PKP CARGO S.A.
STAND-ALONE ANNUAL REPORT FOR 2014

Warsaw, 12 March 2015

Ladies and Gentlemen,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Adam Purwin

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

PKP CARGO S.A.

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

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 2014

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

OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting of PKP CARGO S.A.

Opinion on the 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 2014, 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 additional information to the separate financial statements comprising a summary of significant accounting policies and other information and explanatory notes.

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, National Standards on Auditing issued by the National Council of Certified Auditors and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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 2014 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. Chłodna 51
00-867 Warsaw

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

11 March 2015

TRANSLATION

PKP CARGO S.A.

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

The supplementary report contains 9 pages

The supplementary report on the audit of the separate financial statements for the financial year ended 31 December 2014

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

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 Warsaw

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 2014, the Management Board of the Company was comprised of the following members:

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

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

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

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

1.2. 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. Chłodna 51, 00-867 Warsaw
Registration number:	KRS 0000339379
Registration court:	District Court for the Capital City of Warsaw in Warsaw, XII Commercial Department of the National Court Register
NIP number:	527-26-15-362

KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. is entered 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 2013 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 12 May 2014 where it was resolved to distribute the net profit for the prior financial year of PLN 94,083,113.21 as follows:

- PLN 86,556,464.15 to be paid as a dividend,
- PLN 7,526,649.06 to reserve capital.

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

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 2014, 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 additional information to the separate financial statements comprising a summary of significant accounting policies and other information and explanatory notes.

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

We audited the separate financial statements at the Company during the period from 1 to 5 December 2014, from 2 to 13 February 2015.

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 2009 No. 77, item 649 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	31.12.2014 PLN '000	% of total	31.12.2013 PLN '000	% of total
Non-current assets				
Property, plant and equipment	3,709,121	69.7	3,533,830	65.5
Intangible assets	55,990	1.1	58,545	1.1
Investments in subsidiaries and associates	262,846	5.0	243,164	4.5
Other long-term financial assets	6,021	0.1	7,440	0.1
Other long-term non-financial assets	1,464	-	1,201	0.1
Deferred tax assets	58,359	1.1	61,239	1.1
Total non-current assets	4,093,801	77.0	3,905,419	72.4
Current assets				
Inventories	75,759	1.4	46,277	0.9
Trade and other receivables	423,171	7.9	477,236	8.8
Other short-term financial assets	301,818	5.7	689,157	12.8
Other short-term non-financial assets	24,921	0.5	24,743	0.5
Cash and cash equivalents	381,420	7.2	229,232	4.2
Non-current assets held for sale	17,560	0.3	22,607	0.4
Total current assets	1,224,649	23.0	1,489,252	27.6
TOTAL ASSETS	5,318,450	100.0	5,394,671	100.0

EQUITY AND LIABILITIES	31.12.2014 PLN '000	% of total	31.12.2013 PLN '000	% of total
Equity				
Share capital	2,239,346	42.1	2,166,901	40.2
Share premium	584,513	11.0	651,472	12.1
Other items of equity	(39,642)	(0.7)	(9,901)	(0.2)
Retained earnings/(uncovered losses)	468,081	8.8	554,494	10.3
Total equity	3,252,298	61.2	3,362,966	62.4
Liabilities				
Long-term bank loans and credit facilities	206,112	3.9	115,654	2.1
Long-term finance lease liabilities and leases with purchase option	114,027	2.1	228,832	4.2
Long-term trade and other payables	67,938	1.3	113,509	2.1
Long-term provisions for employee benefits	611,418	11.5	551,951	10.3
Other long-term provisions	8,416	0.1	22,778	0.4
Total non-current liabilities	1,007,911	18.9	1,032,724	19.1
Short-term bank loans and credit facilities	87,971	1.7	59,733	1.1
Short-term finance lease liabilities and leases with purchase option	120,505	2.3	108,770	2.0
Short-term trade and other payables	457,602	8.6	604,599	11.2
Short-term provisions for employee benefits	315,213	5.9	165,790	3.1
Other short-term provisions	17,414	0.3	20,449	0.4
Other short-term financial liabilities	59,393	1.1	39,640	0.7
Current tax liabilities	143	-	-	-
Total current liabilities	1,058,241	19.9	998,981	18.5
Total liabilities	2,066,152	38.8	2,031,705	37.6
TOTAL EQUITY AND LIABILITIES	5,318,450	100.0	5,394,671	100.0

2.1.2. Separate statement of comprehensive income

	1.01.2014 - 31.12.2014 PLN '000	% of total sales	1.01.2013 - 31.12.2013 PLN '000	% of total sales
Revenue from sales of services	3,775,863	98.3	4,161,728	97.1
Revenue from sales of goods and materials	28,809	0.7	56,558	1.3
Other operating revenue	37,935	1.0	69,245	1.6
Operating revenue	3,842,607	100.0	4,287,531	100.0
Operating expenses				
Depreciation/amortisation and impairment losses	(332,191)	8.6	(360,860)	8.4
Consumption of raw materials and supplies	(593,779)	15.5	(685,798)	16.0
External services	(1,191,505)	31.0	(1,418,734)	33.1
Taxes and charges	(35,941)	0.9	(34,354)	0.8
Employee benefits	(1,583,437)	41.2	(1,551,037)	36.2
Other expenses by kind	(19,009)	0.5	(45,643)	1.1
Cost of merchandise and raw materials sold	(15,353)	0.4	(34,451)	0.8
Other operating expenses	(21,096)	0.6	(49,203)	1.2
	(3,792,311)	98.7	(4,180,080)	(97.5)
Profit on operating activities	*50,296*	*1.3*	*107,451*	*2.5*
Financial revenue	49,497	1.3	45,759	1.1
Financial expenses	(31,592)	0.8	(38,268)	0.9
Profit before tax	68,201	1.8	114,942	2.7
Income tax expense	(9,591)	0.3	(20,859)	0.5
Net profit	*58,610*	*1.5*	*94,083*	*2.2*
Other comprehensive income that will never be reclassified to profit or loss				
Actuarial gains / (losses) on employee benefits after employment period	(36,717)	1.0	16,590	0.4
Income tax on other comprehensive income	6,976	0.2	(3,152)	0.1
	(29,741)	***0.8***	***13,438***	***0.3***
Total comprehensive income	***28,869***	***0.7***	***107,521***	***2.5***
Earnings per share (PLN per share)				
Basic earnings per share	1.32		2.17	
Diluted earnings per share	1.31		2.15	

2.2. Selected financial ratios

	2014	2013	2012
1. Return on sales			
profit for the period x 100% / revenue	1.5%	2.2%	5.6%
2. Return on equity			
profit for the period x 100% / equity - profit for the period	1.8%	2.9%	9.2%
3. Debtors' days			
average trade receivables (gross) x 365 days / revenue	65 days	60 days	42 days
4. Debt ratio			
liabilities x 100% / equity and liabilities	38.8%	37.7%	41.2%
5. Current ratio			
current assets / current liabilities	1.2	1.5	1.4

- 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.
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00-867 Warsaw

Signed on the Polish original

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

11 March 2015

SEPARATE FINANCIAL STATEMENTS
OF THE **PKP CARGO S.A.**
FOR THE FINANCIAL YEAR ENDED
31 DECEMBER 2014
PREPARED IN ACCORDANCE WITH IFRS
AS ENDORSED BY THE EUROPEAN UNION

Warsaw, 12 March 2015

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

	Note	For the year ended 31 December 2014 (audited)	For the year ended 31 December 2013 (audited)
		PLN thousand	PLN thousand
Revenue from sales of services	5	3 775 863	4 161 728
Revenue from sales of goods and materials		28 809	56 558
Other operating revenue	7.1	37 935	69 245
Total operating revenue		**3 842 607**	**4 287 531**
Depreciation/amortisation and impairment losses	6.1	332 191	360 860
Consumption of raw materials and supplies	6.2	593 779	685 798
External services	6.3	1 191 505	1 418 734
Taxes and charges		35 941	34 354
Employee benefits	6.4	1 583 437	1 551 037
Other expenses by kind	6.5	19 009	45 643
Cost of merchandise and raw materials sold		15 353	34 451
Other operating expenses	7.2	21 096	49 203
Total operating expenses		**3 792 311**	**4 180 080**
Profit on operating activities		**50 296**	**107 451**
Financial revenue	8	49 497	45 759
Financial expenses	9	31 592	38 268
Profit before tax		**68 201**	**114 942**
Income tax expense	10.1	9 591	20 859
NET PROFIT		**58 610**	**94 083**

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

	Note	For the year ended 31 December 2014 (audited)	For the year ended 31 December 2013 (audited)
		PLN thousand	PLN thousand
NET PROFIT		**58 610**	**94 083**
Other comprehensive income that will never be reclassified to profit or loss		**(29 741)**	**13 438**
Actuarial gains / (losses) on employee benefits after employment period	30	(36 717)	16 590
Income tax on other comprehensive income	10.2	6 976	(3 152)
		(29 741)	**13 438**
TOTAL COMPREHENSIVE INCOME		**28 869**	**107 521**
Earnings per share (PLN per share)			
Continuing operations (basic):	25.1	**1.32**	**2.17**
Continuing operations (diluted):	25.2	**1.31**	**2.15**

SEPARATE STATEMENT OF FINANCIAL POSITION PREPARED AS AT 31 DECEMBER 2014

	Note	As at 31 December2014 (audited) PLN thousand	As at 31 December 2013 (audited) PLN thousand
Assets			
Non-current assets			
Property, plant and equipment	11	3 709 121	3 533 830
Intangible assets	12	55 990	58 545
Investments in subsidiaries and associates	15.1	262 846	243 164
Other long-term financial assets	16	6 021	7 440
Other long-term non-financial assets	17	1 464	1 201
Deferred tax assets	10.4	58 359	61 239
Total non-current assets		**4 093 801**	**3 905 419**
Current assets			
Inventories	18	75 759	46 277
Trade and other receivables	19	423 171	477 236
Other short-term financial assets	16	301 818	689 157
Other short-term non-financial assets	17	24 921	24 743
Cash and cash equivalents	20	381 420	229 232
		1 207 089	**1 466 645**
Non-current assets held for sale	23	17 560	22 607
Total current assets		**1 224 649**	**1 489 252**
Total assets		**5 318 450**	**5 394 671**

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

	Note	As at 31 December2014 (audited) PLN thousand	As at 31 December 2013 (audited) PLN thousand
EQUITY AND LIABILITIES			
Equity			
Share capital	24	2 239 346	2 166 901
Share premium	24.2	584 513	651 472
Other items of equity		(39 642)	(9 901)
Retained earnings/(uncovered losses)		468 081	554 494
Total equity		**3 252 298**	**3 362 966**
Non-current liabilities			
Long-term bank loans and credit facilities	26	206 112	115 654
Long-term finance lease liabilities and leases with purchase option	28	114 027	228 832
Long-term trade and other payables	29	67 938	113 509
Long-term provisions for employee benefits	30	611 418	551 951
Other long-term provisions	31	8 416	22 778
Total non-current liabilities		**1 007 911**	**1 032 724**
Current liabilities			
Short-term bank loans and credit facilities	26	87 971	59 733
Short-term finance lease liabilities and leases with purchase option	28	120 505	108 770
Short-term trade and other payables	29	457 602	604 599
Short-term provisions for employee benefits	30	315 213	165 790
Other short-term provisions	31	17 414	20 449
Other short-term financial liabilities	27	59 393	39 640
Current tax liabilities	10.3	143	-
Total current liabilities		**1 058 241**	**998 981**
Total liabilities		**2 066 152**	**2 031 705**
Total equity and liabilities		**5 318 450**	**5 394 671**

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

			Other items of equity				
	Share capital	Share premium	Revaluation of financial assets available for sale	Actuarial gains / losses on employee benefits after employment period	Changes in fair value of cash flow hedge	Retained earnings / uncovered losses	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Balance as at 1 January 2013 (audited)	**2 889 200**	**77 809**	**-**	**(23 339)**	**-**	**94 829**	**3 038 499**
Net profit for the financial year	-	-	-	-	-	94 083	**94 083**
Other net comprehensive income for the year	-	-	**-**	13 438	-	-	**13 438**
Total comprehensive income	**-**	**-**	**-**	**13 438**	**-**	**94 083**	**107 521**
Issuance of shares	1	117 079	**-**	-	-	-	**117 080**
Reduction of share capital	(722 300)	139 982	**-**	-	-	582 318	**-**
Division of the Company	-	(150)	**-**	-	-	-	**(150)**
Share-based payment provision	-	100 016	**-**	-	-	-	**100 016**
Other changes in equity	-	216 736	**-**	-	-	(216 736)	**-**
Balance as at 31 December 2013 (audited)	**2 166 901**	**651 472**	**-**	**(9 901)**	**-**	**554 494**	**3 362 966**
Balance as at 1 January 2014 (audited)	**2 166 901**	**651 472**	**-**	**(9 901)**	**-**	**554 494**	**3 362 966**
Net profit for the financial year	-	-	**-**	-	-	58 610	**58 610**
Other net comprehensive income for the year	-	-	**-**	(29 741)	-		**(29 741)**
Total comprehensive income	**-**	**-**	**-**	**(29 741)**	**-**	**58 610**	**28 869**
Issuance of shares	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)	**-**
Balance as at 31 December 2014 (audited)	**2 239 346**	**584 513**	**-**	**(39 642)**	**-**	**468 081**	**3 252 298**

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

	Note	For the year ended 31 December 2014 (audited) PLN thousand	For the year ended 31 December 2013 (audited) PLN thousand
Cash flows from operating activities			
Gross profit for the financial year		**68 201**	**114 942**
Adjustments:			
Depreciation and amortisation of non-current assets	6	332 191	347 460
Impairment of assets		-	13 400
(Gain) / loss on disposal and liquidation of property, plant and equipment and intangible assets		(5 602)	10 512
Foreign exchange (gains) / losses	9	6 051	3 838
(Gains) / losses on interest, dividends		(28 990)	(11 609)
Other adjustments	21	(36 717)	116 605
Changes in working capital:			
(Increase) / decrease in trade and other receivables		21 989	(19 811)
(Increase) / decrease in inventories		(16 466)	10 069
(Increase) / decrease in other assets		1 791	(9 335)
Increase / (decrease) in trade and other payables		(123 581)	360
Increase / (decrease) in other financial liabilities		633	-
Increase / (decrease) in provisions(1)		191 491	64 861
Cash flows from operating activities		**410 991**	**641 292**
Interest received / (paid)		14 488	3 734
Income taxes received / (paid)		409	31
Net cash provided by operating activities		**425 888**	**645 057**

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

	Note	For the year ended 31 December 2014 (audited)	For the year ended 31 December 2013 (audited)
		PLN thousand	PLN thousand
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(610 413)	(384 565)
Proceeds from sale of property, plant and equipment and intangible assets		22 435	18 850
Acquisition of subsidiaries, associates and joint venture		-	(500)
Proceeds from the sale of subsidiaries, associates and joint venture		-	9 559
Interests received		20 586	26 997
Dividends received		18 723	11 210
Outflows from loans granted		(5 030)	(5 001)
Repayment of loans granted		9 151	52 222
Inflows / (outflows) from bank deposits over 3 months		302 737	3 696
Inflows / (outflows) related to the Employment Guarantees Program		70 300	(79 614)
Net cash (used in) / provided by investing activities		**(171 511)**	**(347 146)**
Cash flows from financing activities			
Proceeds from issuance of shares		8 763	-
Payments of liabilities under finance lease		(114 028)	(115 053)
Payments of interest under lease agreement		(7 546)	(10 228)
Proceeds from credit facilities / loans received		178 430	-
Repayments of credit facilities / loans received		(59 733)	(59 733)
Repayments of interest on credit facilities / loans received		(6 366)	(8 981)
Grants received		24 791	944
Dividends paid to shareholders of the Company		(137 496)	-
Cash pool inflows / (outflows)		18 675	39 640
Other inflows / (outflows) from financing activities		(7 679)	(10 112)
Net cash (used in) / provided by financing activities		**(102 189)**	**(163 523)**
Net increase in cash and cash equivalents		152 188	134 388
Opening balance of cash and cash equivalents	20	229 232	94 844
Closing balance of cash and cash equivalents	20	**381 420**	**229 232**

(1) In the year ended 31 December 2014 an item includes a change in the position due to the established provisions for Voluntary Redundancy Program in the amount of PLN 257,116 thousand.

EXPLANATORY NOTES TO THE SEPARATE FINANCIAL STATAMENTS PREPARED AS AT 31 DECEMBER 2014

1 General information

1.1 Information on the Company

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

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

The Company's financial year is the calendar year.

Principal activity of the company is rail transport of goods. In addition to the rail transport services, PKP CARGO S.A. offers additional services:

a) intermodal services,
b) shipping (domestic and international),
c) terminals (handling and storage of goods),
d) siding services.

PKP CARGO S.A. is also involved in the maintenance and repair of rolling stock.

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

Management Board:

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

Supervisory Board:

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

On 6 February 2014 the Supervisory Board of the Company appointed Mr. Adam Purwin to the position of President of the Management Board. Adam Purwin has been a Member of the Management Board responsible for Finance Matters from

25 February 2013 to 5 February 2014. From 18 November 2013 he has been in charge of matters and organizational units of Company's Headquarters belonging to the competences of President of the Management Board.

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

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

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

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

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

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

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

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

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

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

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

(1) In accordance with the notice sent by shareholder dated 24 June 2014
(2) In accordance with the notice sent by shareholder dated 30 June 2014
(3) In accordance with the notice sent by shareholder dated 18 June 2014. The total number of shares held by Morgan Stanley (14 916 shares) and indirectly held by its subsidiary Morgan Stanley Investment Management Inc., which owns (2 365 092 shares).
(4) In accordance with the notice sent by shareholder dated 13 August 2014
(5) In accordance with the notice sent by shareholder dated 5 November 2013

Company PKP S.A. is an entity dominating towards the company PKP CARGO S.A. PKP S.A. according to the articles of association has special personal entitlements consisting in authorizing to appoint and of dismissing Members of the supervisory board in the number equal of the half of the line-up of enlarged supervisory board about one. It is entitled to PKP S.A. personal entitlement to appoint the chairman of the supervisory board as well as to determine the number of members of the supervisory board. Additionally in the case, in which PKP S.A. in the share capital of the Company amounts to the share 50% or less, is entitled to PKP S.A. personal entitling to exclusive showing candidates for the President the company Management Board. Personal entitlement PKP S.A. it is always entitled to them when PKP S.A. is holding at least 25% of the share capital of the Company.

1.2 Information on the Capital Group

As at the reporting date the PKP Cargo Capital Group (hereinafter reffered as the Group) comprised of PKP CARGO S.A. as the Parent company and 14 subsidiaries. Additionally the Group also includes 7 associates and shares in 4 joint ventures. Group prepared Consolidated Finacial Statements for the year ended 31 December 2014.

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

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

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 presented **in thousand PLN**, 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 accoradance with the Regulation of the Minister of Finanse 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 eneded 31 December 2014 have been prepared under the going concern assumption in the foreseeable future. As at the date of preparation of these Financial Statements, there were no circumstances indicating circumstances indicating a threat of going concern assumption of the Company during at least 12 months from the date of the financial statements.

During 2013-2014 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 for the derivatives and assets measured at fair value.

These Separate Financial Statements were approved for publication by the Management Board on 11 March 2015.

2.2 Status of endoresments of the Standards in the EU

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

- **IFRS 10 „Consolidated Financial Statements"** - applicable to the annual periods beginning on or after 1 January 2014,
- **IFRS 11 „Joint Arrangements"** - applicable to the annual periods beginning on or after 1 January 2014,
- **IFRS 12 „Disclosure of Interests in Other Entities"** - applicable to the annual periods beginning on or after 1 January 2014,
- **Amendments to IFRS 10, IFRS 11 and IFRS 12: Consolidated Financial Statements, Joint Arrangements, Disclosure of Interests in Other Entities -** applicable to the annual periods beginning on or after 1 January 2014,
- **IAS 27 (amended in 2011) „Separate Financial Statements"** - applicable to the annual periods beginning on or after 1 January 2014,
- **IAS 28 (amended in 2011) „Investments In Associates and Joint Ventures"** - applicable to the annual periods beginning on or after 1 January 2014,

- Amendments to **IAS 32 „Financial Instruments: Presentation”** (Compensation of financial assets and financial liabilities) - applicable to the annual periods beginning on or after 1 January 2014,
- Amendments to **IAS 39 „Financial Instruments: Recognition and Measurement"** (Amendment of derivatives and hedge accounting) – applicable to the annual periods beginning on or after 1 January 2014,
- Amendments to **IAS 36 „Impairment of Assets"** (Disclosures of recoverable amount for non-financial assets) - applicable to the annual periods beginning on 1 January 2014.

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

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

When approving these Interim 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:

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

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 11 March 2015:

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

- **Amendments to IAS 1 "Presentation of Financial Statements"** (Disclosure Initiative) - applicable for annual periods beginning on or after 1 January 2016.

The Company has analyzed the potential impact of the 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 Applied accounting principles

3.1 Sales revenue

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 entity 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 rabates granted by the entity.

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

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

3.1.1 Revenue from sales of services

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

In particular, the moment of sale:

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

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

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

3.1.2 Revenue from sales of goods and materials

Revenue from sales of goods and materials is recognized at the time of delivery by the Company to the recipient. The delivery occurs when the significant risks and rewards of ownership of the goods are transferred to the buyer accorging to the terms of delivery specified in sales contracts.

3.1.3 Interest and dividend revenue

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

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

Revenue from interest is recognised when it is accrued (including the effective interest method, i.e. the rate discounting future cash inflows over the estimated useful life of financial instruments) against the net carrying amount of the asset at the initial recognition.

3.2 Employee benefits

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

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

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

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

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

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

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

3.3 Tax

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

3.3.1 Current tax

The current tax liability is measured on the basis of the taxable income (tax base) of a particular reporting period. The tax profit (loss) differs from the accounting net profit (loss) due to the exclusion of 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.

3.3.2 Deferred tax

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

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

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

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

3.4 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.

3.5 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.

3.5.1 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.

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 in accordance with the accounting policy of the Company in respect of borrowing costs, described in Note 3.8. below. Contingent lease payments are recognised in the period when they are incurred.

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

3.6 Foreign currencies

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

3.7 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.

3.8 Borrowing costs

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

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

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

3.9 Share based payments

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

3.10 Property, plants and equipment

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

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

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

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

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

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

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

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

3.11 Investment property

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

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

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

3.12 Intangible assets

3.12.1 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.

3.12.2 Derecognition of intangible assets

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

3.13 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 an impairment is charged directly to profit or loss.

3.14 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.

3.15 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.

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

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

3.16.1 Onerous contracts

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

3.16.2 Restructuring

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

3.16.3 Customer complaints

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

3.17 Financial instruments

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

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

3.18 Financial assets

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

3.18.1 Effective interest rate method

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

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

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

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

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

- it was acquired principally for the purpose of selling in the next term; or

- constitutes a part of a portfolio of financial instruments managed by the Company for which there is evidence of recent and actual pattern of short-term profit-taking; or
- is a derivative, except for derivative that is designated and effective hedging instrument.

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

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

Financial assets measured at FVTPL are measured at fair value and profit and loss on remeasurement is recognised in profit or loss. Gains or losses include all dividends or interest on financial assets and is recognised in line other financial revenue or expenses in the statement of comprehensive income. The fair value is determined as described in Note 32.7.

3.18.3 Investments held to maturity (HTM)

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

3.18.4 Financial assets available for sale (AFS)

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

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

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

3.18.5 Loans and receivables

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

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

3.18.6 Impairment of financial assets

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

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

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

- Significant financial difficulty of the issuer or counterparty;
- Breach of contract, e.g. default or delinquency in interest or principal payment

- Probability of bankruptcy or financial restructuring of the debtor;
- Disappearance of an active market of a given financial asset as a result of financial difficulties.

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

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

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

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

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

3.18.7 Derecognition of financial assets

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

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

3.19 Financial liabilities and equity instruments

3.19.1 Classification: debt instruments or equity instruments

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

3.19.1.1 Financial liabilities measured at FVTFL

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

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

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

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

- Such classification eliminates or significantly reduces incoherence of measurement or recognition under other circumstances; or
- The financial asset belongs to the group of financial assets or liabilities or to both groups managed, whose result is measured at fair value in accordance with the documented risk management strategy or investments of the Company in which information on grouping assets is shared internally; or

- It is part of a contract including one or more embedded derivatives and under IAS 39, the entire contract (assets or liabilities) can be classified as measured at fair value through profit or loss.

Financial liabilities measured at FVTPL are measured at fair value and profit and loss on remeasurement is recognised in profit or loss. Gains or losses include all interest paid on financial liabilities and is recognised in line other financial revenue or expenses in the statement of comprehensive income. The fair value is determined as described in Note 32.7.

3.19.1.2 Other financial liabilities

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

3.19.2 Financial guarantee agreements

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

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

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

3.19.3 Derecognition of financial liabilities

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

4 Material values based on professional judgment and estimates

Applying accounting principles presented in Note 3, the Management Board of the 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.

4.1 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.

4.2 Estimation uncertainty

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

4.2.1 Economic useful life of property, plant and equipment

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

4.2.2 Residual value of railroad fleet

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

4.2.3 Measurement of financial instruments

Key assumptions applied in fair value measurement of financial instruments are disclosed in Note 32.7.

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

As according with the assumption presented in Note 3.13, the Company tests property, plant and equipment and intangible assets for impairment if objective evidence indicating impairment occurs. Key assumptions made in determining the realizable value of the asset are the analysis of impairment indicators, impairment testing model, discounting and growth rates.

4.2.5 Impairment allowances for loans granted and own receivables

The methodology applied to determine the impairment allowance is disclosed in Note 3.18.6, while the information underlying the estimation of the impairment allowance is disclosed in Note 16 to the Separate Financial Statements.

4.2.6 Impairment allowance on slow-moving and obsolete inventories

The methodology applied to determine the net realizable value of inventory is disclosed in Note 3.15, while the information underlying the estimation of the impairment allowance is disclosed in Note 18 to the Separate Financial Statements.

4.2.7 Deferred income tax

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

4.2.8 Employee benefits

Key assumptions adopted to estimate provisions for employee benefits are: discount rates, remuneration growth and expected average employment period. Methods of recognizing the provision are disclosed in Note 3.2, while the calculation of the provision for employee benefits is disclosed in Note 30 to the Separate Financial Statements.

Provisions for employee benefits arising from the Voluntary Redundancy Program employees of the Company ("VRP" or "Program") was estimated based on the actual number of employees who have benefited from the program, known at the date of the financial statements. The value of the reserve was calculated individually for each employee in accordance with the Program Regulation, which regulates the amount of benefits payable to employees. The result of the calculation of the provision is presented in Note 30.2 to the Separate Financial Statements.

4.2.9 Provisions

Provisions for employment termination and restructuring benefits: discount rate and other assumptions. The assumptions adopted to measure provisions for claims and litigations are disclosed in Note 3.16, while the calculation of the provision is disclosed in Note 31 to the Separate Financial Statements.

4.2.10 Classification of finance leases

The Company concludes lease agreements for fixed assets. The Management Board analyses the classification of such agreements as finance lease. The detailed principles of classifying lease agreements as finance lease are disclosed in Note 3.5. Note 28 to the Separate financial statements presents information concerning finance lease, while the operating lease has been presented in Note 34.

5 Operating segments

5.1 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. Management Board analyzes financial data in a manner in which they have been presented in the Separate Financial Statements.

5.2 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 geographical area, Poland, which is its country of residence. The total revenue for all geographical areas except from Poland does not exceed 11% of revenue grand total. No other geographical area (except for Poland) exceeds 10% of revenue from sales of services.

Below are presented revenues from external customers by location:

	For the year ended 31/12/2014	For the year ended 31/12/2013
	PLN thousand	PLN thousand
Poland	3 370 035	3 686 896
Germany	122 298	202 461
Czech Republic	80 367	97 752
Slovakia	75 649	51 803
Cyprus	60 041	48 436
Other countries	67 473	74 380
Total	**3 775 863**	**4 161 728**

5.3 Information about major customers

In the period ended 31 December 2014, the share of the sale of one of the customers amounted to 10.5% of total revenues from the sale of services. In the period ended 31 December 2013, the turnover with any of the contractors did not exceed 10% of the total revenue from the sale of services.

5.4 Structure of the sales revenue

The Company distinguishes several groups of services provided within the scope of its domestic and international activity (transport of goods and providing comprehensive logistics services in the field of railway freight) which have been presented in this Note. However, the Management Board 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 PKP CARGO S.A.

	For the year ended 31/12/2014	For the year ended 31/12/2013
	PLN thousand	PLN thousand
Transport revenue and railway shipping	3 646 968	3 992 095
Siding and traction revenue	84 319	94 500
Other revenue [1]	44 576	75 133
Total	**3 775 863**	**4 161 728**

[1] The position of other revenue for the financial year ended 31 December 2014 presents mainly revenue arising from renting of railroad fleet - PLN 25,405 thousand, revenue arising from complex operational support services – PLN 4,366 thousand and revenue arising from repair services of railroad fleet – PLN 5,394 thousand. In 2013 this position presents mainly revenue arising from renting of railroad fleet – PLN 36,408 thousand, revenue arising from complex support services connected with extraction of chalk – PLN 6,777 thousand, revenue arising from complex operational support services - PLN 6,322 thousand and revenue arising from renting of railroad fleet – PLN 10,698 thousand.

6 Expenses by kind

6.1 Depreciation / amortization and impairment losses

	For the year ended 31/12/2014	For the year ended 31/12/2013
	PLN thousand	PLN thousand
Depreciation of property, plant and equipment	316 667	326 090
Amortisation of intangible assets	15 524	21 370
Impairment losses recognised / (derecognised):		
Property, plant and equipment	-	11 215
Assets held for sale	-	2 185
Total depreciation / amortization and impairment losses	**332 191**	**360 860**

6.2 Consumption of raw materials and supplies

	For the year ended 31/12/2014	For the year ended 31/12/2013
	PLN thousand	PLN thousand
Fuel consumption	199 007	214 769
Consumption of materials	30 715	44 668
Electricity, gas and water consumption	382 127	425 783
Impairment losses recognised / (derecognised)	(19 324)	(1 643)
Other (including physical count)	1 254	2 221
Total consumption of materials and supplies	**593 779**	**685 798**

6.3 External services

	For the year ended 31/12/2014	For the year ended 31/12/2013
	PLN thousand	PLN thousand
Access to infrastructure connections	723 233	945 915
Repair services	71 714	79 660
Rent and lease fees (real estate and railroad fleet)	150 922	154 134
Transport services	101 793	92 035
Telecommunication services	10 735	15 530
Legal, advisory and similar services	21 393	16 116
IT services	53 101	47 209
Services related to property maintenance and operation of fixed assets	27 802	35 158
Cargo services	17 798	16 328
Other services	13 014	16 649
Total external services	**1 191 505**	**1 418 734**

6.4 Employee benefits

	For the year ended 31/12/2014	For the year ended 31/12/2013
	PLN thousand	PLN thousand
Salaries and wages	1 000 248	1 000 741
Costs of social insurance	201 726	203 945
Appropriation to the Company's Social Benefits Fund	28 697	28 827
Other employee benefits during employment	34 854	34 206
Other post-employment benefits	10 344	8 645
Employee Guarantees Program (1)	-	192 894
Voluntary Redundancy Program (2)	257 116	-
Changes in provision for employee benefits	47 426	66 144
Other employee benefit costs	3 026	15 635
Total employee benefits	**1 583 437**	**1 551 037**

(1) Employee Guarantees Program is described in details in Note 30.3.
(2) Voluntary Redundancy Program is described in details in Note 30.2

6.5 Other expenses by kind

The position of other expenses by kind includes an income from contractual penalties and compensation amounted to PLN 37,574 PLN thousand for the year ended 31 December 2014, while for the year ended 31 December 2013 the income from contractual penalties and compensation amounted to PLN 23,973 thousand.

7 Other operating revenue and expenses

7.1 Other operating revenue

	For the year ended 31/12/2014 PLN thousand	For the year ended 31/12/2013 PLN thousand
Gains on disposal of assets:		
Gain on sales of non-current assets	9 851	4 420
Derecognised impairment losses:		
Trade receivables	5 800	2 643
Other (including interest on receivables)	532	1 370
	6 332	4 013
Other operating revenue:		
Return of paid fine imposed by OCCP	-	46 000
Release of provisions for the fine imposed by OCCP	14 362	9 945
Release of provisions for other fines	4 111	1 655
Interest on trade and other receivables	2 096	2 462
Forex gains on trade receivables and payables	-	364
Other	1 183	386
Other operating revenue total	**37 935**	**69 245**

7.2 Other operating expenses

	For the year ended 31/12/2014 PLN thousand	For the year ended 31/12/2013 PLN thousand
Recognised impairment losses:		
Trade receivables	7 884	7 212
Other (including on interest on receivables)	363	890
	8 247	8 102
Costs of liquidation of non-current and current assets	6 648	16 134
Provisions for the fine imposed by OCCP	-	1 786
Provisions for other fines	2 238	17 708
Court and collection costs	679	611
Costs of transport benefits for non-employees	2 001	1 832
Interest on trade and other liabilities	102	1 081
Forex losses on trade receivables and liabilities	225	-
Other	956	1 949
Other operating expenses total	**21 096**	**49 203**

8 Financial revenue

Interest income by class of financial instruments:	**For the year ended 31/12/2014**	**For the year ended 31/12/2013**
	PLN thousand	**PLN thousand**
Interest income:		
Bank deposits and accounts	17 462	27 017
Bid bonds and collateral	273	394
Loans granted	183	1 193
Other (including interest on state settlements)	12 856	347
	30 774	28 951
Dividends from capital investments	18 723	11 210
Total interest income and dividends	**49 497**	**40 161**

Interest income by category of financial instruments:	**For the year ended 31/12/2014**	**For the year ended 31/12/2013**
	PLN thousand	**PLN thousand**
Interest income:		
Loans and receivables (including cash in hand and bank deposits)	17 918	28 604
Other (including interest on state settlements)	12 856	347
	30 774	28 951
Revenue from dividends earned on shares	18 723	11 210
Total interest income and dividends	**49 497**	**40 161**
Other financial revenue		
Gain on shares:		
Gain on sale of shares	-	3 438
Gains on measurement of financial assets and liabilities at FVTPL	-	2 160
Total financial revenue	**49 497**	**45 759**

9 Financial expenses

Interest expense by class of financial instruments:	For the year ended 31/12/2014 PLN thousand	For the year ended 31/12/2013 PLN thousand
Interest expense:		
Interest on loans and overdraft facilities	6 366	8 981
Interest on liabilities under finance lease agreements	7 546	10 228
Interest on long-term liabilities	7 679	9 962
Interest on bid bonds and guarantees	446	254
Other (including interest on state settlements)	464	1 559
Total interest expense	**22 501**	**30 984**

Interest expense by category of financial instruments:	For the year ended 31/12/2014 PLN thousand	For the year ended 31/12/2013 PLN thousand
Interest expense:		
Financial liabilities measured at amortized cost	22 037	29 425
Other (including interest on state settlements)	464	1 559
Total interest expense	**22 501**	**30 984**
Other financial expenses		
Losses on shares:		
Loss on sale of shares	-	933
Recognised impairment losses on shares	9	2 239
	9	3 172
Losses on measurement of financial assets and liabilities at FVTPL	2 857	-
Other financial expenses:		
Net forex loss	6 051	3 838
Other financial expenses	174	274
Total financial expenses	**31 592**	**38 268**

10 Income tax

10.1 Income tax recognised in profit or loss

	For the year ended 31/12/2014 PLN thousand	For the year ended 31/12/2013 PLN thousand
Current income tax:		
Current tax expense	(266)	348
Deferred income tax:		
Deferred tax that occurred in the reporting period	9 857	20 511
Total tax expense recognised in the current year	**9 591**	**20 859**

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

Reconciliation of tax profit to accounting profit:

	For the year ended 31/12/2014 PLN thousand	For the year ended 31/12/2013 PLN thousand
Profit before tax	68 201	114 942
Income tax expense at 19% rate	12 958	21 839
Effect of non-taxable revenues pursuant to tax regulations	(6 620)	(14 052)
The effect of costs not deductible expenses according to the tax laws	11 518	13 072
Using of the tax relief for the acquisition of new technologies [(1)]	(8 265)	-
Income tax expense recognised in profit	**9 591**	**20 859**

[(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 Law on Corporate Income Tax).

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

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

10.2 Income tax recognized in other comprehensive income

	For the year ended 31/12/2014 PLN thousand	For the year ended 31/12/2013 PLN thousand
Deferred income tax		
Due to income and expenses recognised in other comprehensive income:		
Actuarial gains/losses on post-employment benefit plans	(6 976)	3 152
Income tax recognised in other comprehensive income	**(6 976)**	**3 152**

10.3 Income tax receivables and liabilities

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Income tax receivables		
Tax refund receivable	-	-
Income tax liabilities		
Income tax payable	143	-

10.4 Deferred tax balance

Below is presented an analysis of deferred tax assets (liabilities) recognised in the Separate Statement of Financial Position:

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Deferred tax assets	209 215	217 646
Deferred tax liabilities	(150 856)	(156 407)
	58 359	**61 239**

For the year ended 31/12/2014	Opening balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Temporary differences resulting in items of deferred tax (liabilities) / assets				
Property, plant and equipment (incl. lease)	(156 932)	16 427	-	(140 505)
Long-term liabilities	(3 031)	1 457	-	(1 574)
Inventory	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	153 589	15 494	6 976	176 059
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
Other	(423)	543	-	120
	26 537	**16 882**	**6 976**	**50 395**
Unused tax losses and other reliefs				
Tax losses [(1)]	34 702	(26 738)	-	7 964
	34 702	(26 738)	-	7 964
Total deferred tax assets (liabilities)	**61 239**	**(9 857)**	**6 976**	**58 359**

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

For the year ended 31 December 2013	Opening balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Temporary differences resulting in items of deferred tax (liabilities) / assets				
Property, plant and equipment (incl. lease)	(109 269)	(47 663)	-	(156 932)
Long-term liabilities	(4 718)	1 687	-	(3 031)
Inventory	4 640	(312)	-	4 328
Receivables - impairment allowance	6 535	3 077	-	9 612
Accrued interest on assets	(3 203)	1 106	-	(2 097)
Accrued interest on liabilities	4	(4)	-	-
Provisions for employee benefits	128 276	28 465	(3 152)	153 589
Other provisions	835	302	-	1 137
Accrued expenses	473	5 181	-	5 654
Deferred income	(941)	(1 724)	-	(2 665)
Unpaid employee benefits	7 072	946	-	8 018
Forex losses	12 486	(3 139)	-	9 347
Forex gains	(8)	8	-	-
Other	-	(423)	-	(423)
	42 182	(12 493)	(3 152)	26 537
Unused tax losses and other reliefs				
Tax losses (1)	42 720	(8 018)	-	34 702
Total deferred tax assets (liabilities)	**84 902**	**(20 511)**	**(3 152)**	**61 239**

(1) The deferred tax on tax losses to use in future period represented loss of the Company (in the amount of 182,650 thousand).

10.5 Unrecognised deferred tax asset and unused tax reliefs

As at 31 December 2014 and 31 December 2013 no unrecognised deferred tax asset and unused tax reliefs occurred.

11 Property, plant and equipment

Carrying amounts:	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Land	125 393	127 256
Buildings, premises, civil and water engineering structures	396 770	397 647
Technical equipment and machinery	72 759	79 402
Means of transport	3 098 477	2 905 053
Other fixed assets	4 868	5 818
Fixed assets under construction	10 854	18 654
	3 709 121	**3 533 830**

Including finance lease:	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Technical equipment and machinery	4 355	15 522
Means of transport	243 732	262 543
Other fixed assets	-	5
	248 087	**278 070**

	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Means of transport	Other fixed assets	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Gross value						
Balance as at 31 December 2012	**105 616**	**365 217**	**150 881**	**3 952 381**	**18 836**	**4 592 931**
Additions:						
Acquisition	-	23 127	12 675	276 950	1 270	**314 022**
Finance leases	-	-	4 025	-	-	**4 025**
Contribution in kind	33 866	81 601	1 608	-	5	**117 080**
Other	-	626	2 450	771	-	**3 847**
Disposals:	-	-	-	-	-	
Sales	-	(17 780)	(128)	(367)	(40)	**(18 315)**
Liquidation	-	(2 411)	(957)	(149 330)	(100)	**(152 798)**
Reclassification to assets held for sale	(12 226)	-	-	(15 506)	-	**(27 732)**
Other	-	-	-	-	(1 678)	**(1 678)**
Balance as at 31 December 2013	**127 256**	**450 380**	**170 554**	**4 064 899**	**18 293**	**4 831 382**
Additions:						
Acquisition	-	19 343	14 934	485 557	954	**520 788**
Finance leases	-	-	-	2 465	-	**2 465**
Other	-	-	152	-	-	**152**
Disposals:						
Sales	(1 863)	(8 267)	(200)	(317)	(2)	**(10 649)**
Liquidation	-	(9 584)	(553)	(206 796)	(32)	**(216 965)**
Other	-	-	-	-	(152)	**(152)**
Balance as at 31 December 2014	**125 393**	**451 872**	**184 887**	**4 345 808**	**19 061**	**5 127 021**

	Land PLN thousand	Buildings, premises, civil and water engineering structures PLN thousand	Technical equipment and machinery PLN thousand	Means of transport PLN thousand	Other fixed assets PLN thousand	Total PLN thousand
Accumulated depreciation						
Balance as at 31 December 2012	**-**	**30 692**	**72 560**	**1 008 920**	**10 790**	**1 122 962**
Additions:						
Depreciation charges	-	14 721	21 593	287 009	2 767	**326 090**
Other	-	531	-	-	-	**531**
Disposals:						
Sales	-	(3 503)	(112)	(234)	(22)	**(3 871)**
Liquidation	-	(1 008)	(2 889)	(132 908)	(1 060)	**(137 865)**
Reclassification to assets held for sale	-	-	-	(2 941)	-	**(2 941)**
Balance as at 31 December 2013	-	**41 433**	**91 152**	**1 159 846**	**12 475**	**1 304 906**
Additions:						
Depreciation charges	-	16 082	21 288	277 414	1 882	**316 666**
Other	-	-	130	-	-	**130**
Disposals:						
Sales	-	(4 194)	(103)	(148)	(2)	**(4 447)**
Liquidation	-	(909)	(339)	(189 781)	(31)	**(191 060)**
Other	-	-	-	-	(131)	**(131)**
Balance as at 31 December 2014	-	**52 412**	**112 128**	**1 247 331**	**14 193**	**1 426 064**

	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Means of transport	Other fixed assets	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Accumulated impairment						
Balance as at 31 December 2012	**-**	**-**	**-**	**1 885**	**-**	**1 885**
Additions:						
Impairment recognition	-	11 300	-	-	-	**11 300**
Disposals:						
Other	-	-	-	(1 885)	-	**(1 885)**
Balance as at 31 December 2013	**-**	**11 300**	**-**		**-**	**11 300**
Disposals:						
Impairment derecognition	-	(8 610)	-	-	-	**(8 610)**
Balance as at 31 December 2014	**-**	**2 690**	**-**	**-**	**-**	**2 690**

Fixed assets under construction	**For the year ended 31/12/2014** **PLN thousand**	**For the year ended 31/12/2013** **PLN thousand**
Opening balance	20 454	20 674
Additions	529 452	446 769
Grants to property, plant and equipment	(13 999)	(11 726)
Disposals - transfer to non-current assets	(523 253)	(435 127)
Disposals - discontinued investments	-	(136)
Closing balance	**12 654**	**20 454**

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

11.1 Impairment recognised in the current year

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

As at 31 December 2014 the Company did not identify indicators that other assets classified as property, plant and equipment may be impaired.

11.2 Assets used as collateral

As at 31 December 2014 the Company used as collateral the following property, plant and equpiment assets:
a) train engines which are the subject of registered pledge to the amount of PLN 90,000 thousand, and
b) built-up land property covered by the mortgage to the amount of PLN 20,000 thousand.

As at 31 December 2013 the Company used as collateral the following property, plant and equipment assets:
a) train engines which are the subject of registered pledge to the total amount of PLN 351,960 thousand, and
b) built-up land property covered by the mortgage to the amount of PLN 20,000 thousand.
These components are pledged as collateral received by the Company investment loans. Detailed information on loans secured by the assets is disclosed in Note 26.1.

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

11.3 Grants to property, plant and equipment

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

The first contract, signed on 15 October 2012, concerns construction and equipment of railway intermodal terminal at the Poznań Franowo station. As at 31 December 2014 the total expenditure incurred by the Company for the construction of the terminal amounted to PLN 18.957 thousand. This amount includes PLN 8,258 thousand of grant received.

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

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

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

12 Intangible assets

Carrying amounts	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Licenses	30 002	31 492
Intangible assets under development	25 988	27 053
	55 990	**58 545**

	Licenses – computer software PLN thousand	Intangible assets under development PLN thousand	Total PLN thousand
Gross value			
Balance as at 31 December 2012	**95 954**	**17 823**	**113 777**
Additions – acquisitions	-	18 149	**18 149**
Putting intangible assets under construction into use	8 919	(8 919)	**-**
Other – liquidation	(15)	-	**(15)**
Balance as at 31 December 2013	**104 858**	**27 053**	**131 911**
Additions – acquisitions	-	12 969	**12 969**
Putting intangible assets under construction into use	14 034	(14 034)	**-**
Balance as at 31 December 2014	**118 892**	**25 988**	**144 880**

	Licenses – computer software PLN thousand	Total PLN thousand
Accumulated amortization		
Balance as at 31 December 2012	**52 011**	**52 011**
Amortisation charges	21 370	**21 370**
Other - liquidation	(15)	(15)
Balance as at 31 December 2013	**73 366**	**73 366**
Amortisation charges	15 524	**15 524**
Balance as at 31 December 2014	**88 890**	**88 890**

12.1 Significant intangible assets

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

13 Subsidiaries

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

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

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

(2) On 1 July 2014 an agreement was signed for sale of the company between CARGOLOK Sp. z o.o. (vendor) and PKP CARGOTABOR Sp. z o.o. (buyer). The subject of the sale is the sale of the company, which is understood as the sale of organized units of tangible and intangible assets for business within the meaning of Art. 551 of the Civil Code (including the name of the company - PKP CARGOLOK, movable property, rights arising from contracts, cash, cash receivables,

business secrets, books and documents related to business of the enterprise) and the assumption of liabilities associated with entrepreneurship. On 22 October 2014, Founding Act of PKP CARGOLOK Sp. z o.o. was changed in terms of changing the company's name and the subject of business activity. Since the 22 October 2014, the company has been operating under the firm of PKP CARGOTABOR USŁUGI Sp. z o.o. and its main business activities are: collection, processing and disposal of waste; recycling of materials.

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

Information on the companies which are indirectly dependent (belonging to **PS Trade Trans Sp. z o.o.**) are as follow:

	Name of subsidiary	Core business	Place of registration and operation	% of interests and voting rights held by the Company (nominal value)	
				As at 31/12/2014	As at 31/12/2013
11	TRADE TRANS KARYA Sp. z o.o. (1)	Transshipment of goods, customs depot	Lublin	100%	60%
12	Transgaz S.A.	Transport agency	Zalesie k. Małaszewicz	64%	64%
13	Trade Trans Finance Sp. z o.o.	Financial and accounting services	Warsaw	100%	100%
14	PPHU UKPOL Sp. z o.o. (2)	Transshipment of goods, customs depot	Werchrata	100%	75%

(1) On 21 November 2014, the company PS TRADE TRANS Sp. z o.o acquired 139 shares in the company TRADE TRANS KARYA Sp. z o.o registered in Lublin, representing 39.7% of the share capital of this company, the second shareholder - the company KARYA Sp. z o.o registered in Lublin. Since that day PS TRADE TRANS Sp. z o.o owns 100% of the share capital of TRANS KARYA Sp. z o.o.

(2)On 16 December 2014 the shareholders of the company PPHU UKPOL Sp. z o.o - Mr. Marian Syty (the Seller) and PS TRADE TRANS Sp. z o.o (Buyer) entered into Conditional Share Purchase Agreement. Under this agreement, Mr. Marian Syty sold to PS TRADE TRANS Sp. z o.o 25 shares of PPHU UKPOL Sp. z o.o, constituting 25% of the share capital. On 19 December 2014 the payment for shares was made, in result of which the company PS TRADE TRANS Sp. z o.o became the owner of 100% of the share capital of PPHU UKPOL Sp. z o.o.

Information on the companies which are indirectly dependent (belonging to **Cargosped Sp. z o.o.**) are as follow:

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

14 Investment in associates

Detailed information regarding associates as at 31 December 2014 and 31 December 2013 are described below:

	Name of subsidiary	Core business	Place of registration and operation	% of interests and voting rights held by the Company	
				As at 31/12/2014	As at 31/12/2013
1	COSCO POLAND Sp. z o.o.	Sea-land service of container cargo	Gdynia	20%	20%
2	POL RAIL S.r.l. (1)	International railway transport	Rome	-	22%
3	Międzynarodowa Spedycja MIRTRANS Sp. z o.o. (2)	Shipping services	Gdynia	44%	44%

(1) As at 31 December 2014, the company POL RAIL S.r.l. is a joint subsidiary. Type of relationship with the Company is described in Note 15.

(2) On 23 June 2008 the District Court in Gdansk issued a decision to declare the bankruptcy of Międzynarodowa Spedycja Mitrans Sp. z o.o. On 8 January 2013 Extraordinary General Shareholders Meeting adopted a resolution and decided to dissolve the Company, initiate liquidation process and appoint a liquidator.

Information about the companies which are indirectly dependent (belonging to **PS Trade Trans Sp. z o.o**.) are as follow:

	Name of subsidiary	Core business	Place of registration and operation	% of interests and voting rights held by the Company (nominal value)	
				As at 31/12/2014	As at 31/12/2013
4	POL RAIL S.r.l. (1)	Railway transport	Rome	-	25%
5	Rentrans Cargo Sp. z o.o.	Railway transport	Szczecin	27%	27%
6	Rail Cargo Service Sp. z o.o.	Railway transport, IT services	Wrocław	20%	20%
7	Rail Cargo Spedition GmbH	Railway transport	Vienna	38%	38%
8	S.C. Trade Trans Terminal SRL	Transshipment , transport, shipping services	Curtici (Romania)	24%	24%

(1) As at 31 December 2014, the company POL RAIL S.r.l. is a joint subsidiary. Type of relationship with the Company is described in Note 15.

Information about the companies which are indirectly dependent (belonging to **Cargosped Sp. z o.o.**) are as follow:

	Name of subsidiary	Core business	Place of registration and operation	% of interests and voting rights held by the Company (nominal value)	
				As at 31/12/2014	As at 31/12/2013
9	Gdański Terminal Kontenerowy S.A.	Handling, storage, transport and forwarding	Gdańsk	42%	42%

As at 31 December 2014 the Company has not any material stocks or shares in subsidiaries or in the companies which are indirectly dependent.

15 Joint ventures

The Company owns shares in joint ventures (joint subsidiaries) and jointly controls indirectly following entities:

	Name of joint venture (joint subsidiary)	Core business	Place of registration and operation	% of interests and voting rights held by the Company	
				As at 31/12/2014	As at 31/12/2013
1	PKP CARGO CFL International S.A. (1)	Forwarding and shipping services	Bratislava (Slovakia)	50%	50%

(1) According to the Extraordinary General Shareholders Meeting decision from 17 January 2014 to dissolve the company PKP Cargo International a.s with registered office in Bratislava and conduct its liquidation. Liquidation proceedings also encompassed PKP CARGO CFL International S.A.

The Company owns also joint subsidiaries through its subsidiaries: **PS Trade Trans Sp. z o.o. and Cargosped Sp. z o.o.**, respectively:

	Name of joint venture (joint subsidiary)	Core business	Place of registration and operation	% of interests and voting rights held by the Company	
				As at 31/12/2014	As at 31/12/2013
2	Terminale Przeładunkowe Sławków - Medyka Sp. z o.o.	Terminal service in intermodal transport, transshipment and security palletized cargo shipping and mass metallurgical goods	Sławków	50%	50%
3	POL – RAIL S.r.l. (1)	International railway transport	Rome	50%	-
4	Cargosped Składy Celne Sp. z o.o.	Storage of goods in a customs depot, storage of goods in a domestic warehouse and service of stored goods	Gdańsk	50%	50%

(1) On 24 July 2014 the Ordinary General Shareholders Meeting of PS TRADE TRANS Sp. z .o.o. adopted a resolution to purchase a 3.23% share of POL-RAIL S.r.l. The share purchase agreement was signed on 16 September 2014. As at 31 December 2014 PS Trade Trans Sp. z o.o has 28.2% shares, while PKP CARGO S.A. has 21.8% of the share capital of POL-RAIL S.r.l., which constitutes together 50% of the share capital of POL-RAIL S.r.l.

15.1 Shares in subsidiaries and associates

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
CARGOSPED Sp. z o.o.	20 599	20 599
PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	40 439	40 439
PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o.	6 666	6 666
PKP CARGO SERVICE Sp. z o.o.	12 676	12 676
PKP CARGO TABOR – Karsznice Sp. z o.o.	-	13 893
PKP CARGO International a.s. with registered office in Bratislava	-	-
PS TRADE TRANS Sp. z o.o.	58 814	58 814
PKP CARGOTABOR Sp. z o.o. (1)	84 181	70 288
PKP CARGOTABOR USŁUGI Sp. z o.o.	16 319	16 319
CARGOTOR Sp. z o.o.	20 182	500
COSCO POLAND Sp. z o.o.	1 100	1 100
POL – RAIL S.r.l.	1 870	1 870
Total	**262 846**	**243 164**

(1) On 2 June 2014 the Extraordinary General Shareholders Meetings of PKP CARGOWAG Sp. z o.o. and PKP CARGO TABOR-KARSZNICE Sp. z o.o. adopted resolutions to take-over of subsidiary PKP CARGO TABOR-KARSZNICE Sp. z o.o. in Zduńska Wola by PKP CARGOWAG Sp. z o.o. in Warsaw. The take-over was registered by the National Register Court on 1 July 2014. This information is disclosed in Note 13.

In the period ended 31 December 2014, the Company did not recognize any additional impairment allowance related to shares held in subsidiaries.

In the period ended 31 December 2013, the Company recognized an additional impairment allowance on shares in PKP CARGO International a.s., due to a decision to liquidate the company.

15.2 Investments in subsidiaries and associates

	For the year ended 31/12/2014 PLN thousand	For the year ended 31/12/2013 PLN thousand
Investments in subsidiaries		
Opening balance	**240 194**	**241 933**
including impairment allowance	*(7 561)*	*(5 322)*
Additions	**19 682**	**500**
Acquisition (including contributions in-kind, debt conversions etc.)	19 682	500
Disposals	**-**	**2 239**
Other	-	2 239
Closing balance	**259 876**	**240 194**
including impairment allowance	*(7 561)*	*(7 561)*
Investments in associates		
Opening balance	**2 970**	**8 987**
including impairment allowance	*(1 018)*	*(1 018)*
Disposals	-	**6 017**
Sale	**-**	6 017
Other		
Closing balance	**2 970**	**2 970**
including impairment allowance	*(1 018)*	*(1 018)*
Investments in joint subsidiaries		
Opening balance	**-**	**1 000**
including impairment allowance	-	-
Disposals	**-**	**1 000**
Other	-	1 000
Closing balance	**-**	**-**
including impairment allowance	-	-

16 Other financial assets

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Financial assets measured at fair value through profit or loss		
Currency forwards and spots	-	2 224
Investments in shares		
Shares in Polish entities (1)	6 021	6 020
Shares in foreign entities (1)	-	9
	6 021	6 029
Loans and receivables measured at amortized cost		
Loans granted (2)	433	4 371
Deposits from 3 months to 1 year	301 385	604 359
Receivables from EGP (3)	-	79 614
	301 818	688 344
Total	**307 839**	**696 597**
Non-current assets	6 021	7 440
Current assets	301 818	689 157
Total	**307 839**	**696 597**

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

2) In the period ended 31 December 2014, the Company paid to the companies of PKP CARGO Capital Group additional tranche of the loan in the amount of PLN 1,040 thousand and granted a loan in the amount of PLN 4,000 thousand, which was repaid as at 31 December 2014.

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

17 Other non-financial assets

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Advances for purchase of fixed assets	1 059	1 059
Prepayments	24 165	24 414
Other	1 161	471
	26 385	**25 944**
Non-current assets	1 464	1 201
Current assets	24 921	24 743
Total	**26 385**	**25 944**

As at 31 December 2014 the most significant items of prepayments for external services are: advances for purchase of remaining traction energy (in the amount of PLN 16,534 thousand), cost of IT services (in the amount of PLN 3,613 thousand), cost of prepaid rents (in the amount of PLN 1,764 thousand). As at 31 December 2013 the most significant itmes of prepayments for external services were: costs of IT services (in the amount of PLN 7,148 thousand) costs of prepaid rents (in the amount of PLN 2,648 thousand) and costs of prepaid transport benefits for employees (in the amount of PLN 9,750 thousand).

18 Inventories

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Materials (gross)	79 212	69 054
Impairment allowance	(3 453)	(22 777)
Materials (net)	**75 759**	**46 277**

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

As for the other itmes of inventory, in the period ended 31 December 2014, the Company reversed the impairment allowance in the amount of PLN 2,502 thousand and recognized the impairment allowance in the amount of PLN 212 thousand.

19 Trade and other receivables

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Trade receivables	472 002	520 809
Impairment allowance for receivables	(59 600)	(81 417)
	412 402	**439 392**
Receivables from sales of non-financial non-current assets	-	21 321
State receivables	4 917	4 480
Receivables from co-financing agreements	-	10 782
VAT settlements	4 491	-
Other receivables	1 361	1 261
Total	**423 171**	**477 236**

19.1 Trade receivables

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

Trade receivables	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Current receivables	374 210	400 790
Overdue receivables		
Up to 90 days	34 003	37 803
From 91 to 365 days	4 186	670
Over 365 days	3	130
Total	**412 402**	**439 392**
Average debt age (days)	**39**	**37**

Changes in impairment allowance for receivables

Trade receivables	For the year ended 31/12/2014 PLN thousand	For the year ended 31/12/2013 PLN thousand
Opening balance	**81 417**	**68 415**
Recognised impairment allowance for receivables	20 462	43 437
Utilized during the year	(30 661)	(2 923)
Derecognised impairment allowance	(11 618)	(27 512)
Closing balance	**59 600**	**81 417**

20 Cash and cash equivalents

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

	For the year ended 31/12/2014 PLN thousand	For the year ended 31/12/2013 PLN thousand
Cash in hand and at bank	63 188	52 762
Bank deposits up to 3 months	318 232	176 470
Total	**381 420**	**229 232**
Cash and cash equivalents classified for sale	**-**	**-**
Total	**381 420**	**229 232**

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

	For the year ended 31/12/2014 PLN thousand	For the year ended 31/12/2013 PLN thousand
Actuarial gains/(losses) recognised in the statement of comprehensive income	(36 717)	16 590
Change in provisions for Employment Guarantees Program included in equity	-	100 015
Total other adjustments	**(36 717)**	**116 605**

22 Non-monetary transactions

In the current and previous years, the Company concluded the following non-monetary investment and financial transactions that are not reflected in the Separate Statement of Cash Flows:

Contributions in kind granted to subsidiaries in 2014

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.

Contributions in kind received from PKP S.A. in 2013

In 2013 the Company increased its share capital. New shares has been acquired by PKP S.A. and covered by contributions in kind to property, plant and equipment of a total amount of PLN 117,080 thousand. Changes in share capital were registered in the National Court Register on 2 October 2013.

23 Non-current assets held for sale

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

	As at 31/12/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Land held for sale	4 994	10 041
Means of transport	12 566	12 566
Total	**17 560**	**22 607**

As at 31 December 2014 and 31 December 2013, the Company possessed some redundant non-current assets and decided to sell them.

As at 31 December 2013 group of non-current assets held for sale included 4 land properties, as well as 77 train engines, which due to their technical consumption are not in use.

On 23 January 2014 the Company sold first of four land properties held for sale to PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.. The Company did not generate any profit on this transaction, due to earlier impairment allowance.

In case of other assets held for sale the Company is actively engaged in efforts to sell them.

24 Share capital

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

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

24.1 Ordinary shares fully covered with capital

	Number of shares	Share capital
	units	PLN thousand
As at 31 December 2012	**2 889 200**	**2 889 00**
issue of shares - registered on 2 October 2013	1	1
reduction of share capital - registered on 2 October 2013	-	(722 300)
Share capital after changes	2 889 201	2 166 901
Other changes:		
share split 1:15 - registered on 2 October 2013	43 338 015	2 166 901
As at 31 December 2013	**43 338 015**	**2 166 901**
Issue of shares series C	1 448 902	72 445
As at 31 December 2014	**44 786 917**	**2 239 346**

According to the agreement between the Management Board of PKP CARGO S.A. and trade unions signed on 2 September 2013 on subject of the Employment Guarantees Program (EGP), the Company made the transaction of payment in form of shares. On 2 October 2013 the Extraordinary General Shareholders Meeting adopted resolution of share capital increase by issuance of series C shares, which were acquired in the open subscription. On 7 March 2014, the Management Board allocated shares of series C to eligible employees. In the subscription, the Company has allocated 1,448,902 shares of series C at a nominal price of PLN 50 per each. Employee benefits are disclosed in Note 30.3

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

24.2. Share Premium

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Share premium, including:	584 513	651 472
Agio	201 260	175 730
Profit appropriation (statutory)	44 023	36 496
Profit appropriation (above the statutory minimum)	199 248	199 248
Capital created from shares redemption	139 982	139 982
Share-based payment provision	-	100 016

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

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

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

As at 31 December 2013 the share-based payment provision resulted from Employment Guarantees Program (EGP). On 2 September 2013 the Management Board of PKP CARGO S.A. and trade unions signed an agreement on the Employment Guarantees Program (EGP). On 7th March 2014 the Management Board has allocated the shares to eligible employees. Employee benefits are discolosed in Note 31.3.

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

1) payment of the dividend in amount of PLN 86,556 thousand,

2) share premium in the amount of PLN 7,527 thousand.

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

25 Earnings per share

	For the year ended 31/12/2014 PLN thousand	For the year ended 31/12/2013 PLN thousand
Profit used to calculate basic earnings per share on continuing operations	58 610	94 083

25.1 Basic earnings per share

	For the year ended 31/12/2014 PLN	For the year ended 31/12/2013 PLN
Weighted average number of ordinary shares	44 524 924	43 338 006
Basic earnings per share (PLN per share)	1.32	2.17

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

25.2 Diluted earnings per share

	For the year ended 31/12/2014 PLN	For the year ended 31/12/2013 PLN
Weighted average number of ordinary shares	44 790 878	43 821 559
Diluted earnings per share (PLN per share)	1.31	2.15

In accordance with IAS 33 the Company prepares diluted earnings per share calculation taking into account the potential shares which are issued conditionally under the incentive program - the program of share based payments (EGP) described in Note 30.3. 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.

26 Credit facilities and loans received

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Credit facilities and loans received measured at amortized cost		
Bank loans - pledged on assets	36 325	175 387
Bank loans – other	257 758	-
	294 083	**175 387**
Non-current liabilities	206 112	115 654
Current liabilities	87 971	59 733
Total	**294 083**	**175 387**

26.1 Summary of loan agreements

Investment loans agreements were signed to finance the modernization of train engines and scheduled overhauls of rolling stock as well as to finance the purchase of real estate. The reference rate for loan agreements is WIBOR 1M and 3M plus margin. The agreements are signed for the period of maximum 5 years. Repayment is made in PLN. Details of bank loans of the Company are presented below:

As at 31 December 2014

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount	Contractual amount in PLN thousand	Liability in PLN thousand
investment loan	mBank S.A.	PLN	WIBOR 1M + margin	05.10.2015	Bank enforcement[1)]	53 000	53 000	8 500
investment loan	mBank S.A.	PLN	WIBOR 1M + margin	21.03.2016	Bank enforcement[1)]	36 400	36 400	8 950
investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.03.2016	Bank enforcement[1)]	36 600	36 600	11 185
investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Bank enforcement[1)]	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 [3)]	60 000	60 000	27 442
investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2017	Bank enforcement[2)]	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**

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

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

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

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

As at 31 December 2013

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount	Contractual amount in PLN thousand	Liability in PLN thousand
investment loan	mBank S.A.	PLN	WIBOR 1M + margin	05.10.2015	Registered pledge on electric engines ET22 up to the amount PLN 63,600 thousand	53 000	53 000	19 180
investment loan	mBank S.A.	PLN	WIBOR 1M + margin	21.03.2016	Registered pledge on electric engines ET22 up to the amount PLN 43,680 thousand	36 400	36 400	16 270
investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.03.2016	Registered pledge on electric engines EU07 up to the amount PLN 43,920 thousand	36 600	36 600	20 137
investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Registered pledge on electric engines ET22 up to the amount PLN 46,800 thousand	39 000	39 000	29 659
investment loan	FM Bank PBP S.A.	PLN	WIBOR 1M + margin	31.10.2017	Registered pledge on electric engines ST44 up to the amount PLN 90,000 thousand	60 000	60 000	38 562
investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2017	Registered pledge on electric engines ST45 up to the amount PLN 63,960 thousand	49 200	49 200	39 360
investment loan	Bank Millennium S.A.	PLN	WIBOR 3M + margin	21.08.2017	Mortgage up to the amount PLN 20,000 thousand	16 667	16 667	12 219
							Total	**175 387**

Not utilized credit and overdraft facilities

Type of loan	Name of bank	Currency	As at 31.12.2014	As at 31.12.2013
investment loan	Bank Gospodarstwa Krajowego	PLN	336 771	-
investment loan	European Investment Bank	PLN	240 000	200 000
overdraft	mBank S.A.	PLN	100 000	100 000
Total not utilized credit and overdraft facilities			**676 771**	**300 000**

26.2 Events of default in loan agreements

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

27 Other financial liabilities

	As at 31/12/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Negative measurement of derivatives		
Currency forwards and spots	633	-
Other financial liabilities		
Cash pooling	58 760	39 640
Total	**59 393**	**39 640**
Current liabilities	59 393	39 640

On 10 December 2013 selected companies of the PKP CARGO Capital Group including PKP CARGO S.A. signed an agreement for cash management, so called cash pooling, which was based on overdraft credit facility to the current bank account of PKP CARGO S.A. The purpose of this agreement is to optimize cash flow management and 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.

If PKP CARGO S.A. lends cash to its subsidiaries, the balance of cash pooling is presented in other financial assets. If the Company borrows cash from its subsidiaries, it is presented as other financial liabilities.

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

28.1 General terms of lease

The Company uses cargo wagons, transshipment devices, computer hardware, wagons and train engines under finance leases. The leases are concluded for 3 to 7 years. The Company may buy the leased equipment for the amount equivalent to its residual value at the end of lease term. EURIBOR 1M, 3M, 6M is the reference rate for contracts denominated in EUR, LIBOR 6M CHF is the reference rate for those denominated in CHF, and WIBOR 1M and 3M is the reference rate for those denominated in PLN.

28.2 Lease liabilities

	Minimum Lease Payments	
	As at 31/12/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Up to one year	125 417	116 143
Over one year, up to five years	119 115	236 294
Over five years	-	2 691
	244 532	355 128
Less future lease charges	(10 000)	(17 526)
Present value of minimum lease payments	**234 532**	**337 602**

	Present value of minimum lease payments	
	As at 31/12/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Up to one year	120 505	108 770
Over one year, up to five years	114 027	226 152
Over five years	-	2 680
Present value of minimum lease payments	**234 532**	**337 602**

	As at 31/12/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Included in the financial statements under:		
Long-term liabilities due to finance lease and leases with purchase option	114 027	228 832
Short-term liabilities due to finance lease and leases with purchase option	120 505	108 770
	234 532	**337 602**

29 Trade and other payables

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Trade payables	191 770	237 317
Accruals	19 837	22 808
Liabilities due to purchase of non-financial non-current assets	132 817	203 294
Liabilities related to securities (deposits)	17 297	28 906
State payables	93 204	107 417
Settlements with employees	70 002	73 099
Other payabels	613	591
VAT payables	-	44 676
	525 540	**718 108**
Non-current liabilities	67 938	113 509
Current liabilities	457 602	604 599
	525 540	**718 108**

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

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

30 Employee benefits

The actuarial valuation was based on the following assumptions:

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

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

	For the year ended 31/12/2014 PLN thousand	For the year ended 31/12/2013 PLN thousand
Post-employment defined benefit plans		
– retirement benefits	9 250	9 494
– appropriations to the Social Benefit Fund for pensioners	6 748	7 511
– transport benefits	1 887	1 999
Other long-term employee benefits		
– jubilee bonuses	29 406	34 317
Short-term benefits		
– other employee benefits	135	12 823
Total change in employee benefit plans	**47 426**	**66 144**
– provision for Employment Guarantees Program (EGP)	-	66 297
– provision for Voluntary Redundancy Program (VRP)	257 116	-
Total	**304 542**	**132 441**

Amounts recognised in profit or loss relates to position Employee benefits.

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

	For the year ended 31/12/2014 PLN thousand	For the year ended 31/12/2013 PLN thousand
Post-employment defined benefit plans		
– retirement benefits	14 028	3 987
– appropriations to the Social Benefit Fund for pensioners	21 729	(17 555)
– transport benefits	960	(3 022)
Total	**36 717**	**(16 590)**

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

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Post-employment defined benefit plans		
– retirement benefits	145 424	138 591
– appropriations to the Social Benefit Fund for pensioners	164 487	142 316
– transport benefits	37 587	36 055
Other long-term employee benefits		
– jubilee bonuses	290 716	303 317
Short-term benefits		
– other employee benefits (unused holidays / bonuses)	31 301	31 165
– provision for Employment Guarantees Program (EGP)	-	66 297
– provision for Voluntary Redundancy Program (VRP)	257 116	-
Total	**926 631**	**717 741**
including:		
– long-term	611 418	551 951
– short-term	315 213	165 790

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

	For the year ended 31/12/2014 PLN thousand	For the year ended 31/12/2013 PLN thousand
Opening balance of defined benefit plan liabilities	**717 741**	**675 135**
Current service cost	18 019	18 854
Other employee benefits	136	12 823
Interest expense	22 078	22 267
Actuarial losses/ (gains) - post-employment benefits	36 717	(16 590)
Actuarial losses/ (gains) - other long term employee benefits	7 194	12 200
Benefits paid	(66 073)	(73 245)
Employment Guarantees Program	(66 297)	66 297
Voluntary Redundancy Program	257 116	-
Closing balance of defined benefit plan liabilities	**926 631**	**717 741**

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

	changes in demographic assumptions	changes in financial assumptions	Total
	PLN thousand	PLN thousand	PLN thousand
Actuarial losses/ (gains) - post-employment benefits			
– retirement benefits	527	13 501	**14 028**
– provision for Employment Guarantees Program (EGP)	(3 574)	25 303	**21 729**
– transport benefits	(5 121)	6 082	**960**
Actuarial losses/ (gains) - other long term employee benefits			
– jubilee bonuses	(14 290)	21 483	**7 193**
Total	**(22 458)**	**66 369**	**43 911**

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

	changes in demographic assumptions	changes in financial assumptions	Total
	PLN thousand	PLN thousand	PLN thousand
Actuarial losses/ (gains) - post-employment benefits			
– retirement benefits	5 847	(1 860)	**3 987**
– provision for Employment Guarantees Program (EGP)	(14 237)	(3 318)	**(17 555)**
– transport benefits	(2 132)	(890)	**(3 022)**
Actuarial losses/ (gains) - other long term employee benefits			
– jubilee bonuses	15 275	(3 075)	**12 200**
Total	**4 753**	**(9 143)**	**(4 390)**

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

30.1 Sensitivity analysis of employee benefits

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

		Discount rate		Pay increase ratio		Employee mobility ratio	
	As at 31/12/2014 PLN thousand	+0.25 p.p.	-0.25 p.p	+0.25 p.p.	-0.25 p.p	+0.25 p.p.	-0.25 p.p
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
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	**638 215**	**(12 985)**	**13 543**	**13 533**	**(13 040)**	**(8 243)**	**8 478**

		Discount rate		Pay increase ratio		Employee mobility ratio	
	As at 31/12/2013 PLN thousand	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.	-0.5 p.p.	+0.5 p.p.	-0.5 p.p.
Jubilee benefits	303 317	(7 792)	8 138	8 261	(8 029)	(8 444)	8 715
Retirement benefits	135 111	(4 597)	4 867	4 941	(4 736)	(4 995)	5 233
Disability benefits	3 480	(75)	78	79	(77)	(81)	83
Social Benefit Fund	142 316	(7 742)	8 552	8 543	(7 806)	(1 294)	1 377
Transport benefits	36 055	(2 075)	2 295	2 319	(2 114)	(490)	520
Total	**620 279**	**(22 281)**	**23 930**	**24 143**	**(22 762)**	**(15 304)**	**15 928**

30.2 Employee benefits - Voluntary Redundancy Program

Based on Resolution No. 423/2014 of the Management Board PKP CARGO S.A. from 17 November 2014 and Resolution No. 1363/V/2014 of the Supervisory Board of PKP CARGO S.A. from 27 November 2014, the Company 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 does not introduce in the Company the collective redudancies within the meaning of Act of 13 March 2013 on the specific principies of terminating labour relationship for reasons not attributable to employees. From 29 December 2014 to 15 January 2015, the employees of PKP CARGO S.A. were allowed to apply to join the Voluntary Redundancy Program. As a result of the verification of declarations of employees, the Company has agreed to that 2,894 employees could benefit from the Program. Employees who receive a benefit from the Program' except for a statutory severance pay, dependent on the length of service will receive also additional compensation, amount of which depends on wheather an employee was beneficiary of an employment guarantee and, if so, on the type of it (4- or 10-year). The total value of liabilities resulting from the implemented Program was estimated in the amount of PLN 257,116 thousand. Payment of benefits related to the VRP will take place in two tranches. The first tranche in the amount of PLN 219,264 thousand will be paid together with the salary for January 2015. The second tranche of PLN 37,852 thousand will be paid in January 2016.

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

	As at 31/12/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Long-term employee benefits	37 852	-
Short-term employee benefits	219 264	-

The amounts recongised in the **Separate Statement of Comprehensive Income** in relation to the Voloutary Redundancy Program are disclosed in note 6.4

30.3 Employee benefits – share-based payment transaction

In 2013 PKP CARGO S.A. has concluded a share-based payment transaction in an equity settled instruments.

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

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

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

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

In order to realize this employees' entitlement the Company will increase its share capital by issuing new shares, excluding issuance rights. On 7 March 2014, the Management Board allocated shares of series C to eligible employees. In the subscription, the Company has allocated 1,448,902 shares of series C at a nominal price of PLN 50 per each. Employee shares may not be sold within 2 years from the date of the first listing of the new shares. However, employee shares will participate in the dividend from 1 January 2013. The expiration date of this limitation is 30 October 2015. On 7 March 2014, the Management Board allocated 1,448,902 shares of series C to eligible employees. Issuance of Series C shares was registered in the National Court Register on 25 April 2014.

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

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Share capital (shares of series C)	72 445	-
Share premium	25 530	100 015
including:		
Share premium (agio)	26 081	-
Share premium - cost of issue shares series C	(551)	-
Share premium (provision for share based payment granted to employees of PKP CARGO S.A. subsidiaries)	-	90 623
Share premium (provision for share based payment granted to employees of subsidiaries)	-	9 392
Short-term provisions for employee benefits	-	66 297

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

31 Other provisions

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Provision for the fine imposed by OCCP	8 416	22 778
Other provisions	17 414	20 449
	25 830	43 227
Long-term provisions	8 416	22 778
Short-term provisions	17 414	20 449
	25 830	**43 227**

Other provisions	Provision for the fine imposed by OCCP	Other provisions	Total
	PLN thousand	PLN thousand	PLN thousand
As at 31 December 2012	**16 576**	**4 396**	**20 972**
Provisions recognised	16 148	17 708	33 856
Derecognised	(9 946)	(1 655)	(11 601)
As at 31 December 2013	**22 778**	**20 449**	**43 227**
Provisions recognised	-	2 239	2 239
Derecognised	(14 362)	(5 274)	(19 636)
As at 31 December 2014	**8 416**	**17 414**	**25 830**

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

The provision represents a fine imposed on the Company by the Office of Competition and Consumer Protection in Warsaw. First of them (in the amount of PLN 16,576 thousand imposed on 31 December 2012 on the basis of the Decision no RWR, 44/2012) was imposed on the basis of statement that PKP CARGO S.A was accused of blocking the possibility of compete with shipping companies belonging to PKP CARGO Capital Group. In 2013 as a result of recalculation of the provision for known and quantifiable risk related to OCCP's proceedings, the Company derecognized the provision in the amount of PLN 9,946 thousand, acknowledging that provision in amount of PLN 6,630 thousand is the best estimate of the amount of which payment is probable. As at 30 September 2014, these estimates have not been changed. Second fine (in the amount of PLN 1,786 thousand on the basis of the Decision no DOK-4/2012 dated on 26 July 2012) was related to delay in implementation of the OCCP's President's decision dated on 31 December 2004 concerning unjustified differentiation of discounts in the carriage of coal. By judgment of 3 November 2014 the Court 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 a penalty arise after the judgment of the Court of Appeal. In both cases OCCP's decisions are unlawful.

On 3 October 2013 the Supreme Court rescinded the judgments of District Court in Warsaw - Court of Competition and Consumer Protection (dismissal of the Company's appeal from the decision no DOK-3/2009) and Court of Appeal in Warsaw (dismissal of the Company's appeal from the District Court's judgment). As a result, Office for Competition and Customer Protection returned the fine paid by PKP CARGO S.A in the amount of PLN 60,362 thousand. As at 31 December 2013, the Management Board estimated that the provision in amount of PLN 14,362 thousand is the best estimate of the amount of which payment is probable. On 17 March 2014 Court of Competition and Consumer Protection in the decision no DOK-3/2009 repealed from the decision no DOK-3/2009 stating that it is bound by the law applied by the Supreme Court, and as a result, the Management Board of the Company has decided to reverse the remaining amount of the provision for the fine on decision no DOK-3/2009. The OCCP President did not appeal from the above described judgment and because of this fact the judgment became final. Further course is described in Note 37(iii).

Other provisions

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

32 Financial instruments and financial risk management

32.1 Financial risk management objectives and principles

In the period of reporting, PKP CARGO 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 2014 currency forward transactions for EUR/PLN currency pair.

Details of liquidity, currency, interest rate and credit risk management are presented in notes 32.6., 32.3., 32.4 and 32.5 respectively.

32.1.1 Equity management

According to the adopted policy and assumptions arising from its loan agreements, PKP CARGO S.A. 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 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Equity (i)	3 252 298	3 362 966
Debt (ii)	2 066 152	2 031 705
Cash and cash equivalents	(381 420)	(229 232)
Net debt	1 684 732	1 802 473
Balance sheet total	5 318 450	5 394 671
Net debt to balance sheet total	32%	33%

(i) Equity equals to total equity.

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

Capital management is performed at the PKP CARGO Capital Group level to protect the Group's ability to continue its operations as a going concern.

32.2 Categories and classes of financial instruments

Categories and classes of financial instruments	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Financial assets		
Financial assets measured at fair value through profit or loss	-	2 224
Loans and receivables	1 095 640	1 378 289
Total assets by category	**1 095 640**	**1 380 513**
Financial liabilities		
Financial liabilities measured at fair value through profit or loss	633	-
Financial liabilities measured at amortized cost	697 267	678 446
Liabilities excluded from IAS 39 (finance lease)	234 532	337 602
Total liabilities by category	**932 432**	**1 016 048**

Financial instruments by classes	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Shares in companies		
Trade receivables	412 402	439 392
Receivables from sales of non-current assets	-	21 321
Loans granted	433	4 371
Receivables related to EGP	-	79 614
Bank deposits	301 385	604 359
Cash	381 420	229 232
Assets from measurement of derivatives and embedded derivatives including:		
Derivatives held for trading	-	2 224
Total financial assets	**1 095 640**	**1 380 513**
Credit facilities and loans	294 083	175 387
Trade payables	211 607	260 125
Payables arising from purchase of non-current assets	132 817	203 294
Finance leases	234 532	337 602
Cash pooling	58 760	39 640
Measurement of derivatives and embedded derivatives, including:		
Derivatives held for trading	633	-
Financial liabilities total	**932 432**	**1 016 048**

32.3 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.

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

Extended maturity of short- and long-term lease liabilities denominated in EUR and CHF decides on their key contribution to financial revenue and expenses and on material fluctuations of the 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 31/12/2014	As at 31/12/2013	As at 31/12/2014	As at 31/12/2013
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
USD	285	254	56	-
EUR	45 242	40 628	163 700	199 534
CHF	588	741	73 817	123 204
CZK	-	-	1 003	811
Other	-	-	-	213

32.3.1 Currency risk sensitivity

PKP CARGO S.A. was exposed in 2014 and 2013 to currency risk, both in relation to its receivables and payables. 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. 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. Below is presented the sensitivity analysis based on gross exposure (before tax):

As at 31.12.2014		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)	-	-
Cash and cash equivalents	5 770	-	-	289	(289)	-	-	-	-
EQUITY AND 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 liabilities	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**

As at 31.12.2013		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%	+8%	-8%	+25%	-25%	+7%	-7%
ASSETS									
Trade and other receivables	38 443	38	(38)	2 996	(2 996)	185	(185)	-	-
Cash and cash equivalents	3 180	-	-	254	(254)	-	-	-	-
EQUITY AND LIABILITIES									
Non-current liabilities									
Long-term finance lease liabilities and leases with purchase option	203 001	-	-	(10 904)	10 904	(16 677)	16 677	-	-
Current liabilities									
Short-term finance lease liabilities and leases with purchase option	95 570	-	-	(3 465)	3 465	(13 066)	13 066	-	-
Short-term trade and other liabilities	25 191	-	-	(1 595)	1 595	(1 058)	1 058	(57)	57
Total gross effect		**38**	**(38)**	**(12 714)**	**12 714**	**(30 616)**	**30 616**	**(57)**	**57**

32.3.2 Currency forward transactions

For the purposes of currency risk management the Company used in 2014 and 2013 PLN/EUR forward contracts. Details of the currency risk management are disclosed in note 32.3.

The following tables presents details of unrealized currency forward transactions as at 31 December 2014 and 31 December 2013 respectively:

As at 31 December 2014:

Entity	Transaction type	Number of open transactions	Transaction date	Settlement date	Currency pair	Base currency amount in EUR	Floating currency amount	Fair value (*)
BZ WBK	forward	14	08.2014-10.2014	01.2015-10.2015	EUR/PLN	3 200	13 646	(98)
mBANK	forward	31	02.2014-12.2014	01.2015-12.2015	EUR/PLN	4 650	19 861	(104)
MILLENIUM	forward	9	03.2014-05.2014	01.2015-04.2015	EUR/PLN	1 700	7 273	1
Pekao	forward	23	05.2014-12.2014	03.2015-12.2015	EUR/PLN	4 550	19 359	(218)
PKO BP	forward	28	07.2014-12.2014	05.2015-12.2015	EUR/PLN	5 350	22 880	(183)
RCB	forward	6	04.2014-05.2014	01.2015-03.2015	EUR/PLN	1 800	7 666	(31)
Total						**21 250**	**90 685**	**(633)**

As at 31 December 2013:

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

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

32.4 Interest rate risk management

Bank deposits, that were concluded for the period ranging from a few days to 5 months depending on liquidity needs accounted for the most financial investments of the Company in 2014. The average weighted interest rate of term deposits in 2014 amounted to 2.96 % in comparison to 3.10% in 2013 (a consequence of the reduction of interest rates by the Monetary Policy Council). Further, the 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 1M, 3M, 6M is the reference rate for contracts denominated in EUR, while LIBOR 6M CHF is the reference rate for those denominated in CHF.

Interest rate risk in leases is realized by revaluation of lease installments over the period of one month, three months and six months, depending on a contract. Interest on loan agreements was calculated at WIBOR 1M and WIBOR 3M reference rate increased by the bank's margin. Interest rate risk in loan agreements is realized by revaluation of loan installments on a monthly basis.

Furthermore, according to the applied financial risk management policy, the Company has concluded in 2013 interest rate risk management transactions so-called IRS. As the external financing that is based on floating interest rates the Company concluded IRS transactions for credit risk exposure in order to secure fluctuations in interest rates of the loans denominated in PLN. In 2014 the Company has not applied IRS transactions to secure fluctuations in interest rates.

32.4.1 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).

32.4.1. Sensitivity to interest rate fluctuations (cont.)

As at 31.12.2014		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**

As at 31.12.2013		Interest rate risk		Interest rate risk		Interest rate risk	
Financial statements item	Carrying amount in PLN thousand	WIBOR		EURIBOR		LIBOR	
		Impact on profit or loss		Impact on profit or loss		Impact on profit or loss	
		+ 100 pb	- 100 pb	+ 70 pb	- 70 pb	+ 70 pb	- 70 pb
ASSETS							
Other short-term financial assets	683 973	6 840	(6 840)	-	-	-	-
Cash and cash equivalents	229 232	1 733	(1 733)	22	(22)	-	-
EQUITY AND LIABILITIES							
Non-current liabilities							
Long-term bank loans and credit facilities	115 654	(1 157)	1 157	-	-	-	-
Long-term finance lease liabilities and leases with purchase option	228 832	(258)	258	(779)	779	(467)	467
Current liabilities							
Short-term bank loans and credit facilities	59 733	(597)	597	-	-	-	-
Long-term finance lease liabilities and leases with purchase option	108 770	(132)	132	(256)	256	(366)	366
Cash pool	39 640	(396)	396	-	-	-	-
Total gross effect		**6 033**	**(6 033)**	**(1 013)**	**1 013**	**(833)**	**833**

32.5 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's policy the deferred payment is acceptable for clients with a good financial standing and positive cooperation history.

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

Concentration of risk related to trade receivables is limited due to a large number of counterparties with trade credits distributed among different sectors. Further, in order to minimize the risk of trade receivables turning into bad debts, the 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 2014 in the amount of PLN 412,825 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.

32.6 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 2014 and as at 31 December 2013 is presented below. In order to ensure additional sources of funds necessary to maintain short-term liquidity, the 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 31/12/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Current assets	1 207 089	1 466 645
Current liabilities	1 058 241	998 981
Short-term provisions for employee benefits	(315 213)	(165 790)
Other short-term provisions	(17 414)	(20 449)
Current liabilities, net	725 614	812 742
Current ratio	**1,66**	**1,80**

Information regarding available external finance sources is presented in note 26.1.

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

31 December 2014	Below 3 months	From 3 to 12 months	From 1 year to 5 years	Above	Total
Interest-bearing credit facilities and loans	22 261	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**
Other financial liabilities - Cash pool	58 760	-	-	-	**58 760**
Total	**362 557**	**198 383**	**400 691**	**5 297**	**966 928**

31 December 2013	Below 3 months	From 3 to 12 months	From 1 year to 5 years	Above	Total
Interest-bearing credit facilities and loans	16 506	48 766	120 785	-	**186 057**
Trade liabilities	260 125	-	-	-	**260 125**
Liabilities due to purchase of property, plant and equipment	59 020	38 386	121 263	-	**218 669**
Finance lease liabilities	32 937	83 206	236 293	2 692	**355 128**
Other financial liabilities - Cash pool	39 640	-	-	-	**39 640**
Total	**408 228**	**170 358**	**478 341**	**2 692**	**1 059 619**

32.7 Fair value of financial instruments

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

As at 31/12/2014	Carrying amount	Level 1	Level 2	Level 3
			Fair value	
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Financial assets				
Loans and receivables:	**1 095 640**	**-**	**1 095 640**	**-**
Trade receivables	412 402	-	412 402	-
Receivables from sales of non-current assets	-	-	-	-
Loans granted	433	-	433	-
Employment Guarantees Program receivables	-	-	-	-
Bank deposits	301 385	-	301 385	-
Cash	381 420	-	381 420	-
Financial liabilities				
Financial liabilities measured at fair value throught profit or loss:	**633**	**-**	**633**	**-**
Derivatives - held for trading	633	-	633	**-**
Financial liabilities measured at amortised cost::	**697 267**	**-**	**697 267**	-
Credit facilities and loans	294 083	-	294 083	-
Trade payables	211 607	-	211 607	-
Payables arising from purchase of non-current assets	132 817	-	132 817	-
Cash pool	58 760	-	58 760	-
Finance lease liabilities (2)	**234 532**	**-**	**234 532**	**-**

As at 31/12/2013	Carrying amount	Level 1	Level 2	Level 3
			Fair value	
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Financial assets				
Loans and receivables:	**1 380 513**	**-**	**1 380 513**	**-**
Trade receivables	439 392	-	439 392	-
Receivables from sales of non-current assets	21 321	-	21 321	-
Loans granted	4 371	-	4 371	-
Employment Guarantees Program receivables	79 614	-	79 614	-
Derivatives - forwards [1)]	2 224	-	2 224	
Bank deposits	604 359	-	604 359	-
Cash	229 232	-	229 232	-
Financial liabilities				
Financial liabilities measured at amortised cost:	**678 446**	**-**	**678 446**	**-**
Credit facilities and loans	175 387	-	175 387	-
Trade payables	260 125	-	260 125	-
Payables arising from purchase of non-current assets	203 294	-	203 294	-
Cash pool	39 640	-	39 640	-
Finance lease liabilities [(2)]	**337 602**	**-**	**337 602**	**-**

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

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

33 Related party transactions

33.1 Commercial transactions

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

	Year 2014			
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Parent Company	**(593)**	**69 003**	**998**	**5 608**
Subsidiaries	**543 902**	**475 976**	**62 755**	**32 915**
Co-subsidiaries	**149**	**-**	**-**	**-**
Associates	**97**	**-**	**9**	**-**
Other related parties from PKP S.A. Group	**61 444**	**1 217 024**	**9 452**	**84 936**

	Year 2013			
	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	**23 401**	**92 235**	**22 447**	**7 609**
Subsidiaries	**554 726**	**314 820**	**50 798**	**37 032**
Co-subsidiaries	**10**	**933**	**-**	**-**
Associates	**9 620**	**-**	**-**	**3**
Other related parties from PKP S.A. Group	**93 531**	**1 524 981**	**9 910**	**117 249**

Cost generating 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 Capital Group included transport of goods, lease of machinery and equipment, sub-lease of real estate property, maintenance of railroad fleet. 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 Parent company granted sureties to subsidiaries described in Note 37.

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

33.2 Loans granted to / received from related parties

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Loans granted to related parties	433	4 371
Total	**433**	**4 371**

The description of Loans granted to related parties is disclosed in Note 16.

In addition, as at 31 December 2014 and 31 December 2013 the Company presented liabilities of the cash pool described in Note 27.

33.3 Remuneration of executive management

	For the year ended 31/12/2014 PLN thousand	For the year ended 31/12/2013 PLN thousand
Remuneration of Members of the Management Board in the financial year:		
Short-term benefits	2 763	1 909
Post-employment benefits	855	-
Employment termination benefits	631	896
Total	**4 249**	**2 805**

	For the year ended 31/12/2014 PLN thousand	For the year ended 31/12/2013 PLN thousand
Remuneration of Members of the Supervisory Board in the financial year:		
Short-term benefits	837	332
Total	**837**	**332**

	For the year ended 31/12/2014 PLN thousand	For the year ended 31/12/2013 PLN thousand
Remuneration of other executive management (Proxies - Managing Directors) in the financial year:		
Short-term benefits	1 422	665
Share-based payments	11	-
Employment termination benefits	19	-
Total	**1 452**	**665**

During 2014 and 2013 Members of the Management Board and Supervisory Board of the Company did not grant or receive any loans or guarantees.

34 Operating lease agreements

34.1 Company as a lease

34.1.1 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. Moreover in 2010 the Company entered into an agreement for rent office real estate in Katowice by the Korfantego 138 street for the period of 5 years.

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.

	For the year ended 31/12/2014	For the year ended 31/12/2013
	PLN thousand	PLN thousand
Minimum lease payments recognized as expenses	77 526	92 815
Subleases fees received	(10 136)	(11 816)
	67 390	**80 999**

34.1.2 Future minimum lease payments under non-cancellable operating leases

	As at 31/12/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Up to 1 year	60 540	50 184
1 year – 5 years	6 580	8 651
	67 120	**58 835**

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

	As at 31/12/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Up to 1 year	9 526	8 794
	9 526	**8 794**

35 Commitments to incur expenses

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

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

36 The agreement of the potential acquisition of shares Advanced World Transport BV

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

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

37 Contingent liabilities

	As at 31/12/2014 PLN thousand	As at 31/12/2013 PLN thousand
Sureties granted to subsidiaries (i)	24 518	24 951
Guarantees issued on request of PKP Cargo S.A. (ii)	22 759	32 973
Proceedings carried out by OCCP (iii)	9 946	9 946
Other contingent liabilities (iv)	48 000	-
Total	**105 223**	**67 870**

(i) Sureties and guarantees granted to subsidiaries

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

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

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

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

As at 31 December 2013 a number of guarantees issued by banks on behalf of the Company to counterparties were effective. The guarantees included bid bonds (worth PLN 2,000 thousand) and performance bonds (worth PLN 28,004 thousand) and payment bonds (worth PLN 2,969 thousand).

(iii) Proceedings conducted by the OCCP

As at 31 December 2014 and 31 Decemeber 2013 the Company recognizes as a contingent liability a part of provision for the fine imposed by the OCCP (PLN 9,946 thousand) that has not been recognised in provisions for liabilities. In case of negative outcome of the proceeding disclosed in note 32, the Company will be obliged to recognize the cost in profit or loss.

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

(iv) Other contingent liabilities

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

38 Events after reporting date

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

On 5 February 2015 the Company and Trade Trans Invest a.s. with its registered office in Bratislava entered into an agreement regarding the acquisition by the Company 44,44% shares in the share capital of PS Trade Trans Sp. z o.o. As a result of this transaction, the Company became the owner of 100% shares of PS Trade Trans Sp. z o.o.

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

39 Approval of the Separate Financial Statements

These Separate Financial Statements were approved for publication by the Management Board of the Company on 11 March 2015.

Management Board of the Company

Adam Purwin

President of the Management Board

Jacek Neska

Member of the Management Board

Łukasz Hadyś

Member of the Management Board

Wojciech Derda

Member of the Management Board

Dariusz Browarek

Member of the Management Board

Warsaw, 11 March 2015

MANAGEMENT BOARD'S REPORT OF THE ACTIVITIES OF **PKP CARGO S.A.** IN 2014

Warsaw, 12 March 2015

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1. Selected financial figures of PKP CARGO S.A.

Table 1 Selected financial figures of PKP CARGO S.A.

PKP CARGO S.A.	For the year ended 31/12/2014 (audited)	For the year ended 31/12/2013 (audited)	For the year ended 31/12/2014 (audited)	For the year ended 31/12/2013 (audited)
	in PLN '000		In EUR '000	
Total operating revenue	3 842 607	4 287 531	917 243	1 018 174
Profit on operating activities	50 296	107 451	12 006	25 517
Profit before tax	68 201	114 942	16 280	27 296
Net profit on continuing operations	58 610	94 083	13 990	22 342
Total comprehensive income	28 869	107 521	6 891	25 533
*Adjusted profit on operating activities**	307 412	300 345	73 380	71 324
*Adjusted profit before tax**	325 317	307 835	77 654	73 103
*Adjusted net profit**	266 874	250 327	63 704	59 446
Adjusted total comprehensive income	237 133	263 765	56 604	62 637
Weighted average number of ordinary shares (pcs.)	44 524 924	43 338 006	44 524 924	43 338 006
Weighted average number of shares adopted to calculate diluted earnings per share (pcs.)	44 790 878	43 821 559	44 790 878	43 821 559
Earnings per share	1.32	2.17	0.31	0.52
Adjusted earnings per share (PLN)	5.99	5.78	1.43	1.37
Adjusted diluted earnings per share (PLN)	1.31	2,15	0.31	0.51
Net cash flows from operating activities	425 888	645 057	101 661	153 184
Net cash flows from investment activities	-171 511	-347 146	-40 940	-82 438
Net cash flows from financial activities	-102 189	-163 523	-24 393	-38 832
Change in cash and cash equivalents	152 188	134 388	36 328	31 914
PKP CARGO S.A.	**2014-12-31**	**2013-12-31**	**2014-12-31**	**2013-12-31**
Total non-current assets	4 093 801	3 905 419	960 468	941 700
Total current assets	1 207 089	1 466 645	283 202	353 647
Non-current assets classified as held for sale	17 560	22 607	4 120	5 451
Share capital	2 239 346	2 166 901	525 384	522 497
Equity	3 252 298	3 362 966	763 039	810 900
Non-current liabilities	1 007 911	1 032 724	236 471	249 017
Current liabilities	1 058 241	998 981	248 279	240 881

* Data for 2013 for presentation purposes adjusted for the costs resulting from the Agreement partially ending the collective dispute of 10 June 2013 between the Trade Unions and PKP CARGO S.A. signed by the parties on 22 August 2013, and also from the Employees' Guarantees Pact signed on 2 September 2013 in the total amount of PLN 192.9 million.

Data for 2014 for presentation purposes adjusted for the effect of provisions resulting from implemented Voluntary Redundancy Program based on the Resolution no. 423/2014 of the Management Board of PKP CARGO S.A. from 17 November 2014 and the Resolution no. 1363/V/2014 of the Supervisory Board of PKP CARGO S.A. from 27th November 2014 in total estimated amount of PLN 257.1 million.

Source: Separate Financial Statements of the PKP CARGO S.A. for the financial year ended 31 December 2014, prepared in accordance with IFRS EU

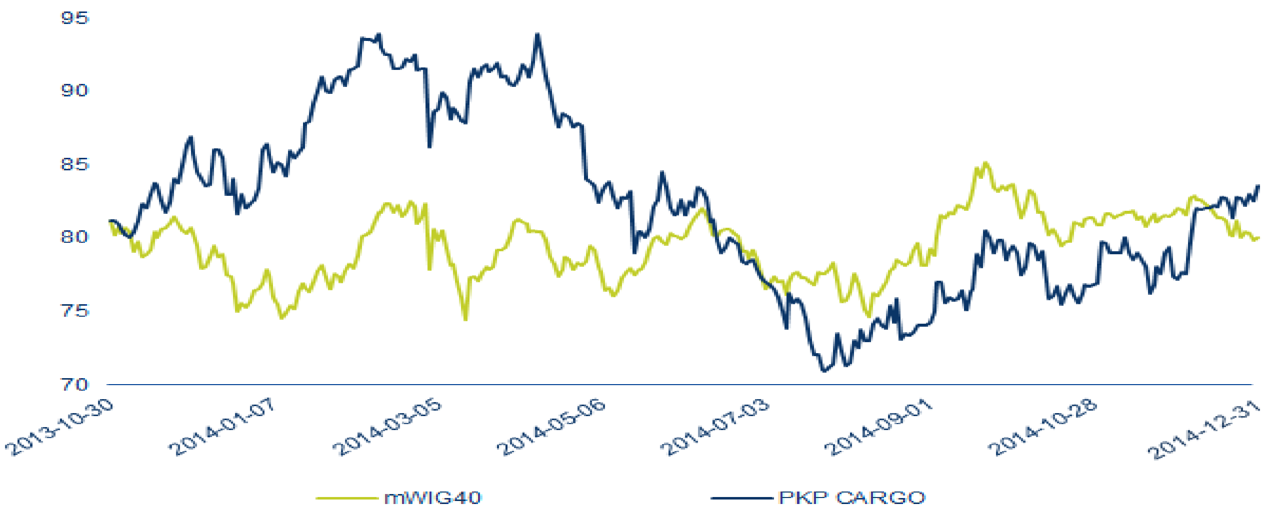
In the periods covered by the financial statements, in order to convert items comprised by the financial statements, the following average exchange rates against EUR determined by the National Bank of Poland were applied:

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

2. General information on PKP CARGO S.A.

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

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



Trading of securities on the WSE is conducted in PLN.

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

In 2014 the lowest closing price of PKP CARGO S.A. stock stood at PLN 70.90, while the highest closing price stood at PLN 93.89. The share price of PKP CARGO S.A. at the end of 2014 stood at PLN 83.50. In 2014 the average daily trading volume amounted to 66 323[1] shares.

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

2.1. The Company structure[2]

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

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

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

The Management Board of the Company performs its responsibilities with the assistance of the organizational units reporting to it and their subunits.

The following organizational units are established within the organizational structure of the Company:

- The Headquarters of the Company, which consists of Offices headed by respective directors. The directors are supervised by Managing Directors or the Members of Management Board,
- Divisions performing the Company's tasks in the specific areas of the country. The Directors of Divisions supervise the operation in the division and they are the employers according to the Labour Law. The Directors of Divisions report to the President of the Management Board. The operations of a Division are organized into business areas managed by the Regional Director. The Regional Directors run the policy of Offices of the Headquarters, managing locally these areas and report to Directors of the respective Offices.

There are 6 Managing Directors in the organizational structure of the Company: Managing Director – Trade Policy and Sales Assistance Officer, Managing Director-Chief Sales Officer, Managing Director – Chief Financial Officer, Managing Director – Chief Strategy and Group Organization Officer, Managing Director – Transportation Officer and Managing Director – Maintenance Officer supervising the headquarters' offices. The Managing Directors report directly to the Management Board.

In the organizational structure of the Company there are organizational units, which operate in definite areas. The operation areas creates the functional departments, managed by the Management Board members or Managing Directors. The managing of the areas among the functional departments include the tasks performed by the Headquarters and tasks performed by the Company's Divisions. The departments includes the functional structures of Headquarters and Company's Divisions, on the base of merit in particular operation areas. The departments' organization could be shaped based on the managing needs of the Company.

<u>Company Headquarters</u> The basic responsibilities of the <u>Company Headquarters</u> include supporting the activities of the Management Board involving strategic and operational management, and the management of the Company's affairs in relations with clients and counterparties, administration and coordination of the transportation process.

Departments of the <u>Company Headquarters</u> are the organizational units reporting to the Chief Executive Officer or to respective members of the Management Board through Managing Directors exercising supervision over specific business areas and the Company's organizational units.

<u>Divisions</u>

The main tasks of the Divisions are to organise and perform the supply of commodities in compliance with concluded contracts, with the use of the rail freight process, transloading, storage, transport with the use of other carriers' vehicles, traction services supporting the Company's freight operations, rental of traction vehicles, repair of own rolling stock and rendering of repair services, maintenance of plant and machinery and shop facilities, and the implementation of the Company's objectives related to service marketing and sales, in particular with regard to sales to smaller clients.

Divisions are managed by Division Directors who also represent them in external relations. Directors are authorised to perform the legal activities within the limits and in the basis of a power of attorney granted to them by the Management Board.

For the period from 1 January 2014 to 30 June 2014 the Company's structure composed of the following organization units:

1) The <u>Company Headquarters</u> (the Main Division) and
2) 10 Divisions:
    a) Central Division of PKP CARGO S.A.,
    b) Lower Silesia Division of PKP CARGO S.A.,
    c) Mazovia-Podlachia Division of PKP CARGO S.A.,
    d) Southern Division of PKP CARGO S.A.,
    e) Northern Division of PKP CARGO S.A.,
    f) Silesian Division of PKP CARGO S.A.,
    g) Silesian-Dąbrowa Division of PKP CARGO S.A.,
    h) Greather Poland Division of PKP CARGO S.A.,

i) Eastern Division of PKP CARGO S.A.,
j) Western Division of PKP CARGO S.A.

according to the art. 6 point 1 and 8 of the Organizational Regulations of PKP CARGO S.A. adopted by the Management Board's resolution no. 328/2012 from 17 July 2012.

According to the art. 6 point 1 and 11 of the Organizational Regulations of PKP CARGO S.A. adopted by Management Board's resolution no. 232/2014 from 17 June 2014 the consolidation of departments was conducted. The changes were performed as of 1 July 2014 and as a result of the merger from ten prior operating departments there are seven departments:

a) Central Division of PKP CARGO S.A.,
b) Lower Silesia Division of PKP CARGO S.A.,
c) Southern Division of PKP CARGO S.A.,
d) Northern Division of PKP CARGO S.A.,
e) Silesian Division of PKP CARGO S.A.,
f) Eastern Division of PKP CARGO S.A.,
g) Western Division of PKP CARGO S.A.

Additionally, the borders of Divisions have been changed. The main assumption for the new structure of PKP CARGO S.A. was to increase the effectiveness of the Company's management and the possibility of the optimal use of its resources.

The transportation is performed on the area of maximum two divisions and as a result it influences:

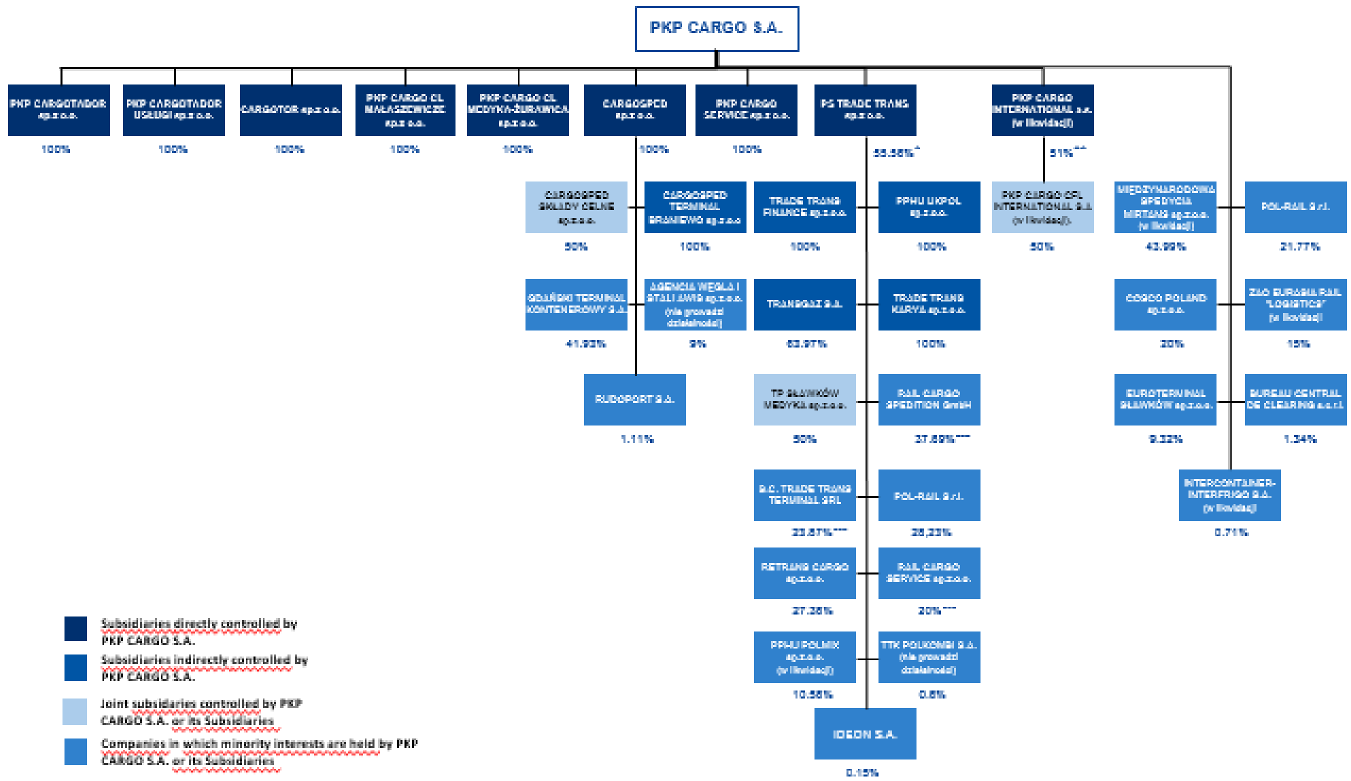
- more effective functioning of control center and tractions teams,
- faster deliveries and reactions on the change of workload in the sections,
- faster and more efficient train movement on the main railway networks,
- reducing the number of situations, when electrical locomotives are moved between the divisions,
- elimination of unnecessary train operation's services

2.2. Structure of PKP CARGO Group

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

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

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



** as at the date of this report PKP CARGO S.A. is owner of 100% shares of PS Trade Trans Sp. z o.o. (on 05.02.2015 was concluded the acquisition agreement of 44,44% shares from Trade Trans Invest a.s.)*
*** as at the date of this report PKP CARGO S.A. is owner of 100% shares of PKP CARGO International a.s. in liquidation (on 05.02.2015 was concluded the acquisition agreement of 49% shares from Rail Cargo Spedition a.s.)*
**** as at the date of this report, PS Trade Trans Sp. z o.o. did not own shares in Rail Cargo Spedition Gmbh, Trade Trans Terminal SRL and Rail Cargo Service Sp. z o.o. (on 5.02.2015 it was signed the sales of shares agreement by PS Trade Trans Sp. z o.o.)*

Source: Own study

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

- PS TRADE TRANS Sp. z o.o. - 28.23% share in the share capital,
- PKP CARGO S.A. - 21.77% share in the share capital,
  (which in total gives companies from PKP CARGO Group 50%) and
- TRENITALIA S.p.A. - 50% share in the share capital.

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

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

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

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

Other entities from the Group, enlisted in the note 15 to the Consolidated Financial Statement are accounted for under the equity method. As at 31 December 2014 the following entities were accounted for under the equity method:

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

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

<u>PKP CARGO S.A.</u>

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

<u>PKP CARGO SERVICE Sp. z o.o.</u>

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

PKP CARGOTABOR Sp. z o.o.

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

PKP CARGOTABOR USŁUGI Sp. z o.o.

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

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

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

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

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

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

„CARGOSPED" Sp. z o.o.

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

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

PS TRADE TRANS Sp. z o.o.

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

Cargosped Terminal Braniewo Sp. z o. o.

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

CARGOTOR Sp. z o.o.

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

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

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

Parent Company

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

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

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

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

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

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

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

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

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

It enabled among others:

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

PKP CARGO Group

Consolidation of companies dedicated to repair of the railway rolling stock

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

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

The consolidation enables the better use of the potential of Companies and the experienced staff which in the future will allow gaining orders from the market and thus the diversification of revenue sources.

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

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

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

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

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

Source: Own study

3. Business profile of PKP CARGO S.A.

3.1. Rail freight operation

3.1.1. Position of PKP CARGO S.A. in the freight market in Poland

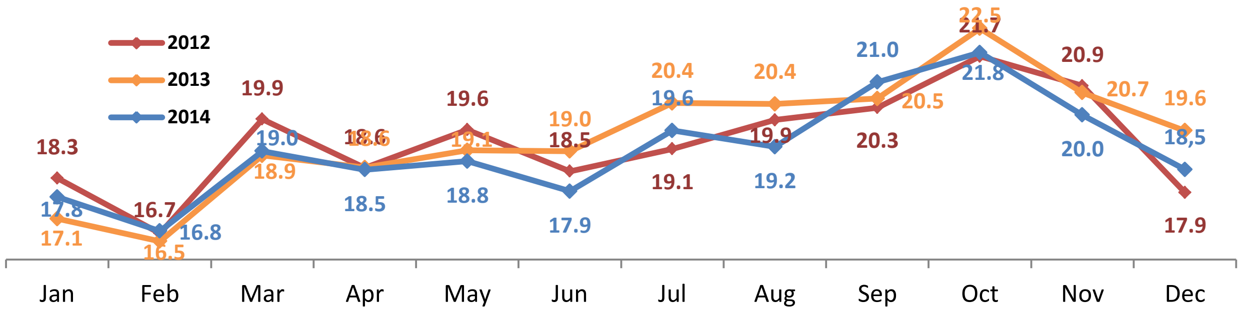
In accordance with Office of Rail Transport (UTK) data, in 2014 228.9[3] million tons of goods were transported by rail in Poland, and it resulted in slight decline by 1.9% YOY. The beginning of the year was favorable for operators – in the first quarter the freight volume increased by 1.9% YOY. The economy deteriorated from the second quarter. The decrease in transport intensified till August (after 8 months of the year the market results were lower by already 1.6% as compared to the previous year). September 2014 turned out to be very advantageous (the increase in freighted volume by 2.2% YOY), however the positive results were not achieved in last three months, when the freighted by rail mass was lower again as compared to the previous year.

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

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

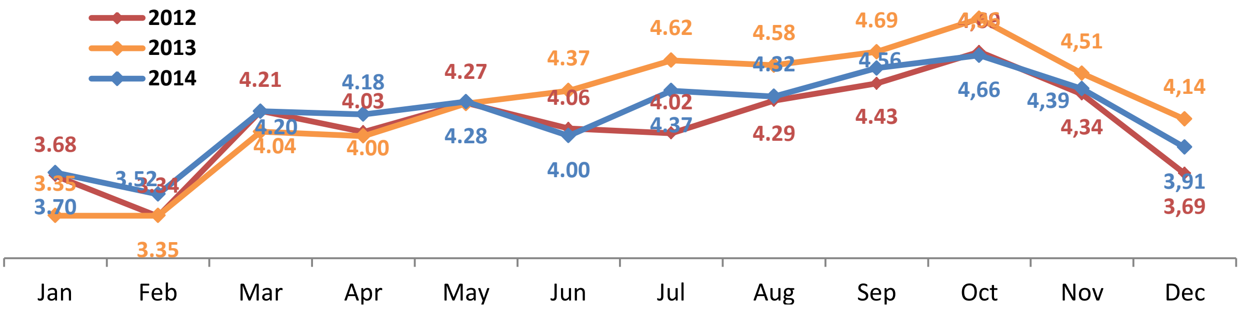
The slight market decline is due to lower freight carried on the coal market. It was the result of lower Polish coal export due to very low prices of coal on the worldwide markets. According to the estimations, the coal freight by the rail in the first nine months of 2014 decreased by 1.7% in comparison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

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



Source: Office of Rail Transportation

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



Source: Office of Rail Transportation

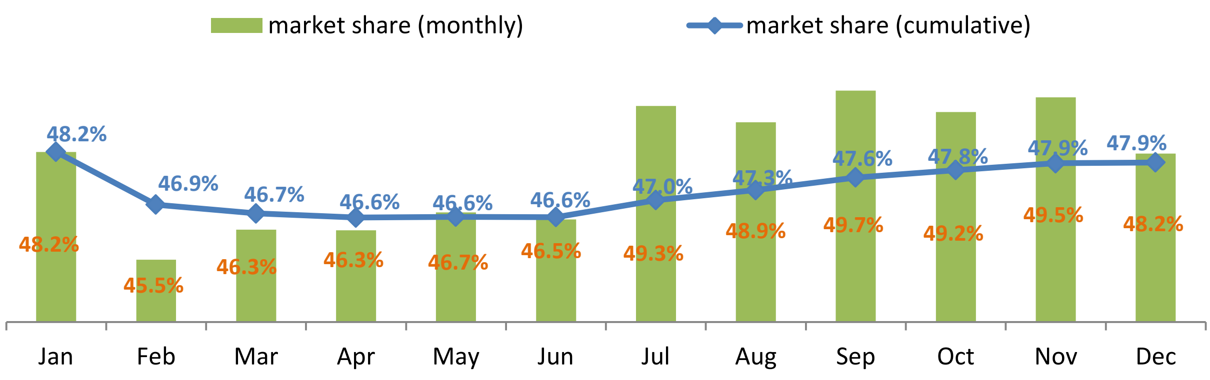
[3] Preliminary data; UTK could change it backwards during the year
[4] Preliminary data; CSO publishes final data in the yearbook "Transport – operation results" in July of the following year after the financial year

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

Both in terms of the freight volume, and the freight turnover PKP CARGO S.A. remains a leader as regards the rail freight transport in Poland. Office of Rail Transport (UTK) stated that in 2014 PKP CARGO S.A. had 47.94% of the market share in terms of the freight volume, recording decrease by 0.69 of the percentage point as compared to the results of the previous year. At the same time, the share of the Company in terms of the freight turnover amounted to 56.69% and decreased respectively by 2.16 percentage points in comparison to 2013.

The Company's market share in the second half increased in comparison to the first, weaker half. It approached 50% level in terms of the freight volume (49.72%). Among the rail operators being competitors to PKP CARGO S.A., the following are the leading carriers: DB Schenker Group, CTL Group, Lotos Kolej and Freightliner PL.
Detailed monthly and increasing shares of PKP CARGO S.A. in the rail freight market in 2014 are presented on the graph below (freight volume in accordance with UTK).

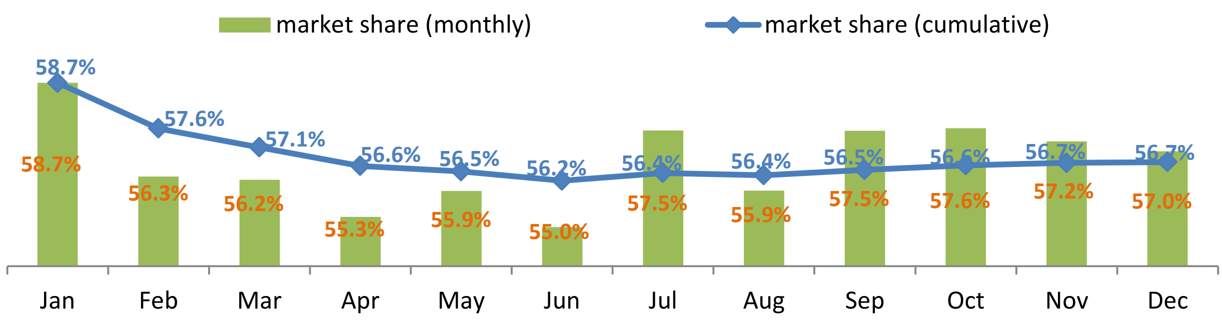
Figure 5 Share of PKP CARGO S.A. in the freight volume transported in 2014



Source: Office of Rail Transportation; own study

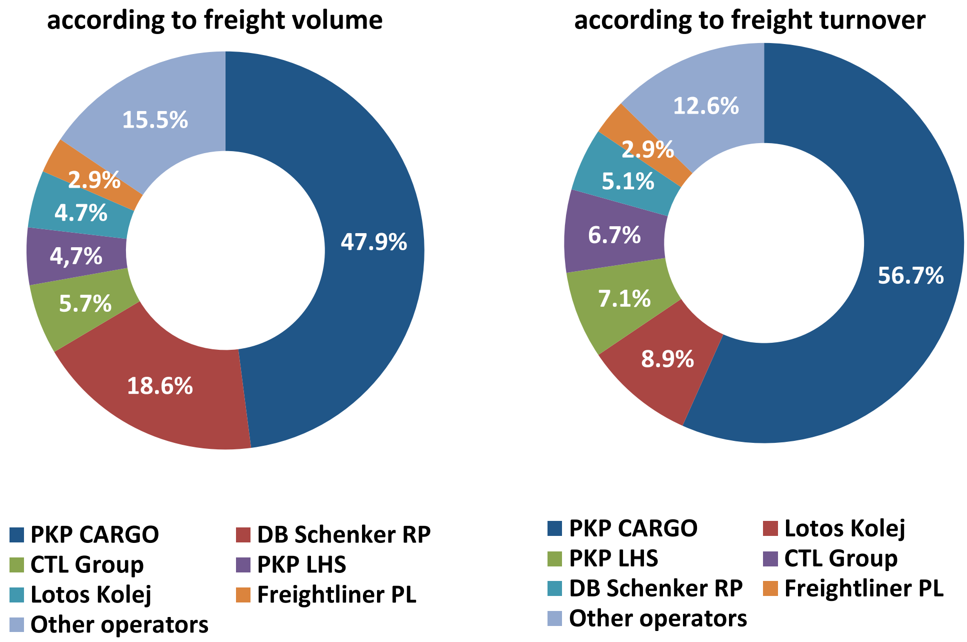
Monthly and increasing shares of the PKP CARGO Group in the rail freight market in 2014 are presented on the graph below (freight turnover - UTK).

Figure 6 Share of PKP CARGO S.A. in the freight turnover performed in 2014



Source: Office of Rail Transport; own study

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



Source: Office of Rail Transport; own study

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

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

3.1.2. Rail freight

The principal service provided by PKP CARGO S.A.is rail freight performed both in Poland, and abroad, i.e. in countries where it has obtained the licence – in Germany, Czech Republic, Slovakia, Austria, Belgium, Netherlands, Hungary and Lithuania. In 2014 PKP CARGO S.A. carried 109.7 million tons of goods and performed freight turnover in the amount of 28.3 billion tkm.

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

The principal group of freight carried by the PKP CARGO Group are solid fuels, including mainly the hard coal. They constitute 51% of the volume transported in the 2014 as compared to 52% in 2013, while based on the freight turnover the share of solid fuels amounted to respectively 42% and 44% in 2013.

Transport of solid fuels in terms of the freight turnover demonstrated a decreasing tendency (-9% YOY). Decrease in the share as regards the freight turnover was a consequence of reduction in transport of the hard coal (the decline by 5.1% YOY). The second important factor influencing the decrease of the coal transport was the decline of export of this raw material due to reduction in prices of the hard coal in the world.

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

Negative external conditions influencing solid fuels freight, PKP CARGO S.A. compensated by the increase of freights in the second largest group of freight, i.e. aggregates and construction materials. The transport share of aggregates in the freight turnover in 2014 amounted to 22% (18% in 2013). It was the result of the increase in freight turnover by 11%. The transport of aggregates and construction materials in the period analysed was characterised by the continued and new numerous infrastructure investments.

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

Table 3 Freight turnover of PKP CARGO S.A. in Q4 and 2014

	2014	2013	Change 2014-2013	Change 2014-2013	2014	2013	Q4 2014	Q4 2013	Change 2014-2013
	(tkm millions)			*%*	*Share in total (%)*		*(tkm millions)*		*%*
Solid fuels[1]	11 925	13 131	-1 206	-9%	42%	44%	3 251	3 272	-1%
Out of which hard coal	10 519	11 679	-1 160	-10%	37%	39%	2 884	2 898	0%
Aggregates and construction materials [2]	6 118	5 517	601	11%	22%	18%	1 606	1 615	-1%
Metals and ores[3]	3 488	4 365	-877	-20%	12%	14%	835	1 219	-32%
Chemicals[4]	1 901	1 676	225	13%	7%	6%	497	411	21%
Liquid fuels[5]	735	796	-61	-8%	3%	3%	204	199	3%
Timber and agricultural produce [6]	1 693	1 689	4	0%	6%	6%	394	497	-21%
Intermodal transport	1 754	1 835	-81	-4%	6%	6%	433	466	-7%
Other[7]	731	882	-151	-17%	2%	3%	182	215	-15%
Total	**28 345**	**29 892**	**-1 547**	**-5%**	**100%**	**100%**	**7 402**	**7 895**	**-6%**

Source: Own study

Table 4 Freight volume of PKP CARGO S.A. in Q4 and 2014

	2014	2013	Change 2014-2013	Change 2014-2013	2014	2013	Q4 2014	Q4 2013	Change 2014-2013
	(thousands of tons)			*%*	*Share in total %*		*(thousands of tons)*		*%*
Solid fuels[1]	56 237	59 411	-3 174	-5%	51%	52%	15 966	15 897	0%
Out of which hardhard coal	51 294	54 426	-3 132	-6%	47%	48%	14 670	14 648	0%
Aggregates and construction materials [2]	21 221	19 336	1 885	10%	19%	17%	5 610	5 588	0%
Metals and ores[3]	12 292	13 730	-1 438	-10%	11%	12%	2 932	3 589	-18%
Chemicals[4]	5 961	5 868	93	2%	6%	5%	1 491	1 451	3%
Liquid fuels[5]	2 692	3 013	-321	-11%	3%	3%	759	745	2%
Timber and agricultural produce [6]	4 709	4 416	293	7%	4%	4%	1 187	1 309	-9%
Intermodal transport	4 536	4 866	-330	-7%	4%	4%	1 113	1 259	-12%
Other[7]	2 071	2 780	-709	-26%	2%	2%	513	709	-28%
Total	**109 719**	**113 419**	**-3 700**	**-3%**	**100%**	**100%**	**29 571**	**30 546**	**-3%**

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

Source: Own study

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

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

	2014	2013	Change 2014-2013	Change 2014-2013	2014	2013	Q4 2014	Q4 2013	Change 2014-2013
	(tkm millions)			*%*	*Share in total (%)*		*(tkm millions)*		*%*
Domestic	15 034	14 618	416	3%	53%	49%	4 140	4 195	-1%
Export	5 883	7 777	-1 894	-24%	21%	26%	1 451	1 524	-5%
Import	5 165	4 932	233	5%	18%	16%	1 251	1 510	-17%
Transit	2 263	2 565	-302	-12%	8%	9%	560	666	-16%
Total	**28 345**	**29 892**	**-1 547**	**-5%**	**100%**	**100%**	**7 402**	**7 895**	**-6%**

Source: Own study

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

	2014	2013	Change 2014-2013	Change 2014-2013	2014	2013	Q4 2014	Q4 2013	Change 2014-2013
	(thousands of tons)			*%*	*Share in total %*		*(thousands of tons)*		*%*
Domestic	68 988	68 300	688	1%	63%	59%	19 400	18 889	3%
Export	18 265	22 204	-3 939	-18%	17%	20%	4 652	4 909	-5%
Import	18 822	18 846	-24	0%	17%	17%	4 658	5 658	-18%
Transit	3 644	4 070	-426	-10%	3%	4%	861	1 091	-21%
Total	**109 719**	**113 419**	**-3 700**	**-3%**	**100%**	**100%**	**29 571**	**30 546**	**-3%**

Source: Own study

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

	2014	2013	Change 2014-2013	Change 2014-2013	Q4 2014	Q4 2013	Change 2014-2013
	Km			*%*	*Km*		*%*
Domestic	218	214	4	2%	213	222	-4%
Export	322	350	-28	-8%	312	310	1%
Import	274	262	12	5%	269	267	1%
Transit	621	630	-9	-1%	650	610	7%
Total	**258**	**264**	**-6**	**-2%**	**250**	**258**	**-3%**

Source: Own study

3.2. Other services

Traction services

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

Siding activity

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

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

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

Reloading activity

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

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

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

Intermodal services

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

Forwarding activity

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

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

Repair activity

Maintaining the railway rolling stock of the PKP CARGO Group is rendered by repair points functioning within PKP CARGOTABOR Sp. z o.o. and the structures of Divisions of PKP CARGO S.A. Back-up facilities for the railway rolling stock maintenance of the PKP CARGO Group is competent as regards repairs of wagons, electric locomotives and diesel locomotives. Apart from the railway rolling stock being the property of the PKP CARGO Group, back-up facilities belonging to the Group is also used to repair the railway rolling stock belonging to other owners.

Numbers of repairs and periodic inspections carried out in particular periods result from cycles specified in the Maintenance System Documentation (DSU) and a number of the railway rolling stock maintained in technical efficiency in accordance with the demand reported by the commercial division. Apart from planned activities the repair points functioning within the structures of the PKP CARGO Group do ongoing repairs of the railway rolling stock aimed to eliminate defects arising to the railway rolling stock during work.

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

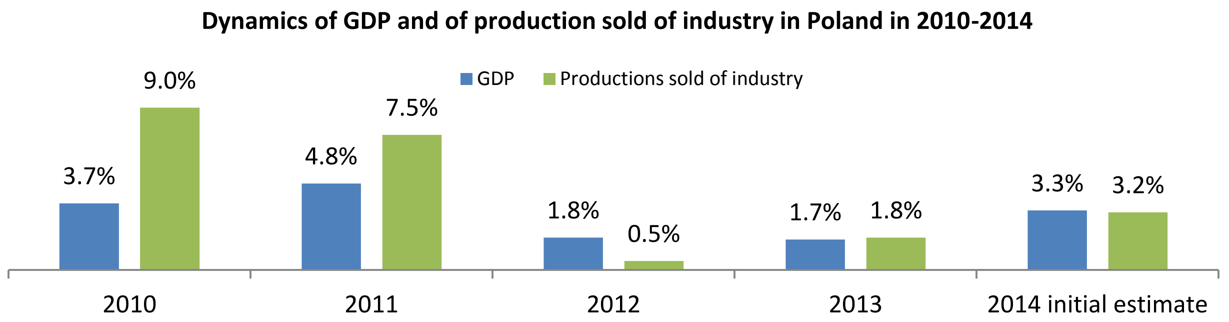
3.3. Macroeconomic situation

Polish economy

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

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

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



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

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

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

Based on the CSO estimations, the construction and assembly production was higher by 3.0 % in 2014, whereas the highest increase was observed in the companies, which specialize in land and water engineering (by 8.6%). The decrease was registered in the cubature construction (by 4%).

European economy

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

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

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

Transport

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

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

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

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

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

<u>Intermodal transport</u>

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

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

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

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

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

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

<u>Mining industry</u>

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

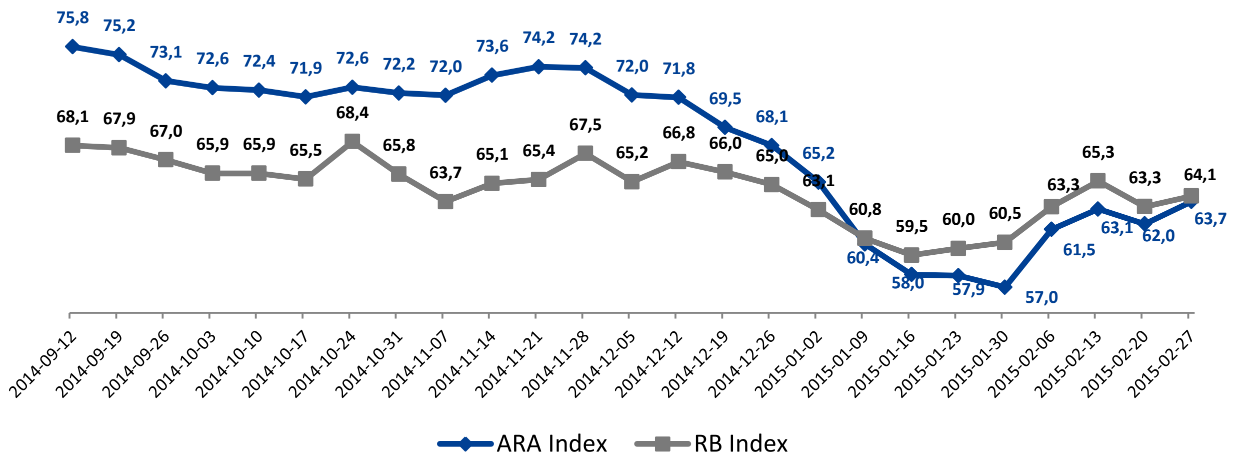
Hard coal trade is conducted worldwide and thus the results of the industry depend appreciably on trends and activities of mining companies around the world. Nowadays, the increasing surplus of the resources worldwide is noticed. It is reflected by the trend of stable decreasing price of the raw material. Based on Index ARA, which best illustrates the price of the raw

[5] In enterprises employing 9 persons or more
[6] preliminary data: CSO publishes the final data in the Yearbook „Transport Results of Operations" in July of the year following the reporting year

material delivered on the European market, hard coal price achieved 65 dollars per ton at the end of 2014, i.e. the lowest level over the last few years.

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

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



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

Source: gornictwo.wnp.pl

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

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

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

<u>Construction industry</u>

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

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

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

<u>Metallurgical Industry</u>

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

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

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

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

3.4. Information about the sales market and supply sources

Main clients

PKP CARGO S.A. operates in one geographical area – Poland, where the Company's Headquarters are located. Total revenue for all geographical areas (place of clients' headquarters) outside Poland did not exceed 12% of total revenue from sales of the services.

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

The largest client is ArcelorMittal Group (10.5% of total revenue from sales of services) which is the largest worldwide steel producer. Moreover, the Group owns raw materials deposits supported by a well-developed distribution network. PKP CARGO S.A. renders services of railway transport to this Group – mainly of ore and pyrite as well as metal and metal goods.

Main suppliers

While operating on the transportation market , in terms of the access to the infrastructure, PKP CARGO S.A. solely depends on the largest supplier of the services offering the access to the railway infrastructure in Poland – PKP Polskie Linie Kolejowe S.A. (PKP PLK). It is the national supplier of majority of railway infrastructure services in Poland. The access to the infrastructure is granted to all carriers, both cargo and passenger ones, in return for an access fee based on the same terms. PKP PLK renders services to PKP CARGO S.A. which include the access to railway infrastructure and traction infrastructure, dispatching and directing the rail traffic as well as the access to equipment related to the operation of trains. The share of PKP PLK in the costs of supply of the PKP CARGO S.A. (sense as the sum of the costs of external services and consumption of raw materials and supplies) was 36,6% in 2014.

Furthermore, a significant supplier of the Company remains PKP Energetyka S.A. in terms of traction fuel and traction energy supplies. This supplier specializes in sales and delivery of energy, sales of liquid fuels and delivery of electro-energy services. The share of PKP Energetyka S.A. in the costs of supply of the PKP CARGO Group (sense as the sum of the costs of external services and consumption of raw materials and supplies) was 27,0% in 2014.

3.5. Seasonality / cyclicity of operations

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

3.6. Information on employment

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

Table 8 Employment at the end of the reporting period in PKP CARGO S.A.

Specification	Number of employees, as at:				
	31.12.2014	31.12.2013	30.09.2014	Change from the beginning of the year	Change in Q4
Company	20 830	22 480	21 870	-1 650	-1 040

Source: Own study

Table 9 Average employment in the 2014 and in 2013 in PKP CARGO S.A.

Specification	*average employment in full-time jobs*		*Change*	*average employment in persons*		*Change*
	2014	2013	2014-2013	2014	2013	2014-2013
Company	22 010	22 711	-701	22 012	22 713	-701

Source: Own study

Table 10 Average employment in Q4 2014 and Q4 2013 in PKP CARGO S.A.

Specification	*average employment in full-time jobs*		*Change*	*average employment in persons*		*Change*
	Q4 2014	Q4 2013	2014-2013	Q4 2014	Q4 2013	2014-2013
Company	21 639	22 776	-1 137	21 636	22 780	-1 144

Source: Own study

Table 11 Change to the structure of employment in 2014 and 2013 in PKP CARGO S.A.

Specification	Number of employees, as at:		Change from the beginning of the year	Number of employees, as at:	Change from the beginning of the year
	31.12.2014	31.12.2013		31.12.2012	
White collar employees	4 462	4 706	-244	4 880	-174
Blue collar employees	16 368	17 774	-1 406	18 790	-1 016
Total:	**20 830**	**22 480**	**-1 650**	**23 670**	**-1 190**

Source: Own study

Table 12 Change to the structure of employment in Q4 2014 and in Q4 2013 in PKP CARGO S.A.

Specification	Number of employees, as at:		Change in Q4 2014	Number of employees, as at:		Change in Q4 2013
	31.12.2014	30.09.2014		31.12.2013	30.09.2013	
White collar employees	4 462	4 577	-115	4 706	4 711	**-5**
Blue collar employees	16 368	17 293	-925	17 774	18 184	**-410**
Total:	**20 830**	**21 870**	**-1 040**	**22 480**	**22 895**	**-415**

Source: Own study

In 2014 the average employment was reduced by 701 employees in comparison to 2013. Decrease in the employment was mainly the result of termination of contracts of employment in connection with acquiring the retirement rights.

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

Employment decrease in 2014 in PKP CARGO S.A. was deeper than it was assumed in the Prospectus of PKP CARGO S.A. prepared in relation to the initial public offering. The decrease results from termination of employment contracts due to retirement that occurred higher than originally assumed. In addition, the exemption from the obligation to perform work had an impact on employment at the end of 2014.

Employment optimization process has been continued in 2015.

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

3.7. Investing activities of PKP CARGO S.A.
3.7.1. Capital expenditure

In 2014 the Company incurred investment expenditures of PLN 542.4 million for additions of tangible fixed assets and intangible assets in the form of purchases, modernisation and the so-called renovation component (scheduled overhauls of rolling stock), which constitutes 156% of expenditures for 2013.

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

Majority of capital expenditure in 2014 was allocated to rolling stock, i.e. PLN 502.1 million, including mainly scheduled overhauls (numbers of overhouls carried out in particular periods result from cycles specified in the Maintenance System Documentation (DSU) approved by the UTK and a number of the railway rolling stock maintained in technical efficiency in accordance with the demand on freight market), locomotives modernization (10 items) and purchase of wagons (200 items of wagons to carry containers). Furthermore, capex expenditure on implementation of IT solutions, i.e. purchase of hardware and intangible assets (software) amounted to PLN 20.6 million and on investment constructions – to PLN 11.1 million (including intermodal terminal Poznań Franowo and modernization of rolling stock maintenance facilities in Węgliniec).

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

Table 13 Capital expenditure in PKP CARGO S.A. in 2014 in comparison to 2013 (PLN thousand)

Specification	2014	2013	Absolute change 2014-2013	Pace of changes 2014-2013
Investment construction	11 135.1	42 098.5	-30 963.4	-73.5%
Modernisation of locomotives	48 242.0	23 344.6	24 897.4	106.7%
Purchase of wagons	57 224.4	11 439.7	45 784.7	400.2%
Machines and equipment	5 899.9	8 341.6	-2 441.7	-29.3%
IT	20 616.0	32 250.1	-11 634.1	-36.1%
including intangible assets	12 970.0	18 148.7	-5 178.7	-28.5%
Other	2 673.1	539.7	2 133.4	395.3%
Components in repairs:	396 632.1	229 830.7	166 801.4	72.6%
Scheduled overhauls of locomotives	121 620.8	41 889.1	79 731.7	190.3%
Scheduled overhauls of wagons	275 011.3	187 941.6	87 069.7	46.3%
Total	**542 422.6**	**347 844.9**	**194 577.7**	**55.9%**

Source: Own study

Financing structure of capital expenditure on tangible and intangible fixed assets was in 2014 as follows: PLN 336.7 million from the Company's own financial resources, PLN 178.4 million from a credit facility, PLN 2.5 million from leasing and PLN 24.9 million from the Cohesion Fund, received from the Infrastructure and Environment Operational Programme.

3.7.2. Important events and achievements of investments project

PKP CARGO S.A. has the capability to finance the investment projects both using internal resources, i.e. the existing and planned cash surplus (from operating activities) as well as external resources including not utilized EIB credit facility of PLN 240 million and new credit facilities and investment loans – the agreement signed with Bank Gospodarstwa Krajowego in 2014 with limit of PLN 515.2 million. The acceptable financial ratios agreed with strategic borrowers allow to significantly increase the scale of financing investment projects with the use of the Company's external funds without the risk of default on the existing credit agreements.

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

4. Analysis of financial and economic situation of PKP CARGO S.A.

4.1. Key economic and financial figures

4.1.1. Statement of comprehensive income

Analysis of key economic and financial figures of PKP CARGO S.A. presented in this chapter includes the presentation adjustment of data for 2014 and 2013. Data for 2013 for presentation purposes have been adjusted by the costs of PLN 192.9 million resulting from the Agreement partially ending the collective dispute of 10 June 2013 between the Trade Unions and PKP CARGO S.A. signed by the parties on 22 August 2013, and also from the Employees' Guarantees Pact signed on 2 September 2013. Data for 2014 for presentation purposes have been adjusted by the effect of provisions of PLN 257.1 million resulting from implemented Voluntary Redundancy Program based on the Resolution no. 423/2014 of the Management Board of PKP CARGO S.A. from 17 November 2014 and the Resolution no. 1363/V/2014 of the Supervisory Board of PKP CARGO S.A. from 27th November 2014. Both amounts were included in costs of the employee benefits.

In 2014, PKP CARGO S.A. transported 109.7 million tons of the mass of freight, i.e. by 3.3% less than in 2013, and performed the freight turnover at the level of 28.3 billion tkm, i.e. by 5.2% less yoy. For details please see Chapter 4.1.2. "Rail freight transport". Total operating revenue of the Company decreased by 10.4% yoy and adjusted total operating expenses by 11.3% yoy. As a result the Company generated in 2014 adjusted profit on operating activities and net profit higher 2.4% i 6.6% in the amounts of PLN 307.4 million and PLN 266.9 million respectively.

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

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

Table 14 Results of PKP CARGO S.A. in 2014 in comparison to 2013 (PLN thousand)

Item	Specification	2014	2013	Change 2014-2013	Pace of changes 2014/2013	2014 Adjusted *	2013 Adjusted *	Change 2014-2013 Adjusted *	Pace of changes 2014/2013 Adjusted *
1	Total operating revenue	3 842 607	4 287 531	-444 924	-10.4%	3 842 607	4 287 531	-444 924	-10.4%
2	Total operating expenses	3 792 311	4 180 080	-387 769	-9.3%	3 535 196	3 987 186	-451 990	-11.3%
3	**Profit on operating activities**	**50 296**	**107 451**	**-57 155**	**-53.2%**	**307 412**	**300 345**	**7 066**	**2.4%**
4	Financial revenue	49 497	45 759	3 739	8.2%	49 497	45 759	3 739	8.2%
5	Financial expenses	31 592	38 268	-6 676	-17.4%	31 592	38 268	-6 677	-17.4%
6	**Profit before tax**	**68 201**	**114 942**	**-46 741**	**-40.7%**	**325 317**	**307 835**	**17 482**	**5.7%**
7	Income tax expense	9 591	20 859	-11 268	-54.0%	58 443	57 508	934	1.6%
8	**Net profit from continued activities**	**58 610**	**94 083**	**-35 473**	**-37.7%**	**266 874**	**250 327**	**16 547**	**6.6%**
9	Net profit (loss) on abandoned activities	-	-	-	-	-	-	-	-
10	**NET PROFIT**	**58 610**	**94 083**	**-35 473**	**-37.7%**	**266 874**	**250 327**	**16 547**	**6.6%**

* Data for 2013 for presentation purposes have been adjusted by the costs of PLN 192.9 million resulting from the Agreement partially ending the collective dispute of 10 June 2013 between the Trade Unions and PKP CARGO S.A. signed by the parties on 22 August 2013, and also from the Employees' Guarantees Pact signed on 2 September 2013.

Data for 2014 for presentation purposes have been adjusted by the effect of provisions of PLN 257.1 million resulting from implemented Voluntary Redundancy Program based on the Resolution no. 423/2014 of the Management Board of PKP CARGO S.A. from 17 November 2014 and the Resolution no. 1363/V/2014 of the Supervisory Board of PKP CARGO S.A. from 27th November 2014.

Source: Separate Financial Statements of the PKP CARGO S.A. for the financial year ended 31 December 2014, prepared in accordance with IFRS EU

Total operating revenue

Revenue from sales of services constitutes the largest share in the structure of total operating revenue of the Company (98.3% in 2014 and 97.1% in 2013). Revenue from sales of services include: freight services, siding services, traction services, renting the rolling stock, revenue arising from complex operational support services and revenue arising from repair services of railroad fleet. The remaining part of operating revenue of PKP CARGO S.A. constitutes revenue from sales of goods and materials including sale of steel and iron scrap metal, as well as other operating revenue including among others: sale of non-current assets, change in allowance for receivables and interest from receivables, change of the provisions for liabilities.

Decline in revenue from sales by PLN 345.1 million was caused mainly by lower railway freight in Poland (the chapter "Position of PKP CARGO S.A. on the railway market"), and particularly lower railway freight of coal due to decline in export of this raw material.

Decline in revenue from sales of goods and materials by PLN 27.7 million, i.e. 49.1% yoy resulted mainly from lower revenue from sales of scrap.

Other operating revenue decreased by PLN 31.3 million, i.e. 45.2% y. The decline is the result of high other operating revenue in 2013 caused by the return of the paid penalty of PLN 60.4 million by Office of Competition and Consumer Protection ("OCCP"). Due to the fact that the case has been returned to remand by the court of the first instance, the Company has estimated the provision for the possible fine that could be imposed by OCCP. Difference between the fine and the amount of recalculated provision in the amount of PLN 46 million has been recognized as other operating revenue.

Table 15 Operating revenue of PKP CARGO S.A. in 2014 in comparison to 2013 (PLN thousand)

Item	Specification	2014	2013	Change 2014-2013	Pace of changes 2014/2013
1	Revenue from sales of services, including:	3 775 863	4 161 728	-385 865	-9.3%
1.1	*Freight revenue and railway shipping*	*3 646 968*	*3 992 095*	*-345 128*	*-8.6%*
2	Revenue from sales of goods and materials	28 809	56 558	-27 749	-49.1%
3	Other operating revenue	37 935	69 245	-31 310	-45.2%
4	**Total operating revenue**	**3 842 607**	**4 287 531**	**-444 924**	**-10.4%**

Source: The Separate Financial Statements of the PKP CARGO S.A. for the financial year ended on 31 December 2014, prepared in accordance with IFRS EU

Operating expenses

In 2014 adjusted operating expenses decreased by PLN 452.0 million, i.e. 11.3% as to PLN 3,535.2 million from PLN 3,987.2 million in 2013.

A significant decline of external services was recorded in 2014. They amounted to PLN 1,191.5 million and were lower by PLN 227.2 million, i.e. 16.0% in comparison to 2013. It is the result of lower freight and lower costs of access to the railway infrastructure due to more effective use of routes and lower unit access rates to the infrastructure applied by PKP Polskie Linie Kolejowe S.A.

Adjusted employee benefits declined by PLN 31.8 million, i.e. 2.3% yoy. The average employment in 2014 decreased by 701 employees yoy. The change of employment level was presented in the chapter "Information about the employment".

In 2014 there was also the decrease of consumption of raw materials and supplies by PLN 92.0 million, i.e. 13.4% YOY. The costs of traction fuel declined by PLN 14.4 million, i.e. 7.1% YOY, whereas the traction energy costs decreased by PLN 35.8 million, i.e. 9.2% which was caused by lower freight and the decline of unit fuel and energy prices. Among the costs of raw materials and supplies consumption decreased also in the area of materials used mainly to maintain the rolling stock by 14.0 million PLN, whereas the reversal of allowances decreasing the costs of raw materials consumption increased by PLN 17.7 million. Details concerning the allowance creation in 2014 in comparison to 2013 were described in the note no. 18 "Inventories" to the Separate Financial Statements.

The decline of depreciation/amortization and impairment losses by PLN 28.7 million, i.e. 7.9% YOY to the level of PLN 332.2 million in 2014, was mainly the result of decline of depreciation of property, plant and equipment (by PLN 9.4 million, i.e. 2.9 % YOY to PLN 316.7 million) and intangible assets (by PLN 5.8 million, i.e. 27.4% YOY to PLN 15.5 million). Moreover, in 2013 the impairment loss of property, plant and equipment of 11.3 million PLN was created – it was noted that the part of assets lost their usefulness for the operating activities.

In 2014 the cost of merchandise and raw materials sold decreased by PLN 19.1 million, i.e. 55.4% to PLN 15.4 million in relation to decrease in revenue from sales of scrap steel and iron.

Other operating expenses decreased in 2014 by PLN 28.1 million, i.e. 57.1% to the level of PLN 21.1 million mainly as a result of lower liquidation costs of non-current and current assets (the decline by PLN 9.5 million) and lower provisions for other penalties (the decline by PLN 15.5 million YOY).

Table 16 Operating expenses in PKP CARGO S.A. in 2014 as compared to 2013 (PLN thousand)

Item	Specification	2014	2013	Change 2014-2013	Pace of changes 2014/2013	2014 adjusted *	2013 adjusted *	Change 2014-2013 adjusted *	Pace of changes 2014/2013 adjusted *
1	Depreciation/amortisation and impairment losses	332 191	360 860	-28 669	-7.9%	332 191	360 860	-28 669	-7.9%
2	Consumption of raw materials and supplies	593 779	685 798	-92 019	-13.4%	593 779	685 798	-92 019	-13.4%
3	External services	1 191 505	1 418 734	-227 229	-16.0%	1 191 504	1 418 734	-227 229	-16.0%
4	Taxes and charges	35 941	34 354	1 587	4.6%	35 941	34 354	1 588	4.6%
5	Employee benefits	1 583 437	1 551 037	32 400	2.1%	1 326 321	1 358 144	-31 823	-2.3%
6	Other expenses by kind	19 009	45 643	-26 633	-58.4%	19 009	45 643	-26 633	-58.4%
7	Cost of merchandise and raw materials sold	15 353	34 451	-19 098	-55.4%	15 353	34 451	-19 098	-55.4%
8	Other operating expenses	21 096	49 203	-28 107	-57.1%	21 096	49 203	-28 107	-57.1%
9	**Total operating expenses**	**3 792 311**	**4 180 080**	**-387 769**	**-9.3%**	**3 535 196**	**3 987 186**	**-451 990**	**-11.3%**

* Data for 2013 for presentation purposes have been adjusted by the costs of PLN 192.9 million resulting from the Agreement partially ending the collective dispute of 10 June 2013 between the Trade Unions and PKP CARGO S.A. signed by the parties on 22 August 2013, and also from the Employees' Guarantees Pact signed on 2 September 2013..

Data for 2014 for presentation purposes have been adjusted by the effect of provisions of PLN 257.1 million resulting from implemented Voluntary Redundancy Program based on the Resolution no. 423/2014 of the Management Board of PKP CARGO S.A. from 17 November 2014 and the Resolution no. 1363/V/2014 of the Supervisory Board of PKP CARGO S.A. from 27th November 2014.

Source: Separate Financial Statements of the PKP CARGO S.A. for the financial year ended 31 December 2014, prepared in accordance with IFRS EU

Profit on operating activities

As a result of the above-described changes in operating revenue and expenses the adjusted profit on operating activities increased by PLN 7.1 million, i.e. 2.4% to the level of PLN 307.4 million PLN in 2014.

EBITDA

Adjusted result on operating activities increased by depreciation and impairment losses defined as EBITDA decreased by PLN 21.6 million, i.e. 3.3% to the level of PLN 639.6 million in 2014.

Table 17 Financial activities in PKP CARGO S.A. in 2014 as compared to 2013 (PLN thousand)

Item	Specification	2014	2013	Change 2014-2013	Pace of changes 2014/2013
1	Financial revenue	49 497	45 759	3 738	8.2%
2	Financial expenses	31 592	38 268	-6 676	-174%
3	**Profit on financial activities**	**17 905**	**7 491**	**10 415**	**139.0%**

Source: Separate Financial Statements of the PKP CARGO S.A. for the financial year ended 31 December 2014, prepared in accordance with IFRS EU

Financial activities

In 2014 PKP CARGO S.A. recorded the profit on the financial operation of PLN 17.9 million and thus in comparison to 2013 the result on the financial activities improved by PLN 10.4 million due to higher income and lower costs.

Financial revenue increased by PLN 3.7 million compared to 2013 as a result of:

- decrease in financial revenue from interest from bank accounts and bank deposits by 9.6 million PLN YOY
- increase in financial income from dividends by PLN 7.5 million YOY
- increase in other interest revenue due to the return of the interest paid by OCCP by PLN 12.6 million in 2014

Moreover, revenues recorded in 2013, were not recognized in 2014:

- profit on the disposal of shares (SPEDKOKS) by PLN 3.4 million,
- profits on the revaluation of financial assets and liabilities on the WSE by PLN 2.1 million PLN.

Financial expenses decreased by PLN 6.7 million in comparison to 2013 as a result of:

- decline in interest expenses by PLN 8.5 million and increase in net forex loss of PLN 2.2 million.

Profit before tax

In 2014 the adjusted profit before tax increased by PLN 17.5 million, i.e. by 5.7% YOY to the level of PLN 325.3 million. Increase in adjusted profit before tax was a result of increase in adjusted operating revenue and increase in profit on financial activities.

Income tax

In 2014 the Company noted the income tax expense of PLN 9.6 million, out of which current tax amounted to PLN -0.3 million, and deferred tax to PLN 9.9 million. Tax calculated for the adjusted gross profit would amount to PLN 58.4 million.

Net profit

In 2014 adjusted net result increased by PLN 16.5 million, i.e. 6.6% and PKP CARGO S.A. recorded the adjusted profit of PLN 266.9 million.

4.1.2. Characteristics of the structure of assets and liabilities

ASSETS

Table 18 Horizontal and vertical analysis of assets (PLN thousand)

	As of 31/12/2014 (audited)	As of 31/12/2013 (audited)	Structure of assets		Pace of changes	
			31/12/2014	31/12/2013		
ASSETS						
Non-current assets						
Property, plant and equipment	3 709 121	3 533 830	69,7%	65,5%	175 291	4,7%
Intangible assets	55 990	58 545	1,1%	1,1%	-2 555	-4,6%
Investments in subsidiaries and associates	262 846	243 164	4,9%	4,5%	19 682	7,5%
Other long-term financial assets	6 021	7 440	0,1%	0,1%	-1 419	-23,6%
Other long-term non-financial assets	1 464	1 201	0,0%	0,0%	263	18,0%
Deferred tax assets	58 359	61 239	1,1%	1,1%	-2 880	-4,9%
Total non-current assets	**4 093 801**	**3 905 419**	**77,0%**	**72,4%**	**188 382**	**4,6%**
Current assets						
Inventories	75 759	46 277	1,4%	0,9%	29 482	38,9%
Trade and other receivables	423 171	477 236	8,0%	8,8%	-54 065	-12,8%
Other short-term financial assets	301 818	689 157	5,7%	12,8%	-387 339	-128,3%
Other short-term non-financial assets	24 921	24 743	0,5%	0,5%	178	0,7%
Cash and cash equivalents	381 420	229 232	7,2%	4,2%	152 188	39,9%
	1 207 089	**1 466 645**	**22,7%**	**27,2%**	**-259 556**	**-21,5%**
Non-current assets held for sale	17 560	22 607	0,3%	0,4%	-5 047	-28,7%
Total current assets	**1 224 649**	**1 489 252**	**23,0%**	**27,6%**	**-264 603**	**-21,6%**
Total assets	**5 318 450**	**5 394 671**	**100,0%**	**100,0%**	**-76 221**	**-1,4%**

Source: Separate Financial Statements of the PKP CARGO S.A. for the financial year ended 31 December 2014, prepared in accordance with IFRS EU

Fixed assets

The most significant part of total assets constitute tangible fixed assets which at the end of 2014 amounted to 69.7% of total assets (65.5% in 2013). It resulted from a decrease of 21.5% in current assets (mainly in other short-term financial assets) and the increase of 4.5% in tangible fixed assets.

Increase in tangible fixed assets is a result of capital expenditure of PLN 542.4 million incurred in 2014 (as described in chapter 3.7.1) offset against depreciation (PLN 332.2 million) and disposals and liquidation of property.

Other fixed assets reached at the end of 2014 7.2% of balance sheet total (6.9% in 2013).

It was mainly the effect of a-7.5%- increase in investments in subsidiaries and associated companies as a result of contribution in kind of PLN 19.7 million made to CARGOTOR Sp. z o. o. in the form of receivables from PKP S.A. for reimbursements of capital expenditure incurred. The contribution in kind was made to increase the share capital of the related entity.

Current assets

Total current assets decreased by PLN 264.4 million as of the end of 2014 as compared to 2013, i.e. by 21.6%. Their share in the balance sheet total fell from 27.6% as of 31 December 2013 to 23.0% as of 31 December 2014 which resulted from a 128.3% decrease in short term financial assets.

As of 31 December 2014, the biggest share in current assets constitute trade receivables, other receivables, cash and cash equivalents. Trade and other receivables amounted to 8% of the balance sheet total as of the end of 2014, as compared to 8.8% in prior year. The decrease of PLN 54.1 million in receivables, i.e. 12.8%, resulted from a decrease in trade receivables (of PLN 48.8 million), lower receivable write-offs (by PLN 20.8 million) and the fact, that as at the end of 2013 there were recorded receivables from sale of non-financial assets (PLN 21.3 million) and bailout agreements (PLN 10.8 million), not recorded as at the end of 2014.

Cash and cash equivalents indicated the highest increase year to year, i.e. by PLN 152.2 million (by 39.8%). The share of cash and cash equivalents in the balance sheet increased to 7.2% in 2014 against 4.2% as at the end of 2013.

Inventories increased by PLN 29.5 million, i.e. by 38.9%. Spare parts for repair of rolling stock amounted to approx. 80% of materials in the Company's warehouses.

The table below presents inventory index as at 31 December 2014 and 31 December 2013.

Table 19 Inventory indexes as at 31.12.2014 in comparison to 31.12.2013

Specification	2014	2013	Change 2014-2013	Pace of changes 2014/2013
Total inventories (net)	77.5	43.5	34.0	78.2%

Source: own study

Inventory index as at 31 December 2014 amounted to 77.5 days and it increased by 34 days compared to 31 December 2013, at:

- Materials of PLN 75.8 million,
- Net value of sold materials of PLN 11.4 million,
- Materials consumption and employee benefits of PLN 340.7 million.

The level of inventories is adjusted mainly to the activity of maintaining and repairing the rolling stock. Details concerning the change in inventories value are described in the note no 18 "Inventories" to the Separate Financial Statements.

EQUITY AND LIABILITIES

Table 20 Horizontal and vertical analysis of liabilities and equity (PLN thousand)

	As of 31/12/2014 (audited)	Stan na 31/12/2013 (audited)	Structure of liabilities and equity		Pace of changes	
			31/12/2014	31/12/2013		
EQUITY AND LIABILITIES						
Equity						
Share capital	2 239 346	2 166 901	42,1%	40,2%	72 445	3,2%
Share premium	584 513	651 472	11,0%	12,1%	-66 959	-11,5%
Other items of equity	-39 642	-9 901	-	-	-29 741	-
Retained earnings	468 081	554 494	8,8%	10,3%	-86 413	-18,5%
Total equity	**3 252 298**	**3 362 966**	**61,2%**	**62,3%**	**-110 668**	**-3,4%**
Non-current liabilities						
Long-term bank loans and credit facilities	206 112	115 654	3,9%	2,1%	90 458	43,9%
Long-term finance lease liabilities and leases with purchase option	114 027	228 832	2,1%	4,2%	-114 805	-100,7%
Long-term trade and other payables	67 938	113 509	1,3%	2,1%	-45 571	-67,1%
Long-term provisions for employee benefits	611 418	551 951	11,5%	10,2%	59 467	9,7%
Other long-term provisions	8 416	22 778	0,2%	0,4%	-14 362	-170,7%
Total non-current liabilities	**1 007 911**	**1 032 724**	**19,0%**	**19,1%**	**-24 813**	**-2,5%**
Current liabilities						
Short-term bank loans and credit facilities	87 971	59 733	1,7%	1,1%	28 238	32,1%
Short-term finance lease liabilities and leases with purchase option	120 505	108 770	2,3%	2,0%	11 735	9,7%
Short-term trade and other payables	457 602	604 599	8,6%	11,2%	-146 997	-32,1%
Short-term provisions for employee benefits	315 213	165 790	5,9%	3,1%	149 423	47,4%
Other short-term provisions	17 414	20 449	0,3%	0,4%	-3 035	-17,4%
Other short-term financial liabilities	59 393	39 640	1,1%	0,7%	19 753	33,3%
Current tax liabilities	143	-				
Total current liabilities	**1 058 241**	**998 981**	**19,9%**	**18,5%**	**59 260**	**5,6%**
Total liabilities	**2 066 152**	**2 031 705**	**38,8%**	**37,7%**	**34 447**	**1,7%**
Total equity and liabilities	**5 318 450**	**5 394 671**	**100,0%**	**100,0%**	**-76 221**	**-1,4%**

Source: Separate Financial Statements of the PKP CARGO S.A. for the financial year ended 31 December 2014, prepared in accordance with IFRS EU

Equity

The share of equity in total liabilities as at 31 December 2014 amounted to 61.2% as compared to 62.3%, year on year. The changes in equity related to the implementation of the Employee Guarantee Pact and accounting for the accruals for the share-based payments in 2013 (described in note 30.3 of the Separate Financial Statements). On 7 March 2014 Management of the Company allocated shares to eligible employees. The contribution of share capital to total balance sheet increased from 40.2% as at 31 December 2013 to 42.1% as at 31 December2014, while the share of share premium decreased by 1.1 percentage point from 12.1% as at 31 December 2013 to 11.0% as at 31 December 2014.

Detailed information on the decision of the General Meeting of Shareholders as to the reserve capital and retained earnings is described in note 24.2 to the Separate Financial Statements.

Non-current liabilities

Non-current liabilities decreased by PLN 24.8 million as compared to 31 December 2013, i.e. by 2.5%. Thus, their share in total liabilities decreased from 19.1% to 19.0%. As at 31 December 2014 long-term bank loans and credit facilities increased by PLN 90.5 million (43.9%), while long-term finance lease liabilities and leases with purchase option decreased by PLN 114.8 million (100.7%). Detailed information on external financing is described in notes 26-28 to the Separate Financial Statements.

Current liabilities

Current liabilities increased by PLN 59.3 million (i.e. by 5.6%) as at 31 December 2014 as compared to 31 December 2013. The highest increase was recorded in short-term provisions for employee benefits – increase of PLN 149.4 million, i.e. by 47.4% (as a result of the Voluntary Redundancy Program), short-term bank loans and credit facilities –increase of PLN 28.2 million, i.e. by 32.1%, while short-term trade and other payables decreased by PLN 147.0 million, i.e. by 32.1%.

4.1.3. Selected financial and operating ratios

Below are presented significant financial and operating ratios in 2014 and 2013:

Table 21 Selected financial and operating ratios in 2014 in comparison to 2013

Specification	2014	2013	Change 2014-2013	Pace of changes 2014/2013	2014 Adjusted *	2013 Adjusted *	Change 2014-2013 Adjusted *	Pace of changes 2014/2013 Adjusted *
EBITDA margin [1]	10.0	10.9	-1.0	-8,9%	**16,6**	**15,4**	1,2	7,9%
Net profit margin [2]	1.5	2.2	-0.7	-30.5%	**6.9**	**5.8**	1.1	19.0%
Index of financial net debt to EBITDA [3]	-0.25	-0.78	-	-	**-0.15**	**-0.55**	-	-
ROA[4]	1.1	1.7	-0.6	-36.8%	**5.1**	**4.6**	0.4	8.9%
ROE[5]	1.8	2.8	-1.0	-35.6%	**7.7**	**7.3**	0.4	5.3%
Average distance covered by 1 locomotive (km a day)[6]	243.9	251.8	-7.9	-3.1%	**243.9**	**251.8**	-7.9	-3.1%
Average train tonnage gross per working locomotive (in tons)[7]	1 481.0	1 465.0	16.0	1.1%	**1 481.0**	**1 465.0**	16.0	1.1%
Average working time of locomotives (hrs. a day)[8]	15.4	15,3	0.1	0.7%	**15.4**	**15.3**	0.1	0.7%
Freight turnover per hired (thousands tkm/hired)[9]	1 288	1 316	-28	-2.2%	**1 288**	**1 316**	-28	-2.2%

* Data for 2013 for presentation purposes have been adjusted by the costs of PLN 192.9 million resulting from the Agreement partially ending the collective dispute of 10 June 2013 between the Trade Unions and PKP CARGO S.A. signed by the parties on 22 August 2013, and also from the Employees' Guarantees Pact signed on 2 September 2013..

Data for 2014 for presentation purposes have been adjusted by the effect of provisions of PLN 257.1 million resulting from implemented Voluntary Redundancy Program based on the Resolution no. 423/2014 of the Management Board of PKP CARGO S.A. from 17 November 2014 and the Resolution no. 1363/V/2014 of the Supervisory Board of PKP CARGO S.A. from 27th November 2014.

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1. *Calculated as the quotient of the profit from operating activities plus amortisation and revaluation deductions by total revenue from operating activities*100.*
2. *Calculated as the quotient of the net profit and total revenue from operating activities*100.*
3. *Calculated as the quotient of the net financial debt (being the sum of (i) long-term bank credits and loans; (ii) short-term bank credits and loans (iii) long-term liabilities on account of financial leasing and lease agreements with a purchase option; (iv) short-term liabilities on account of financial leasing and lease agreements with a purchase option; and (v) other short-term financial liabilities, reduced by (i) cash and equivalents thereof; and (ii) other short-term financial assets) and EBITDA (profit on operating activities plus amortisation and deductions on account of revaluation).*
4. *Calculated as the quotient of the net profit and the sum of assets*100.*
5. *Calculated as the quotient of the net profit and own capital*100.*
6. *Calculated as the quotient of vehicle-kilometre (i.e. distance covered by vehicles of the PKP CARGO S.A. in a given period) and vehicle-days (i.e. the product of the number of active vehicles and the number of calendar days in a given period)*
7. *Calculated as the quotient of the tone-kilometres gross and the train-kilometres in tractive work related to locomotives leading the train (in double traction or working on being pushed in a given period).*
8. *Calculated as the quotient of the vehicle-hours (i.e. the number of working hours vehicles of the PKP CARGO S.A. in a given period) and the vehicle-days (i.e. the product of the number of active vehicles and the number of calendar days in a given period).*
9. *Calculated as the quotient of the freight turnover performed by the PKP CARGO S.A. and average employment (in full-time jobs) in the PKP CARGO S.A. in a given period.*

Source: Separate Financial Statements of the PKP CARGO S.A. for the financial year ended 31 December 2014, prepared in accordance with IFRS EU

Adjusted EBITDA and net profit margin for 2014 increased compared to 2013 by 1.2 p.p. and 1.1 p.p., respectively. Improvement in these ratios was achieved against a backdrop of falling operational revenue thanks to improvement in Company cost efficiency .

Adjusted ROA and ROE ratios in 2014 decreased in comparison to the values of analogous ratios in 2013 by 0.4 p.p.

The ratio of net financial debt to EBITDA achieved a negative value, in 2014 as well as 2013, due to a surplus of cash and cash equivalents and other short-term financial assets over liabilities.

In 2013 average daily mileage of locomotives was 251.8 km/day. In 2014 it fell by 3.1% or 7.9 km/day to the level of 243.9 km/day. The fundamental reason behind it was an increase in closures and operational difficulties on the PKP PLK network.

Average gross mass of a train per locomotive grew from 1465.0 tons in 2013 to 1481.0 tons in 2014, i.e. by 16.0 tons or 1.1%. It was an effect of more efficient use of locomotives and optimisation of the logistic process.

4.1.4. Explanation of differences between forecasts and published results

PKP CARGO S.A. did not publish financial forecasts under § 5 (1) (25) of the Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and on conditions under which information required by regulations of a non-member state may be recognised as equivalent (Journal of Laws of 2014, item 133), concerning the results of the Company and the PKP CARGO S.A. Group in 2014.

4.2. Selected events and information concerning the activities of PKP CARGO S.A.

4.2.1. Information on events materially influencing activity of PKP CARGO S.A., including events subsequent to the balance-sheet date

Conclusion of public offering of series C shares and share capital increases

On 25 April 2014 the Management Board of PKP CARGO S.A. informed that the Company obtained the resolution of the National Court Register by the District Court for the Capital City Warsaw in Warsaw, XII Commercial Division of the National Court Register from 25 April 2014. Based on this resolution the change of the Company's statute and the increase of share capital was registered. The change of the statute and share capital increase results from the issuance of series C shares.

Shares of series C were offered only to eligible employees of the PKP CARGO Group. Employees could sign up for shares in the period from 2 December 2013 to 28 February 2014. On 7 March 2014the shares allotment was completed.

The value of the offer amounted to PLN 98,525,336 (1,448,902 series C shares at a nominal price of PLN 68.00 per each). During the subscription shares were allocated to 24,250 eligible employees and 14 inheritors of eligible employees. As a result of above issuance the share capital of the Company amounted to 2,239,345,850 PLN (in words: two billion two hundred thirty-nine million three hundred forty-five thousand eighty-five PLN) and is divided into:

1. 43,338,000 (in words: forty-three million three hundred thirty-eight thousand) bearer shares of series A of nominal value in PLN 50 (in words: PLN fifty) per each;

2. 15 (in words: fifteen) bearer shares of series B in nominal value of PLN 50 (in words: PLN fifty) per each;

3. 1,448,902 (in words: million four hundred forty-eight thousand nine hundred two) registered ordinary shares of series C in nominal value of PLN 50 (in words: PLN fifty) per each.

Changes in the Management Board of PKP CARGO S.A.

On 6 February 2014 the Supervisory Board of the Company appointed Mr. Adam Purwin to the position of President of the Management Board as a result of qualification procedure. Previously Mr. Purwin was a Member of the Management Board responsible for Finance.

On 17 February 2014 Mr. Sylwester Sigiel resigned from the position of a Member the Management Board responsible for Commerce. The resignation was effective from the day of a resolution of the Supervisory Board of the Company on appointment of the new Member of the Management Board responsible for Commerce.

On 24 April 2014 the following new Management Board memers were appointed for the following posts:

- Mr. Wojciech Derda - Member of the Management Board responsible for Operations,
- Mr. Jacek Neska - Member of the Management Board responsible for Commerce,
- Mr. Dariusz Browarek - Member of the Management Board, Employees representative in the Management Board.

Moreover, Mr. Łukasz Hadyś was appointed effectively on 12 May as a Member of the Management Board responsible for Finance.

Collective dispute

Signed agreements with Trade Unions, party to Intra-Company Collective Bargaining Agreement (ICBA)

On 9 April 2014 PKP CARGO S.A. signed an agreement ending the collective dispute concerning remuneration, commenced by the trade unions on 10 June 2013. In accordance with the Agreement almost 22 thousand employees were paid one-off bonus of PLN 225 in April 2014, whereas from 1 August 2014 the remuneration raise of PLN 100 per one employee was implemented. Moreover, it was agreed that not less than 500,000 PLN was dedicated for the introduction of appreciation bonuses for management staff excluding employees from the headquarter and divisions, appointed by the Management Board of the Company in the Management by Objectives Program. The Bonuses value was distributed in two tranches in the second half of 2014.

The existence of collective bargaining

In the fourth quarter of the previous year the Management Board of PKP CARGO S.A. led social dialogue with the trade unions being the part of Intra-Company Collective Bargaining Agreement. They directed to the Company their financial, labour and organizational postulates into two separate documents.

PKP CARGO S.A. informed immediately the appropriate Regional Labour Inspector about the collective disputes lasting from 30 October 2014 and 13 January 2015.

As a result of the partial agreement achieved during the social dialogue the employees of the Company received the gratification for the Railman's day in higher amount in 2014 (PLN 200 according to the Intra-Company Collective Bargaining Agreement plus additional PLN 200).

On 12 February 2015 the Agreement ending the collective dispute was signed which was effective from 30 October 2014. The agreement includes partial realization of the postulates concerning the gratification paid for the Railman's day, increase of daily rates for the purchase of preventive and regenerative-reinforcing meals, implementation of allocation and incentive bonus as well as organizational issues.

In terms of collective dispute lasting from 13 January 2015, the Management Board of PKP CARGO S.A. has established social dialogue with the Trade unions concerning the submitted postulates as well as negotiations and mediation aiming on reaching the agreement and solving the conflict.

The resolution of the General Shareholders Meeting on distribution of profit recognized in 2013, resulting from the Separate Financial Statements of PKP CARGO S.A. for the period 01.01.2013 to 31.12.2013

On 12 May 2014, the General Shareholders Meeting (GSM) adopted a resolution on distribution of profit recognized in 2013, resulting from the Separate Financial Statements of PKP CARGO S.A. for the period 01.01.2013-31.12.2013, determining the date of the dividend and the date of the dividend' s payment.

In accordance with the GSM resolution the net profit achieved in 2013 in the amount of PLN 94,083 thousand, resulting from the Separate Financial Statements of PKP CARGO S.A. for the period 01.01.2013-31.12.2013, after the familiarization with the Management Board notion, was allocated to:

1) payment of the dividend in the amount of PLN 86,556 thousand,

2) share premium in the amount of PLN 7,527 thousand.

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

Changes in the organizational structure of PKP CARGO S.A.

On 5 May 2014 the Board of Directors of PKP CARGO S.A. decided to consolidate divisions included in the Company. Changes were introduced on 1 July 2014 as a result of w seven out of ten plants operating so far were created. The structure includes seven plants: Central, Southern, Western, Lower Silesia, Silesian, Eastern and Northern. Additionally, the borders of divisions have been changed .The main assumption to make a decision to accept the new structure of PKP CARGO S.A. was the need to increase effectiveness in managing the Company and the possibility to use its resources optimally.

On 5 May 2014 the Board of Directors of PKP CARGO S.A. passed the resolution no 161/2014 adopting the plan of the new Organizational Regulations of the Company, commencing the process of launching in the Company a new managing system in terms of functional departments ("verticalization"). This project was sent out for consultation with the social party. As a result of the remarks to the Organizational Regulations were notified. On 17 June 2014 the Management Board of PKP CARGO S.A. adopted the resolution no 232/2014 concerning the acceptance of the Organizational Regulations which became effective on 1 July 2014. The changes concern the verticalization of organizational structures by more closely connecting the Central Office with the Plants and by developing functional divisions which are managed by directors of the central office.

Resolutions adopted by Extraordinary General Shareholders Meeting

On 30 July 2014 the Extraordinary General Shareholders Meeting of PKP CARGO S.A. adopted a Resolution on determining the amount of remuneration of Members of the Supervisory Board of PKP CARGO S.A. Full text of the Resolution was published in the current report No. 47/2014, available on the PKP CARGO S.A. website.

On 30 July 2014 the Extraordinary General Shareholders Meeting of PKP CARGO S.A. adopted a Resolution on introducing amendments to the Articles of Association of PKP CARGO S.A. In Article 5(1) point 3 of Company's Articles of Association ("Articles of Association") the numbering of the sub-item a) has been altered to sub-item a ^{1}) and a new sub-item a) has been added as follows:

"a) accounting and booking activities; tax consultancy of PKD – 69.20.Z".

Also, Article 25(3) point 13 has new wording:

"13) giving consent to:

a) acquisition, disposal or establishment of a limited property right by the Company of the Company's investment property, perpetual usufruct of land or the share in the investment property or in the right of perpetual usufruct by the Company,

b) acquisition, purchase or sale of shares of another company, except for acquisition of shares in the increased share capital of subsidiaries of the Company,

c) purchase or sale by the Company of licences or copyrights,

d) incurring liabilities by the Company and disposal of rights,

e) purchase and sale of non-current assets by the Company

- of the market value equal or exceeding the amount of PLN 20,000,000.00 (twenty million) yet, in the case of concluding contracts for an indefinite period , the contractual value or anticipated value of the Company's performance in a 5-year period is adopted, except for concluding contracts related to the areas of the Company's business specified in § 5(1)(1) of the Articles of Association, including contracts for transport and forwarding services as well as traction and shunting services;"..

In Article 27 of the Articles of Association a new Paragraph 8 has been added of the following wording:

"8. All amounts indicated in the Articles of Association are gross amounts."

At the same time the Extraordinary General Shareholders Meeting authorised the Supervisory Board to draw up the uniform text of Company's Articles of Association taking into account of the aforementioned changes.

The above changes to the Company's Articles of Association have been recorded by the District Court for the Capital City of Warsaw, 12th Commercial Department of the National Court Register on 3 October 2014.

The agreement of the potential acquisition by PKP CARGO S.A. of 80% shares of Advanced World Transport BV

On 30 December 2014, PKP CARGO S.A. signed the agreement regarding the acquisition of 80% of shares of the company Advanced World Transport B.V., i.e. second biggest national railway carrier in the Czech Republic, whose operation includes the majority of Central and Southern Europe.

The AWT acquisition is the first acquisition of this type performed by the entity from the Group. The takeover of one of the biggest private carriers in Europe will strengthen the strategic position of PKP CARGO S.A. on the international market and will enable expansion of the activities focused on the development as an international logistics operator.

The transfer of share ownership and the price payment will be concluded after the joint fulfillment (or revoking) of the following conditions precedent: allowing the Company the agreements for the concentration between the Company and AWT from the Czech, Polish, German and Slovak anti-monopoly office; obtaining the confirmation by some companies from AWT Groups from banks and other financial institutions financing the activity of AWT Group that the Transaction accomplishment would not harm the agreements concluded with these institutions; and validation of law right transfer to one segment of the collective shares issued by the company Advanced World Transport, a.s. On 10 February 2015 the Company received the information from Mr. Zdeněk Bakala and The Bakala Trust about the fulfilling one of the conditions precedent concerning the validation of law right transfer to the collective shares segment in Advanced World Transport a.s.

Information on implementation of the employment optimization model

The receipt of required corporate permissions enabled the implementation in PKP CARGO S.A. of the employment's optimization program in the form of the Voluntary Redundancy Program. From 29 December 2014 to 15 January 2015, the employees of PKP CARGO S.A. were allowed to apply to join the Voluntary Redundancy Program. The condition to benefit from the program was the permission obtained from the employer. As a result of the verification of employees' declarations, finished on 26 January 2015, the Company has agreed that 2.894 employees could benefit from the Program (including 23% of white-collar employees).

The total value of liabilities resulting from the introduced Program was estimated at PLN 257,116 thousand. The amount, as a provision for future liabilities from the Program, was accounted for in the books and debited the profit of PKP CARGO S.A. for the fourth quarter of 2014.

Employees who received an acceptance of their employers ceased to be hired since 1 February 2015. Benefits related to the VRP will be paid in two tranches. The first tranche of PLN 219.3 million was paid together with the salary for January 2015. The second tranche of PLN 37.8 million will be paid in January 2016.

Preliminary agreement for shares takeover in Pol-Miedź Trans Sp. z o.o.

On 2 February 2015 PKP CARGO S.A. concluded with KGHM Polska Miedź Trans Sp. z o.o. ("PMT") the preliminary not-binding agreement for the potential takeover of the shares in PMT by the Company. In terms of the transaction the Company will take over new shares in PMT consisting 49% of the share capital in PMT and entitling to 49% of voting rights on the Shareholders Meeting of PMT. In exchange for it the Company will pass the contribution in kind of locomotives and a monetary contribution. Before closing the transaction KGHM and PMT will extract part of the company from PMT engaged into the operations other than railway transport.

The tax capital group

From 1 January 2015 the Company has been functioning within the tax capital group which is being talked about in Art. 1a of the Act from 15 February 1992 about the corporate income tax (Journal of Laws of 2014 yr pos. 851 i.e. as amended), under the name: PKP CARGO LOGISTICS - Tax capital group (PGK hereinafter referred to). PGK came into existence by entering on 29 September 2014 into the Agreement for establishing the tax capital group, being in force by period of 3 years, to 31 December 2017. PGK includes PKP CARGO S.A as the representing company, "CARGOSPED" Sp. z o.o., PKP CARGO SERVICE Sp. z o.o., PKP CARGOTABOR Sp. z o.o. and CARGOTOR Sp. z o.o.

Agreement of shares acquisition

On 5 February 2015 PKP CARGO S.A. signed the agreement regarding the acquisition of:

- 44.44% shares in the share capital of PS Trade Trans Sp. z o.o. from Trade Trans Invest a.s. with its registered office in Bratislava,
- 49% shares PKP CARGO International a.s. in liquidation from Rail Cargo Spedition a.s.

According to the signed agreements, the payment deadline and transfer of shares was concluded on the day of signing the agreement (i.e. 5 February 2015).

Sales of the Company's shares

On 24 June 2014 Management Board of PKP CARGO S.A. received the notification from its shareholder Polskie Koleje Państwowe S.A. (PKP S.A.), in which the shareholder informs that, as a result of accelerated book-building process and the block transactions concluded on 18 June 2014 PKP S.A. decreased its exposure from 50.04% to 33.01% of the total number of votes in the Company. Prior to the transaction, the shareholder held 22,411,844 shares, representing 50.04% of the Company's share capital and entitling to 22,411,844 of votes at the General Meeting ("GM"), which accounted for 50.04% of the total number of votes at the GM. After the transaction, PKP S.A. holds 14,784,194 shares of the Company, representing 33.01% of the Company's share capital. These shares entitle to 14,784,194 of the votes at the GM, which accounts for 33.01% of the total number of votes.

On 17 February 2015, the Management Board of the Company received the notification send by the European Bank for Reconstruction and Development ("EBRD")that due to the sales of Company's shares in the block transaction on WSE in Warsaw on 11 February 2015, settled on 13 February 2015, EBRD declined its share below 5% of total number of voting rights in General Shareholders Meeting of the Company. Before the transaction EBDR owned 2,286,008 shares of the Company, i.e. 5.1% of the Company's share capital and was entitled to 2,286,008 voting rights at GM, i.e. 5.1% total number of voting rights. After this transaction EBRD does not own any shares of the Company.

Other changes regarding the shareholder's structure are presented in chapter 6.4.

Moreover, in the analysed period the following events occurred:

Liquidation of subsidiary

On 23 January 2014 the protocol in a form of a notarial deed of the Extraordinary General Meeting ("EGM") of the Slovak subsidiary of the Issuer, i.e. PKP Cargo International was drown up end signed by the President. EGM took place on 17 January 2014. Among others, resolution to dissolve the company and completion of the liquidation as well as appointment of a liquidator was taken in the course of the Extraordinary General Meeting of the company. PKP CARGO S.A. had already held a 51% stake in the share capital of the company. At the same time its activity was irrelevant to the operation of PKP CARGO S.A. and PKP CARGO Group.

Revoking Resolution of the Extraordinary General Shareholders Meeting on determining the principles and the level of remuneration of the President of the Board and Members of the Management Board of PKP CARGO S.A. and the prohibition of their competitive activity.

The Extraordinary General Shareholders Meeting of the Company adopted a Resolution on determining the principles and amounts of remuneration of the President of the Board and Members of the Management Board of PKP CARGO S.A. The whole text of the resolution was published on the website of PKP CARGO S.A.

The adoption of the Management by Objectives Program in PKP CARGO S.A.

On 31 March 2014 the Management Board of the Company adopted a resolution on the adoption of the Management by Objectives Program (MOP) which is a part of incentive system for the management staff of PKP CARGO S.A. MOP is a complex system of rules and actions to improve management efficiency by setting specific targets to be implemented by the management staff at certain levels of management within structures of PKP CARGO S.A., methods of their determination, settlement and evaluation.

The program lists the following three main types of objectives according to the criteria:

- General objectives – goals referring to results of the whole Company,

- Divisions' objectives – targets relating to the results of a specific Division of the Company,
- Individual objectives – goals for the implementation of which individual participants are responsible. The goals are related to the aspects on which they influence by their work and the work of their employees.

Information on the entity authorized to review the Company's interim financial statements

On 27 March 2014 The Supervisory Board of PKP CARGO S.A. adopted a resolution appointing KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa as the entity authorised to conduct a review of interim separate and consolidated financial statements of the Company for the first half of 2014 and the first half of 2015, prepared in accordance with IFRS.

Extension of safety certificates

The Chairman of the Office of Railway Transport issued for the Company PKP CARGO S.A. safety certificate part A no. 1120140006 for a period of five years i.e. it is valid till 24 June 2019 which is an extension of the safety certificate part A no PL 1120090001 dated 25 June 2009 which expired on 24 June 2014.

In respect of international transport, PKP CARGO S.A. received the prolongation of the safety certificates part B in appropriate institutions responsible for safety relevant to the Office of Railway Transport in the following countries: Slovakia prolongation till 21 May 2019, Germany - till 11 May 2019, Austria – till 24 June 2019, Netherlands – till 24 June 2019 and issued on 21 May 2014 indefinite certificate in Lithuania allowing individual transport on railway network of Lithuania with standards of 1,435 mm.

End of negotiations concerning the acquisition of 100% shares in CTL Logistics Sp. z o.o. by PKP CARGO S.A.

PKP CARGO S.A. and European Rail Freight II S.à r.l. (main shareholder of CTL Logistics Sp. z o.o.) did not reach the agreement concerning the terms of acquisition of 100% shares in CTL Logistics Sp. z o.o. by PKP CARGO S.A. and therefore negotiations on this transaction has been ended.

4.2.2. Details of the contracts significant for activities of PKP CARGO S.A.

Contracts with suppliers

Signing significant contracts with PKP PLK S.A.

On 11 February 2014 the agreement concerning access to rail infrastructure for the transport of commodities covering the 2013/2014 train timetable between PKP CARGO S.A. and PKP Polskie Linie Kolejowe S.A. was signed. The agreement bound the parties until 13 December 2014.

The fees for the use of the railway infrastructure were calculated based on the Price list for the use of railway infrastructure managed by PKP PLK, approved by the decision of President of UTK No. DRRK-WKL-9110-11/2013 of 8 November 2013 and rules of train routes allocation and use of assigned routes by licensed railway carriers under the 2013/2014 train timetable. The estimated value of the Agreement during its term amounts to PLN 728.9 million net (PLN 896.6 million gross).

On 8 January 2015 (after the balance-sheet date) the agreement concerning the access to rail infrastructure for the transport of commodities covering the 2014/2015 train timetable between PKP CARGO S.A. and PKP Polskie Linie Kolejowe S.A. was signed. The agreement binds the parties from 14 December 2014 to 12 December 2015.

Fees for the use of rail infrastructure are calculated based on the price list for the use of railway infrastructure managed by PKP PLK, approved by the decisions of President of UTK No. DRRK-WKL.9110.6/2014 of 9 July 2014 and DRRK-WKL.9110.11/2014 of 28 October 2014 and rules of train routes allocation and use of assigned train routes by licensed railway carriers under the 2014/2015 train timetable. Estimated value of the Agreement during its term amounts to PLN 684.7 million net (PLN 842.2 million gross).

The subject of the contract is to provide the Company with the access to the railway infrastructure and train routes managed by PKP PLK for the implementation of the Company's train timetable. Under the contract, PKP PLK renders basic services in the field of the minimum access to train infrastructure which comprises, among others, the preparation of an annual timetable in cooperation with the Company, providing access to train infrastructure in accordance with the assigned train routes, providing traction network devices, managing and maintaining the traffic, and at the request of the Company to provide information regarding train passage as well as rendering basic services connected with access to facilities related to servicing of trains and certain additional services comprising providing of assistance in connection with unusual loads and the preparation and allocation of additional trains.

Signing a significant contract with PKP Informatyka Sp. z o.o.

On 29 May 2014 the Company signed the contract SLA no CFZ/CFT/3930/417/2014/W with PKP Informatyka sp. z o.o. in terms of infrastructure, maintaining and development of IT systems.

The subject of the agreement is rendering by PKP Informatyka to PKP CARGO S.A. the infrastructure services, services connected with maintaining and development of the System in testing, production and development Environment, providing the service on the edge device of PKP Informatyka, in the point of contact of internal nets (Intranets) of PKP CARGO S.A. and PKP Informatyka. The total maximum net value of the agreement for a period of 3 years is PLN 100.5 million.

Contracts with clients

Signing a significant contract with companies from ArcelorMittal Group

On 28 April 2014 PKP CARGO S.A. signed annexes to the contracts for the supply of rail transport services concluded on 20 April 2011 between PKP CARGO and companies from ArcelorMittal Group: ArcelorMittal Poland S.A., ArcelorMittal Warszawa Sp. z o.o. and ArcelorMittal Ostrava a.s., in force during the period from 01.07.2011 to 30.06.2014. The estimated value of contracts in the period from 01.07.2014 till 30.06.2017 shall reach PLN 1,007.3 million. The agreement with ArcelorMittal Poland S.A. ("Agreement") has the highest value, estimated at PLN 850.9 million. The subject of the Agreement is to provide rail freight services by the Company to the Client. Yearly volume of carried goods for ArcelorMittal Group shall amount to minimum 11 million tones and during three years it can reach up to 35 million tones.

Signing a contract with ENEA Wytwarzanie S.A.

In July 2014 the Company signed with ENEA two contracts for transport of more than 4.5 million tons of coal in total. Transport shall be provided from mines located in the Śląskie Voivodeship and from Bogdanka in Lublin to the power plant in Kozienice. Contracts are binding until the first half of July 2015.

Signing a contract with companies from Azoty Group

On 16 November 2014 the Company signed a two-year contract for carriage of chemical products, containers and other merchandise for the companies from Grupa Azoty. It is the continuation and extension of hitherto contracts by adding Grupa Azoty Kopalnie i Zakłady Chemiczne Siarki "Siarkopol". Part of transport is rendered in the system of distributed deliveries.

Significant contract with companies from the Jastrzębska Spółka Węglowa Group

On 7 November 2014 PKP CARGO S.A. signed two annexes to the rail transport agreements with companies from the Jastrzębska Spółka Węglowa Capital Group (JSW CG). The subject of the Agreement is provision of rail freight services by the Company to the Client.

The total estimated value of the future revenues from the agreements concluded or annexed in the last 12 months by the PKP CARGO Group and JSW CG, together with the value of turnover achieved in the last 12 months between PKP CARGO Group and JSW CG reached a level of approx. PLN 340 million.

Loan agreements

Signing a loan agreement with Bank Gospodarstwa Krajowego

On 11 September 2014, the Company concluded an investment loan agreement with Bank Gospodarstwa Krajowego up to the amount of PLN 515.2 million. The loan was granted for financing and/or refinancing modernisation of locomotives and scheduled overhauls of the rolling stock. It is not pledged against the assets of the Company. The repayment date expires on 31 March 2021.

Signing an overdraft agreement

On 2 June 2014 PKP CARGO S.A. signed the overdraft agreement up to PLN 100 million. The ultimate payment deadline is on 1 June 2015.

Conclusion of annexes to loan agreements

On 2 October 2014, the Company signed with the European Investment Bank an annex to the agreement on the investment loan for investments in rolling stock from 3 December 2013 increasing the amount of the loan from PLN 200 million up to the PLN 240 million.

In 2014 the Company concluded annexes to investment loans agreements exempting pledges in the form of registered pledges. Details were described in the note no. 26.1 to the Separate Financial Statements.

On 18 February 2015 PKP CARGO S.A. concluded with FM Bank PBP S.A. an annex to the investment loan agreement. The subject of this annex is to release the collaterals on assets to repay the loan (registered pledges established on locomotives which are the subject of financing).

4.2.3. Assessment of factors and extraordinary events with a significant impact on the financial results of PKP CARGO S.A.

Implementation of the Voluntary Redundancy Program

The Company introduced the Voluntary Redundancy Program for its employees (VRP or Program) to optimize the employment. From 29 December 2014 to 15 January 2015, the employees of PKP CARGO S.A. were allowed to apply to join the Voluntary Redundancy Program. As a result of the verification of declarations of employees, the Company has agreed that 2,894 employees could benefit from the Program. The total value of liabilities resulting from the implemented Program was estimated at PLN 257.1 million. The amount of the provision for future liabilities from VRP has been accounted for in the books and debited the profit of PKP CARGO S.A. for the fourth quarter 2014. The employees who received the acceptance of employer ceased to work on 1 February 2015. Payment of benefits related to the VRP will take place in two tranches. The first tranche in the amount of PLN 219,264 thousand was paid with the salary for January 2015. The second tranche of PLN 37,852 thousand will be paid in January 2016.

Situation on the coal market

Decrease of PLN 345.1 million in freight revenues resulted from decrease in railway transport activities in Poland (chapter 3.1) and in particular – less coal freight due to decline in coal exports.

Freight of coal is the basic commodity group of PKP CARGO S.A. and the situation on the coal market heavily influences the Company's results and market share. The observed decrease in freight volumes of solid fuels (-9% y/y) reflects a lower demand for coal due to decrease in the production of electricity (decrease of 5.1% y/y). Another important factor affecting coal freight has been limiting the coal exports due to continued declines in coal prices on the world markets. As a result of lower demand for freight of coal for export (the freights for the longest distance) there was the decrease of the haul for these commodities (by 9 km y/y). The activities of the Company aimed at sale of freight services of solid fuels for domestic consumption largely compensated adverse effects of limited coal exports.

As a result, freight turnover of coal for shipments carried out in other (excluding exports) communication groups (domestic transport, import and transit) increased by 9% y/y.

Costs of access to infrastructure

Results of operations of PKP CARGO S.A. are largely dependent on the amount of charges for access to rail infrastructure. The cost of access to infrastructure stands for 19.1% of operating expenses of the Company. The fees for access to infrastructure in Poland were and still are relatively high, particularly as compared to other EU countries. The rates of charges for access to railway infrastructure are calculated by PKP PLK and are subject to approval by the President of the Office of Rail Transport (UTK). In addition, the Company's business is dependent on the condition of the railway infrastructure as a currently- used rail network is of low quality. An intensive program of modernization of the railway network has been carried out. Although ultimately it will result in an improvement in the conditions of use, for the duration of the construction work will cause difficulties and a need for the use of railway traffic detours.

In 2014 a significant decrease in external services was recorded. They reached PLN 1,191.5 million in 2014 and were lower by PLN 227.2 million, i.e. by 16% as compared to 2013. The decrease is mainly due to lower costs of access to rail infrastructure due to lower freight turnover, more efficient use of routes and lower unit rates of access to the infrastructure used by PKP Polskie Linie Kolejowe S.A.

Level of energy and traction fuel prices

In 2014 raw materials decreased by PLN 92.0 million, i.e. by 13.4%. The decrease was directly related to the reduction of traction fuel consumption (of PLN 14.4 million), as well as decrease in the cost of traction energy (of PLN 35.8 million) which was due to lower freight turnover and a decrease in unit prices of fuel and energy. At the same time consumption of materials used principally for the maintenance of rolling stock also decreased.

Technical regulations for rolling stock

Rolling stock used in rail transport must comply with the relevant standards and technical requirements which determine the scale of the Company's modernization and repair operations. Level of investment depends directly on the current technical condition of owned rolling stock and the resulting mandatory scheduled overhauls. In 2014 the Company's repair operations remained at high level (higher than in 2013).

The Company's capital expenditure on the rolling stock is presented in section 3.7.1.

4.2.4. Internal and external factors significant for PKP CARGO S.A. development

Economic situation in Europe

Economic situation in 2014 has confirmed a positive economic trend in the EU that occurred in the second half of 2013. This positive outlook has been significantly supported by increase in internal consumption. According to the European Commission, strong estimates of internal consumption and investment reflect the improvement in economic growth in the EU in 2015.

The transport market situation

The year 2015 will be the period of intensive actions in terms of the development of road and railway infrastructure connected with investments financed through the EU grants. The ongoing and future planned investments allow expecting to maintain a high level of ore and other construction materials carriage.

In 2015, as a result of real-estate investments, there is forecast of further recovery of steel market and increase in demand for steel products. According to the forecast of the Technology Chamber of Commerce, steel consumption is expected to increase to 11 million tones, further in subsequent years the consumption will increase by 2-3% per year and in 2025 it will reach 13.5-13.8 million tones.

In coming years, dynamic growth is particularly expected in intermodal and automotive area of market as a result of new assembly lines. However, it should be noticed that the rail freight market in Poland is one of the most competitive markets in the EU. Although, the PKP CARGO Group still persists the position of the largest railway commodity carrier, the competitors maintain above 40% shares in the market in terms of volume (data at the end of November).

Situation on the energy raw materials market

Due to the structure of rail freight products, fuel and energy industry remains the most important sector of the economy and its condition and structure will still substantially affect the volume of the Company's carriages and whole railway transport market.

According to the worldwide economy forecasts, in the nearest future it is expected that the oversupply of coal will continue, maintaining associated with it lower price and limiting Polish mining companies in the possibility of selling coal outside the Poland. However, it should be noticed that activities initiated by Polish Government in terms of restructuring Polish mining industry allow to expect increase in efficiency of the mining companies and reversed of trends in terms of trade exchange of the Polish coal.

Coal freight is the main cargo group of PKP CARGO S.A. and the situation on this market influences the results and market share.

Railway infrastructure situation

The activity of PKP CARGO S.A. depends on the condition of railway infrastructure, however utilized railway network is characterized by low quality.

The multiannual railway investment project published by the Transportation Ministry in November 2013 forecasted that investments in the railway infrastructure, extensively financed by the EU, would amount to approx. PLN 24.9 billion in years 2013-2015. However, in 2014 the program objectives were changed due to the change of EU funds structure. As a result of planned modernization of railway lines it is expected to substantially improve technical and operational condition of the railway lines, adopting railway lines to the requirements of trans Europe railway network, increase in interoperability parameters and finally increase the maximum speed of trains.

At the same time intensive program of railway network modernization, although it will ultimately result in the improvement of usage conditions, will cause difficulties and the need for the use of railway traffic detours during the construction works.

Fees for the infrastructure access

The results of PKP CARGO S.A. are significantly dependent on the amount of fees for access to railway infrastructure. Cost of access to infrastructure contributes 19.1% of operating expenses in the Company.

The level of fees for access to the railway infrastructure in Poland was and still is relatively high, especially in comparison to other EU countries. The fee rates for the access to railway infrastructure are calculated by PKP PLK and approved by the decision of President of UTK. After the reduction of rates for the access to the infrastructure in the price list for the timetable 2013/2014, the cost of access to infrastructure in Poland is still high and constitutes the significant part in railway freight costs and thus acts as an important factor that decrease competitiveness of railway carriage in comparison to road transport.

Technical regulations concerning rolling stock

Rolling stock used in railway transport must comply with the relevant standards and technical requirements, that determine the scale of modernizing and repair operations of the Company. Investments directly related with this depend on the current technical condition of the possessed rolling stock and the mandatory scheduled overhauls resulting from it. In the period of 2014, the repair activities in PKP CARGO S.A. maintained on high (higher than the same period of 2013) level.

Optimization processes in the Company

Among the internal factors significant for further development of PKP CARGO S.A. it should be bring out the stable pursuit to increase the effectiveness and costs optimization by the restructuring and organizational changes of the Company, aimed at better and comprehensive client service. Also, the ongoing processes of computerization of the Company's activity are important and have influence on the efficient management of the Company.

Moreover, the Company has been running employment optimization process. In December 2014 the Voluntary Redundancy Program was implemented and thus from 1 February 2015 the labor contacts with 2,894 employees were terminated. Due to the initiatives like VRP or trainings of hundreds of train drivers, PKP CARGO S.A. manages to successfully carry out generation change in the Group.

Financing the investments

The Company will finance the investments from the investment loans received from the European Investment Bank and from Bank Gospodarstwa Krajowego as well as from other sources. The increase of credit obligations will result in increase in the level of liabilities (short- and long-term) and financial costs.

Acquisition activities

PKP CARGO S.A. leads acquisition activities which were described in the chapter 4.2.5.

4.2.5 Business perspectives for PKP CARGO S.A. at least in the next financial year

Future development activities undertaken by PKP CARGO S.A. remain consistent with the current strategy of the Group which is focused on the development as the international logistics operator.

The liberalization process of the European rail freight market opened for the Company the possibility of caring out operations in new geographic areas as well as the ability to increase the range of products offered. Additionally, the measures undertaken by the EU and national authorities aimed at the development of the coherent rail freight market and the development of interoperability of railway network, in the opinion of PKP CARGO S.A., significantly increase the development potential of the Company. It should be noted that the PKP CARGO S.A. for several years have actively used the opportunities arising from the liberalization of markets, which is confirmed by the obtained certificates enabling the provision of independent rail freight services in Poland and the other 8 EU countries.

A key element of further international expansion is currently ongoing takeover of one of the largest private rail operators in the EU, i.e. the company AWT focused on the Czech market which is perceived by PKP CARGO S.A. as very important due to the volume of trade between the Poland and the Czech Republic. The acquisition is treated by PKP CARGO S.A. as the next step complementing hitherto acquired know-how as a result of organic growth.

The acquisition of 80% shares in AWT will enable PKP CARGO S.A. to accelerate significantly the operation development in the neighboring countries as well as expand the activities scope for the new countries, where PKP CARGO S.A. has not been active yet. Additionally, due to the extent of the AWT Group operations, the transaction creates for the Group the possibility of diversification of services portfolio and achievement of numerous synergies in sales, freight management and maintenance of rolling stock.

Regardless of the high activity in terms of development outside Poland, PKP CARGO S.A. intends further development on the Polish market. The Company will continue both ongoing as well as new planned strategic actions aimed at extending the offer and improving service of the logistics processes, and also will analyze potential acquisition opportunities in Poland.

Nowadays, PKP CARGO S.A. has concluded a preliminary agreement with KGHM Polska Miedź S.A., on the basis of which the Company intends to take over 49% of the shares in Pol – Miedź Trans Sp. z o.o.

For the purpose of the further development of the Company in the area of domestic and international freight, PKP CARGO S.A. completed the acquisitions of shares (44.44%) in the Przedsiębiorstwo Spedycyjne Trade Trans Sp. z o.o and became the only owner.

According to the Management Board of PKP CARGO S.A., there are no circumstances indicating the going concern issue of the Company in the next year.

4.3. Information about production assets

4.3.1. Rolling stock

Wagons and tractive rolling stock are the main elements of production assets of PKP CARGO S.A. Changes in the rolling stock of the Company result directly from activities causing its reduction, such as scrapping of the rolling stock, and activities causing increase of the quantity through the purchase of the rolling stock.

The most important investments impacting on change in quantity of rolling stock in 2014 were modernization of 10 pieces of locomotives SM48 with the reclassification from shunting locomotives to pulling locomotives ST48.

The primary reason of decline in the number of wagons in 2014 was scrapping due to the poor technical condition causing further uselessness. In 2014 the Company realized the agreement for funding from the European Union of a project called "Purchase and delivery of new wagon platforms 80 to carry the container". The project assumed the purchase by PKP CARGO S.A. of 330 platforms 80 of series Sggrss container under an agreement concluded on 25 September 2013 with the contractor selected in an unlimited tender – Europejskie Konsorcjum Kolejowe "Wagon" Sp. z o.o. The first group of 40 wagons was delivered by the manufacturer in 2013. In 2014 210 units were delivered. The remaining wagons will be delivered in the first half of 2015.

The following tables show the structure of locomotives and wagons used broken down by type of traction and ownership as at 31 December 2014 and 31 December 2013.

Table 22 Structure of locomotives used by PKP CARGO S.A. by type of traction and ownership

Specification	31.12.2014	31.12.2013	Change 2014-2013
diesel locomotives	1 256	1 256	0
electrical locomotives	1 162	1 162	0
Total	**2 418**	**2 418**	**0**
owned locomotives (including financial lease)	2 409	2 409	0
locomotives in operational leasing or rented	9	9	0
Total	**2 418**	**2 418**	**0**

Source: Own study

Table 23 Structure of wagons used by PKP CARGO S.A. by type of ownership

Specification	31.12.2014	31.12.2013	Change 2014-2013
own wagons (including financial lease)	61 593	62 531	-938
wagons in operational leasing or rented	0	0	0
Total	**61 593**	**62 531**	**-938**

Source: Own study

4.3.2. Land and buildings

In the transport process, taking into consideration the need to ensure adequate maintenance and repair facilities, real estate plays an important role. Most of the real estate used by the Company is used on the basis of lease and rental agreements. The following table presents the change in real estate owned and leased in 2014.

Table 24 Owned and leased real estate by PKP CARGO S.A. as at 31.12.2014 as compared to 31.12.2013

Specification	31.12.2014	31.12.2013	Absolute change
Own land, perpetual usufruct of land and land leased from other entities [ha]	583,48	650,57	-67,09
Own buildings, leased and rented from other entities [m^2]	601 268,98	630 582,07	-29 313,09

Source: Own study

The reduction of the size of the land and the buildings and perpetual usufruct of land in PKP CARGO S.A. throughout 2014 is the result of:

1. Sales of property land (perpetual usufruct of land) to subsidiary of PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o of 40.3300 hectares in Małaszewicze
2. Sales of built-up property land (perpetual usufruct of land) to Centrum Logistyczno Inwestycyjne Poznań II Sp. z o.o of 2.8861 hectares in Swarzędz

Both the reduction in the size of Company's own land and buildings and perpetual usufruct of land as well as size of leased land and buildings results from verification of the size of the property used by subsidiaries of the Company performed on a current basis.

4.4. General information on the financial position of PKP CARGO S.A.

4.4.1. Information on incurred and terminated loan agreements

On 02.06.2014 the Company concluded an overdraft agreement that allows the overdraft up to the amount of PLN 100,000,000.00. The loan is available for a period of 12 months.

On 11 September 2014 PKP CARGO S.A. signed an investment loan agreement with the Bank Gospodarstwa Krajowego up to the amount of PLN 515,200,000 (WIBOR 1M + margin). The loan is dedicated to finance and / or refinance the modernization of locomotives and scheduled overhauls of rolling stock. The maximum deadline of availability of the last tranche of the loan was set at 31 March 2016. The loan will be repaid no later than five years after the end of the period of credit availability, but not later than 03.31.2021. The loan is not pledged against the Company's assets.

On 02.10.2014 the Company concluded an annex to the investment loan agreement with the EIB, increasing the credit limit by PLN 40,000,000.00 i.e. to PLN 240,000,000.00. The loan will be available for a period of 24 months from the date of signing the agreement (i.e. from 03.12.2013). The repayment date will be adjusted to the financial depreciation period of a-related asset, but no more than 15 years. Each tranche of the loan may be granted in EUR or PLN. The interest rate on the loan - (EURIBOR or WIBOR) + margin.

On 29 October 2014, the Company concluded with mBank S.A. annexes to investment loans agreements exempting pledges in the form of registered pledges (registered pledges on locomotives being the subject of financing).

On 16 December 2014 the Company concluded with Pekao S.A. annex to investment loan agreement exempting pledge in the form of registered pledge (registered pledges on locomotives being the subject of financing).

In 2014 there were no events of defaults of the loan agreement.

The details concerning the Company' bank loans were presented in note No. 26.1 to Separate Financial Statements of PKP CARGO S.A. for the year ended 31 December 2014.

4.4.2. Information on the loans granted

In 2014 PKP CARGO S.A. granted the loan to the company from PKP CARGO Group in the amount of PLN 4,000,000. The loan was granted on the arm's length - WIBOR 1M + margin. The loan was repaid in 2014.

The loan was granted on the arm's length – 1.2% margin, WIBOR 1M. As at 31.12.2014 the receivables from subsidiaries of PKP CARGO S.A. from the granted loans amounted to PLN 433,251.89.

4.4.3. Information on granted guarantees and received guarantees

In 2014 banks at the request of PKP CARGO S.A. issued bank guarantees for a total amount of PLN 7.71 million for contractors. As at 31.12.2014 PKP CARGO S.A. had bank guarantees issued for the contractors for the total amount of PLN 22.76 million. In 2014 the subsidiaries received financial sureties for a total amount of PLN 1.11 million.

4.4.4. Issuances, repurchases and repayments of debt and equity instruments

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

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

4.4.5. Assessment of finance managment

PKP CARGO S.A. effectively manages the cash transactions cycle by matching the payment terms of receivables and debt payment.

The element supporting effective financial management of the Company is the internal financial risk management policy, allowing for optimization of maturity and types of investment instruments and the level of liquidity reserve. Cash surplus generated by the Company is invested in bank deposits with fixed interest rate with maturities up to approx. 5 months. Decisions undertaken in term of bank deposits are based on maximizing the rate of return and the current assessment of the bank financial condition. The structure of assets, including cash and cash equivalents and short-term investments secured the Company's ability to pay liabilities on time.

Implemented mechanism of cash concentration management (cash pooling), allowing to reduce costs connected with the use of short-term external finance sources and to maximize financial income in relation to cash surplus, effectively supports the system of Company’s financial management.

In the second half of 2014 the Company concluded the agreement for the bank guarantees limits. Based on it there is the opportunity to issue a guarantee on behalf of any company from PKP CARGO Group, allowing, among others, reduce costs incurred in relation with received guarantees.

4.4.6. Significant risk factors and threats

The risk of economic downturn

The development of the freight market is correlated to the global and domestic economic situation, that is, the development of industry, the rebirth of the activity in international markets and increasing or decreasing production of import-intensive industries, affecting the change in foreign trade, and hence, on the size of the demand for freight. Road transport, perceived by the recipients of transport services as a substitute in the market of land transport, has also an important influence on the development of railway transport.

The PKP CARGO S.A. operates in a sector that is positively correlated with economic growth and macroeconomic situation, while the long-term fluctuations observed in the economy as a whole in the field of production and trade have a strong influence on it. In particular, the dynamics of rail freight turnover in Poland are characterized by a positive correlation with the GDP growth rate.

The Company generates the majority of its revenues from activities related to rail freight transport. Most of the freight turnover is performed in a country, while significant part of freight turnover carried out in Poland is accounted for exports and transit. As a result, the market situation in Poland and in the countries that are Polish major trading partners had and will continue to have a decisive impact on the business and financial results of the Company. The slowdown in GDP growth in Poland, in countries that are Polish major trading partners or in other countries, which are potential markets, may have a negative impact on the demand for its services.

Risk related to the transport market in the major commodity groups

The development of the rail freight market is derived from the dynamics of markets for goods, which use rail transport services. In Poland, this is primarily carbon market, aggregates, coke and refined petroleum products, chemical products and goods transported in containers. The degree of development of the carriage of these goods (especially coal) is also influencing increase in volumes transported by PKP CARGO S.A..

The current bad situation in the mining industry is primarily affected by low demand, high supplies of coal, renewable energy competition, oversupply of the raw material and the consequent drop in coal prices. In addition, a decline in electricity prices and a high level of imported coal has an impact on the difficult situation. In 2014 73 million tons of coal were extracted, i.e. 4.5% less YOY. Production sold in respect to exploitation of coal and lignite actually fell by 8.1% YOY.

Risk associated with the Polish rail freight sector

Rail freight market in Poland is one of the most competitive markets in the EU. Due to the liberalization of regulations governing the railways, there are new entities on the market that undertake efforts to take over client service cooperating so far with the PKP CARGO S.A. Currently about 60 entities have carrier license in Poland. Although the PKP CARGO S.A. is still the biggest Polish rail freight operator, competition brings together a total of more than 50% market share in terms of weight transported (data for 2014.).

The key players in the rail freight market in Poland are: PKP CARGO S.A., DB Schenker Rail Polska, CTL Logistics and Lotos Kolej. The competitive activity includes rail transport of coal and other bulk materials, liquid fuels, chemical and intermodal transport.

Among the potential threats and risks, which may have an impact on reducing the size of freight carried by the Company, are: less demand for steam coal and the changing volume of transshipment to a Polish-Ukrainian border due to the political crisis in Ukraine.

Risk connected with railroad infrastructure

The activities of the PKP CARGO S.A. is dependent on the condition of the railway infrastructure, owned and managed by PKP PLK, which as compared with railway infrastructures of other, more developed EU countries, such as Germany or France, remains inefficient. Due to the inadequate technical condition, caused, above all, by many years of negligence in modernisation and maintenance of railway lines, the maximum commercial speed on railway lines used in the freight is about 23 km/h, and the throughput of the lines is low. The average commercial speed of freight trains in Poland is two times lower compared to the EU average.

The increase in the number of locations and durations of track closures was recorded in 2014, which directly affect a significant reduction in bandwidth of used lines and stations, having an impact on the rejection of applications for Individual Timetable, extended time of courses and the road of trains, extended stay of trains at stations (start-up and intermediate). There were frequent situations in which the loaded trains could not be brought to a receiving station at the scheduled time, which resulted in a further build-up of delays in empty rolling stock, as well as detainment of trains at cargo points/tracks substation, causing blocking of the tracks and forcing the withdrawal or termination of trains. The closures on the PKP network, affecting the extension of wagons circulations also entailed increased resources need to engage the train and traction. In connection with the information obtained from the PKP PLK it is anticipated that in 2015 similar difficulties will occur in the railway infrastructure.

Risk associated with acquisition activities

In order to complete the transaction related with the acquisition of shares in AWT, it is required to obtain, among others, the necessary approvals for the concentration between the Company and the AWT from the Czech, Polish, German and Slovak competition authorities and obtain confirmation by some AWT Group Companies from banks and other financial institutions to finance the activities of the AWT Group, that closing of the transaction will not constitute a breach of the agreements concluded with this institutions.

The signed sale agreement will be able to be resolved if all precedent conditions are fulfilled (or suspended) before the deadline agreed in the contract. As a result of that, PKP CARGO S.A. would lose one of elements in terms of realization of the Company's Strategy assuming expansion on the European market.

Transaction may not result in expected business and financial results.

Risks associated with the deficiency of trained personnel

Given the increase in the average age of train crews, the Company has undertaken a series of actions aimed at reducing the risk of staff shortages. In 2014, the Company was carrying out the plan of training and recruitment of train crew members, mainly drivers, by improving skills (both types of traction) and broadening the route knowledge. Given these activities, the Company does not expect a risk of significant deficiencies in the traction teams.

The client base of the Group is highly dependent on a limited number of industrial branches and their suppliers

The majority of key clients use services of the Company in order to transport coal, aggregates and construction materials and metals and iron ores. Despite conclusion of long-term contracts by the PKP CARGO S.A., sometimes with the guaranteed volume of orders, the Company cannot ensure that it would keep its clients in the future or that the volumes indicated in the contracts would be carried entirety. In addition, if key clients are lost, the Company cannot ensure to easily replace them with other clients who would be supplied services on comparable terms.

In addition, the Company's operations may be affected by structural changes in the activities of its key clients, which could lead to creation or development by individual clients of the Company of their own subsidiaries dealing with rail freight. Currently, several major clients of the PKP CARGO S.A. carry out rail freight through their subsidiaries. These subsidiaries may take over a part of the services provided by the Company so that such services are supplied to their parent companies or to other clients and compete with the PKP CARGO S.A.

The risk of rising fuel prices

The current fuel price listings are at the lowest point since 5 years. Due to the complicated situation in the Middle East and Ukraine, there is a reasonable risk that they will increase.

Road transport as the growing competition for the Company

Road transport is the greatest competition for rail freight in Poland. Over the recent years, the Polish Government has conducted an intensive program of modernization of road infrastructure, so that its condition has improved significantly. This has resulted in a reduction of delivery times and reduced the costs of road transport, the competitive advantage of which also lies in the possibility of delivering the cargo "door-to-door", i.e. directly from or to the client without having to change the means of transport. Considering the above, further decrease in the importance of rail freight cannot be excluded.

Financial risks

In the reporting period PKP CARGO S.A. was exposed to the following types of financial risks:
a) liquidity risk
b) market risk, including:
- currency risk;
- interest rate risk.
c) credit risk

Liquidity risk

The Company is exposed to liquidity risk arising from the relationship between current assets and current liabilities (net current liabilities excluding short-term provisions).

As at 31 December 2014 and 31 December 2013, current liquidity ratio amounted to 1.66 and 1.80 respectively. In order to provide additional sources of cash required to secure financial liquidity, the Company had an open credit limit overdraft, investment loans and leasing.

Market risk

PKP CARGO S.A. is exposed to market risk associated with fluctuations of currency exchange rates and interest rates. The purpose of market risk management is to limit the undesirable influence of changes in the market risk factors on the cash flows and results in the short and medium horizon. The Group manages market risks resulting from the above factors on the basis of internal procedures, which lay down the rules for measurement of individual exposures, parameters and time horizon.

The rules of market risk management are implemented by competent organizational units, under the supervision of the Management Board of the Company. Market risk is managed based on the strategies developed, with partial use of derivatives. Derivatives are used only to reduce the risk of changes in the value of the balance sheet values and the cash flow risk. Transactions are concluded with reliable partners only, who are permitted to participate in transactions as a result of application of internal procedures and signing the relevant documentation.

Currency risk

PKP CARGO S.A. was exposed to foreign exchange risk arising from receivables, liabilities and cash denominated in foreign currencies. Receivables of PKP CARGO S.A. denominated in foreign currencies are a short-term receivables with maturity up to 1 month, and liabilities denominated in foreign currencies are mostly long-term and short-term lease liabilities with maturity up to 4 years.

In respect of the balance-sheet valuation of receivables and payables expressed in foreign currencies, as well as the settlement of accounts in foreign currencies, financial revenues arise both on the receivables and liabilities side (positive exchange differences) as well as financial expenses (negative exchange differences). Financial revenue and expenses fluctuate during the year, which is due to changes in exchange rates.

Due to their more than 12-month maturity period, short- and long-term lease liabilities denominated in EUR and CHF have the largest share in the financial income and financial costs as well as cause volatility in the result of the Company at the level of financial costs and revenues in respect to unrealized exchange differences.

Short-term receivables denominated in foreign currencies (mainly EUR) amount at the average monthly level of approx. EUR 8 million. The considerable part of short-term receivables consisted of receivables in respect of international freight costs.

Cash in foreign currencies deposited in bank accounts results from the maturity mismatch between inflows and outflows, and due to the surplus of inflows over outflows. PKP CARGO S.A. generates a permanent surplus in EUR- approx. EUR 3.2 million on an average monthly basis. In the long term, the valuation risk equals the risk of change in the value of cash flows, and therefore the Company' s cash flows instead of balance sheet positions are subject to hedging.

Partial hedging is provided for the EUR/PLN rate due to the fact that revenue from sales in EUR is partly offset by costs in the same currency. The purpose of the use of the Company's foreign exchange risk management transactions is to protect the free net exposure (understood as the difference between revenues over expenditures in the currency) exposed to the change in the value of PLN.

In compliance with the current Financial Risk Management Policy, in 2014 the Company applied currency risk management transactions in relation to the currency EUR/PLN pair. Due to the stable exchange rate of the currency pair EUR/CHF in 2014, the foreign exchange risk management transactions were not applied towards them (in accordance with the assumptions resulting from the Company's policy it was considered as a natural hedge).

To hedge the currency in 2014 the Company used forward contracts. In 2014, the Company hedged the EUR surplus through forward contracts on the pair EUR/CHF up to the amount not exceeding 75% of the projected EUR / PLN currency exposure every month.

As at 31 December 2014, the Company had opened forward contracts for the amount of EUR 21,250,000.

<u>Interest rate risk</u>

The majority of main financial investments made by the PKP CARGO S.A. in 2014 consisted of bank deposits, which were placed for a period of up to approx. 5 months, depending on the Company's liquidity needs. Interest on PLN deposits were accrued in the range up to 3.60% (depending on the deposit term). The average weighted interest rate of term deposits in 2014 amounted to 2.96% in comparison to 3.10% in 2013 (a consequence of the reduction of the interest rates by the Monetary Policy Council).

In addition, the Group is exposed to the risk of volatility of cash flows related to interest rate arising from bank loans and leases based on variable interest rates. The value of the interest paid on lease liabilities amounted to PLN 7,488,883.34 in 2014.
Interest on lease contracts are charged according to the reference rates increased by the margin of the financing institution. The reference rate for contracts denominated in EUR is the EURIBOR 1M, 3M, 6M, and for contracts denominated in CHF – LIBOR 6M CHF. The interest rate risk for lease contracts is valorisation of leasing instalments in periods of 1 month, 3 months, 6 months, depending on the contract. The value of the interest on credit obligations paid in 2014 amounted to PLN 6.364.851,46. Interest on loan agreements were calculated according to the WIBOR 1M and 3M reference rates increased by the margin of banks. The interest rate risk for loan agreements is implemented through valorisation of loan instalments in periods of 1 month.

In 2014 the Company did not use hedging interest rate risk.

<u>Credit risk</u>

In its commercial activities, the Company sells its services to economic entities with deferred payment, which generates the risk of not receiving the payment from clients for completed services. In order to mitigate the credit risk, the Company manages the risk through effective client creditworthiness assessment procedure. This assessment is carried out for all the clients who use deferred time limit for payments. As part of the internal policy, the Company conditions application of the deferred payment date if the client has acceptable standing and there is a positive history of cooperation.

Receivables from clients are monitored regularly. If there are overdue receivables, the supply of services is ceased in accordance with the procedures in force and debt collection procedures are initiated.

Concentration of the risk associated with trade receivables is limited due to the large number of clients with credit, distributed in different sectors of the economy. Furthermore, in order to reduce the risk of non-recovery of trade receivables, the Company accepts securities from its clients, such as bank/insurance guarantees, assignments from contracts, blockades on bank accounts and bills of exchange.

Credit risk associated with cash and bank deposits is regarded as low. All the entities in which the Group invests free cash operate in the financial sector. These include domestic banks, foreign banks and branches of foreign banks.

4.4.7. Financial instruments – risk management policies applied by PKP CARGO S.A., objectives and methods of risk management

In 2014, the Company did not record any significant disruptions in cash flow or loss of financial liquidity.

The rules for the management of market risk are followed by designated organisational units under the supervision of the Management Board of the Company. The management of financial risk at PKP CARGO S.A. is based on strategies developed, with the partial use of derivative instruments (SPOT currency contracts, FORWARD currency contracts and IRS interest rate swaps), which are used solely to hedge the risk of changes in balance-sheet values and the risk of changes in cash flow.

In 2013, the Company did not apply hedge accounting.

4.4.8. Current and forecasted financial situation of PKP CARGO S.A.

The company is fully capable to settle its liabilities within the payment terms. The sales activities consider the financial possibilities of the Company.

5. Other information

5.1. Information about PKP CARGO S.A. shares

5.1.1. Issue of shares and utilization of proceeds from the issue

In 2014, PKP CARGO S.A. recorded proceeds from issuance of shares in the amount of PLN 8,800 thousand. Proceeds were related to payments of the Company's subsidiaries within the Employees' Guarantee Pact and served to finance a one-off premium in order to cover the acquisition of shares by eligible employees of subsidiaries.

5.1.2. Information of agreements that may affect future change in the proportion of shares held by the current shareholders

PKP CARGO S.A. is not aware of any agreements made by the current shareholders as a result of which changes may take place in future in the proportion of shares held.

5.1.3. The acquisition of own shares

In 2014, PKP CARGO S.A. did not acquire any own shares.

5.1.4. Information on the employee share programme control system

According to the Employees' Guarantee Pact and the Agreement on Employee and Social Guarantees for employees of the Companies of the PKP CARGO Group signed on 2 September 2013 by the Management Board and the trade unions operating within its structures, employees of PKP CARGO S.A. and five subsidiaries gained employment guarantees and acquired the entitlement to a one-off monetary benefit (privatisation bonus) on the terms and conditions set forth in the EGP. The above-mentioned benefit takes the form of an employee share programme, as the EGP parties agreed that it would be paid in Series C shares with a lock-up for a period of two years from the date of first listing. According to the Information Memorandum related to the public offering of series C shares, subscriptions for PKP CARGO S.A. employee shares started on 2 December 2013. Eligible employees could subscribe for employee shares until 28 February 2014. 22,146, i.e. 99.8 % of eligible PKP CARGO S.A. employees and 2,395, i.e. 99.9% of eligible employees of subsidiaries signed for the shares. On 7 March 2014 the Management Board of PKP CARGO S.A. passed resolution on allotment of 1,448,902 shares to employees.

The programme is managed by the Brokerage of PKO Bank Polski.

In addition, 15% of the funds derived by PKP S.A. from the sale of shares in PKP CARGO S.A. in a public offering conducted on the basis of the Company's prospectus approved by the Polish Financial Supervision Authority on 4 October 2013, was allocated to the PKP Employee Ownership Fund under the Act of 8 September 2000 on the commercialisation, restructuring and privatisation of the state-owned enterprise "Polskie Koleje Państwowe".

5.1.5. Shares held by managing and supervising bodies

Ownership of Company's shares or rights thereto by persons managing the Company in the period, from 14 March 2014, i.e. the date of publication of the report for 2013 to the date of this report was as follows:

Table 25 Ownership of PKP CARGO S.A. shares by managing persons

Surname and first name	Shares of PKP CARGO S.A. Number of	Nominal value (PLN)
	as of the date of this report	
Adam Purwin	545	27 250
Jacek Neska	450	22 500
Wojciech Derda	300	15 000
Łukasz Hadyś	300	15 000
Dariusz Browarek	370	18 500
	as of 14.03.2014	
Adam Purwin	545	27 250
Sylwester Sigiel	0	0

Source: Own study

Table 26 Ownership of PKP CARGO S.A. shares by supervising persons

Surname and first name	Shares of PKP CARGO S.A. Number of	Nominal value (PLN)
	as of the date of this report	
Jakub Karnowski	915	45 750
Piotr Ciżkowicz	675	33 750
Krzysztof Czarnota	70	3 500
Kazimierz Jamrozik	70	3 500
Marek Podskalny	70	3 500
Konrad Anuszkiewicz	0	0
Paweł Ruka	0	0
Sławomir Baniak	0	0
Stanisław Knaflewski	0	0
Jacek Leonkiewicz	0	0
Zbigniew Klepacki	0	0
	as of the date of this report	
Jakub Karnowski	503	25 150
Milena Pacia	0	0
Michał Karczyński	0	0
Krzysztof Czarnota	70	3 500
Kazimierz Jamrozik	70	3 500
Marek Podskalny	70	3 500
Konrad Anuszkiewicz	0	0
Paweł Ruka	0	0
Stanisław Knaflewski	0	0
Artur Kawaler	0	0
Danuta Tyszkiewicz	0	0

Source: Own study

Ownership of the Company's shares or rights thereto by persons managing the Company as at 31 December 2014, is identical compared to the state holding on the date of this Report.

The managing and supervising persons, as of the date of this report, do not hold any shares in affiliates of PKP Cargo S.A.

5.1.6. Paid or declared dividends

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

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

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

5.2. Significant transactions with related parties

PKP CARGO S.A. did not conclude any transaction in 2014 with related parties on terms other than at arm's length. No such transactions were concluded also after the balance-sheet date.

5.3. Proceedings pending before the court, an authority competent for arbitration proceedings, or before the public authority

PKP CARGO S.A. is not a party to proceedings before the court, an authority competent for arbitration proceedings, or before the public authority concerning its liabilities or receivables the value of which is at least 10% of the Company's equity.

PKP CARGO S.A. is a party to proceedings concerning its liabilities or receivables the total value of which does not exceed 10% of the Company's equity.

5.4. Major achievements in research and development

Major achievements in the field of research and development of PKP CARGO S.A. and PKP CARGO Group recorded in 2014 include:

1. Development of concept of new wagons production in Zakład Naprawy Wagonów in Szczecin starting from 2015. The project is in the final stage of analysis and assumes a production of prototype wagon and a series of a 30 wagons in 2015. The target for the following years is to manufacture 500-700 of wagons per year. One of the variants is to run production in close cooperation with a renowned manufacturer of wagons which is Greenbrier Europe Wagons Swidnica S.A. - exchange of experience and joint implementation of tasks.

2. Project of wagons production also assumes an establishment of Ośrodek Szkoleniowy Spawaczy (OSS) at the Zakład Naprawy Wagonów in Szczecin which would ensure high quality of new wagons production. OSS would educate personnel for the PKP CARGO Group and would ensure its personal development of skills and techniques for making bond connections.

3. Start of the second stage of the research in the field of wear and tear of type K composite brake shoe inserts and monoblock wheelsets. The main aim of this research is to confirm that a new profile of wheelsets will reduce their wear and tear, as well as evaluation of different species of composite brake blocks and wheel sets which would support optimization of their purchases.

4. Beginning of cooperation with the Institute of Railway in accordance with the Regulation of the Minister of Infrastructure dated 18 July 2005 in the case of general conditions for railway traffic and signaling (Official Journal No. 172, item. 1444) in respect to brake performance testing of trains. Changes in regulations will allow to reduce the size of sample.

5. Running tests of fuel additives which may improve the consumption effectiveness. Use of additives will result in reduction of harmful emissions and fuel consumption.

5.5. Information on natural environment issues

Activity of PKP CARGO S.A. can cause potential damages to the natural environment which is related to carriage of dangerous goods. The Company is a leader in the consumption of electric energy for traction purposes, therefore the transport of hazardous materials as well as power consumption are important aspects of business and they are subject to annual monitoring reports. Water consumption, quality of wastewater, industrial waste management, fuel consumption for traction and heating purposes are also monitored. The purpose of monitoring is not only that of knowledge possession regarding to the Company's impact on the natural environment by tracking complex measures, but also improvement of emission rates. Year on year, PKP CARGO S.A. reduces its environmental impact through introduction of targets and tasks aimed at optimization of processes.

Due to payable fees for using the natural environment in 2014, the provision in the amount of PLN 1,824 thousand was created by the Company. Payments made by PKP CARGO S.A. have a downward trend. By analyzing the amount of charges compared to previous years, the decline in fees was recorded mainly for fuel consumption in diesel locomotives because of using new emission benchmarks when calculating charges for all modernized locomotives, achieving significant savings in fuel consumption and as a result of further concentration of locomotive fleet and growth of check-ups periods as well as duration of rolling stock repairs.

The implementation of the Company's strategy is based on the adjustment of its resources and organization to the requirements of a modern transport market in accordance with rules of sustainable development and with compliance to the policy adopted by Integrated Management System (IMS): quality, safety and environmental protection. IMS provides the implementation of environmental policy and is an integral part of the overall business management system. During the process of environmental review (conducted every year) the Company formulates its environmental objectives and targets. The Company assesses its environmental performance annually according to the criteria based on:

- legal requirements and decisions,
- results of the review of the system and internal audits,
- data on the effects relating to current and past activities of PKP CARGO S.A.

The Company performs an annual review of the environmental aspects, is involved in achieving compliance with the current regulations, has a program of environmental activities and achieves well-measured results of these actions, has in most of plants qualified staff who take care of the environmental issues. The staff are equipped with environmental fees calculation software and database of significant environmental aspects and have access to the current regulations and instructions. The Company runs initiatives supporting improvement of environmental awareness of the employees.

5.6. Information on the remuneration of management and supervisory personnel at PKP CARGO S.A.

5.6.1. Value of remuneration and additional benefits

The table below shows the sum of the remuneration and additional benefits of the Members of the Management Board in 2014.

Table 27 Costs incurred by PKP CARGO S.A. in respect of remuneration and additional benefits of the Members of the Management Board in 2014 (PLN)

Surname and first name	2014
Current Members of the Management Board	
Adam Purwin	816 375
Wojciech Derda	415 080
Łukasz Hadyś	382 102
Jacek Neska	400 124
Dariusz Browarek	400 301
Former Members of the Management Board	
Wojciech Balczun	162 954
Łukasz Boroń	674 492
Marek Zaleśny	219 332
Sylwester Sigiel	778 086

Source: Own study

Remuneration and additional benefits of the former Members of the Management Board include severance pay, bonuses, compensation for non-competition agreements, compensation for unused annual leave.

The table below presents the sum of the remuneration and additional benefits of the Supervisory Board in 2014. This specification included only remuneration of each Member of the Supervisory Board of PKP CARGO S.A.

Table 28 Costs incurred by PKP CARGO S.A. in respect of remuneration and additional benefits of the Members of the Supervisory Board in 2014 (PLN)

Surname and first name	2014
Current Members of the Supervisory Board	
Jakub Karnowski	72 409
Piotr Ciżkowicz	56 942
Krzysztof Czarnota	77 669
Kazimierz Jamrozik	77 669
Marek Podskalny	77 669
Konrad Anuszkiewicz	77 669
Stanisław Knaflewski	74 215
Paweł Ruka	74 215
Jacek Leonkiewicz	56 942
Sławomir Baniak	18 981
Former Members of the Supervisory Board	
Michał Karczyński	13 818
Artur Kawaler	20 727
Łukasz Górnicki	40 125
Milena Pacia	20 727
Danuta Tyszkiewicz	13818
Jarosław Pawłowski	63 851

Source: Own study

5.6.2. Agreements made between PKP CARGO S.A. and managers, providing for compensation in defined circumstances

The members of the Management Board of PKP CARGO S.A. are employed under management contracts. The rules for compensation in the event of resignation or dismissal from a position without valid reason are specified in the Management Board Member Management Contract in accordance with Resolution No. 3/2014 of the Extraordinary General Meeting of PKP CARGO S.A. dated 26 March 2014 in relation to rules and the level of remuneration of the President and Members of the Management Board of the PKP CARGO S.A. and to the prohibition on competitive activity.

5.7. Information relating to the Financial Statements

5.7.1. Information relating to the agreement between entities authorized to the audit of Financial Statements

By Resolution 1272/V/2013 of the Supervisory Board of PKP CARGO S.A. of 17 December 2013, the company KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Warsaw at ul. Chłodna 51, registered under the number 3546, was appointed as the entity authorized to audit the financial statements of PKP CARGO S.A. for the years 2013 - 2015. Agreement relating to the audit of financial information by the KPMG was concluded on 31 January 2014 and include audit of Separate Financial Statements of the PKP CARGO S.A. and Consolidated Financial Statements of the PKP CARGO Group for the years 2013-2015. The agreement on the audit of interim Separate and Consolidated Financial Statements for the first half of 2014 and for the first half of 2015 was concluded with KPMG on 8 May 2014.

Below is presented the remuneration of the entity authorized to the audit of Financial Statements, paid or payable for the Financial Year.

Table 29 Remuneration of the entity authorized to audit of Financial Statements (PLN)

Specification	Year ended 31 December 2014	Year ended 31 December 2013

Obligatory audit of the Financial Statements	129 200	129 200
Obligatory audit of the Consolidated Financial Statements	9 500	9 500
Other attestation services	85 350	78 850*
Other services	58 300	15 000
Tax consulting services	0	0
RAZEM	**282 350**	**232 550**

**The value include remuneration for audit of Separate Financial Statements for the first half 2013 performed by the Deloitte Polska Sp. z o.o. with registered office in Warsaw in amount of PLN 76 thousand.*
Source: Own study

5.7.2. Principles for the preparation of the annual financial statements

The separate financial statements of PKP CARGO S.A. for the year ended 31 December 2014 were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Committee and approved by the European Union.

The separate financial statements of PKP CARGO S.A. have been prepared on the going concern basis in the foreseeable future. At the date of preparation of the financial statements, there are no circumstances indicating a threat to the continuation of business of the Company for a period of at least 12 months after the date of the financial statements. The accounting principles (accounting policy) applied in preparing the financial statements are presented in explanatory notes 3 and 4 to the Separate Financial Statements of PKP CARGO S.A. for the financial year
ended 31 December 2014.

5.7.3. Description of unusual items in the Financial Statements of PKP CARGO S.A.

The provision for the Voluntary Redundancy Program (VRP) is an unusual item in the Financial Statements of PKP CARGO S.A., presented in the context of provisions for the employee benefits. Costs of VRP in the amount of PLN 257.1 million were included in financial result of the financial year ended 31 December 2014 in position of employee benefits expenses.

6. Corporate Governance Statement

6.1. Identification of the set of corporate governance rules to which PKP CARGO S.A. is subject and the locations where the text of these rules is available publicly

Acting in compliance with the § 91 (5) (4) of the Regulation of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and on conditions of recognition of the information required by the laws of a non-member state (Journal of Laws from 2014, item 133), the Management Board of the Company presents the Statement of compliance with the corporate governance rules in 2014.

During the period from the admission of the Company's shares to public trading, i.e. from 28 October 2013, the Company has been subject to the corporate governance rules described in Code of Best Practice for WSE Listed Companies ("Best Practice"), forming Appendix to Resolution of the WSE Supervisory Board No 12/1170/2007 of 4 July 2007, as amended by the following resolutions of the WSE Supervisory Board: No 17/1249/2010 of 19 May 2010 (entered into force on 1 July 2010), No 15/1282/2011 of 31 August 2011 (entered into force on 1 January 2012), No 20/1287/2011 of 19 October 2011 (entered into force on 1 January 2012) and No 19/1307/2012 of 21 November 2012, which entered into force on 1 January 2013.

The text of the Best Practice to which governing the Company is subject is available on the GPW website at (http://www.corp-gov.gpw.pl).

6.2. The extent to which PKP CARGO S.A. deviated from the provisions of the corporate governance rules, identification of those provisions and explanation of the reasons for such deviation

In 2014 the Company complied with all the corporate governance rules expressed in the Code of Best Practice for WSE Listed Companies with the exception of the rules contained in:

Chapter I Recommendation 5 of the Best Practice concerning remuneration policy and the rules for its determination

Failure to comply with the above rule by PKP CARGO S.A., lies in the fact that the policy of remuneration of the Company's management and supervisory bodies does not contain all the elements listed in the European Commission Recommendation of 14 December 2004 on fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC), supplemented by the European Commission Recommendation of 30 April 2009 (2009/385/EC). The Company has not disclosed a remuneration policy statement on the corporate website. The decision on full compliance with the above rule of Best Practice in the future will belong to the Supervisory Board and the General Shareholders Meeting.

In accordance with § 91. (6) (17) of the Regulation of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and conditions of recognition of the information required by the laws of a non-member state (Journal of Laws from 2014, item 133), the Company publishes in the annual report information on the salaries, bonuses and benefits annually for each of the management and supervisory personnel of the Company.

According to § 12 (2) (3) of the Articles of Association of the Company, as long as the share of PKP S.A. is more than 50% of the share capital of the Company and as long as required by mandatory provisions of law, remuneration of the Members of the Management Board is set by the General Shareholders Meeting. If the share of PKP S.A. in the share capital of the Company is 50% or less, the remuneration of Members of the Management Board is determined by resolution of the Supervisory Board. For participation in the work of the Supervisory Board its members shall receive remuneration in accordance with the remuneration policy set by the General Shareholders Meeting.

Chapter I Recommendation 9 of the Best Practice concerning the balanced share of women in performing management and supervisory functions

The Company does not ensure the balanced share of women and men in the Management Board and the Supervisory Board. The Company supports the above recommendation, but a decision on the composition of the Supervisory Board is taken by the General Shareholders Meeting, while the Members of Management Board are appointed in compliance with the rules set forth in the Articles of Association. The Company pursues a policy according to which the Company employs competent, creative persons with relevant professional experience and education without applying the criterion of gender.

Chapter II of Recommendation 1. 9a) of the Best Practice concerning the disclosing by the Company a record of a general shareholders meeting in audio or video format on its corporate website

According to the Management Board, non-application of the principle concerning the disclosing by the Company a record of a general shareholders meeting in audio or video format on its corporate website does not affect the reliability of the Company's information policy or the completeness of significant information furnished to the Shareholder by the Company.

Chapter IV Recommendation 10 of the Best Practice concerning the providing by the Company to the shareholders possibility to participate in general shareholders meeting by means of electronic communication.

The decision of not applying the rule which provides that the Company should ensure, among other things, "real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting", was taken because of risks of a legal and organizational/technical nature which may affect the correct progress of the general meeting while shareholders are provided with such a communication channel.

According to the Management Board,, the rules for participation in general meetings enable the shareholders to effectively exercise all rights attaching to shares and secure the interests of all shareholders.

6.3. Description of the main features of the PKP CARGO'S S.A. internal control and risk management in relations to the process of preparation of financial statements and consolidated financial statements

Uniform IFRS accounting principles

The parent company, PKP CARGO S.A. has developed and implemented the accounting policy prepared in accordance with the accounting principles as endorsed by the European Union. This document is updated in the event of changes in legislation. The rules contained in this document apply to the separate financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group. Companies subject to consolidation are required to apply accounting policies of PKP CARGO S.A. in the preparation of consolidation reporting packages, which are the basis for preparation of the consolidated financial statements of the PKP CARGO Group.
Uniform consolidation packages for subsidiaries

A uniform model of IFRS reporting packages that are prepared by subsidiaries for the purposes of the consolidated financial statements of the PKP CARGO Group has been adopted. Subsidiaries prepare IFRS reporting packages taking into account differences between the Polish Accounting Principles and the IFRS.

Bookkeeping

The reliability of the financial statements is ensured by the information resulting directly from the books. The parent company keeps its accounting records underlying the preparation of financial statements in the computer accounting system, SAP. PKP CARGO S.A. updates the accounting system according to changes in regulations and reporting requirements, both internal and external. Access to information systems is limited by the appropriate permissions to authorized employees. In the Company there are IT and organizational solutions that ensure the control of access to the accounting system and that ensure adequate protection and backup of accounting records.

Book closing and financial statement authorisation procedures

Internal procedures have been implemented in the parent Company and its subsidiaries for the closing of periods, defining the timeline and responsibilities of internal departments for the different record-keeping areas; financial statements are subjected to internal check procedures for completeness and integrity; IFRS reporting packages are signed by the management boards of the subsidiaries, while the IFRS consolidated financial statements are properly authorized and signed by the Management Board of the Company.

Audit Committee Supervision

Within the Supervisory Board of PKP CARGO S.A., the Audit Committee has been established. The Audit Committee, in accordance with the applicable laws and regulations, supervises the preparation of the consolidated financial statements, the financial audit process and also analyses and monitors interim and year-end financial data of the Company and the Group.

Audit and review of the financial statements

Annual consolidated financial statements are audited by the certified auditor, interim consolidated financial statements are reviewed by the certified auditor; opinions and reports on those documents are attached to approved and published financial statements

6.4. Shareholders holding directly or indirectly substantial shareholdings

As at the date of this report, total number of shares was 44 786 917. In accordance with the notifications received by the Company, tables below shows the shareholders holding directly or indirectly substantial shareholdings in the Company.

Table 30 The Company's shareholder's structure as at 31 December 2013

Shareholder	Number of shares	Percentage share in share capital	Number of votes	Percentage share in the total number of votes at GM
PKP S.A.(1)	22 411 844	51,71%	22 411 844	51,71%
ING OFE (2)	2 860 827	6,60%	2 860 827	6,60%
EBOiR (3)	2 286 008	5,27%	2 286 008	5,27%
AMPLICO OFE (4)	2 195 842	5,07%	2 195 842	5,07%
Other shareholders	13 583 494	31,34%	13 583 494	31,34%
Total	**43 338 015**	**100,00%**	**43 338 015**	**100,00%**

(1) In accordance with the notice sent by shareholder dated 31 October 2013
(2) In accordance with the notice sent by shareholder dated 08 November 2013
(3) In accordance with the notice sent by shareholder dated 05 November 2013
(4) In accordance with the notice sent by shareholder dated 02 January 2014

Source: Own study

Table 31 The Company's shareholder's structure as at 13 November 2014 and as at 31 December 2014

Shareholder	Number of shares	Percentage share in share capital	Number of votes	Percentage share in the total number of votes at GM
PKP S.A. (1)	14 784 194	33.01%	14 784 194	33.01%
ING OFE (2)	4 738 369	10.58%	4 738 369	10.58%
Morgan Stanley (3)	2 380 008	5.31%	2 380 008	5.31%
AVIVA OFE (4)	2 338 371	5.22%	2 338 371	5.22%
EBRD (5)	2 286 008	5.10%	2 286 008	5.10%
Other shareholders	18 259 967	40.78%	18 259 967	40.78%
Total	**44 786 917**	**100.00%**	**44 786 917**	**100.00%**

(1) In accordance with the notice sent by shareholder dated 24 June 2014
(2) In accordance with the notice sent by shareholder dated 30 June 2014
(3) In accordance with the notice sent by shareholder dated 18 June 2014
(4) In accordance with the notice sent by shareholder dated 13 August 2014
(5) In accordance with the notice sent by shareholder dated 05 November 2013

Source: Own study

On 17 February 2015 Management Board of the Company received a notification sent by the European Bank for Reconstruction and Development to inform that due to the sale of shares in a block transaction concluded on the Warsaw Stock Exchange on 11 February 2015, settled on 13 February 2015, EBRD reduced its share to less than 5% of the total number of votes at the General Meeting of Shareholders. After the transaction, the EBRD does not hold any shares in the Company.

Table 32 The Company's shareholder's structure at the date of this report

Shareholder	Number of shares	Percentage share in share capital	Number of votes	Percentage share in the total number of votes at GM
PKP S.A. (1)	14 784 194	33.01%	14 784 194	33.01%
ING OFE (2)	4 738 369	10.58%	4 738 369	10.58%
Morgan Stanley (3)	2 380 008	5.31%	2 380 008	5.31%
Aviva OFE (4)	2 338 371	5.22%	2 338 371	5.22%
Other shareholders	20 545 975	45.88%	20 545 975	45.88%
Total	**44 786 917**	**100.00%**	**44 786 917**	**100.00%**

(1) In accordance with the notice sent by shareholder dated 24 June 2014
(2) In accordance with the notice sent by shareholder dated 30 June 2014
(3) In accordance with the notice sent by shareholder dated 18 June 2014
(4) In accordance with the notice sent by shareholder dated 13 August 2014

Source: Own study

6.5. Holders of securities that confer special control rights and description of such rights

The securities of PKP CARGO S.A. do not confer any special control rights on any shareholder.

6.6. Restrictions in the exercise of voting rights

The right to participate in the General Meeting and the voting right
The shareholder exercises the voting right at General Meetings. According to the Commercial Companies Code, the Company's shareholders may participate in the General Meeting and exercise their voting rights in person or by proxy. A shareholder of the Company intending to participate in the General Meeting by proxy must grant a power of proxy in writing or in electronic form. A form containing the model power of proxy is included by the Company in the notice to convene the General Meeting. In addition, the granting of the power of proxy in electronic form must be notified to the Company with the use of the means of electronic communication stated in the notice to convene the General Meeting. The Company takes appropriate measures to identify the shareholder of the Company and the proxy in order to authenticate the power of proxy granted in electronic form. A detailed description of the authentication of the power of proxy granted in electronic form contains the text of the notice to convene the General Meeting.

The Company's shareholder holding Shares recorded in more than one securities account may establish separate proxies to exercise rights attaching to Shares recorded in each account.
If the proxy representing the shareholder at the General Meeting is a member of the Management Board, member of the Supervisory Board, liquidator, employee of the Company or member of its governing bodies or employee of the Company's subsidiary company or cooperative, the power of proxy must provide for representation at one General Meeting only. The proxy is obliged to disclose to a shareholder of the Company any circumstances indicative of the existence or the possibility of arising of a conflict of interest. In such a case, the granting of a sub-proxy is unacceptable. The proxy referred to above votes in accordance with the instructions given by the shareholder of the Company.

According to § 11 (2) of the Articles of Association each Share carries on one vote at the General Meeting. The Articles of Association restricts the voting rights of shareholders (acting individually or jointly as shareholders being dominant or subsidiary entities) holding more than 10% of the total voting rights at the General Meeting and prohibits the exercise by such shareholders more than 10% of the total voting rights at the General Meeting, with the proviso that the above restriction does not apply to the shareholders who, on the day the General Meeting passes a resolution imposing such restrictions, are authorized to exercise voting rights (also as user) attaching to shares representing more than 10% of the total number of voting rights existing in the Company as well as any other entity that would acquire shares in the Company granted to the shareholders, referred to above, in connection with their liquidation.

According to the provisions of the Article of Association, the restriction of voting rights of shareholders representing more than 10% of total shares in the Company does not expire after the disposal of all shares by PKP S.A., which is not subject to the above restriction. Consequently the restriction of a voting right potentially makes it difficult for a single investor to gain control over the Company even if the share of PKP S.A. in the Company's share capital decreases to nil.
A shareholder of the Company may not, in person or by proxy, or as a proxy of another person, vote on resolutions concerning his liability to the Company on any account, including the granting of discharge or relieving of any obligation to the Company or a dispute between the shareholder and the Company. The above restriction does not apply to voting by a shareholder of the Company as proxy of another shareholder in adopting resolutions concerning himself, referred to above.

6.7. Restrictions on the transfer of ownership of securities of PKP CARGO S.A.

<u>Statutory restrictions of the marketability of shares</u>

The Public Offering Act, the Act on Trading in Financial Instruments and the Commercial Companies Code provide, among other things, for the following restrictions on the marketability of shares:

- the obligation to notify KNF and the Company rests on anyone who : (i) has reached or exceeded 5%, 10%, 15%, 20%, 25%, 33%, $33^1/_3$%, 50%, 75% or 90% of the total number of voting rights in a public company; (ii) held at least 5%, 10%, 15%, 20%, 25%, 33%, $33^1/_3$%, 50%, 75% or 90% of the total number of voting rights in that company, and, as a result of the reduction of such share , has reached 5%, 10%, 15%, 20%, 25%, 33%, $33^1/_3$%, 50%, 75% or 90%, respectively, or less of the total number of voting rights; (iii) has changed the existing holding above 10% of the total number of voting rights by at least 2% of the total voting rights in a public company whose share are admitted to trading on the official stock market (as at the date of the Prospectus, the primary WSE market is such a market); (iv) has changed the share held so far of more than 33% of the total number of voting rights in a public company by at least 1% of total voting rights;

- the obligation to publish a call for subscription for the sale or exchange of share in the case of: (i) acquisition of shares carrying more than 10% or 5% of the total voting rights at the General Meeting, (ii) exceeding the threshold of 33% of total voting rights at the General Meeting, (iii) exceeding the threshold of 66% of total voting rights at the General Meeting;
- a ban on the acquisition or disposal, for one's own or third-party's account, of financial instruments based on confidential information;
- a ban on the acquisition or disposal of financial instruments during the continuance of a closed period by the persons specified in the Act on Trading in Financial Instruments;
- the dominant company, within the meaning of Article 4 (1) (4) of the Commercial Companies Code, has the obligation to notify a subsidiary company about the arising or cessation of dominance relationship within two weeks of the arising of such relationship, failing which the exercise of voting rights attaching to shares of a dominant company representing more than 33% of the share capital of the subsidiary will be terminated.

Apart from the above, there are no other statutory restrictions on the marketability of the Company's shares.

<u>Contractual restrictions of the marketability of shares</u>

Contractual restriction of the marketability of shares concerns shares taken by eligible employees in connection with the right granted to them under EGP. Each eligible employee subscribing for shares was required to sign an agreement restricting the marketability of shares for a period of 2 years from the IPO of the Company on the WSE, i.e. until 30 October 2015. A subscription submitted without signing the above agreement would be null and void, and the eligible employee would lose his entitlement to the privatisation bonus, and consequently also shares. The disposal or charging or shares or any rights attaching to shares before 30 October 2015 will be ineffective to the Company and may render the employee liable for damages.

As per the conditional agreement on guaranteeing subscription of Institutional Investors following the principles of investment underwriting in public offering of PKP CARGO S.A. shares ("Underwriting Agreement") concluded on 8 October 2013 between PKP S.A. and PKP CARGO S.A. and the following entities:

1. Goldman Sachs International,
2. Morgan Stanley & Co. International plc,
3. Powszechna Kasa Oszczędności Bank Polski S.A. (also acting through its branch: Powszechna Kasa Oszczędności Bank Polski S.A. Oddział – Dom Maklerski PKO Banku Polskiego w Warszawie),
4. Dom Inwestycyjny Investors S.A.,
5. IPOPEMA Securities S.A.,
6. Mercurius Dom Maklerski Sp. z o.o.,
7. Raiffeisen Centrobank AG,
8. UniCredit Bank AG, London Branch,
9. UniCredit Bank Austria AG,
10. UniCredit CAIB Poland S.A.,

hereinafter jointly referred to as "Offering Managers", the Company and PKP S.A. were subject to a contractual limit on the transferability of shares and issue of shares, namely:

1. PKP S.A. committed itself towards the Offering Managers that from the closing date of the Underwriting Agreement until the end of the 180 day period since the day of first quotation of the Company's shares on WSE, it will not execute any other transactions that may lead to issuance, offer for sale or issuance, sale or disposing of Company's securities similar to the securities being the Object of the Offering without the written consent of the Global Coordinators (which will not be unreasonably withheld or delayed). The aforementioned restriction does not apply to selling shares by PKP S.A. in response to exchange and tender offers of Company shares to a strategic investor for a price not lower than the one in the Offering.
2. PKP S.A. committed itself towards the Offering Managers that from the closing date of the Underwriting Agreement until the end of the 180 day period since the day of first quotation of the Company's shares on WSE, it will not execute any other transactions that may lead to issuance, offer for sale or issuance, sale or disposing of Company's securities

similar to the securities being the Object of the Offering without the written consent of the Global Coordinators (which will not be unreasonably withheld or delayed).

6.8. Rules concerning the appointment and dismissal of managers and their rights

Appointment of Members of the Management Board

The Management Board consists of one to five members, including the President of the Management Board. Members of the Management Board are appointed for a joint three-year term of office. The President of the Management Board and other Members of the Management Board are appointed on the terms set forth in the Articles of Association and in the Rules on the appointment of Members of the Management Board.

The appointment of Members of the Management Board takes place following a qualification procedure solely from among candidates taking part in the qualification procedure who have obtained a positive opinion of the recruitment adviser. The qualification procedure for a Member of the Management Board is prepared and organized by a professional HR consulting firm appointed by resolution of the Supervisory Board of PKP CARGO S.A. Participating in the procedure for the appointment of Management Board Members is the Nomination Committee which exercises ongoing supervision over the qualification procedure for the position of Member of the Management Board, and over the evaluation and appointment of Members of the Management Board.

The Supervisory Board also selects one Member of the Management from among candidates proposed by employees of the Company. This power is vested in connection with Article 4 (4) of the Act of 8 September 2000 on the commercialization, restructuring and privatization of PKP and the provisions of EGP. The candidate should have higher education, at least 5 years' work experience with the PKP Group, and have a clean criminal record. The Rules for the election of candidates for Employees representative in the Management Board are adopted by the Supervisory Board. Failure to appoint a representative of employees to the Management Board is without prejudice to the appointment of the Management Board and effective adoption of resolution by the Board.

In case when the PKP S.A. has 50% or less in the share capital of the Company, PKP S.A. is entitled to exclusively nominate candidates for President of the Management Board. Personal privilege shall be exercised by delivery a written statement to the Chairman of the Supervisory Board.

Mandates of the President of the Management Board and of other Members of the Management Board expire at the date of the General Meeting approving the financial statements and the Management Board's report on the activities of the Company for the last full financial year of the term of office. The President of the Management Board and other Members of the Management Board may file a written resignation of the position held, submitting it to the Company with a copy for the Supervisory Board for information.

According to § 18 and § 25 (3) (2) of the Articles of Association, the Management Board of PKP CARGO S.A. is authorized, with the consent of the Supervisory Board, on the terms laid down in the Commercial Companies Code, to pay the shareholders advances on account of dividend planned for the end of the financial year.

Managers do not have any rights to make decisions on the issue or redemption of shares.

6.9. Rules for the amendment of the Articles of Association of PKP CARGO S.A

An amendment of the Articles of Association requires a resolution of the General Meeting passed by absolute majority of votes. Moreover, the passing of a resolution on the amendment of § 14 (6), § 26 (3) or (4) and § 27 (7) of the Articles of Association requires a Resolution of the General Meeting passed by the majority of four-fifths of votes in the presence of shareholders representing three-fourths of the Company's share capital.

Amendments to the Articles of Association are effected subject to their approval by the General Meeting and their registration by the competent court. The Supervisory Board is authorized under §25 (3) (11) to agree consolidated wording of the Articles of Association after the court decision on registration becomes final.

Amendments made to the Articles of Association in 2014:

On 30 July 2014 the Extraordinary General Meeting of PKP CARGO S.A. adopted Resolution No. 6/2014 on the amendment of the Company's Articles of Association. The amendments contained in the resolution concerned the addition of the object of business of the Company and changes in the competence of the Supervisory Board. The amendments made were registered by the District Court for the Capital City of Warsaw. Pursuant to § 25 (3) (11) of the Articles of Association of PKP CARGO S.A., the Supervisory Board of PKP CARGO S.A. passed Resolution No. 1354/V/2014 of the Supervisory Board of PKP CARGO S.A. dated 28 August 2014 concerning consolidated wording of the Articles of Association of PKP CARGO S.A.

6.10. Procedures of the General Meeting and its essential powers, and description of shareholder's rights and the method of their exercise

The General Meeting of the Company operates under the Commercial Companies Code, the Articles of Association (in particular, §10-§13) and the Rules of Procedure of the General Meeting. Shareholders have the right to participate and exercise voting rights at the General Meeting in person or by proxy.

The General Meeting is valid irrespective of the number of shares represented.

Resolutions of the General Meeting are passed by ordinary majority, except resolutions for the adoption of which the provisions of the Commercial Companies Code or the Articles of Association provide for more stringent requirements for a resolution to be passed, with the proviso that the passing of a resolution to amend § 14 (6), §26 (3) or (4) and § 27 (7) of the Articles of Association requires a Resolution of the General Meeting passed by the majority of four-fifths of votes in the presence of shareholders representing three-fourths of the share capital of the Company.

Voting at the General Meeting is open. Voting by ballot is held in elections and on motions for dismissal of members of the Company's governing bodies or the Company's liquidators, or on calling them to account, as well as in other personnel-related matters. Besides, voting by ballot must be held if request by even one of the shareholders present or represented at the General Meeting.

According to the Rules of Procedure of the General Meeting, both open voting and voting by ballot can be performed with the use of electronic devices, subject to consent of the General Meeting. The General Meeting may pass a resolution to waive voting by ballot in matters related to the selection of a committee appointed by the General Meeting.

Deliberations of the General Meeting are conducted by the Chair who takes care of its efficient progress in accordance with the agenda of the meeting adopted. The Chair resolves rules-of-the-house matters. Without the General Meeting's consent it is not allowed to remove or change the sequence of items on the agenda.

The General Meeting of PKP CARGO S.A. is opened by the Chair of the General Meeting appointed by the Management Board. If the President of the Management Board does not designate the Chair of the General Meeting before the appointed meeting commencement time, the provisions of Article 409 §1 of the Commercial Companies Code will apply, after which the Chair of the meeting will be selected from among the persons authorized to participate in the meeting. The Chair of the General Meeting will be elected by absolute majority of votes cast in voting by ballot.

The Extraordinary General Meeting may be convened by a shareholder whose share in total votes in the Company exceeds 33%. In such a case the shareholder convening the Extraordinary General Meeting designates the Chair of the General Meeting.

The General Meeting adopts the Rules of Procedure of the General Meeting, defining in detail the manner in which the debate will be held. The draft Rules of Procedure of the General Meeting is proposed by the Management Board. Participation in the General Meeting is allowed with the use of electronic communication channels provided that the notice to convene a given General Meeting provides information of such option.

6.11. Composition and changes in composition during the last financial year and description of the activities of management, supervisory or administration bodies of PKP CARGO S.A. and their committees

MANAGEMENT BOARD

The Management Board of PKP CARGO S.A. with its registered office in Warsaw operates under the applicable laws and regulations, in particular:

1) The Act of 15 September 2000 - Commercial Companies Code (Journal of Laws No. 94, item 1037, as amended);
2) The Act of 8 September 2000 on the commercialization, restructuring and privatization of the state-owned enterprise "Polskie Koleje Państwowe" (Journal of Laws No 84, item 948, as amended);

3) The Articles of Association of PKP CARGO S.A. adopted by Resolution No 1354/V/2014 of the Supervisory Board of PKP CARGO S.A. dated 28 August 2014;
4) The Rules of Procedure of the Management Board of PKP CARGO S.A. adopted by Resolution No 428/2014 of the Management Board of PKP CARGO S.A. dated 20 November 2014;
5) Other internal regulations.

Powers of the Management Board

The Management Board manages the affairs and assets of the Company and represents it in relations with third parties. The remit of the Management Board includes all activities which are not reserved for the General Meeting and the Supervisory Board of the Company. Resolutions of the Management Board are passed by absolute majority of votes of those present at the meeting, with at least a half of the number of Members of the Management Board attending. Declarations of intent may be made by the President of the Management Board acting solely or two Members of the Management Board acting jointly or a Member of the Management Board acting jointly with a commercial attorney.

Procedures of the Management Board

Detailed procedures of the Management Board are described in the Rules of Procedure of the Management Board. The Rules of Procedure are adopted by the Management Board and approved by the Supervisory Board. According to the provisions of the Rules of Procedure of the Management Board, the Management Board takes decisions in the form of resolutions. Resolutions of the Management Board are passed by absolute majority of those present, with at least half of the Members of the Management Board attending, and can be passed only if all Members of the Management Board have been duly informed about the Management Board meeting. According to the Rules of Procedure, in case of an equal number of votes "for" and "against", including any abstentions, the President of the Management Board has the casting vote. Meetings of the Management Board are held at least once a week. In cases when it is particularly justified, the meetings of the Management Board can be held at a later date, but not later than during 14 days from the date of previous meeting.

According to the Rules of Procedure of the Management Board, in the event of conflict of interests between the Company and a member of the Management Board, spouse, relative by consanguinity or affinity (up to the second degree) or other person to whom the Management Board member is personally related, the member of the Management Board should immediately inform the other Members of the Management Board of such conflict, and in the case of the President of the Management Board also the Supervisory Board, and refrain from participating in the discussion and from voting on a resolution on a matter involving a conflict of interests, and may demand that this be recorded in the minutes of the meeting of the Management Board.

Table 33 Composition of the Management Board of PKP CARGO S.A. for the period from 1 January 2014 to the date of this report

Surname and first name	Role served	Period of service in the role from	to
Adam Purwin	Member of the Management Board, responsible for Finance Acting as a President of the Management Board	25.02.2013 18.11.2013	5.02.2014 5.02.2014
	President of the Management Board	6.02.2014	to date
Sylwester Sigiel	Member of the Management Board, responsible for Trade	13.03.2013	23.04.2014 (resignation)
Wojciech Derda	Member of the Management Board, responsible for Operations	24.04.2014	to date
Jacek Neska	Member of the Management Board, responsible for Trade	24.04.2014	to date
Dariusz Browarek	Member of the Management Board, Employees representative in the Management Board	24.04.2014	to date
Łukasz Hadyś	Member of the Management Board, responsible for Finance	12.05.2014	to date

Source: Own study

Adam Purwin – President of the Management Board

He graduated with a degree in law from the University of Bialystok. He gained professional experience working for over 15 years in major financial institutions in Poland, managing projects in corporate banking, financing of leading Polish and CEE companies, as well as in M&A transactions. He started his professional career with BRE Bank and Bank Pekao SA, to continue with PKO BP – Poland's largest bank, where he dealt with development projects and corporate group oversight. At Bank Gospodarstwa Krajowego, he developed competence in structured finance and Polish exports promotion. He also managed investment banking projects for international institutions.

In 2012, he was appointed Managing Director at PKP S.A., with responsibilities in the area of privatisation and corporate governance of a few dozen of companies from PKP Group. He also supervised the implementation of corporate governance and modern management methods for subsidiaries, establishing strategies and objectives for their respective management boards. He was an author the privatisation strategy for PKP CARGO S.A. and prepared the privatisation process of Polskie Koleje Linowe. In February 2013, he assumed the duties of the Member of the Management Board of PKP CARGO S.A., responsible for Finance and, as the IPO team head, went on to prepare the company for the public offering 9 months later. The effort culminated in the stock exchange debut in October 2013. This was one of the largest recent IPOs, totalling PLN 1.4 bn. Since November, he was President of the Management Board of PKP CARGO S.A. and, on 6 February, following a competitive process, he was appointed by the Supervisory Board as President of the Management Board of PKP CARGO S.A.

Jacek Neska – Member of the Management Board, responsible for Trade

Experienced manager, specialised in the management of large organisations. Working for Polish and international businesses for 20 years, he has been involved in projects to develop effective organisational structures, as well as to design and implement commercial strategies. He gained professional experience as a manager of Arthur Andersen, the international consulting company, where he coordinated a number of projects in the transport, telecommunications and power sectors. One of the key projects he was involved in was PKP's transition from a state-owned company into a joint-stock company, and the establishment of the PKP Group. He also worked for private equity funds, such as Innova Capital and Enterprise Investors, where he sat on management boards of their portfolio companies.

In 2006-2012, he served as President of the Management Board of Lotos Oil S.A., the largest Polish manufacturer of oils and lubricants. At the same time, in 2008-2009, he served as the General Director's Representative for Commerce at Lotos Group, supervising all areas of commercial and logistics operations of the Group, and building efficient sales structures. Jacek Neska joined PKP CARGO S.A. in December 2013, and since then has been responsible for the sales process optimisation and client base extension. On 24 April 2014, he was appointed by the Supervisory Board, following a competitive process, as Member of the Board, responsible for Trade of PKP CARGO S.A.

Wojciech Derda – Member of the Management Board, responsible for Operations

A dynamic and competent manager, he gained experience with Ernst & Young and in the PKP Group. Since the start of his professional career, he has been involved with broadly understood optimisation processes, closely linked with the financial aspects of business operations. He prepared and implemented optimisation processes for the largest Polish and international enterprises for over 10 years. He was responsible for the development of management information systems, financial models supporting decision-making processes and design of new organisational structures.

In 2012, he joined PKP S.A. as the Managing Director responsible for Operation and Controlling . He successfully managed organisational structure change projects, the development of the PKP Purchasing Group, he subsequently directed, as well as centralisation of controlling, finance and accounting, staffing and debt recovery processes. From December 2013, he worked for PKP CARGO S.A. as Managing Director responsible for Operations. On 24 April 2014, he was appointed by the Supervisory Board, following a competitive process, as Member of the Board responsible for Operations of PKP CARGO S.A.

Łukasz Hadyś – Member of the Management Board, responsible for Finance

Certified auditor, graduate of the Cracow University of Economics, with a degree in IT and econometrics as well as accounting, also Advanced Management Program on Koźmiński University. He began his professional career with the audit department of Ernst & Young in 2001, where he audited financial statements and provided advisory services to major Polish and multinational groups.

In 2012-2014, he worked for PGNiG Group, initially as Member of the Management Board of Karpacka Spółka Gazownictwa Sp. z o.o. and subsequently, since March 2013, as a Member of the Management Board resonsible for Finance at Polska Spółka Gazownictwa Sp. z o.o. His responsibilities in PGNiG Group companies included management and oversight of purchasing, controlling, accounting, tariffs, debt recovery, finance and assets. He also participated in the consolidation of distribution operations, preparation of the company's strategy and implementation of the management information model. In 2008-2012, Łukasz Hadyś served as Director of the Finance and Accounting Department at Tauron Dystrybucja S.A., managing accounting, finance and controlling areas, as well as developing efficiency improvement projects for the company and the group.

Dariusz Browarek – Member of the Management Board, Employees representative in the Management Board

In 2004, he graduated from the Faculty of Law and Administration at the University of Warmia and Mazury in Olsztyn and completed a post-graduate course in human resources management at the Gdańsk University of Technology. Before his academic education, he graduated from the Secondary Technical School of Railway Engineering in Olsztyn.

He has been involved in staff-related in the railway industry for over 30 years as an active trade union and community activist. He has been working for PKP CARGO S.A. since the company's formation. He worked at the Main Locomotive Depot in his home town of Olsztyn, then for the Rolling Stock Depot CARGO in Olsztyn and, following the restructuring process, for the Northern Division of PKP CARGO S.A. in Gdynia, employed as inspector for defense and proprietary information protection. For a number of years, he presided over his company’s trade union organisation belonging to the railway trade union under the name Związek Zawodowy Kolejarzy RP in Gdańsk. He served two terms as the deputy president of the Federation of PKP Trade Unions (Federacja Związków Zawodowych Pracowników PKP), with his tenure having expired in April 2014. He was also responsible for the operations of the company Centrum Szkolenia Federacji ZZP PKP (the Federation's training center). Until April 2014, he also represented PKP staff interests sitting on the Council of Investors of the PKP Staff Property Fund. He was actively involved in negotiations with employers, regarding the Social Safety Net Accords for the employees of PNI, and the Social Safety Net Accord for PKP CARGO. For many years now, he has been providing opinions on amendments to laws relating to railway transport as attendee of the Parliamentary Infrastructure Committee meetings. On 24 April 2014, following a competitive process, he was appointed by the Supervisory Board of PKP CARGO as Member of the Management Board, Employee Representative. He supports the Management Board of PKP CARGO S.A. in building an effective dialogue with social partners.

On 6 February 2014, the Supervisory Board of the Company, having conducted a qualification process, appointed Mr. Adam Purwin to the position of President of the Management Board of PKP CARGO S.A.

On 17 February 2014, Mr. Sylwester Sigiel resigned from the position of a Member of the Management Board responsible for Trade , effective from the day of a resolution of the Supervisory Board of the Company on appointment of the new Member of the Management Board responsible for Trade .

On 26 February 2014, the Supervisory Board of PKP CARGO S.A. passed a resolution to initiate the qualification procedure for the following positions:

- Member of the Management Board, responsible for Finance,
- Member of the Management Board, responsible for Operations,

- Member of the Management Board, responsible for Trade,
- Employees representative in the Management Board of PKP CARGO S.A.

The qualification procedure was conducted under the Rules of Procedure for the appointment of Members of the Management Board of PKP CARGO S.A. and the Rules of Procedure for the election of candidates for Employees representative in the Management Board of PKP CARGO S.A. and the appointment of employees representatives in the Supervisory Board of PKP CARGO S.A. and the procedure for their dismissal.

The recruitment procedure was completed in April 2014, appointing the following Members of the Management Board on 24 April 2014:

- Mr. Jacek Neska – as a Member of the Management Board, responsible for Trade – the period of service in the role from 24 April 2014,
- Mr. Wojciech Derda – as a Member of the Management Board, responsible for Operations – the period of service in the role from 24 April 2014,
- Mr. Łukasz Hadyś – as a Member of the Management Board, responsible for Finance – the period of the service in the role form 12 May 2014,
- Mr. Dariusz Browarek – as a Member of the Management Board – Employees representative in the Management Board - the period of service in the role from 24 April 2014.

The internal allocation of responsibilities and the roles served by the Management Board members in 2014 were as follows:

1) President of the Management Board – the responsibilities of the President of the Management Board include the management of the work of the Management Board and the current activities of the Company and, in particular, matters related to:

   - business strategy,
   - business security and internal audit.

   The special powers of the President of the Management Board include the performance of defense-related responsibilities in the Company resulting from regulations on the general defense obligation.

2) Member of the Management Board, responsible for Finance – the responsibilities of the Member of the Management Board responsible for Finance include taking care of the rational management of the Company and the supervision of the management of particular areas of the Company's operations, particularly in the area:

   - financial management,
   - purchases and sales of assets.

   The special powers of the Member of the Management Board responsible for Finance include fulfillment of obligations under the regulations on accounting, taxes and insurance in the name of PKP CARGO S.A.

3) Member of the Management Board, responsible for Trade – the responsibilities of the Member of the Board responsible for Trade include taking care of the appropriate level of sales and client relations management and supervision of certain areas of the Company's operations, particularly in the field of:

   - sales policy,
   - selling freight services.

4) Member of the Management Board, responsible for Operations – the responsibilities of the Member of the Board responsible for Operations include supervision over the management of certain areas of the Company, in accordance with the powers set out in a separate resolution of the Board:

   - carriage directing,
   - transport organizations.

Commercial powers of attorney granted and revoked

In 2013, joint commercial powers of attorney were in effect for:

- Mr. Ireneusz Wasilewski – Resolution of the Management Board No. 324/2012 passed by the Management Board of PKP CARGO S.A. on 17.07.2012,
- Mr. Witold Bawor – Resolution of the Management Board No. 325/2012 passed by the Management Board of PKP CARGO S.A. on 17.07.2012,

- Mr. Grzegorz Kiczmachowski – Resolution of the Management Board No. 585/2013 passed by the Management Board of PKP CARGO S.A. on 05.12.2013,
- Mr. Wojciech Derda – Resolution of the Management Board No. 586/2013 passed by the Management Board of PKP CARGO S.A.on 05.12.2013.

and in 2014 joint commercial power of attorney was granted to:

- Mr. Grzegorz Kiczmachowski – Resolution of the Management Board No. 2/2014 adopted by the Management Board of PKP CARGO S.A. on 07.01.2014,
- Mr. Arkadiusz Pokropski – Resolution of the Management Board No. 170/2014 adopted by the Management Board of PKP CARGO S.A. on 06.05.2014.

On 28 April 2014 in accordance with Article 371 §(5) of the Commercial Companies Code, Mr. Dariusz Browarek – Member of the Management Board canceled the power of attorney granted to Mr. Jacek Neska and Mr. Wojciech Derda.

On 12 February 2015, in accordance with Article 371 §(5) of the Commercial Companies Code, Mr. Jacek Neska – Member of the Management Board canceled the power of attorney granted to Mr. Witold Bawor.

On 6 March 2015, in accordance with Article 371 §(5) of the Commercial Companies Code, Mr Łukasz Hadyś – Member of the Management Board canceled the power of attorney granted to Mr. Grzegorz Kiczmachowski.

SUPERVISORY BOARD

According to the Articles of Association of PKP CARGO S.A. (Resolution No 6/2014 of the Extraordinary General Meeting of PKP CARGO S.A. with its registered office in Warsaw of 30 July 2014), the Supervisory Board consists of 11 to 13 members (including the Chairman and Vice Chairman of the Supervisory Board) appointed for a joint term of office. The Supervisory Board is appointed and dismissed by the General Shareholders Meeting, subject to the provisions of § 19 (2) and (3) of the Articles of Association of PKP CARGO S.A.

Resolutions of the Supervisory Board can be passed only if all Members of the Supervisory Board have been duly informed including the Chairman of the Supervisory Board about the Supervisory Board meeting and at least a half of the number of Members of the Supervisory Board attending. Resolutions of the Supervisory Board of passed by absolute majority. In the case of an equal number of votes "for" and "against", including any abstentions, the Chairman of the Supervisory Board has the casting vote.

Table 34 Composition of the Supervisory Board of PKP CARGO S.A. from the period from 1 January 2014 to the date of this report

No.	Surname and first name	Role served	Period of service in the role from	to
1	Jakub Karnowski	Chairman of the Supervisory Board	24.05.2012	to date
2	Michał Karczyński	Vice Chairman of the Supervisory Board	01.02.2010; 28.07.2011 (appointed as Vice Chairman); 24.05.2012 – for 5th term; 24.10.2012 (appointed as Vice Chairman)	25.04.2014
3	Milena Pacia	Member of the Supervisory Board	25.02.2013; 26.05.2014 (appointed as Vice Chairman)	27.06.2014
4	Artur Kawaler	Member of the Supervisory Board	16.08.2007; 24.05.2012 – for 5th term	29.07.2014
5	Danuta Tyszkiewicz	Member of the Supervisory Board	21.07.2011; 24.05.2012 - for 5th term	25.04.2014
6	Krzysztof Czarnota	Member of the Supervisory Board	06.07.2006; 24.05.2012 - for 5th term	to date
7	Marek Podskalny	Member of the Supervisory Board	06.07.2006; 24.05.2012 - for 5th term	to date
8	Kazimierz Jamrozik	Member of the Supervisory Board	24.05.2012	to date
9	Konrad Anuszkiewicz	Member of the Supervisory Board	13.12.2013	to date
10	Stanisław Knaflewski	Member of the Supervisory Board	17.12.2013	to date
11	Paweł Ruka	Member of the Supervisory Board	17.12.2013	to date
12	Jarosław Pawłowski	Member of the Supervisory Board	26.04.2014	18.02.2015
13	Łukasz Górnicki	Member of the Supervisory Board	26.04.2014	24.10.2014
14	Piotr Ciżkowicz	Member of the Supervisory/ Vice Chairman of the Supervisory Board	29.07.2014 (appointed as Vice Chairman 31.07.2014)	to date
15	Jacek Leonkiewicz	Member of the Supervisory Board	29.07.2014	to date
16	Sławomir Baniak	Member of the Supervisory Board	24.11.2014	to date
17	Zbigniew Klepacki	Member of the Supervisory Board	19.02.2015	to date

Source: Own study

AUDIT COMMITTE OF THE SUPERVISORY BOARD

The Audit Committee of PKP CARGO S.A. is appointed by the Supervisory Board of PKP CARGO S.A. It is composed of three members of the Supervisory Board, including at least two members of the Supervisory Board meeting the criteria of independence and appointed in the manner described in § 20 and 21 of the Articles of Association. Members of the Committee are appointed for a period corresponding to the duration of the term of office of the Supervisory Board. The responsibilities of the Audit Committee include, in particular: supervision of the organizational unit dealing with internal audit, monitoring the financial reporting process, monitoring financial audit activities, monitoring the independence of the certified auditor and the entity authorized to audit financial statements, recommending to the Supervisory Board the entity authorized to audit financial statements for the purposes of auditing the Company's accounts, etc.

Table 35 Composition of the Audit Committee of the Supervisory Board of PKP CARGO S.A. for the reporting period from 1 January 2014 to the date of this report

No.	Surname and first name	Role served	Period of service in the role	
			from	to
1	Artur Kawaler	Chairman of the Committee	21.09.2012	06.02.2014
2	Milena Pacia	Member of the Committee	26.02.2013	06.02.2014
3	Paweł Ruka	Member of the Committee	06.02.2014	to date
4	Stanisław Knaflewski	Member of the Committee	06.02.2014	to date
5	Konrad Anuszkiewicz	Member of the Committee	06.02.2014	to date

Source: Own study

NOMINATION COMMITTEE

The Nomination Committee is appointed by the Supervisory Board of PKP CARGO S.A. It is composed of three members of the Supervisory Board, including at least one member of the Supervisory Board meeting the criteria of independence and appointed in the manner described in § 20 and 21 of the Articles of Association. Members of the Committee are appointed for a period corresponding to the duration of the term of office of the Supervisory Board. The Nomination Committee organises and exercises ongoing supervision over the qualification procedures for Management Board positions and over the process of assessment and appointment of Members of the Management Board.

Table 36 Composition of the Nomination Committee of the Supervisory Board of PKP CARGO S.A. for the reporting period from 01 January 2014 to the date of this report

No.	Surname and first name	Role served	Period of service in the role	
			from	to
1	Stanisław Knaflewski	Chairman of the Committee	17.12.2013	to date
2	Jakub Karnowski	Member of the Committee	17.12.2013	to date
3	Milena Pacia	Member of the Committee	17.12.2013	27.06.2014
4	Jacek Leonkiewicz	Member of the Supervisory Board	31.07.2014	to date

Source: Own study

This Annual Report has been authorized by the Management Board of PKP CARGO S.A. on 11 March 2015.

Adam Purwin
President of the Management Board

Jacek Neska
Member of the Management Board

Łukasz Hadyś
Member of the Management Board

Wojciech Derda
Member of the Management Board

Dariusz Browarek
Member of the Management Board

STATEMENT

of the Management Board of PKP CARGO S.A. on the compliance of the Financial Statement of PKP CARGO S.A. for the year ended on 31 December 2014 and the Management Board's report on the operation of PKP CARGO S.A. for the year 2014

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 2014, and the comparable data have been drawn up in observance of the applicable accounting standards and that they truly, reliably and clearly represent the asset-related and financial standing of 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 2014 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

Adam Purwin
President of the Board

Jacek Neska
Board Member

Łukasz Hadyś
Board Member

Wojciech Derda
Board Member

Dariusz Browarek
Board Member

Warszawa, dnia 11 March 2015

STATEMENT

of the Management Board of PKP CARGO S.A. on the choice of the entity authorized to audit Financial Statement of PKP CARGO S.A. for the year ended 31 December 2014

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 2014, has been appointed in observance of the rule of law, and that the said entity, as well as the certified auditors performing the audit, met the requirements that need to be fulfilled in order to issue an impartial and independent opinion on the annual financial statement audited, in line with the applicable regulations and professional standards.

Management Board Members

Adam Purwin
President of the Board

Jacek Neska
Board Member

Łukasz Hadyś
Board Member

Wojciech Derda
Board Member

Dariusz Browarek
Board Member

Warszawa, dnia 11 March 2015

PKP cargo LOGISTICS

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