

The fees for the use of rail infrastructure are calculated based on the Price list for the use of 1435 mm gauge rail infrastructure managed by PKP PLK, effective from 13 December 2015 approved by the President of the Office of Rail Transport by Decision No. DRRK-WKL.730.2.2015.JG of 23 October 2015 and "Rules of access to 1520 mm gauge rail infrastructure managed by PKP Polskie Linie Kolejowe S.A." and pertinent provisions of the Rules of train route allotment and use of allotted routes by licensed railway carriers within the 2015/2016 timetable.

Material agreement signed with consortium of Siemens Group companies for delivery of multi-system locomotives

On 23 September 2015, PKP CARGO S.A. signed with the Consortium composed of Siemens Sp. z o.o. in Warsaw as the Consortium leader and Siemens A.G. in Munich as a Consortium member, an agreement for delivery of 15 multi-system locomotives in three batches from 31 January 2016 to 30 June 2017 (the basic order) with an option to purchase 5 additional locomotives at basic order prices, where PKP CARGO S.A. must take the decision to exercise this option no later than on 31 December 2017 (the optional order).

The net value of the agreement will not exceed EUR 75 million under the basic order (15 locomotives) and EUR 26 million under the optional order (5 locomotives), however for deliveries and maintenance services under the optional order a one-time price restatement mechanism was introduced with a specified negative and positive rate, which will not exceed +/-2% of the initial prices.

Contracts with buyers

Turnover and agreements with the total value exceeding the value of a significant agreement with PGE Group companies

On 18 November 2015, PKP CARGO S.A. entered into with PGE Górnictwo i Energetyka Konwencjonalna S.A. seated in Bełchatów ("Principa") 3 agreements for rail transport of the following cargo: hard coal and/or limestone sorbents with the total maximum volume of 13.28 million tons. The estimate maximum net value of the agreements during their term, i.e. from 1 January 2016 to 31 December 2018, amounts to PLN 288.9 million.

Due to the necessity to adapt the volume of coal and/or limestone sorbent deliveries to the changing current needs, reserves the possibility to reduce the volume to be transported by approx. 23% of the maximum volume, i.e. to approx. 10.24 million tons. Change of the freight volume within above limits does not entitle the Contractor to any claims against the Principal.

The agreement with the highest value is the agreement for rail transport of coal and limestone with the total maximum net value of PLN 125.8 million.

The agreement provides for contractual penalties whose maximum amount may exceed the equivalent of at least 10% of the net value of the Agreement or equivalent of at least EUR 200,000:

1) in the event of rescission of the Agreement by the Principal or Contractor for reasons attributable to the Contractor or Principal, respectively, in the amount of: (i) 20% of the net value of the subject matter of the Agreement in the case of rescission of the Agreement in 2016, (ii) 15% net value of the subject matter of the Agreement in the case of rescission of the Agreement in 2017, (iii) 10% net value of the subject matter of the Agreement in the case of rescission of the Agreement in 2018;

2) to the Principal if the Contractor transports in the given month less than 95% or 90% of the volume declared in the monthly transportation schedule, for reasons not attributable to the shipper and the Principal, in the amount of 25% or 40% of the net value of the transport of the cargo declared in the monthly transportation schedule.

In addition, the Agreement provides for contractual penalties in favor of the Principal in the following cases: (i) delivery of a different type of wagons than required by the Principal for the loading, in the amount of 20% of the net value of the transport of such cargo specified in the monthly transportation schedule, and (ii) delay, exceeding 2 days in delivery of wagons by the Contractor to the shipper for loading, in the amount of 1% of the net value of the transport of such cargo (understood as the net remuneration due to the Contractor for the transport of such cargo).

If the contractual penalty does not cover the loss incurred, the Parties may pursue supplementary damages.

Other terms and conditions of the Agreement are substantially similar to those generally used in agreements of this type.

The total value of the aforementioned three agreement concluded on 18 November 2015 and turnover recorded between the PKP CARGO Group and the PGE Group in the period of 12 months till 31 October 2015 reached approx. PLN 410 million, exceeding 10% of the Company's equity.

Loan agreements

Conclusion of agreements with significant value with BGK bank

On 16 November 2015, the the Company entered into two investment loan agreements with Bank Gospodarstwa Krajowego seated in Warsaw ("Bank") for the maximum total amount of EUR 100 million, exceeding 10% of the Company's equity.

The agreement with the highest value was concluded on 16 November 2015. On its basis the Bank granted an investment loan ("Loan") to the Company up to the maximum amount of EUR 85 million slated to finance and/or refinance the purchase of multi-system locomotives, investment projects following from the investment plans and/or finance and/or refinance the remaining activity in the area of mergers and acquisitions (hereinafter the "Agreement").

According to the Agreement, the Loan will be available until 31 December 2016. The Borrower is obligated to repay the Loan in quarterly installments according to the terms and conditions prescribed by the Agreement, no later than within 10 years of the expiry of the availability period, where the full repayment of the Loan should take place by 20 December 2026. The interest rate applicable to every utilization of the Loan is equal to the floating EURIBOR rate for 3-month deposits plus the Bank's margin. The Agreement provides for the possibility of early Loan repayment without the Borrower having to remit any additional fees. This Loan is not collateralized against the Company's assets.

Execution of a significant loan agreement with Bank Pekao S.A.

On 16 November 2015 the Company concluded with Bank Polska Kasa Opieki S.A. seated in Warsaw ("Bank") a loan agreement pursuant to which the Company will receive an investment loan ("Loan") for up to PLN 700 million, earmarked for financing and/or refinancing of an investment plan and/or financing and/or refinancing of mergers/acquisitions (hereinafter the "Agreement").

The loan will be granted in two parts:

1) Part I – up to PLN 315 million, with the possibility of increasing up to the maximum amount of PLN 350 million in the event PKP CARGO Group companies do not use up the credit limit up to the maximum amount of PLN 35 million;

2) Part II – up to PLN 315 million, with the possibility of increasing up to the maximum amount of PLN 350 million in the event PKP CARGO Group companies do not use up the credit limit up to the maximum amount of PLN 35 million.

In accordance with the aforementioned agreement the credit limits will be granted by the Bank to PKP CARGO Group companies on the basis of separate agreements concluded by these companies with the Bank. According to the Agreement, the Borrower may use the Loan no later than by 31 December 2016. The Borrower is obligated to repay the Loan in quarterly installments according to the terms and conditions prescribed by the Agreement, no later than (i) within 7 years of the expiry of

the availability period, but no later than by 31 December 2023 for Part I financing, and (ii) 10 years of the expiry of the availability period, but no later than by 31 December 2026 for Part II financing. The interest rate applicable to every utilization of the Loan is equal to the floating WIBOR rate for 3-month deposits plus the Bank's margin. The Agreement provides for the possibility of early Loan repayment without the Borrower having to remit any additional fees.

Execution of a significant credit facility agreement with the European Bank of Reconstruction and Development

On 23 December 2015, PKP CARGO S.A. ("Company", "Borrower") executed a loan agreement with the European Bank of Reconstruction and Development seated in London ("Bank") under which an investment loan ("Loan") will be made available to the Company up to a maximum value of EUR 100 million, earmarked to refinance the acquisition of AWT (hereinafter the "Agreement").

According to the Credit Facility Agreement, the Loan will be available until 31 December 2016. This Loan may be originated in EUR or PLN as the Borrower elects. The Borrower is obligated to repay the Loan in semiannual installments according to the terms and conditions prescribed by the Credit Facility Agreement, where the full repayment of the Loan should take place by 25 September 2027.

The interest rate applicable to every utilization of the Loan is equal to the floating EURIBOR/WIBOR rate for 6-month deposits plus the Bank's margin. The Agreement provides for the possibility of early Loan repayment without the Borrower having to remit any additional fees. This Loan is not collateralized against the Company's assets.

The Credit Facility Agreement's other terms and conditions do not deviate from the terms and conditions generally applicable to similar credit transactions.

Purchase agreements

Purchase of shares in PS TRADE TRANS sp. z o.o. from Trade Trans Investa.s.

PKP CARGO S.A. acquired 640 shares in PS TRADE TRANS PS TRADE TRANS Sp. z o.o. (currently: PKP CARGO CONNECT Sp. z o.o.) with its registered office in Warsaw, representing in total a 44.44% stake in this company's share capital in the possession of Trade Trans Invest a.s. with its registered office in Bratislava. As a result of this transaction, PKP CARGO S.A. became this company's sole shareholder with a 100% equity stake in its share capital. These changes intend to acquire full control over the company to optimize the structure of the PKP CARGO Group, including inter alia the conduct of freight forwarding and terminal activity.

Purchase of shares in PKP CARGO International a.s. in liquidation from Rail Cargo Spedition a.s.

PKP CARGO S.A. acquired 490 shares in PKP CARGO International a.s. in liquidation with its registered office in Bratislava, representing in total a 49% stake in this company's share capital in the possession of Rail Cargo Spedition a.s. with its registered office in Bratislava. As a result of this transaction, PKP CARGO S.A. became this company's sole shareholder with a 100% equity stake in its share capital. In July 2015, The Extraordinary Shareholder Meeting of PKP CARGO International a.s. in liquidation divided the company's liquidation assets. Cash from liquidation assets was paid to the sole shareholder, PKP CARGO S.A., on 5 August 2015. The liquidation procedure of PKP CARGO International a.s. ended on 26 November 2015 (the company was deleted from the Slovak business register).

Purchase of shares in Advanced World Transport B.V.

In the performance of a share purchase agreement entered into on 30 December 2014, PKP CARGO S.A. acquired 60,000 shares in the share capital of Advanced World Transport B.V. with a par value of EUR 1 each, representing 80% of AWT B.V.'s total share capital and carrying the right to exercise 80% of the total number of votes at AWT B.V.'s shareholder meeting, following the Company's execution of an agreement transferring ownership of the shares to the Company and the Company's payment of EUR 103,200 thousand (PLN 427,300 thousand). Another shareholder in this company, holding 15,000 shares, representing in total 20% of the share capital of AWT B.V., is MINEZIT SE with its registered office in Prague (Czech Republic).

Purchase of an organized part of the enterprise from PKP Informatyka Sp. z o.o.

PKP CARGO S.A. entered into an agreement with PKP Informatyka Sp. z o.o. on purchase of an organized part of the enterprise for PLN 21.1 million. The agreement on the purchase of an organized part of the enterprise from PKP Informatyka Sp. z o.o. expired on 1 January 2016 without any legal consequences due to failure to satisfy the condition precedent of obtaining the consent of the Minister of Infrastructure and Construction.

Conclusion of significant agreements pertaining to purchase of 99.85% of shares in ORLEN KoITrans Sp. z o.o. and an organized part of the enterprise of Euronaft Trzebinia Sp. z o.o. by PKP CARGO S.A. and its subsidiary

On 16 November 2015, PKP Cargotabor Ustugi Sp. z o.o. as the purchaser, PKP CARGO S.A., as the guarantor, and PKN ORLEN S.A., as the seller, entered into a conditional binding sales agreement for 40,796 shares with the nominal value of PLN 1,000 each, with the total nominal value of PLN 40,796,000, representing approx. 99.85% of the shares in the share capital of ORLEN KoITrans Sp. z o.o. for the total amount of PLN 192,248,367.05.

Furthermore, on 16 November 2015, PKP CARGO S.A. and Euronaft Trzebinia Sp. z o.o. ("Euronaft") entered into a conditional binding sales agreement for an organized part of Euronaft's enterprise, based on which Euronaft provides rail transport services, rail siding service and the services of track works and repair of rolling stock ("ZCP Kolej") for a total amount of PLN 59,397,000.00.

5.4. The Management Board's stance with respect to the possibility of realizing previously published result forecasts for the year

The Parent Company has not published financial forecasts pursuant to § 5 Section 1 Item 25 of the Regulation issued by the Finance Minister on 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, consolidated version of 27 June 2013 (Journal of Laws of 2014 Item 133) pertaining to the results of the Company and the PKP CARGO Group in 2015.

6. Development policy of PKP CARGO S.A.

6.1. Characteristics of external and internal factors of relevance for the development of PKP CARGO S.A.

Economic situation in Europe

Economic recovery is expected to remain at a level comparable to that of the recent years since mid-2013. The following factors have a favorable impact on this trend: accommodating monetary policy, the weak euro and low prices of crude oil. The favorable factors are partly offset by the unfavorable impact of the slowdown in global trade and developing economies as well as existing geopolitical tensions. According to forecasts published by the European Commission, this trend will continue into 2016 and 2017.

Situation in the transportation market

The coming years are expected to be focused on construction work funded from the new European Union perspective. This work will be aimed mostly at the development of road and railway networks. A significant portion of the work that was supposed to begin in the second half of 2015 was delayed, and the commencement of construction activities was postponed until 2016. This means that the return of high volumes of transported aggregates is expected to take place this year. For the years 2015-2020, the forecasted demand for aggregates is at an average annual level of 16-18.2 million tons (10-11.7 million tons for road projects and 6-6.5 million tons for railway projects).

Forecasted for 2016 and 2017 is also an increase in the production of and demand for steel. This target will be achieved if the current rate of consumption of this material is maintained for the purposes of execution of construction, road and railway projects and in the utilities sector. A significant impact on the favorable situation in the steel market is exerted by the construction, machine and automotive industries. An especially rapid growth is expected in the coming years in the intermodal and automotive markets as a result of the launch of new assembly lines. At the same time, it should be noted that the rail freight market in Poland is among the most competitive markets in the EU. Although the PKP CARGO Group continues to hold its position of the largest Polish rail freight carrier, the competition holds a total of over 50% of the market share measured by freight volume and over 40% measured by freight turnover (data as at the end of December 2015).

Situation in the energy fuel market

Due to the primary rail cargo categories, the fuel and energy industry is expected to remain the most important sector of the economy. The overall economic situation in the sector will continue to affect the company's freight volumes and the freight transport market.

To a significant extent, the ongoing oversupply of coal and the lowering prices of coal in all terminals throughout the world are driven by the lower demand for this commodity from Europe and from China. The lower European consumption was caused by high temperatures during the heating season. In turn, the lower Chinese consumption results from the economic collapse in that country's market. The collapse was the driver that caused an unstable situation in the energy and coal sectors. As a result, the prospects for 2016 are not very optimistic. The transportation of coal forms the primary cargo category for PKP CARGO S.A., hence the situation in this market has a strong impact on the Company's performance and market share.

Condition of the railway infrastructure

The business of PKP CARGO S.A. depends on the condition of railway infrastructure. However, the railway network used by the Company is of low quality. An intense railway network modernization program, although expected to ultimately result in improved operating conditions, during the course of the construction and renovation work will cause hindrances and the need to route railway traffic through detours.

Rail infrastructure access charges

PKP CARGO S.A.'s business results largely depend on the amount of rail infrastructure access charges. The cost of access to infrastructure in 2015 accounted for approx. 18.8% of the Company's operating expenses.

Since 13 December 2015 (the launch of the new timetable), the infrastructure managed by PKP PLK S.A. is subject to a new price list for the use of 1435 mm gauge rail infrastructure on a per-unit basis, as approved by the President of the Office of Rail Transport (UTK) on 23 October 2015, and to a separate type of fee for the use of broad gauge (1520 mm) infrastructure. The new timetable has also taken into account the changes in fees charged for the use of lines managed by private operators. PKP CARGO S.A. provides some of its transportation services also using part of that infrastructure.

Technical regulations related to rolling stock

The rolling stock used in rail transport must satisfy appropriate technical standards and requirements that determine the extent of the Company's modernization and repair activities. 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 periodic repairs and check-ups performed in various periods results from the cycles specified in the Maintenance System Documentation (DSU) approved by the Office of Rail Transport.

Optimization processes in the Company

Among the internal factors of relevance for further development of PKP CARGO S.A. is the constant strive for increasing efficiency and optimizing costs through restructuring and organizational changes in the Company in order to provide customers with better and more comprehensive services. Also significant are the ongoing processes of computerization of all spheres of business that affect the efficient management of the Company.

To optimize its headcount, PKP CARGO S.A. introduced the Voluntary Redundancy Program ("VRP"). As a result of verification of applications for the Voluntary Redundancy Program, 2,894 employees were approved as the Program's beneficiaries. The value of the Company's liabilities resulting from VRP 1 amounted to PLN 257.1 million. The approved beneficiaries terminated their employment relationship with the Company as of 1 February 2015.

On 10 May 2015, the Management Board of PKP CARGO S.A. adopted a resolution to continue the optimization of headcount in the Company through the implementation of the Voluntary Redundancy Program. The total value of liabilities following from running VRP 2 was PLN 63.9 million. As a result of verification of applications for VRP 2, a total of 874 employees of the Company were approved to benefit from the Program. They terminated their employment relationship with the Company as of 1 July 2015.

In total, as part of the programs implemented in 2015, more than 3,000 persons left the Company, which will enable it in the coming years to generate savings of more than PLN 150 million per year.

Financing of capital expenditures

The Company will finance its capital expenditures with investment loans, its own funds and from other sources. The increase of borrowing liabilities will result in an increase of (short- and long-term) liabilities and financial expenses.

Acquisition activities

The acquisition activities pursued by PKP CARGO S.A. are described in the chapter "Information on contracts of significance for the business of PKP CARGO S.A."

6.2. Description of the growth prospects and development policy of PKP CARGO S.A. at least in the next financial year

Future development activities undertaken by PKP CARGO S.A. will remain consistent with the current strategy directed at developing the business of an international logistics operator. This strategy is based on the following four pillars:

1. CARGO Leader (development in the domestic market)
2. CARGO International (strengthening the international position, a significant increase in transport services outside the country)
3. CARGO Intermodal (the position of a leading operator of intermodal transport in Central Europe)
4. CARGO Connect (integration of logistics services of an international coverage within the PKP CARGO Group).

The position of the undisputed leader of railway transport in Poland, the comprehensive handling of international freight traffic passing through Poland and the achievement of the position of a leading intermodal operator in Central and Eastern Europe are the objectives of PKP CARGO S.A. laid down in the Company's strategy for the period 2016-2020. The Company will strive for continuous development of international services and expansion of its portfolio with elements enabling the provision of services to the whole logistics chain. The company will invest in intermodal services which constitute the fastest growing portion of the transportation market. The comprehensive offer of a logistics operator's services will be supplemented by road transport services provided on the "last mile".

The result of implementation of the Strategy of the PKP CARGO Group for 2016-2020 will be a significant increase in freight turnover – by approx. 30%, an increase in the share of transport performed entirely outside Poland – by approx. 20 p.p., and almost doubling the intermodal transport. Diversification of revenues should make PKP CARGO S.A. more independent from the transport of its basic freight, i.e. coal and aggregates.

The Company intends to take advantage of its growing logistics competence and Poland's geographical location – all of which form an excellent position to build the position of a leading logistics provider with a European outreach. The geographic coverage of the business is expected to expand towards the south.

PKP CARGO S.A. will be developing its rail transport in Central Europe using the assets of two carriers: PKP CARGO S.A. and the Czech company AWT acquired in 2015. The main directions of expansion (organic and through acquisitions) will involve the services provided in the North-South and East-West corridors.

PKP CARGO S.A. intends to make better use its strategic assets – its rolling stock and network of terminals. Terminal operations will be concentrated in PKP CARGO CONNECT. The PKP CARGO Group currently offers cargo transshipment and storage services in the most attractive locations: Małaszewicze, Warsaw, Poznań, Gliwice and Medyka. The terminals in Małaszewicze are expected to handle traffic with China associated with the development of the New Silk Road and become a gateway to Europe for Chinese products.

PKP CARGO CONNECT will also be responsible for the building of the Group's position as an intermodal operator in Central and Eastern Europe. By 2020, freight turnover in intermodal transport is expected to increase by approx. 80%.

The Company intends to develop its offer of operator trains, i.e. regular connections between logistics centers, including, for instance, connections from seaports to intermodal terminals away from the seaside. This type of service is a viable and attractive alternative to road transport, even for medium-sized or smaller customers interested in transporting merely one shipping container.

According to the strategy, by 2020, freight turnover within the Group is expected to increase approx. 30% to a level of 40 billion tkm, while the share of freight turnover generated outside Poland is expected to increase from the current 2% to approx. 22%.

It is also expected that in 2020 the share of coal and aggregates in freight turnover will decrease from the current 55% to 40%. This will result, on the one hand, from the changing conditions in the coal transport market, i.e., among other factors, a greater productivity of new power units, but predominantly will be a result of the Group's development in other business areas.

According to the PKP CARGO S.A. Management Board, there are no circumstances that would indicate a risk to the continuity of the Company's operation in the next financial year.

7. Other key information and events

7.1. Information on PKP CARGO S.A. shares

7.1.1. 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.

7.1.2. 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.

7.1.3. Acquisition of treasury stock

In 2015, PKP CARGO S.A. did not effect any purchase or sale of its treasury stock.

7.1.4. Information on the employee share plan control system

According to the Employee Guarantee Package signed on 2 September 2013 by the Company's Management Board and the trade unions operating in the Company (agreement on labor and social guarantees) covering staff employed by the PKP CARGO S.A. Units and staff employed by the PKP CARGO Group Companies, employees of PKP CARGO S.A. and its five subsidiaries obtained guarantees of employment and acquired the right to a one-off cash benefit (privatization bonus) on the terms set forth in the Package. The bonus took the form of an employee share plan, because the parties to the Package agreed that it will be paid out in series C shares with a prohibition of sale within two years from the first day of stock exchange listing. According to the Information Memorandum issued for the public offering of the series C shares, subscriptions for the PKP CARGO S.A. employee shares were registered in the period from 2 December 2013 to 28 February 2014. A total of 22,146 (i.e. 99.8%) eligible employees of PKP CARGO S.A. and 2,395 (i.e. 99.9%) of eligible employees of the subsidiaries subscribed for the shares.

On 7 March 2014, the PKP CARGO S.A. Management Board adopted a resolution on the allocation of 1,448,902 series C ordinary registered shares. The plan was administered by the brokerage house Dom Maklerski PKO Banku Polskiego. On 3 November 2015, in connection with the expiration of the prohibition on the sale of series C shares, pursuant to Resolution No. 1104/2015 adopted by the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange), a total of 1,448,902 series C shares were admitted to trading on the main market of the Warsaw Stock Exchange, which shares, pursuant to § 6 sec. 5 of the Company's Articles of Association were subsequently converted into bearer shares.

Moreover, 15% of the funds generated by PKP S.A. as a result of the sale of PKP CARGO S.A. shares by way of a public offering effected on the basis of the Company's issue prospectus approved by the Polish Financial Supervision Authority (KNF) on 4 October 2013 was transferred to the PKP Employee Ownership Fund in accordance with the Act of 8 September 2000 on the Commercialization, Restructuring and Privatization of the State-Owned Enterprise "Polskie Koleje Państwowe".

7.1.5. Shares held by management board and supervisory board members

The holdings of shares in the Company or rights to such shares by members of the Company's Management Board from 12 March 2015, i.e. from the date of submission of the 2014 annual report to the date of submission of this report, were as follows:

Table 26 PKP CARGO S.A. shares held by Management Board members

Name	Number of PKP CARGO S.A. shares held by Management Board members	Par value of shares [PLN]
as at the date of submission of this report		
Maciej Libiszewski	0	0
Dariusz Browarek	370	18,500
as at 12 March 2015		
Adam Purwin	545	27,250
Jacek Neska	450	22,500
Wojciech Derda	300	15,000
Łukasz Hadyś	300	15,000
Dariusz Browarek	370	18,500

Source: Proprietary material

The holdings of shares in the Company or rights to such shares by members of the Company's Supervisory Board from 12 March 2015, i.e. the date of submission of the 2014 annual report to the date of submission of this report, were as follows:

Table 27 PKP CARGO S.A. shares held by Supervisory Board members

Name	Number of PKP CARGO S.A. shares held by Supervisory Board members	Par value of shares [PLN]
as at the date of submission of this report		
Kazimierz Jamrozik	70	3,500
Stanisław Knaflewski	0	0
Raimondo Eggink	0	0
Mirosław Pawłowski	0	0
Jerzy Kleniewski	0	0
Andrzej Wach	0	0
Czesław Warszewicz	0	0
Małgorzata Kryszkiewicz	0	0
as at 12 March 2015		
Jakub Karnowski	915	45,750
Piotr Ciżkowicz	675	33,750
Krzysztof Czarnota	70	3,500
Kazimierz Jamrozik	70	3,500
Marek Podskalny	70	3,500
Konrad Anuszkiewicz	0	0
Paweł Ruka	0	0
Sławomir Baniak	0	0
Stanisław Knaflewski	0	0
Jacek Leonkiewicz	0	0
Zbigniew Klepacki	0	0

Source: Proprietary material

The holdings of shares in the Company or rights to such shares by members of the Company's Management Board and Supervisory Board as at 31 December 2015 are the same as those as at the date of submission of this report.

None of the members of the issuer's Management Board or Supervisory Board, as at 31 December 2015 or as at the date of submission of this report, holds any shares or ownership interests in PKP CARGO S.A.'s related parties.

7.1.6. Dividends paid or declared

Dividend policy of PKP CARGO S.A. provides the recommendation of the Management Board concerning dividend in the amount of 35% to 50% of the net profit disclosed in the consolidated financial statements of PKP CARGO Group for the relevant financial year. In making its recommendation to the Annual General Meeting, the Management Board will take into account the availability of cash and distributable reserves and factors affecting the Company's financial condition, result of operation and capital expenditure requirements.

The Ordinary Shareholder Meeting (OSM) adopted a resolution on distributing the profit earned in 2014 – the OSM resolved to earmark the net profit of PLN 58,610,399.18 for:

1. payment of dividend in the amount of PLN 53,921,567.25;
2. supplementary capital in the amount of PLN 4,688,831.93.

Additionally, the OSM resolved to earmark for dividend the amount of PLN 56,254,248.57 from retained earnings. At the same time, the Company's OSM set 15 June 2015 as the dividend record date and 26 June 2015 as the dividend payment date. The total value of the dividend was PLN 110,175,815.82, i.e. PLN 2.46 per share. The dividend applies to all 44,786,917 shares in the Company. The content of the OSM resolution was consistent with the Company's Management Board recommendation regarding distribution of the profit earned in 2014. As for the allocation of the additional amount for dividend from retained earnings, the Management Board recommended the amount of PLN 56,078,432.75.

7.2. Information on transactions with related parties

In 2015, PKP CARGO S.A. did not enter into any transactions with related parties other than on an arm's length basis. Also after the balance sheet date no such transactions have been entered into.

Detail information about transactions with related parties are presented in Note 35 to the Standalone Financial Statements of PKP CARGO S.A.

7.3. Proceedings pending before courts, arbitration bodies or public administration authorities

PKP CARGO S.A. is not a party to any 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 Company's equity.

PKP CARGO S.A. is a party to proceedings pertaining to liabilities or claims where the total value of the liabilities or claims constitutes is less than 10% of the Company's equity.

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.

7.4. Major achievements in research and development

Drones

PKP CARGO S.A. began to use drones to protect its trains against theft. From January to October 2015, the value of shipments and cargo stolen decreased by nearly 65% compared to the same period in 2013. At the same time, the number of thefts decreased by 55%.

The Company uses two types of drones. The first of these types, "Phantom III", is used to perform patrol flights aimed at supporting the traffic of PKP CARGO S.A. trains and helping to protect trains stopped by thieves. The second type of drones is the "Eagle" – such drones are used predominantly for patrolling large areas from a high altitude.

Recently, PKP CARGO S.A. also started to use drones for checking the condition of freight wagons used by customers. This method enables the effective checking of tens of wagons in a short time.

Training of train drivers

PKP CARGO S.A. launched an extensive program of training for new train driving personnel. Annually, the Company employs and trains 500 new train drivers and candidates for this position. The preparation of one person to work independently in such a position costs up to PLN 100,000. PKP CARGO S.A. incurs the full amount of these costs. During the training, each of the candidates also receives a regular monthly remuneration.

Production of freight wagons

The PKP CARGO Group and the U.S. leading railcar company Greenbrier, one of the world's largest manufacturers of rolling stock, signed a letter of intent to cooperate within the framework of the Technology Transfer Platform administered by the Industrial Development Agency (IDA). As part of this cooperation, Greenbrier will furnish the indispensable documentation, technology, quality control standards and the production line equipment. PKP CARGO TABOR Sp. z o.o. (a PKP CARGO Group company) will be responsible, among others, for providing qualified production and administrative staff and workshops.

Industrial Development Agency

PKP CARGO S.A., in cooperation with the Industrial Development Agency, will search for innovative solutions for its business. On 6 October 2015, a letter of intent was signed to cooperate within the framework of the Technology Transfer Platform administered by the Industrial Development Agency. In this manner, PKP CARGO S.A. wants to encourage start-ups and scientists to look for solutions that would suit their business needs. The Company seeks improvements in a number of areas. It strives, among others, to adopt systems for the optimization of its transport and operation of conventional terminals as well as systems for the management, monitoring and protection of its rolling stock on the sidings and transshipment terminals. Valuable for PKP CARGO S.A. are also technologies reducing the consumption of electricity and fuel and the emission of noise as well as modern solutions in the production of rolling stock and cargo containers for the purposes of intermodal transportation.

Thanks to the actions taken by ARP S.A. (Industrial Development Agency) and ARP Venture Sp. z o.o., a technology was proposed to answer the Company's needs in the area of shunting locomotives. PKP CARGO S.A. is currently at the stage of direct contact with a company that is able to provide this solution.

National Center for Research and Development

The main objectives for PKP CARGO S.A.'s cooperation with the National Center for Research and Development are as follows: optimization of transport, innovations and modern solutions in the area of logistics and safety improvements. Projects resulting from research and development initiatives will be reported by institutions of higher education, scientific units and companies operating in the transportation sector. PKP CARGO S.A. and the National Center for Research and Development will each spend PLN 15 million for the implementation of the best initiatives. In particular, the Company intends to develop IT tools and systems aimed at optimizing logistics and operating processes (including rolling stock and terminal management) which, in addition to reducing operating expenses, will enable optimal use of the Company's existing resources. Moreover, the Company also intends to acquire solutions that will increase the safety of its trains, cargo and terminals. The Company's cooperation with the National Center for Research and Development is also expected to help acquire innovative technologies for designing and manufacturing modern rolling stock which would support the planned independent production of freight wagons starting in 2016 by the PKP CARGO Group.

Shift2Rail

PKP CARGO S.A. participates in the implementation of the European program for funding research and development projects in rail transport known as Shift2Rail, co-funded by the European Commission under the Horizon 2020 Framework Program. The objective of the program is to develop new technologies reflecting the increasing competitiveness of the railway sector. The Shift2Rail program is divided into five main areas (Innovation Programs) dedicated to distinct aspects of the railway system. PKP CARGO S.A. is involved in the Innovation Program 5 focused on the development and implementation of solutions for freight transport. Particular attention is focused on aspects associated with the reduction of noise, modern braking systems, terminal and siding management as well as new solutions for wagons and locomotives. PKP CARGO S.A.'s participation, together with PKP PLK and the Railway Institute, is coordinated by PKP S.A. as a member of EUROOC (the European Rail Operating Community Consortium) which filed a successful application in the contest for an Associate Member in Shift2Rail. The program was officially launched in December 2015 and it will be terminated not earlier than in 2020.

Prototypes of rail vehicle simulators for training purposes

PKP CARGO S.A. is seeking to obtain project co-funding in a contest organized by the National Center for Research and Development under the Intelligent Development Operational Programme 2014-2020. The objectives of the project will be achieved through the joint performance – by PKP CARGO S.A. and a subcontractor – of research and development work focused, among others, on the creation of innovative software and structural assumptions for simulators leading to the construction of 3 different prototypes.

The main recipients and users of the simulators of rail freight vehicles will be PKP CARGO S.A. train drivers who (as required by law) are subject to the obligation to participate in regular training courses on simulators, candidates for the Company's train drivers, train drivers of other carriers as part of the provision of external training services and entities cooperating with the Company in the area of research and development.

Center for Research and Education in Rail Transport

PKP CARGO S.A. and the Silesian University of Technology will establish the Center for Research and Education in Rail Transport in Sosnowiec-Maczki. The newly created unit will train young engineers – specialists in the railway industry. This cooperation is aimed at filling the generation gap in railway-related occupations and ensuring the availability of personnel trained in new technologies – it will encompass the areas of research, education and personnel development. The activities of the Centre are expected to contribute to increased competitiveness of rail transport in Poland and improved attractiveness of rail transport education.

Within the framework of this cooperation, the Silesian University of Technology, apart from fulfilling this educational role, will also be involved together with PKP CARGO S.A. in research and development projects aimed at introducing patents and new technologies to the railway industry. The agreement between the two parties also contains an offer of 6-month internships in PKP CARGO S.A. for the Center's best students. Depending on its actual needs, the Company will also be open to hiring graduates of the rail transport courses.

We add value to the Polish economy

PKP CARGO S.A. is a partner in the program entitled "We add value to the Polish economy. Work for us!", organized by the State Treasury Ministry of the Republic of Poland. This means that participating graduates of institutions of higher education may be offered paid internships in the Company and gain experience participating in the execution of its projects. The best such participants may be offered employment with the Company. PKP CARGO S.A.'s participation in this initiative is a result of the Company's long-term strategy aimed at the provision of active support to education of young people as well as to scientific efforts which will contribute to the general promotion of railways, transportation and logistics.

Diamonds of Polish Infrastructure

PKP CARGO S.A. received an award in the contest entitled "Diamonds of Polish Infrastructure" in the category "Efficiency in management" for the optimization of its management model, the cutting of operating expenses and the evolution of Poland's largest rail carrier towards becoming an integrated logistics operator with an international outreach.

Those who change the Polish industry

PKP CARGO S.A. received an award in the contest entitled "Those who change the Polish industry" organized by the Polish Society for the Support of Entrepreneurship. The Company was awarded for actions taken in 2014, including its success in building efficiency, improving performance despite unfavorable external conditions and implementing a robust acquisition strategy.

7.5. Information on natural environment issues

The operations of PKP CARGO S.A. may cause potential damage to the environment stemming from, among others, the transport of hazardous materials. The Company is a leader in the consumption of electricity for traffic purposes, hence both the transport of hazardous materials and electricity consumption are significant aspects of its business and are subject to monitoring on an annual basis. Also monitored is the consumption of water, the quality of discharged wastewater, the management of industrial waste and the consumption of fuels for traffic and heating purposes. The objective of this monitoring is not only to gain knowledge of the magnitude of impacts on the natural environment by tracking certain assumed indicators but also to improve emission ratios. Year by year, through the introduction of objectives and tasks in significant areas in relation to the adopted classification criteria, PKP CARGO S.A. keeps reducing its environmental impact.

On account of fees due for the use of the environment in 2015, the Parent Company established a provision of PLN 1,167.7 thousand. The fees paid by PKP CARGO S.A. keep decreasing. In terms of the amounts of fees paid in comparison with the previous years, the largest decline in such fees was recorded in respect of the combustion of fuel in diesel locomotives by applying new emission ratios for the charging of fees for all modernized locomotives, i.e. SM42s with C27, Kolomna or MTU engines (a decrease for these types in unit fees by 45-60% per ton of fuel consumed).

The 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 IMS ensures the implementation of environmental policy and forms an integral part of the Company's overall management system. In the process of environmental review (conducted on an annual basis), specific environmental targets and tasks are formulated. Every year, the results of environmental efforts are evaluated in accordance with criteria established based on:

- legal requirements and decisions,
- results of system reviews and internal audits,
- data on the current and past performance of PKP CARGO S.A.

The Company performs an annual review of its environmental aspects, 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 and databases of key environmental aspects, having access to current laws, regulations, instructions and the Internet, keeps increasing environmental awareness among its employees.

7.6. Description of the Company's sponsoring, charitable or other similar activities

PKP CARGO S.A.'s sponsoring and charitable activities in 2015 were conducted in accordance with the assumed business objectives and guidelines presented in the "Strategy of the PKP CARGO Brand for 2015-2018". This document presents an accurate depiction of the Company's sponsoring and social coverage. In turn, the detailed principles of the Company's operation in these areas are laid down in the "Bylaws for financing social projects in the form of donations or sponsorship by PKP CARGO S.A.". The Bylaws have been adopted in order to ensure a uniform set of procedures for examining requests for donations and offers to provide sponsorship as well as to ensure a seamless flow of information in this area within the Company. The Bylaws have introduced transparent rules of conduct associated with the pursuit of socially useful objectives through the provision of donations by PKP CARGO S.A. and define the set of procedures applicable to the issuance of opinions on requests for sponsorship, the making of decisions in this respect, the execution of agreements and the monitoring of implementation of sponsorship initiatives.

The Company has in place the Committee for Sponsorship and Donations which is a consultative and opinion-making body established to support the making of decisions on the granting of financial assistance.

The organizational unit responsible for coordinating tasks in the area of donations and sponsorship in PKP CARGO S.A. was the Marketing Department.

Sponsoring

In 2015, PKP CARGO S.A. conducted sponsoring activities in the following areas:

Innovative projects for the development of TSL industry

Organized in 2015, at the initiative of PKP CARGO S.A., was the European Logistics Congress ONECARGO – a unique (on an international scale) forum for dialog and exchange of experience in the logistics sector in Central and Eastern Europe, the largest international meeting of the logistics industry, a forum for the exchange of opinions and experience indicating the directions of discussion about the TSL industry in Europe. The first edition of the ONECARGO Congress was attended by approx. 1,500 guests, including international TSL experts, representatives of local, national and European administration and persons responsible for the strategies of leading companies representing the main branches of the logistics industry in Poland and in Europe.

During the two-day meeting, various cases of experience from different parts of the world and solutions adopted by leading companies in the logistics sector were presented. The range of topics discussed during the Congress covered a broad spectrum of issues related to transportation and infrastructure, such as the European Union's policy vis-à-vis the development of logistics, challenges for the transport sector until 2020, opportunities for Polish companies in the competitive European market, directions of investments in road and port infrastructure and cooperation between the academic community and the world of business.

Cooperation with institutions of higher education and scientific centers

Cooperation with the Warsaw School of Economics (SGH) within the framework of the SGH Partners Club – joint efforts aimed at creating educational programs, the conduct of information-sharing, promotion and recruitment activities at the Warsaw School of Economics. The partnership with the Warsaw School of Economics is predominantly about the exchange of experience and information.

Moreover, PKP CARGO S.A. collaborated in the organization of scientific conferences with the University of Economics in Katowice and the Cracow University of Economics.

Sports

A significant role in PKP CARGO S.A.'s long-term sponsoring strategy is played by sports initiatives targeted at children and youths. PKP CARGO S.A.'s involvement in the development of youths through sports is a reflection of the Company's social responsibility. Sport is a carrier of values that are of great significance in shaping individual attitudes and social relationships. Team spirit, passion, fair play and focus on the development and acquisition of targets are necessary skills to be had both in sports and in business. These values are also appreciated by PKP CARGO S.A. In 2015, the Company cooperated with the training academies of the following football clubs: the Football Academy of Legia Warsaw, KS Drukarz Warsaw, the Football Academy of GKS Katowice, the Football Academy of Zagłębie Sosnowiec and the Football Academy of Jagiellonia Białystok.

Culture

By supporting cultural events, PKP CARGO S.A. communicates the key role it plays in public life. PKP CARGO S.A. is a Strategic Partner of the National Symphony Orchestra of the Polish Radio in Katowice. The Orchestra is an elite ensemble of great importance for the Polish culture, well-known all over the world, regularly performing numerous concerts, ready for cooperation and innovative ideas. The National Symphony Orchestra of the Polish Radio in Katowice plays the role of a cultural ambassador representing Poland on the international arena of arts and forms an integral part of the strategy and cultural policy of Silesia, greatly contributing to the region's development. The presence of the PKP CARGO S.A. brand in the area of high culture brings image-related and relational benefits to the Company and ensures the transfer of values such as high quality, perfection and innovation.

Charitable activities

As part of its charitable initiatives, PKP CARGO S.A. spends funds on initiatives targeting especially those localities where the PKP CARGO Group's subsidiaries are headquartered or run their business as well as their immediate neighborhoods. The activities in this area are focused on pro-social projects consistent with the PKP CARGO Group's mission and development strategy and on the values represented by the PKP CARGO brand.

In the area of the provision of assistance to those in need and the leveling out of social differences, PKP CARGO S.A. cooperated in 2015 in particular with organizations supporting the treatment of children suffering from illnesses, including the "Zdążyć z pomocą" ("Providing On-Time Assistance") Foundation for Children, the Foundation for the Provision of Assistance to Children of the Grodno Region and the Association of Families for the Support of Persons with Hearing Challenges.

Together with the DKMS Stem Cell Donor Database Foundation, the Company executed a project aimed at registering potential stem cell donors among its employees.

PKP CARGO S.A.'s social activities are also focused on caring for the national heritage in the area of railway history. In 2015, the Company funded the activities of two Open-Air Museums of Rolling Stock in Wolsztyn and Chabówka. To promote the knowledge of railway, a program entitled "Summer with steam locomotives" was implemented, directed predominantly at children of preschool and school ages, designed to promote interest in railway, in particular the history of railway, among children.

In the project, we use the facilities of the Locomotive Depo in Wolsztyn and the Open-Air Museum of Rolling Stock in Chabówka in which children may learn the historical heritage of railway through play.

PKP CARGO S.A.'s care for the historical and cultural heritage and tradition of the railway is an important element of the Company's social responsibility. The Company is multigenerational: it employs representatives of, in some cases, three generations of the same family. Initiatives such as the Company's patronage over the Open-Air Museum of Rolling Stock in Chabówka, combined with modern communications, strengthen PKP CARGO S.A.'s image of a patron of and contributor to railway history.

7.7. Information on rules for compensating Management Board and Supervisory Board members and key managers at PKP CARGO S.A.

7.7.1. General information about the compensation system accepted in the Company

The Company has a compensation policy in place, yet it is not formulated in a single document adopted by the Company but stems from several documents pertaining to remunerating members of the Company's corporate authorities and key managers. In 2015, the rules for compensating members of the Management Board and the Supervisory Board were defined, among others, in the following corporate documents:

Compensation of Supervisory Board members:

- a. Resolution No. 5/2014 of the Extraordinary Shareholder Meeting of PKP CARGO S.A. dated 30 July 2014 on setting the compensation of Supervisory Board members.

Compensation of Management Board members:

- a. §12 Section 2 Item 3 of the Company's Articles of Association pursuant to which, as long as the stake in the Company held by PKP S.A. is greater than 50% of the Company's share capital and as long as required by the applicable provisions of law, the compensation of Management Board members are determined by the Shareholder Meeting;
- b. Resolution No. 3/2014 of the Extraordinary Shareholder Meeting of PKP CARGO S.A. dated 26 March 2014 on determining the rules and amounts of remuneration of the President and Members of the PKP CARGO S.A. Management Board on establishing a non-competition requirement – in respect of the compensation of Management Board members appointed prior to 18 June 2014, i.e. prior to the date on which the PKP S.A.'s stake in the share capital of PKP CARGO S.A. decreased below 50%, and only to the extent the provisions of the above resolution have not been amended by the Supervisory Board after 18 June 2014;
- c. Resolution of the PKP CARGO S.A. Supervisory Board of 9 March 2015 on setting objectives for the President and Members of the Management Board to be achieved in 2015;
- d. Resolution of the Supervisory Board of 10 November 2015 on an annex to the agreement for the provision of management services entered into with the President and Members of the Management Board;
- e. Resolution of the Supervisory Board of 23 December 2015 on authorizing the Chairman of the Supervisory Board to sign, in accordance with Article 379 § 1 of the Commercial Companies Code, on behalf of the Supervisory Board, the employment contract for the discharge of duties of the President of the PKP CARGO S.A. Management Board.

In 2015, the compensation of key managers such as the Company's managing directors was defined in Management Board resolutions nos. 498/2012 of 20 November 2012 and 58/2015 of 10 February 2015, according to which the maximum compensation for the Managing Director's position is 9.4 of the average monthly salary in the corporate sector without profit-sharing awards in Q4 2011.

Managing Directors are also covered by the Management By Objectives scheme. Resolution no. 266/215 adopted on 3 July 2015

7.7.2. Value of compensation and fringe benefits of Management Board and Supervisory Board members

The table below presents total compensation and fringe benefits of members of PKP CARGO S.A. Management Board members in 2015.

Table 28 Expenses on salaries and fringe benefits for PKP CARGO S.A. Management Board members in 2015 (PLN)

Full name	Fixed compensation elements	Variable compensation elements	Subsidiaries	Total	period covering the remuneration	
					from	to
Current Management Board members						
Maciej Libiszewski	18,286	-	-	18,286	18 December 2015	31 December 2015
Dariusz Browarek	670,341	252,852	-	923,194	01 January 2015	31 December 2015
Former Management Board members						
Adam Purwin	746,953	627,869	150,740	1,525,562	01 January 2015	14 December 2015
Wojciech Derda	545,746	188,530	70,310	804,586	01 January 2015	31 December 2015
Łukasz Hadyś	670,313	217,733	20,155	908,201	01 January 2015	31 December 2015
Jacek Neska	670,308	220,920	136,716	1,027,944	01 January 2015	31 December 2015
Łukasz Boroń	-	68,708	-	68,708	01 January 2015	18 February 2015
Sylwester Sigiel	255,069	-	-	255,069	01 January 2015	26 July 2015

Source: Proprietary material

The compensation and fringe benefits of former Management Board members employed on the basis of service agreements include severance pays, bonuses, compensation under non-competition agreements, remuneration for unused leave and other income subject to income tax and social security contributions. Moreover, the Management Board members were entitled to use the following made available by the Company: office space with furnishing, including a portable personal computer with wireless Internet access, means of communication, including a mobile phone and a landline phone and company car. The Management Board members could participate in conferences, seminars or business meetings beneficial for the Company and go on related international and domestic trips at the Company's expense, including the entitlement to a refund of the cost of transportation, accommodation and stay.

The Management Board member employed on the basis of employment agreements had the financial resources and means of communication required for the performance of their work provided by the Company.

Key managers, such as managing directors, had access to medical insurance offered to Company employees and the right to use company cars according to the general rules in place in the Company.

Variable compensation elements for Management Board members are defined by the Management by Objectives scheme (MBO) adopted for application based on resolutions adopted by the Company's Supervisory Board.

The President with other Management Board members were assigned objectives to be achieved in the following areas:

1. Financial PERFORMANCE - including return on equity and EBITDA
2. Transport - maintenance of the market share in the domestic transport market, intermodal transport
3. Human resources - improved effectiveness of using human resources
4. Internal processes - AWT synergies, computerization of the transportation process, optimization of Rolling Stock Maintenance Points, IT Governance policy, maximization of impact of the Purchasing Group
5. Strategy - Strategy of the PKP CARGO Group

All the objectives are closely linked to PKP CARGO S.A.'s strategy for the coming years and they link the level of compensation paid to Management Board members on the Company's actual financial standing and stability of its operations.

Managing directors were assigned objectives to be achieved in the following areas:

1. General corporate objectives - EBITDA maintenance of the market share in the domestic transport market
2. Individual objectives - each participant was assigned from 3 to 7 individual objectives in his/her domain

The objectives have a specific measure, weight, three acceptable fulfillment levels and a deadline for fulfilling the objective. This offers a possibility for a very transparent reconciliation of the goals, by calculating the fulfillment level and computing the possible bonus amount for each person participating in the MBO scheme.

The table below presents total salaries and fringe benefits of members of the Company's Supervisory Board in 2015. Taken into account in the table are only salaries received for the discharge of the position of member of the PKP CARGO S.A. Supervisory Board.

Table 29 Expenses on salaries and fringe benefits of members of the PKP CARGO S.A. Supervisory Board in 2015 (PLN)

Name	2015
Current Supervisory Board members	
Kazimierz Jamrozik	117,701
Stanisław Knaflewski	117,701
Raimondo Eggink	88,276
Mirosław Pawłowski	5,543
Jerzy Kleniewski	4,577
Andrzej Wach	4,577
Czesław Warsewicz	4,577
Małgorzata Kryszkiewicz	4,577
Former Supervisory Board members	
Jakub Karnowski	137,386
Piotr Ciżkowicz	113,451
Krzysztof Czarnota	87,949
Marek Podskalny	87,949
Konrad Anuszkiewicz	113,451
Paweł Ruka	24,521
Jarosław Pawłowski	9,808
Jacek Leonkiewicz	113,451
Sławomir Baniak	113,451
Zbigniew Klepacki	39,234
Jarosław Bator	30,079
Maciej Libiszewski	327

Source: Proprietary material

7.7.3. Agreements entered into between PKP CARGO S.A. and managers which provide for compensation in specific cases

Members of the PKP CARGO S.A. Management Board are hired under a contract for the provision of management services ('management contract') or an employment contract. The rules determining compensation in the event of resignation or dismissal from the position held without a significant reason are specified in the management contract of the given Management Board member or his/her employment contract and the provisions of labor law.

In 2015, the Management Board members employed on the basis of service agreements were entitled to severance pays for the termination of the agreement in the form of additional compensation equal to 3 times the monthly fixed basic compensation amount. The amount of severance pays to which Management Board members employed under employment agreements are entitled are calculated based on the labor code and other legislative acts.

Additionally, in the period of 12 months after the termination of the agreement, Management Board members were entitled to compensation under a no-compete clause in the amount of 100% of the monthly fixed basic compensation amount.

7.7.4. 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 2015.

7.7.5. 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 separation of a variable compensation element using the rules of the Management By Objectives Scheme for Company managers has allowed the Company to introduce a direct link between the fulfillment of strategic corporate goals and the fulfillment of individual goals set for individual employees for the year.

The goals set under MBO for the calendar year are monitored and reviewed during the year and then their achievement is evaluated. The final evaluation of the fulfillment of MBO goals and the possible payment of awards is conditional upon the Supervisory Board's evaluation of the Company's financial statements.

7.8. Information about the financial statements

7.8.1. Information about the agreement entered into with an entity authorized to audit financial statements

By Resolution No. 1272/V/2013 of the PKP CARGO S.A. Supervisory Board adopted on 17 December 2013, KPMG Audit Spółka z ograniczoną odpowiedzialnością spółka komandytowa (herein after referred to as "KPMG") with its registered office in Warsaw, entered in the register of entities authorized to audit financial statements, as the auditor of PKP CARGO S.A.'s standalone financial statements and the PKP CARGO Group's consolidated financial statements for the years from 2013 to 2015.

The agreement on the audit of financial information was entered into with KPMG on 31 January 2014 and covers the audit of PKP CARGO S.A.'s standalone financial statements and the PKP CARGO Group's consolidated financial statements for the years 2013-2015. The agreement on the audit of interim standalone and consolidated financial statements for H1 2014 and H1 2015 was entered into with KPMG on 8 May 2014.

Audit of the financial statements of other companies from the PKP CARGO Group was conducted by KPMG Audit and other authorized entities.

The total fees charged by the entities authorized to audit financial statements, paid or due for the relevant financial year is as follows:

Table 30 Total fees of the entities authorized to audit financial statements (PLN, net)

Item	Year ended 31 December 2015	Year ended 31 December 2014
Mandatory audit of financial statements	129,200	129,200
Mandatory audit of consolidated financial statements	24,500	9,500
Other attestation services	136,150	85,350
Other services	30,500	58,300
Accounting advisory services	185,840	-
Tax consulting services	-	-
TOTAL	506,390	282,350

Source: Proprietary material

7.8.2. Rules for preparation of annual financial statements

The standalone financial statements of PKP CARGO S.A. for the year ended 31 December 2015 have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and approved by the European Union.

The standalone financial statements of PKP CARGO S.A. have been prepared based on the assumption of the Company's being a going concern in the foreseeable future. As at the date of preparation of the financial statements, there are no circumstances indicating any substantial threat to the Company's ability to continue its operations as a going concern for the period of at least 12 months following the date of the standalone financial statements.

In the financial year ended 31 December 2015, certain amendments were made to the PKP CARGO S.A.'s Accounting Policy, as described in Note 5 to the standalone financial statements of PKP CARGO S.A. for the year ended 31 December 2015.

7.8.3. Description of unusual items in the standalone financial statements of PKP CARGO S.A.

An unusual item in the standalone financial statements of PKP CARGO S.A. a future net liability arising from put and call options on a minority stake in AWT B.V. in the amount of PLN 27,696,365, presented in the line item "Other long-term financial liabilities". The effects of the initial recognition and measurement of net liabilities arising from put and call options on a minority stake in AWT B.V. are taken into account in the Company's financial result under financial expenses.

Detailed information on the recognition and measurement of the put and call options on a minority stake in AWT B.V. is described in Note 29 to the standalone financial statements.

8. Representation on the application of corporate governance

8.1. 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 2015, 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 by the following resolutions adopted by the Supervisory Board of the Warsaw Stock Exchange: Resolution No. 17/1249/2010 of 19 May 2010 (effective from 1 July 2010), Resolution No. 15/1282/2011 of 31 August 2011 (effective from 1 January 2012), Resolution No. 20/1287/2011 of 19 October 2011 (effective from 1 January 2012) and Resolution No. 19/1307/2012 of 21 November 2012 (effective from 1 January 2013).

The wording of the Code of Best Practice to which the Company was subject in 2015 is available on the website of the Warsaw Stock Exchange at http://static.gpw.pl/pub/files/PDF/dobre_praktyki/dobre_praktyki_16_11_2012.pdf.

On 13 October 2015, the Supervisory Board of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) 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 adopted by Resolution of the Warsaw Stock Exchange of 4 July 2007, as amended. 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 http://static.gpw.pl/pub/files/PDF/RG/DPSN2016__GPW.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.

8.2. 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

In 2015, the Company complied with all corporate governance rules laid down in the Code of Best Practice for WSE-Listed Companies, except for the rules contained in:

Chapter I Recommendation 5 of the Code of Best Practice concerning the remuneration policy and the rules for its establishment

The Company has a remuneration policy in place, yet it is not formulated in a single document adopted by the Company but stems from several documents pertaining to remunerating members of the Company's corporate authorities. In 2015, the rules for remunerating members of the Management Board and the Supervisory Board were defined, among others, in the following corporate documents:

1. Remunerations of Supervisory Board members:

- a. Resolution No. 5/2014 of the Extraordinary Shareholder Meeting of PKP CARGO S.A. dated 30 July 2014 on determining the remunerations of the Supervisory Board members.

2. Remunerations of Management Board members:

- a. §12 Section 2 Item 3 of the Company's Articles of Association pursuant to which, as long as the stake in the Company held by PKP S.A. is greater than 50% of the Company's share capital and as long as required by the applicable provisions of law, the remunerations of Management Board members are determined by the Shareholder Meeting;
- b. Resolution No. 3/2014 of the Extraordinary Shareholder Meeting of PKP CARGO S.A. dated 26 March 2014 on determining the rules and amounts of remuneration of the President and Members of the PKP CARGO S.A. Management Board on establishing a non-competition requirement – in respect of the remunerations of Management Board members appointed prior to 18 June 2014, i.e. prior to the date on which the PKP S.A.'s stake in the share capital of PKP CARGO S.A. decreased below 50%, and only to the extent the provisions of the above resolution have not been amended by the Supervisory Board after 18 June 2014;

- c. Resolution of the PKP CARGO S.A. Supervisory Board of 9 March 2015, on setting targets for the President and Members of the Management Board to be achieved in 2015;
- d. Resolution of the Supervisory Board of 10 November 2015 on an annex to the agreement for the provision of management services entered into with the President and Members of the Management Board;
- e. Resolution of the Supervisory Board of 23 December 2015 on authorizing the Chairman of the Supervisory Board to sign, in accordance with Article 379 § 1 of the Commercial Companies Code, on behalf of the Supervisory Board, the employment contract for the discharge of duties of the President of the PKP CARGO S.A. Management Board.

In 2015, the policy of remunerating members of the Company's management and supervisory bodies did not include all the elements indicated in the recommendation of the European Commission of 14 December 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC), supplemented by the recommendation of the European Commission of 30 April 2009 (2009/385/EC). In particular, the Company did not post a declaration presenting its remuneration policy on its corporate website.

Details of the Company's remuneration policy are described in the chapter 7.7.

Pursuant to § 91 Section 6 Item 17 of 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 2014 Item 133), the Company is required to publish every year, in its annual report, information about the value of remunerations, bonuses and benefits for each of the persons managing and supervising the Company.

Chapter I Recommendation 9 of the Code of Best Practice concerning an equal participation of women in the performance of managerial and supervisory functions

In 2015, the Company did not ensure an equal participation of women and men in the Management Board or the Supervisory Board. The Company expresses its support for this recommendation, but the decision on the composition of the Supervisory Board is made by the Company's shareholders at the Shareholder Meeting and the Management Board is appointed in accordance with the rules laid down in the Articles of Association. 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 criterion.

Chapter II Recommendation 1.9 a) of the Code of Best Practice concerning the posting on the corporate website of a recording of the Shareholder Meeting in an audio or video format

In the opinion of the Company's Management Board, the decision not to adhere to the principle concerning the posting on the Company's corporate website of a recording of the Shareholder Meeting in an audio or video format does not affect the reliability of the Company's information policy or the completeness of any significant information provided by the Company to its Shareholders.

Chapter IV Recommendation 10 of the Code of Best Practice concerning the enabling of shareholders to participate in a Shareholder Meeting using electronic means of communication

The decision not to adhere to this principle according to which the Company should, among others, to provide real-time two-way communication where shareholders may take the floor during the Shareholder Meeting from a location other than the Shareholder Meeting was made for reasons of legal, organizational and technical risks which might threaten the proper conduct of the Shareholder Meeting by providing the shareholders with this method of communication.

In the opinion of the Company's Management Board, the principles governing the participation in Shareholder Meetings currently allow the shareholders to exercise all the rights arising from their shares efficiently and protect the interests of all shareholders.

- 8.3. 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

PKP CARGO S.A.'s Parent Company has developed and implemented the Accounting Policy designed in accordance with the accounting principles approved by the European Union. 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

For the purposes of preparation of consolidated financial statements for the PKP CARGO Group, a uniform pattern of IFRS-compliant reporting packages to be prepared by the subsidiaries has been adopted. The subsidiaries prepare their IFRS-compliant reporting packages taking into account the differences between Polish Accounting Standards and IFRS.

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. PKP CARGO S.A. 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

The Parent Company 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; IFRS-compliant reporting packages are signed by the Management Boards of the subsidiaries and IFRS-compliant consolidated financial statements are properly authorized and signed by the Company's Management Board.

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

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; opinions and reports on the auditor's activities are appended to all approved and published financial statements.

8.4. Shareholders holding directly or indirectly significant blocks of shares

As at the date of submission of this report, the total number of the Company's outstanding shares is 44,786,917. According to notices received by the Company, the structure of shareholders holding directly or indirectly significant blocks of shares in the Company was as follows:

Table 31 Shareholder structure of PKP CARGO S.A. as at 31 December 2014

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)	4,738,369	10.58%	4,738,369	10.58%
Morgan Stanley (3)	2,380,008	5.31%	2,380,008	5.31%
AVIVA OFE (4)	2,338,371	5.22%	2,338,371	5.22%
EBRD (5)	2,286,008	5.10%	2,286,008	5.10%
Other shareholders	18,259,967	40.78%	18,259,967	40.78%
Total	44,786,917	100.00%	44,786,917	100.00%

Source: Proprietary material

(1) According to a notice sent by the shareholder on 24 June 2014.

(2) According to a notice sent by the shareholder on 30 June 2014; on 20 July 2015, the name ING OFE was changed to Nationale-Nederlanden OFE.

(3) According to a notice sent by the shareholder on 18 June 2014.

(4) According to a notice sent by the shareholder on 13 August 2014.

(5) According to a notice sent by the shareholder on 5 November 2013.

On 17 February 2015, the Company's Management Board received a notice sent by the European Bank for Reconstruction and Development with its registered office in London containing information that, as a result of a sale of the Company's shares in a block transaction executed on the Warsaw Stock Exchange on 11 February 2015 and settled on 13 February 2015, EBRD reduced its stake to a level below 5% of the total number of votes at the Company's Shareholder Meeting. Following the transaction, EBRD does not hold any shares in the Company.

On 12 November 2015, the Company's Management Board received a notice from Nationale-Nederlanden PTE S.A. on increasing the stake held by Nationale-Nederlanden OFE ("Fund") in the Company, as a result of the acquisition of shares in the Company in transactions executed on the Warsaw Stock Exchange and settled on 5 November 2015, by at least 2% of votes at the Company's Shareholder Meeting.

The notice indicated that: (i) prior to the acquisition of the shares, the Fund held 5,620,103 shares representing 12.55% of the Company's share capital and was entitled to 5,620,103 votes at the Shareholder Meeting representing 12.55% of the total number of votes, and (ii) on 12 November 2015, in the Fund's securities account, there were 5,771,555 shares representing 12.89% of the Company's share capital and entitling the Fund to 5,771,555 votes at the Company's Shareholder Meeting, representing 12.89% the total number of votes.

Table 32 Shareholder structure of PKP CARGO S.A. as at 31 December 2015

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)	5,771,555	12.89%	5,771,555	12.89%
Morgan Stanley (3)	2,380,008	5.31%	2,380,008	5.31%
AVIVA OFE (4)	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	19,512,789	43.57%	19,512,789	43.57%
Total	44,786,917	100.00%	44,786,917	100.00%

Source: Proprietary material

(1) According to a notice sent by the shareholder on 24 June 2014.

(2) According to a notice sent by the shareholder on 12 November 2015; on 20 July 2015, the name ING OFE was changed to Nationale-Nederlanden OFE.

(3) According to a notice sent by the shareholder on 18 June 2014.

(4) According to a notice sent by the shareholder on 13 August 2014.

On 16 March 2016 The Management Board of PKP CARGO S.A. ("Company") became aware of a notification from Morgan Stanley (Institutional Securities Group and Global Wealth Management) concerning a reduction of the stake held by Morgan Stanley (Institutional Securities Group and Global Wealth Management) below 5% of the overall number of votes at the Company's extraordinary shareholder meeting ("SM").

This threshold was crossed by selling the Company's shares on the Warsaw Stock Exchange on 10 March 2016 ("Transaction").

Before the Transaction, Morgan Stanley (Institutional Securities Group and Global Wealth Management) held 2,380,008 shares of the Company representing 5.31% of the Company's share capital and 2,380,008 votes at the SM, which is 5.31% of all the votes.

After the Transaction, Morgan Stanley (Institutional Securities Group and Global Wealth Management) holds 2,225,827 shares of the Company representing 4.97% of the Company's share capital and 2,225,827 votes at the SM, that is 4.97% of all the votes.

Table 333 Shareholder structure of PKP CARGO S.A. as at the date of submission of this report

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)	5,771,555	12.89%	5,771,555	12.89%
AVIVA OFE (3)	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	21,892,797	48.88%	21,892,797	48.88%
Total	44,786,917	100.00%	44,786,917	100.00%

Source: Proprietary material

(1) According to a notice sent by the shareholder on 24 June 2014.

(2) According to a notice sent by the shareholder on 12 November 2015; on 20 July 2015, the name ING OFE was changed to Nationale-Nederlanden OFE.

(3) According to a notice sent by the shareholder on 13 August 2014.

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

Table 34 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

8.5. Holders of securities giving special controlling rights and a description of such rights

No PKP CARGO S.A. securities give any of the shareholders of any special control rights.

8.6. Restrictions regarding the exercise of voting rights

Right to participate in the Shareholder Meeting and voting rights

Shareholder exercise their right to vote at Shareholder Meetings in accordance with the provisions of the Commercial Companies 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 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 proxy powers to others. The proxy will vote in accordance with the instructions given by the shareholder.

Pursuant to § 11 Section 2 of the Articles of Association, each share entitles its holder to one vote at the Shareholder Meeting. The Articles of Association limit the voting rights of shareholders (acting individually or collectively, as shareholders being parent companies or subsidiaries) holding more than 10% of the total number of votes at the Shareholder Meeting and prohibit the

exercise by such shareholders of more than 10% of the total number of votes at the Shareholder Meeting. However, this limitation does not apply to shareholders who on the date of adoption of the Shareholder Meeting resolution introducing this limitation were entitled to exercise voting rights (also as a user) attached to shares representing more than 10% of the total number of votes in the Company or any other entity that would acquire shares in the Company 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.

8.7. Restrictions on the transfer of ownership title to PKP CARGO S.A. securities

Statutory restrictions on the transferability of shares

The Act on Public Offering, the Act on Trading in Financial Instruments and the Commercial Companies 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%, 33¹/₃%, 50%, 75% or 90% of the total number of votes in a public company; (ii) holds at least 5%, 10%, 15%, 20%, 25%, 33%, 33¹/₃%, 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%, 33¹/₃%, 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 Companies Code, is required to inform a subsidiary of the establishment or termination of a relationship of dominance within two weeks of the date of establishment of such a relationship, otherwise its voting rights attached to the shares held by the parent company representing more than 33% of the share capital of the subsidiary will be suspended.

Apart from the foregoing, there are no other statutory restrictions on the transferability of shares in the Company.

Contractual restrictions on the transferability of shares

Contractual restrictions of the transferability of shares applied to shares subscribed for by eligible employees in connection with the right granted to them as part of the Employee Guarantee Package. Each eligible employee submitting a subscription for shares was required to sign an agreement providing for restrictions on the transferability of shares for a period of 2 years from the Company's first day of trading on the Warsaw Stock Exchange, i.e. until 30 October 2015. Any submitted subscription without signing the said agreement would have been considered invalid and the eligible employee would have lost his/her right to the privatization bonus, hence also to the shares. A sale of or encumbrance on any shares or rights to shares prior to 30 October 2015 was ineffective against the Company and may have exposed the employee to compensatory liability.

On the date of expiration of the above prohibition on the sale of shares, i.e. on 30 October 2015, series C shares were converted into bearer shares.

Pursuant to the Conditional Agreement for Underwriting the Subscriptions of Institutional Investors on the Principles of Underwriting the Initial Public Offering of PKP CARGO S.A. Shares (hereinafter referred to as the Underwriting Agreement) entered into on 8 October 2013 by and between PKP S.A. and PKP CARGO S.A. on the one side and the following entities:

1. Goldman Sachs International,
2. Morgan Stanley & Co. International plc,
3. Powszechna Kasa Oszczędności Bank Polski S.A. (also acting through its branch: Powszechna Kasa Oszczędności Bank Polski S.A. Oddział – Dom Maklerski PKO Banku Polskiego w Warszawie),
4. Dom Inwestycyjny Investors S.A.,
5. IPOPEMA Securities S.A.,
6. Mercurius Dom Maklerski Sp. z o.o.,
7. Raiffeisen Centrobank AG,
8. UniCredit Bank AG, London Branch,
9. UniCredit Bank Austria AG,
10. UniCredit CAIB Poland S.A.,

on the other side, collectively referred to as the "IPO Managers", the Company and PKP S.A. were subject to the following contractual restriction on the transferability of shares and the issue of shares:

1. PKP S.A. made a commitment to the IPO Managers that from the date of execution of the Underwriting Agreement to the end of the period of 180 days from the first listing of the Company's shares on the Warsaw Stock Exchange it will not execute, without the written consent of the Global Coordinators (which consent will not be unreasonably withheld or delayed), any other transaction that might result in the issue, offer of a sale or issue, sale or disposal of Company securities similar to securities forming the subject matter of the IPO. The restriction referred to above does not apply to the disposal of shares by PKP S.A. in response to a call to subscribe for a conversion or sale of Company shares to a strategic investor for a price not lower than that provided for in the IPO.

The Company made a commitment to the IPO Managers that from the date of execution of the Underwriting Agreement to the end of the period of 180 days from the first listing of the Company's shares on the Warsaw Stock Exchange it will not execute, without the written consent of the Global Coordinators (which consent will not be unreasonably withheld or delayed), any other transaction that might result in the issue, offer of a sale or issue, sale or disposal of Company securities similar to securities forming the subject matter of the IPO.

8.8. Rules for appointment and dismissal of managers and their rights

Appointment of Management Board Members

The 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 Appointment of Management Board Members.

Management Board Members are appointed following the conduct of a verification 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 – a master's or equivalent degree – with at least 5 years of professional experience in the PKP Group and have no criminal record. The bylaws for the conduct of elections of candidates for employee representatives on 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.

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 exercise of the said personal power must be by way of delivering a written statement to the Supervisory Board Chairperson.

Mandates of the President and other Members of the Management Board expire on the date of holding the Shareholder Meeting approving the financial statements and the Management Board's Report on the Company activity in the most recent full financial year of their term of office. The President and other Members of the Management Board may submit a written resignation from their function to the Company with a copy for the information of the Supervisory Board.

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 Companies 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.

8.9. Rules for amending the Articles of Association of PKP CARGO S.A.

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.

Amendments to the Articles of Association made in 2015:

- On 13 April 2015, the Extraordinary Shareholder Meeting of PKP CARGO S.A. adopted Resolution No. 3/2015 on amending the Company's Articles of Association. The amendments provided for in the resolution concerned the Company's line of business. The amendments were registered by the District Court for the Capital City of Warsaw. Pursuant to § 25 Section 3 Item 11 of the Articles of Association of PKP CARGO S.A., the PKP CARGO S.A. Supervisory Board adopted the consolidated version of the Articles of Association of PKP CARGO S.A. by Resolution No. 1424/V/2015 of the PKP CARGO S.A. Supervisory Board dated 30 April 2015.
- On 13 April 2015, the Extraordinary Shareholder Meeting of PKP CARGO S.A. adopted Resolution No. 4/2015 on amending the Company's Articles of Association. The amendments provided for in the resolution concerned the deletion of Section 5 concerning series B shares. The amendments were registered by the District Court for the Capital City of Warsaw. Pursuant to § 25 Section 3 Item 11 of the Articles of Association of PKP CARGO S.A., the PKP CARGO S.A. Supervisory Board adopted the consolidated version of the Articles of Association of PKP CARGO S.A. by Resolution No. 1424/V/2015 of the PKP CARGO S.A. Supervisory Board dated 30 April 2015.
- On 13 April 2015, the Extraordinary Shareholder Meeting of PKP CARGO S.A. adopted Resolution No. 5/2015 on amending the Company's Articles of Association. The amendments provided for in the resolution concerned the adoption of a new wording of § 7 in respect of reserve capital and special reserve capital. The amendments were registered by the District Court for the Capital City of Warsaw. Pursuant to § 25 Section 3 Item 11 of the Articles of Association of PKP CARGO S.A., the PKP CARGO S.A. Supervisory Board adopted the consolidated version of the Articles of Association of PKP CARGO S.A. by Resolution No. 1424/V/2015 of the PKP CARGO S.A. Supervisory Board dated 30 April 2015.
- On 20 July 2015, the Extraordinary Shareholder Meeting of PKP CARGO S.A. adopted Resolution No. 9/2015 on amending the Company's Articles of Association. The amendment provided for in the resolution concerned the Audit Committee. The amendments were registered by the District Court for the Capital City of Warsaw. Pursuant to § 25 Section 3 Item 11 of the Articles of Association of PKP CARGO S.A., the PKP CARGO S.A. Supervisory Board adopted the consolidated version of the Articles of Association of PKP CARGO S.A. by Resolution No. 1468/V/2015 of the PKP CARGO S.A. Supervisory Board dated 29 October 2015.
- On 29 September 2015, the Extraordinary Shareholder Meeting of PKP CARGO S.A. adopted Resolution No. 11/2015 on amending the Company's Articles of Association. The amendment provided for in the resolution concerned changes in the Polish Classification of Business Activity. The amendments were registered by the District Court for the Capital City of Warsaw. Pursuant to § 25 Section 3 Item 11 of the Articles of Association of PKP CARGO S.A., the PKP CARGO S.A.

Supervisory Board adopted the consolidated version of the Articles of Association of PKP CARGO S.A. by Resolution No. 1468/V/2015 of the PKP CARGO S.A. Supervisory Board dated 29 October 2015.

- On 29 September 2015, the Extraordinary Shareholder Meeting of PKP CARGO S.A. adopted Resolution No. 14/2015 on amending the Company's Articles of Association. The amendment provided for in the resolution concerned changes in the provisions regarding competences of candidates for Management Board Members. The amendments were registered by the District Court for the Capital City of Warsaw. Pursuant to § 25 Section 3 Item 11 of the Articles of Association of PKP CARGO S.A., the PKP CARGO S.A. Supervisory Board adopted the consolidated version of the Articles of Association of PKP CARGO S.A. by Resolution No. 1468/V/2015 of the PKP CARGO S.A. Supervisory Board dated 29 October 2015.
- On 29 September 2015, the Extraordinary Shareholder Meeting of PKP CARGO S.A. adopted Resolution No. 15/2015 on amending the Company's Articles of Association. The amendments provided for in the resolution concerned the Supervisory Board. The amendments were registered by the District Court for the Capital City of Warsaw. Pursuant to § 25 Section 3 Item 11 of the Articles of Association of PKP CARGO S.A., the PKP CARGO S.A. Supervisory Board adopted the consolidated version of the Articles of Association of PKP CARGO S.A. by Resolution No. 1468/V/2015 of the PKP CARGO S.A. Supervisory Board dated 29 October 2015.

8.10. 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 Companies 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 Companies Code or the Articles of Association. Moreover, the adoption of a resolution on amendments to § 14 sec. 6, § 26 sec. 3 or 4 or § 27 sec. 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 Companies 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 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.

8.11. 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 the Commercial Companies Code (Journal of Laws No. 94 Item 1037, as amended);
- 2) Act of 8 September 2000 on the Commercialization, Restructuring and Privatization of the State-Owned Enterprise "Polskie Koleje Państwowe" (Journal of Laws No. 84 Item 948, as amended)
- 3) Articles of Association of PKP CARGO S.A. (consolidated version adopted by Resolution No. 1468/V/2015 of the PKP CARGO S.A. Supervisory Board dated 29 October 2015)
- 4) Bylaws of the PKP CARGO S.A. Management Board adopted by Resolution No. 222/2015 of the PKP CARGO S.A. Management Board dated 17 June 2015
- 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 Bylaws of the Management Board. The Bylaws are adopted by the Management Board and approved by the Company's Supervisory Board. In accordance with the provisions of the Bylaws of the Management Board, the Management Board makes decisions in the form of resolutions. 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 and may only be adopted if all the Management Board members have been duly notified of the Management Board meeting. Pursuant to the Bylaws, in the event of an equal number of votes 'for' and the total number of votes 'against' and 'abstaining', 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 Bylaws of the Management Board, if a conflict of interest arises between the Company and a Management Board member, a spouse, kin or relative (up to the second degree of affinity) or another person with whom the Management Board member has personal relations, the Management Board member should immediately inform the remaining Management Board members about the conflict and, in the case of the President of the Management Board, also the Company's Supervisory Board, and refrain from discussing and from voting on a resolution in the matter in which the conflict of interest has arisen and may demand this to be recorded in the minutes of the Management Board meeting.

The table below presents the composition of the Management Board as at the date of submission of this report.

Table 35 Composition of the PKP CARGO S.A. Management Board from 1 January 2015 to the date of submission of this report

Name	Position	Period in office	
		from	to
Maciej Libiszewski	acting President of the Management Board (delegated member of the Supervisory Board)	18 December 2015	19 January 2016
	President of the Management Board	19 January 2016	to date
Adam Purwin	President of the Management Board	6 February 2014	14 December 2015 (resignation)
Wojciech Derda	Management Board Member in charge of Operations	24 April 2014	24 February 2016 (resignation)
Jacek Neska	Management Board Member in charge of Commerce	24 April 2014	24 February 2016 (resignation)
Dariusz Browarek	Management Board Member – Employee Representative in the Management Board	24 April 2014	to date
Łukasz Hadyś	Management Board Member in charge of Finance	12 May 2014	24 February 2016 (resignation)

Source: Proprietary material

On 14 December 2015, Mr. Adam Purwin resigned as President of the Management Board.

On 18 December 2015, by Resolution No. 1494/V/2015 of the PKP CARGO S.A. Supervisory Board, Mr. Maciej Libiszewski was delegated as a Member of the PKP CARGO S.A. Supervisory Board to perform on a temporary basis the duties of a Member of the PKP CARGO S.A. Management Board and hold the position of President of the PKP CARGO S.A. Management Board.

On 11 January 2016, the PKP CARGO S.A. Supervisory Board adopted Resolution No. 1509/V/2016 on initiating the recruitment qualification for the position of President of the PKP CARGO S.A. Management Board.

The recruitment procedure was carried out in accordance with § 14 sec. 4 of the Articles of Association of PKP CARGO S.A. and the Bylaws for Appointing Management Board Members in PKP CARGO S.A.

On 19 January 2016, by Resolution No. 1511/V/2016, Mr. Maciej Libiszewski was appointed as President of the PKP CARGO S.A. Management Board for the current and next terms of office.

On 8 February 2016 the PKP CARGO S.A. Supervisory Board adopted Resolution No. 1514/V/2016 on initiating the recruitment procedure for the positions of Management Board Member in charge of Finance, Management Board Member in charge of Commerce and Management Board Member in charge of Operations.

On 24 February 2016 Mr. Łukasz Hadyś, Management Board Member in charge of Finance, Mr. Jacek Neska, Management Board Member in charge of Commerce, and Mr. Wojciech Derda, Management Board Member in charge of Operations resigned from the PKP CARGO S.A. Management Board submitted. These resignations entered into force with immediate effect.

The internal allocation of tasks and functions discharged by Management Board members in 2015 was as follows:

- 1) President of the Management Board – the scope of the President's duties includes directing the activities of the Management Board and the Company's ongoing operations and overseeing the management of specific areas of the Company's business, in particular:

- business strategy,
- safety of business and internal audit,

Special powers of the President of the Management Board include performance of the Company's defense tasks resulting from the regulations on the universal defense obligation.

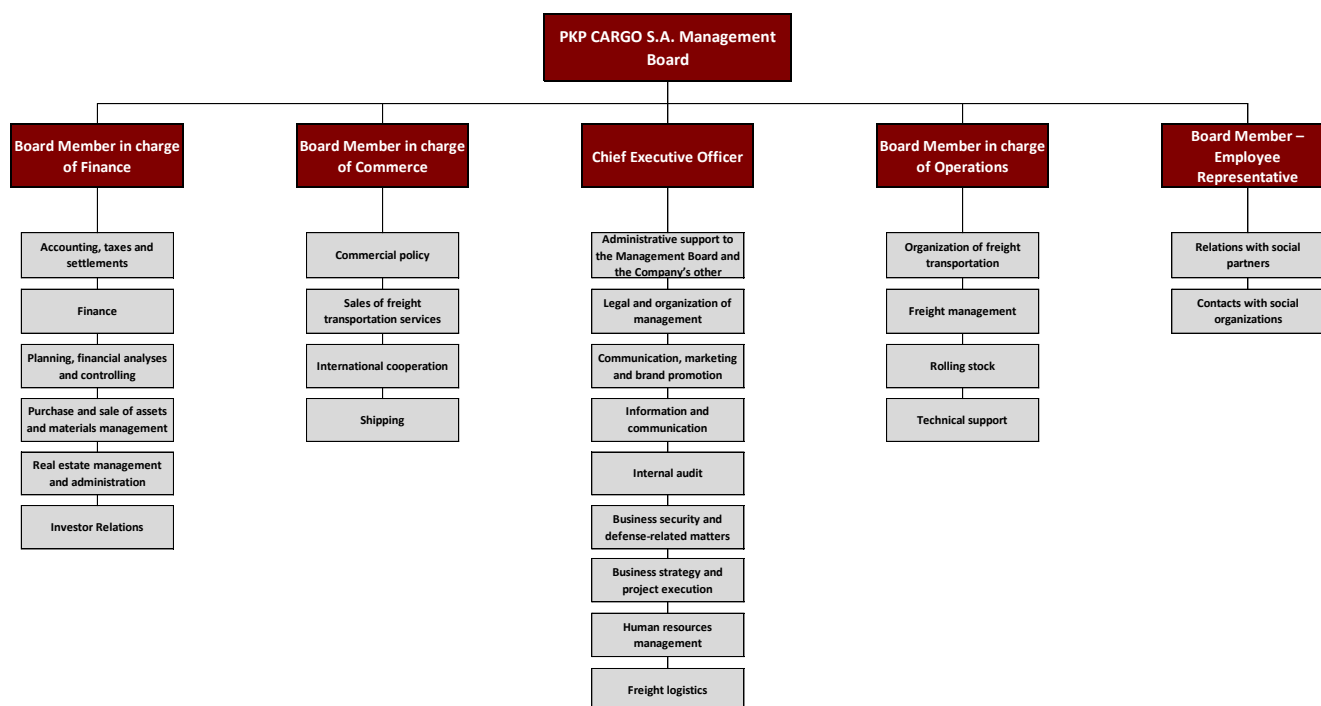
- 2) Management Board Member in charge of Finance – the scope of duties of the Management Board Member in charge of Finance covers responsibility for rational management of the Company's resources and overseeing the management of specific areas of the Company's business, in particular:

- finance management,
- purchase and sale of assets.

Special powers of the Management Board Member in charge of Finance include the performance, on behalf of PKP CARGO S.A., of obligations arising from accounting, tax and insurance regulations.

- 3) Management Board Member in charge of Commerce – the scope of duties of the Management Board Member in charge of Commerce covers responsibility for adequate sales levels and customer relations and overseeing the management of specific areas of the Company's business, in particular:
 - commercial policy,
 - sales of transportation services.
- 4) Management Board Member in charge of Operations – the scope of this Management Board Member's duties covers overseeing the management of specific areas of the Company's business, in alignment with the powers assigned in a separate resolution adopted by the Management Board, as regards:
 - management of transport,
 - organization of transport.
- 5) Management Board Member - Employee Representative in the Management Board - the scope of activity of the Management Board Member - Employee Representative includes overseeing the supervision of specific areas of the Company's business, in accordance with the powers established by a separate Management Board resolution, as regards:
 - monitoring of relations with social partners,
 - contacts with social organizations.

Figure 10 Duties and responsibilities of the PKP CARGO S.A. Management Board Members



Source: Proprietary material



Maciej Libiszewski – President of the Management Board

A lawyer by education. He graduated from the Faculty of Law and Administration at the Gdańsk University and then completed Polish-German Finance, Management and Marketing Studies. He has experience in top executive positions with a good track record of managing interdisciplinary teams and running complex projects. He is an experienced negotiator who successfully signed numerous agreements which ended disputes with trade unions. He has written restructuring and optimization programs for the financial area of commercial law companies.

Mr. Libiszewski ran his own business and subsequently worked for transport-related companies. He served on a number of supervisory boards and management boards of state, local government and privately-owned commercial companies (also as a Supervisory Board member and a Management Board member of PKP CARGO S.A. from 2005 to 2008). His professional career from 2001 through 2015 was focused on the transport sector. He speaks English, French, German and Russian. He passed an examination for supervisory board member candidates in State Treasury-owned companies.



Dariusz Browarek – Management Board Member – Employee Representative

In 2004, Mr. Browarek graduated from the Faculty of Law and Administration at the University of Warmia and Mazury in Olsztyn followed by postgraduate studies in human resources management at the Gdańsk University of Technology. Prior to this, he graduated from the Railway Technical School in Olsztyn.

For more than 30 years, he has been dealing with labor issues in the railway industry and is trade union and social activist. He has been with PKP CARGO S.A. since its inception. He worked in the Locomotive Depot in Olsztyn, then in the Cargo Rolling Stock Section in Olsztyn, and after the reorganization in the Northern Section of PKP CARGO S.A. in Gdynia where he was employed as an inspector of defense matters and protection of classified information. For a number of years, he was the chairman of the trade union organization in the section where he was employed, which organization is a member of the Trade

Union of Polish Railwaymen in Gdańsk. Until April 2014, for two consecutive terms of office, he served as Vice-Chairman of the Federation of PKP Workers' Unions. He was also responsible for the operations of the Training Center of the Federation of PKP Workers' Unions. Also until April 2014, he represented the interests of PKP employees in the Investors Council of the PKP Employee Ownership Fund. He took an active part in negotiations with employers, including negotiations concerning the Social Guarantee Package for employees of PNI and the Employee Guarantee Package at PKP CARGO S.A. For a number of years, he has been preparing opinions on amendments to legislation related to railway transport as a member of the Sejm's Infrastructure Committee. On 24 April 2014, he was selected by the PKP CARGO S.A. Supervisory Board as the Management Board Member – Employee Representative. He supports the PKP CARGO S.A. Management Board in the running of an effective dialogue with trade unions.

Commercial proxies established and revoked

A joint commercial proxy for Mr. Witold Bawor was in effect until 12 February 2015 – Resolution No. 325/2012 adopted by the Management Board of PKP CARGO S.A. on 17 July 2012. As of 12 February 2015, following the procedure prescribed in Article 371 § 5 of the Commercial Companies Code, the commercial proxy powers granted to Mr. Witold Bawor were revoked.

A joint commercial proxy for Mr. Grzegorz Kliczmachowski was in effect until 6 March 2015 – Resolution No. 585/2013 adopted by the Management Board of PKP CARGO S.A. on 5 December 2013. As of 6 March 2015, following the procedure prescribed in Article 371 § 5 of the Commercial Companies Code, the commercial proxy powers granted to Mr. Grzegorz Kliczmachowski were revoked.

Joint commercial proxies for Mr. Arkadiusz Pokropski – Resolution No. 170/2014 adopted by the Management Board of PKP CARGO S.A. on 6 May 2014 – and for Mr. Ireneusz Wasilewski – Resolution No. 324/2012 adopted by the Management Board of PKP CARGO S.A. on 17 July 2012 – were in effect until 17 March 2015. As of 17 March 2015, following the procedure prescribed in Article 371 § 5 of the Commercial Companies Code, the commercial proxy powers granted to Mr. Arkadiusz Pokropski and to Mr. Ireneusz Wasilewski were revoked. At the same time, a joint commercial proxy was granted to Mr. Arkadiusz Pokropski – Resolution No. 104/2015 adopted by the Management Board of PKP CARGO S.A. on 17 March 2015 – and for Mr. Ireneusz Wasilewski – Resolution No. 103/2015 adopted by the Management Board of PKP CARGO S.A. on 17 March 2015.

On 1 March 2016 following the procedure prescribed in Article 371 § 5 of the Commercial Companies Code, the commercial proxy powers granted to Mr. Arkadiusz Pokropski.

SUPERVISORY BOARD

In accordance with the consolidated wording of the Articles of Association of PKP CARGO S.A. (Resolution no. 1468/2015 adopted by the PKP CARGO S.A. Supervisory Board on 29 October 2015), 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 Supervisory Board is appointed and dismissed by the Shareholder Meeting, subject to the provisions of § 19 sec. 2 and 3 of the Articles of Association of PKP CARGO S.A.

Powers of the Supervisory Board

The Supervisory Board conducts constant supervision over the Company's operations in all areas of its activity. Moreover, its powers, in addition to matters reserved by the Commercial Companies Code or other statutes, include: 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 Members of the Management Board, setting the number of Management Board Members, granting consent for the establishment or liquidation of the Company's branch, granting consent for the Company's accession to business organizations, 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 Bylaws of the Company's Supervisory Board. The Bylaws are adopted by the Company's Supervisory Board. In accordance with the provisions of the Bylaws of the Supervisory Board, the Supervisory Board makes decisions in the form of resolutions. For Supervisory Board resolutions adopted at the meeting to be valid, all Supervisory Board members are required to be invited and at least half of them need to be present, including the Supervisory Board Chairman. Resolutions of the Supervisory Board are adopted by an absolute majority of votes. If an equal number of votes is cast "for" and "against" together with abstentions, the Supervisory Board Chairman shall have the casting vote. Supervisory Board resolutions in the matter of suspension of Management Board members or Management Board shall require the consent of the Supervisory Board Chairman. Supervisory Board resolutions may be also adopted without holding a meeting, using written ballot or using means of remote direct communication, excluding resolutions pertaining to election of the Supervisory Board Chairman and Deputy Chairman, appointment of a Management Board member and dismissal and suspension of these persons in their duties. Supervisory Board meetings are convened by the Supervisory Board Chairman as needed, but at last once every month.

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, relatives or relatives and second degree next of kin, 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 from the Supervisory Board meeting.

The table below presents the composition of the Supervisory Board as at the date of submission of this report.

Table 36 Composition of the PKP CARGO S.A. Supervisory Board from 1 January 2015 to the date of submission of this report

Name	Position	Period in office	
		from	to
Jakub Karnowski	Supervisory Board Chairman	24 May 2012	17 December 2015 (resignation)
Piotr Ciżkowicz	Supervisory Board Member	29 July 2014 (appointed as Deputy Chairman on 31 July 2014)	17 December 2015 (resignation)
Krzysztof Czarnota	Supervisory Board Member	6 July 2006; 24 May 2012 for the 5th term of office	29 September 2015
Marek Podskalny	Supervisory Board Member	6 July 2006; 24 May 2012 for the 5th term of office	29 September 2015
Kazimierz Jamrozik	Supervisory Board Member	24 May 2012	to date
Konrad Anuszkiewicz	Supervisory Board Member	13 December 2013	17 December 2015 (resignation)
Stanisław Knaflewski	Supervisory Board Member	17 December 2013	to date
Paweł Ruka	Supervisory Board Member	17 December 2013	13 March 2015 (resignation)
Jarosław Pawłowski	Supervisory Board Member	26 April 2014	18 February 2015
Jacek Leonkiewicz	Supervisory Board Member	29 July 2014	17 December 2015 (resignation)
Sławomir Baniak	Supervisory Board Member	24 November 2014	17 December 2015 (resignation)
Zbigniew Klepacki	Supervisory Board Member	19 February 2015	9 June 2015 (resignation)
Raimondo Eggink	Supervisory Board Member	13 April 2015	to date
Jarosław Bator	Supervisory Board Member	15 September 2015	17 December 2015 (resignation)
Mirosław Pawłowski	Supervisory Board Member	17 December 2015 (from 18 December 2015 as Supervisory Board Chairman)	to date
Jerzy Kleniewski	Supervisory Board Member	17 December 2015	to date
Andrzej Wach	Supervisory Board Member	17 December 2015	to date
Maciej Libiszewski	Supervisory Board Member	17 December 2015 (from 18 December 2015 delegated as acting President of the Management Board)	19 January 2016 (resignation)
Czesław Warszewicz	Supervisory Board Member	17 December 2015	to date
Małgorzata Kryszkiewicz	Supervisory Board Member	17 December 2015	to date

Source: Proprietary material

Stanisław Knaflewski – Supervisory Board Member

Mr. Knaflewski graduated from the Adam Mickiewicz University of Poznań with a master's degree in law (1992). In 1995, he obtained an MBA degree from INSEAD in Fontainebleau, France. He began his professional career in 1993 in the law firm Sołtyński, Kawecki & Szlązak as a counsellor providing legal assistance to parties involved in international investment and commercial transactions. From 1995 to 1999, he worked for the Boston Consulting Group, a leading global strategic consulting firm, initially as a BCG consultant in Paris where he assisted French pharmaceutical companies and retailers and later as a manager in the Warsaw office and a member of the team which created the Warsaw office. From 1999 to 2013, he was associated with Enterprise Investors, a leading private equity firm investing in Polish and Central and Eastern European companies, initially as a partner and from 2009 as a Member of the Board of Directors which is the company's main corporate authority at the international level. During his 14 years at Enterprise Investors, Mr. Knaflewski executed a number of investment projects, exercised owner supervision over portfolio companies and participated in the creation and implementation of their development strategies. As part of the execution of such projects, he held functions in the Supervisory Boards of the following public companies: Bulgarian Telecom, Stomil Sanok SA and Polfa Kutno SA.

Raimondo Eggink – Supervisory Board Member

Since 2002, Mr. Eggink (born on 1972) 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: Prime Car Management S.A. (od 2015 r.), PKP Cargo S.A. (od 2015 r.), Suwary S.A. (od 2015 r.), Górnośląskie Przedsiębiorstwo Wodociągów S.A. (od 2015 r.), AmRest Holdings SE (od 2010 r.), Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. (od 2009 r.) i PERŁA – Browary Lubelskie S.A. (2004-2005 oraz od 2008 r.).

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.

Investment advisor license Raimondo Eggink acquired in March 1995. In 1995-1997, he served as Vice-President of the Council of Brokers and Advisers. In 2000, association AIMR (now - CFA Institute) awarded him the title of CFA (Chartered Financial Analyst), 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.

In 1994, he graduated the Jagiellonian University majoring in theoretical mathematics where in 2010 he obtained his Ph.D. degree. Raimondo Eggink is a Dutch citizen permanently residing in Poland.

Mirosław Pawłowski – Supervisory Board Member

Mr. Pawłowski is a graduate of economics studies. He also completed, among others, postgraduate studies in management and finance. Associated with the railway sector and PKP Group companies since 2001. In 2001, he became Director in charge of economic and financial matters in PKP S.A. where he was responsible for railway infrastructure. From 2001 to 2009, he was the Management Board Member in charge of economic and financial matters in PKP Polskie Linie Kolejowe S.A. In parallel, from 2006 to 2009, he served as Vice-President of the Railway Employers' Union. From 2009 to 2012, he was the President of the Management Board of the City of Siedlce Development Agency where he was responsible for infrastructural investments. From 2012 to 2015, the President of the Management Board of Pile Elbud Kraków and Pile Elbud S.A. Kraków. Currently, the President of the Management Board of PKP S.A.

Kazimierz Jamrozik – Supervisory Board Member

In 1975, Mr. Jamrozik graduated from a Vocational School and obtained his qualifications of a car mechanic. He continued his education in the Railway Technical School in Tarnowskie Góry where he became a qualified mechanic technician. In 2000, he passed an examination for supervisory board member candidates in State Treasury-owned companies organized by the State Treasury Ministry.

He began his professional career in PKS (Państwowa Komunikacja Samochodowa – State-Owned Road Transport Company) in Przemyśl in 1972. Until 1975, he was an intern, and then from 1975 to 1986 an assistant driver of rail vehicles in PKP's Locomotive Depot in Bytom. Subsequently, from 1986 to 1996, he was a driver of rail vehicles. In 1996, he was hired for the same position in PKP's Rolling Stock Department in Katowice where he worked until 2002. Since 2002, Mr. Jamrozik has worked as a driver of rail vehicles. Moreover, since 2001, with a break from 2006 to 2008, he has served as Chairman of the National Audit Committee of the Trade Union of Rail Vehicle Drivers in Poland.

Andrzej Wach – Supervisory Board Member

Mr. Wach is a graduate of the Faculty of Electrical Engineering at the Warsaw University of Technology and of the Department of Law of the Post-Graduate College of Administration at the University of Warsaw. He started his professional career in Polskie Koleje Państwowe. From 1980 to 2010, he worked as an instructor, controller, branch director, PKP's chief electrical engineer, President of the Management Board of PKP Energetyka S.A. and President of the Management Board of PKP S.A. Since 2011, he has been an advisor to the Management Board of PORR Polska Construction S.A. where he oversees the performance of investment contracts for a railway infrastructure administrator.

Since 2000, he has served on the Supervisory Boards of Elester PKP Sp. z o.o. and Kolejowe Zakłady Łączności Sp. z o.o. as the Supervisory Board Chairman, PKP Polskie Linie Kolejowe S.A. as the Supervisory Board Chairman, Telekomunikacja Kolejowa as the Supervisory Board Chairman, PKP Przewozy Regionalne as the Supervisory Board Chairman, Rail Project Sp. z o.o. as the Supervisory Board Chairman and PKP CARGO S.A. as the Supervisory Board Chairman. From 2005 to 2009, he was a member of the Steering Committee for the Community of European Railway and Infrastructure Companies (CER) in Brussels and, from 2009 to 2010, a member of the Executive Board of the International Union of Railways (UIC) in Paris.

Małgorzata Kryszkiewicz – Supervisory Board Member

Ms. 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. A statutory auditor since 2009.

Czesław Warszewicz – Supervisory Board Member

Mr. Warszewicz 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. 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. He has capital market experience gathered in the consulting firms EVIP and CAL where he prepared issue prospectuses for ZML "Kęty", Cersanit and Hydrobudowa 7.

From 1993 to 1999, he worked for the private sector, including the following companies: Company Assistance Sp. z o.o., Raab Karcher Energieservice Sp. z o.o., EVIP International Sp. z o.o. In 1997, he joined the stock-exchange listed Provimi-Rolimpex S.A. group where he worked for 9 years. In 2006-2009, the President of the Management Board of PKP Intercity S.A. Currently, the President of the Management Board of "Blue Ocean" Business Consulting Sp. z o.o., a strategic consultancy firm specializing in the development of transportation plans for local government units. A member of the Program Committee of the Law and Justice party (PiS) responsible for the preparation of its transportation program, in particular in the area of railway transportation.

Jerzy Kleniewski – Supervisory Board Member

Mr. Kleniewski currently works for the Ministry of Infrastructure and Construction as the Minister's Aide responsible for international cooperation. From 2009 to 2014, he was an employee of the Railway Department of the then Ministry of Infrastructure. Since 2012, he has discharged the function of Chairman of the Inland Transport Committee at the UN Economic Commission for Europe in Geneva and Chairman of various working and expert groups at the UN/ECE ITC. He spent 5 years in the diplomatic and consular service as a representative of the Minister of Transport and Marine Economy in New York and subsequently worked 6 years for the European Parliament.

He holds a PhD Eng. degree in natural sciences. In 1998, he completed postgraduate studies at the New York University, NY, receiving an Investment Banking Certificate and completed various foreign training courses, including a management course at the Hull University in the UK. A lecturer at the Columbia University, NY, at the Customs and Logistics University in Warsaw and at postgraduate courses of the Warsaw School of Economics (SGH).

He passed an examination for supervisory board member candidates in State Treasury-owned companies. He served as a Supervisory Board member in the following companies: PPH "Dalmor" S.A., PŻB S.A., Zakłady Chemiczne "Organika-Sarżyna" S.A., and most recently at Zakład Robót Komunikacyjnych DOM w Poznaniu Sp. z o.o.

SUPERVISORY BOARD'S AUDIT COMMITTEE

The PKP CARGO S.A. Audit Committee is appointed by the PKP CARGO S.A. Supervisory Board. It consists of at least three Supervisory Board members, including at least two Members fulfilling the independence criteria and appointed in the manner provided for in § 20 and 21 of the Company's Articles of Association. Members of the Committee are appointed for a term corresponding to the Supervisory Board's term of office. Tasks of the Audit Committee include in particular: supervision over the organizational unit responsible for internal audit, monitoring the financial reporting process, monitoring the performance of financial audit activities, monitoring the independence of the statutory auditor and the entity authorized to audit financial statements, recommending an entity authorized to audit financial statements to the Supervisory Board to perform financial audit activities for the Company, etc.

Table 37 Composition of the Audit Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2015 to the date of submission of this report

Name	Position	Period in office	
		from	to
Paweł Ruka	Committee Chairman	6 February 2014	13 March 2015
Stanisław Knaflewski	Committee Member	6 February 2014	to date
Konrad Anuszkiewicz	Committee Member	6 February 2014 (Committee Chairman from May 2015)	17 December 2015
Raimondo Eggink	Committee Member	30 April 2015 (Committee Chairman since 18 December 2015)	to date
Małgorzata Kryszkiewicz	Committee Member	18 December 2015	to date

Source: Proprietary material

NOMINATION COMMITTEE

The Nomination Committee is appointed by the PKP CARGO S.A. Supervisory Board. It consists of three Supervisory Board members, of whom at least one Supervisory Board Member must satisfy the independence criteria and be appointed in the manner provided for in § 20 and 21 of the Company's Articles of Association. Members of the Committee are appointed for a term corresponding to the Supervisory Board's term of office. The Nomination Committee organizes and exercises ongoing supervision over the recruitment procedure to the positions of Management Board members and over the Management Board member evaluation and appointment process.

Table 38 Composition of the Nomination Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2015 to the date of submission of this report

Name	Position	Period in office	
		from	to
Stanisław Knaflewski	Committee Chairman	17 December 2013	to date
Jakub Karnowski	Committee Member	17 December 2013	17 December 2015
Jacek Leonkiewicz	Committee Member	31 July 2014	17 December 2015
Mirosław Pawłowski	Committee Member	18 December 2015	to date
Andrzej Wach	Committee Member	18 December 2015	to date

Source: Proprietary material

9. Investor Relations

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

In 2015, PKP CARGO S.A., seeking to ensure the highest standards in the area of investor relations, implemented various tools and conducted numerous events targeted at the investor community.

The primary objective of PKP CARGO S.A. is the correct and timely fulfillment of a listed company's disclosure duties. In this context, the Company identified a number of events in 2015 that require an immediate public announcement. As part of its stock exchange reporting activities, PKP CARGO S.A. published 78 current reports in 2015.

In 2015, PKP CARGO S.A. held four conferences for analysts and investors to discuss the Company's published interim results. During the conference, representatives of the PKP CARGO S.A. Management Board presented the Company's results and answered the participants' questions. In order to ensure the broadest possible outreach to the conference, PKP CARGO S.A. provided webcasts of the events through the Company's website. During the conference, PKP CARGO S.A. provided simultaneous translation into English of each event, both for the attending participants and for Internet viewers or persons participating via teleconference.

In order to ensure a broad spectrum of information on key events in the Company outside conferences devoted to end-of-period results, PKP CARGO S.A. also held conferences for investors to discuss events such as M&A projects or to present the PKP CARGO Group's strategy.

Within the framework of activities targeted at the Company's current and potential investors, in 2015 representatives of PKP CARGO S.A. participated in domestic and foreign conferences and roadshows, both in Europe and in the United States, organized by professional capital market institutions. During the seven conferences and roadshows that were held in 2015, PKP CARGO S.A. representatives participated in approx. 40 meetings with investors.

In addition to group meetings for analysts and investors, the Company also held approx. 50 individual meetings, usually held in the Company's headquarters, and a number of teleconferences, on an as-needed basis, as requested by interested parties.

At the outset of 2015, PKP CARGO S.A. launched its new 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). In order to provide transparent and easy access, the section has been broken down into the following topics:

1. Annual report – containing consolidated annual financial statements, the Management Board report and the opinion of the Independent Auditor.
2. Financial data – a block containing the Company's fundamental data on its operating and financial performance as well as interim (quarterly and semi-annual) financial reports.
3. Presentations – containing presentations prepared for conferences devoted to end-of-period results, M&A deals and the PKP CARGO Group's strategy.
4. Current reports – a block containing all current reports published by the Company.
5. Shares – a block containing stock exchange data such as: an up-to-date share price chart, data on the current share price, market and book value, shareholders and dividend payments as well as a calculator of the current value of shares. Moreover, this block features analysts' recommendations and information about employee shares.
6. General Meetings – containing information on General (Shareholder) Meetings convened by PKP CARGO S.A., including announcements on convening the General Meetings, draft resolutions and forms enabling the exercise of voting rights by proxy.
7. Corporate governance – a block containing bios of persons in charge of PKP CARGO S.A. (Management Board and Supervisory Board) and information on the Audit Committee and the Nomination Committee. This block also contains the Company's constitutional documents such as the Articles of Association, the Management Board Bylaws, the Supervisory Board Bylaws and the issue prospectus. Also published under this heading are the principles of good practice which PKP CARGO S.A. applies to achieve maximum operational transparency and an appropriate, high quality of communication with investors.
8. Calendar – containing events of the highest significance from the investor's point of view.
9. Contact – a block containing contact data of PKP CARGO S.A.'s Investor Relations Department.

In 2015, the Company began distributing a monthly PKP CARGO S.A. investor relations newsletter to a group of interested analysts and investors, 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 15 July 2015, PKP CARGO S.A. held the first edition of the "Investor Day" targeted at stock exchange analysts and institutional investors. The event was attended by several dozen participants representing more than 20 financial institutions. During the "Investor Day", the participants visited the PKP CARGO Group's key assets located in Poznań, including the container terminal in Franowo and rolling stock repair facilities. The second part of the event consisted of a presentation on the Czech carrier AWT recently acquired by PKP CARGO S.A. and the progress of integration of the two companies.

PKP CARGO S.A.'s investor relations were also focused on individual investors. For their benefit, on 2 September 2015 the Company held a highly popular online investor chat during which questions from investors were answered by the Management Board Member in charge of Finance. Over 120 persons joined the chat and more than 500 visits by unique users were registered during the first day of its publication.

The high level of PKP CARGO S.A.'s investor relations was confirmed by the awards and recognitions received in 2015.

After merely a one-year presence on the Warsaw Stock Exchange, PKP CARGO S.A. was recognized and hit the podium of the ranking "Listed Company of the Year" in the category "Investor Relations". The award was all the more valuable as PKP CARGO S.A.'s recognition came from more than 100 professionals from the world of stock exchange and finance, and the 16th edition of the ranking was organized by the daily paper Puls Biznesu and the research institute TNS Poland.

The website "strefainwestorow.pl" recognized PKP CARGO S.A. for its communication on Twitter. In the opinion of the editors of strefainwestorow.pl, the Company is among the top five companies listed on the Warsaw Stock Exchange in terms of disseminating information about its activities among investors.

PKP CARGO S.A. was also recognized for the largest progress in its financial statements in the contest "Best Annual Report 2014" organized for the tenth time by the Institute for Accounting and Taxation.

As part of the Company's continuous efforts aimed at improving the quality of its investor services, in 2016 PKP CARGO S.A. intends to continue its activities and develop communication tools in the area of investor relations.

The table below presents a timeline demonstrating key investor relations events and activities which occurred in 2015.

Table 39 Events and activities in the area of investor relations in 2015

No	Date	Event
1	8–16 January 2015	Meetings of the Management Board with analysts and investors on PKP CARGO S.A.'s acquisition of an 80% stake in Advanced World Transport B.V.
2	20 January 2015	Participation in the conference entitled "Service, transportation and logistics sectors" – DM PKO BP (Brokerage House of PKO BP), Warsaw
3	17-18 February 2015	Roadshow in cooperation with JP Morgan and Morgan Stanley in New York City
4	12 March 2015	Publication of the Management Board's recommendations on the distribution of profit for 2014 and determination of the amount allocated for the payment of dividends
5	12 March 2015	Publication of the consolidated annual financial statements of the PKP CARGO Group for 2014 Meeting of the Management Board with analysts and investors concerning the publication of financial results for 2014
6	18-19 March 2015	Participation in the Polish Capital Market Conference, DM PKO BP (Brokerage House of PKO BP) and Warsaw Stock Exchange, London
7	13 April 2015	Extraordinary Shareholder Meeting of PKP CARGO S.A.
8	21 April 2015	Ordinary Shareholder Meeting of PKP CARGO S.A.
9	12 May 2015	Publication of the consolidated quarterly financial statements of the PKP CARGO Group for Q1 2015 Meeting of the Management Board with analysts and investors concerning the publication of financial results for Q1 2015
10	18 May 2015	Participation in the Polish Capital Markets Conference, Warsaw Stock Exchange, Ipopema, Auerbach Grayson, New York City
11	15 June 2015	Dividend record date
12	26 June 2015	Dividend payment date
13	15 July 2015	PKP CARGO Institutional Investor Day, Poznań
14	20 July 2015	Extraordinary Shareholder Meeting of PKP CARGO S.A.
15	27 August 2015	Publication of the consolidated semi-annual financial statements of the PKP CARGO Group for H1 2015 Meeting of the Management Board with analysts and investors concerning the publication of financial results for H1 2015
16	2 September 2015	Online chat with individual investors
17	29 September 2015	Extraordinary Shareholder Meeting of PKP CARGO S.A.
18	15 October 2015	Participation in the Polish Capital Markets Day, Societe Generale, Paris
19	21-23 October 2015	Roadshow in collaboration with Societe Generale, Vienna, London
20	28 October 2015	Meeting of the Management Board with analysts and investors concerning the presentation of the PKP CARGO Group's Strategy for 2016-2020
21	30 October 2015	End of the lock-up period for Employee Shares
22	12 November 2015	Publication of the consolidated quarterly financial statements of the PKP CARGO Group for Q3 2015 Meeting of the Management Board with analysts and investors concerning the publication of financial results for Q3 2015
23	17 November 2015	Meeting of the Management Board with analysts and investors on PKP CARGO's acquisition of stakes in ORLEN KolTrans and ZCP Euronaft Trzebinia
24	3-4 December 2015	Participation in the conference WOOD's Winter in Prague, WOOD & Company, Prague

Source: Proprietary material

10. Other information of relevance for evaluation of the employment situation, financial standing, financial results, assets and their movements as well as information of relevance for assessment of the ability of the issuer and other Group companies to pay their debts.

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

This Standalone Annual Report was approved by the PKP CARGO S.A. Management Board on 17 March 2016.

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Maciej Libiszewski

President of the Management Board

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Dariusz Browarek

Management Board Member

STATEMENT

of the Management Board of PKP CARGO S.A. on the compliance of the Financial Statement of PKP CARGO S.A. for the year ended on 31 December 2015 and the Management Board's report on the operation of PKP CARGO S.A. for the year 2015

I, the undersigned, hereby represent that to the best of my knowledge, the Separate Financial Statement of PKP CARGO S.A. for the year ended on 31 December 2015, 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 PKP CARGO S.A., as well as its financial result.

I also declare that the Management Board's report on the operation of PKP CARGO S.A. in 2015 presents a true picture of the growth, achievements and standing of PKP CARGO S.A., as well as a description of the key threats and risks.

Management Board Members

Maciej Libiszewski
President of the Board

Dariusz Browarek
Board Member

Warszawa, dnia 17 March 2016

STATEMENT

of the Management Board of PKP CARGO S.A. on the choice of the entity authorized to audit Financial Statement of PKP CARGO S.A. for the year ended 31 December 2015

I, the undersigned, hereby represent that the entity authorized to audit annual financial statements, auditing the Separate Financial Statement of PKP CARGO S.A. for the year ended on 31 December 2015, has been appointed in observance of the rule of law, and that the said entity, as well as the certified auditors performing the audit, met the requirements that need to be fulfilled in order to issue an impartial and independent opinion on the annual financial statement audited, in line with the applicable regulations and professional standards.

Management Board Members

Maciej Libiszewski
President of the Board

Dariusz Browarek
Board Member

Warszawa, dnia 17 March 2016



pkpcargo.com



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