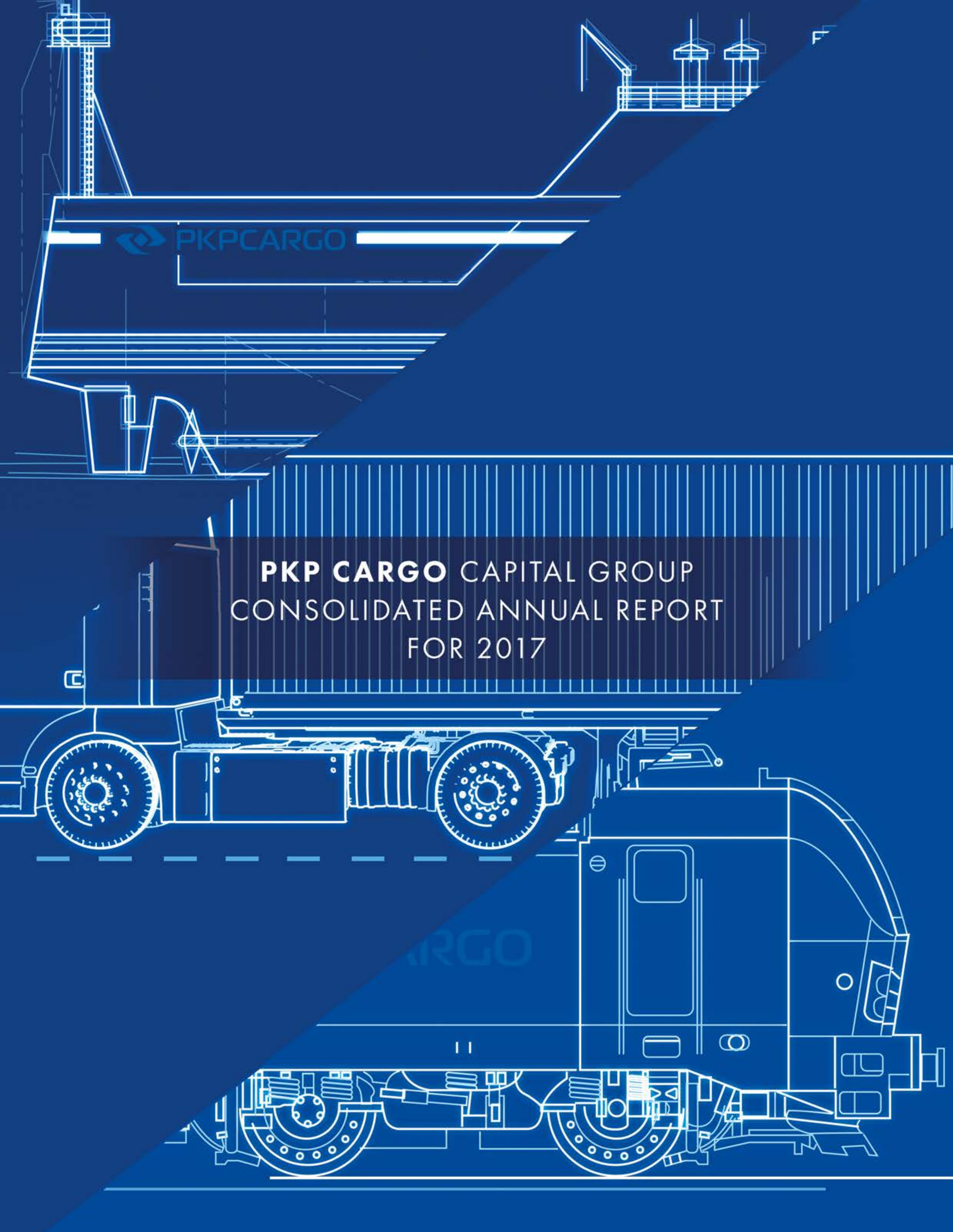


PKP CARGO CAPITAL GROUP CONSOLIDATED ANNUAL REPORT FOR 2017

pkpcargo.com

PKPCARGO

Dear Investors,

It is my honor to convey to you the PKP CARGO Group's 2017 Annual Report. I do this with all the greater satisfaction as the information it contains is positive and confirms that last year we worked effectively and completed the year successfully. Our results also testify to the strengthening of the Group's position in this period as the unchallenged leader on the rail freight market in Poland and as one of the largest operators on the European market.

Last year, the PKP CARGO Group carried 119.1 million tons of cargo and handled freight turnover of 31.0 billion tkm. At the same time, our market share measured by freight turnover in Poland was 51.6%. Five entities in the Group performed freight transport: PKP CARGO, PKP CARGO SERVICE and three carriers in the AWT Group forming part of the PKP CARGO Group operating in the Czech Republic, Slovakia and Hungary. PKP CARGO Group's revenues in 2017 totaled PLN 4,738.6 million, while its EBITDA came in at PLN 701.9 million. We earned a net profit of PLN 81.7 million.

2017 was a period during which we successfully executed the PKP CARGO Group's strategy up to 2020 and perfected previously implemented changes, above all in the management and sales of transportation services. Among other things, we simplified the decision-making system, especially at the level of our various units, which has benefited us in terms of cooperating with our clients. Our units can more effectively utilize their greatest strength, which is their excellent knowledge of the local market. We can react more quickly to client needs and plan our joint efforts better. The principle of "being closer to our clients" has assumed a practical and tangible dimension.

We have improved our freight results

Last year was highly successful in terms of the transportation results and the PKP CARGO Group's market share. In every subsequent month of 2017 our transportation services were higher than in the same period of the previous year in terms of freight volume and freight turnover alike. The robust conditions in the manufacturing industry, the development of Polish sea ports and the pace of growth in infrastructural investments were conducive to that happening. Despite the greater demand for our services compared with the tasks incorporated in the Business Plan for 2017, we additionally managed to handle this significant stream of cargo. It should be emphasized that this transpired at a time when a large number of rail lines were closed on account of undergoing modernization and it was necessary to make detours involved with changing traction. This demanded a maximum degree of mobilization and preparation of the appropriate amount of rolling stock and a larger number of employees, all with little lead time.

Important trade contracts we entered into made a direct contribution to our 2017 performance, including among others contracts with the largest entities in the mining industry, the power sector and the metallurgical industry. We are elated that our offers were the most favorable when compared with the competition. The PKP CARGO Group is the main partner of the mining and power industries. We are responsible for 2/3 of the coal transportation market in Poland when measured by freight turnover. By continuing their cooperation with the PKP CARGO Group, our business partners confirm how highly they assess the quality of our services and our market experience, which is a large challenge while also being a reason for satisfaction. I would like to take this opportunity to emphasize the noteworthy role played by our staff numbering more than twenty thousand and its commitment and responsibility when doing this tough job, without which it would not have been possible to generate such robust economic and transportation results.

We have enhanced the level of our operations abroad

The upward movement in the freight turnover performed on international markets is proof positive of the PKP CARGO Group's greater degree of activity there. In general, in 2017 it climbed 271 million tkm, i.e. 11.2% yoy. The Group is well-prepared to face these ambitious challenges organizationally, technologically and with respect to the potential residing in its management and logistics know-how.

Moreover, we are pursuing active efforts to enhance the commercial attractiveness of container service and the organization of rail transportation. Transport between China and Europe through Poland along the New Silk Road is one of our top priorities for the PKP CARGO Group's expansion on international markets. We are glad that we are able to find a common plane for discussion with our business partners from the Middle Kingdom to streamline the logistics services provided to transport along this route. I am convinced that our cooperation will accrue the expected effects in the form of higher transport, not just from China but also from the opposite direction in relations with European countries.

In addition, we have held talks with other partners committed to providing transport along the New Silk Road to make the transportation offering more attractive and respond to the challenges related to onboarding a larger stream of cargo in trade between China and Europe.

We have established cooperation with PKP LHS to ramp up the container transport with China while tapping into the PKP LHS line and the Euroterminal in Sławkowo. This especially relates to joint trade projects in international transportation that will be handled using a single waybill, partially using normal gauge lines and partially using the PKP LHS's wide gauge line. The gateway for transportation from the East consists of the Brześć-Terespol border crossing and the Transshipment Region in Małaszewicze located in its direct vicinity. Cargotor belonging to our Group is undertaking measures to modernize the infrastructure in existence there. The signing of an agreement to conduct a study for this region was a preliminary stage thereof. Similarly, another company from the PKP CARGO Group - PKP CARGO Centrum Logistyczne Małaszewicze entered into preparatory work for the second stage of expansion of the container terminal. In both instances we intend to utilize the opportunities for obtaining funding for the investment using EU funds.

An important event in 2017 was the signing by PKP CARGO S.A. and Port Gdańsk S.A. of a memorandum of collaboration with the Romanian rail operator CFR Marfa and the Port of Constanța. This project is aligned to the political and economic idea of the ABCs of the Three Seas Initiative (Adriatic Sea, Baltic Sea and Black Sea) stimulating economic activity on Europe's North-South axis. The potential in the countries from this region is not currently being used to the fullest extent; that is why, we are striving to develop it. This creates an opportunity for the Polish economy and for the PKP CARGO Group. We are a transit country, we have extensive East-West roads. So the time has arrived to step up the pace in our operations, also along the North-South axis in Europe. Tapping into synergies while jointly handling transport along the North-South axis in Europe with the Czech AWT Group, of which PKP CARGO S.A. became the sole owner after acquiring another 20% equity stake in 2017 will support this process.

We are continuing the process of renewing our rolling stock

Considering the growing demand for transportation services the PKP CARGO Group is on a track toward intensive renewal of its rolling stock. We will continue to modernize our rolling stock whenever that is economically viable. At the same time, we are continuing the process of its replacement, inter alia, by purchasing new locomotives and wagons. The receipt of another three multi-system locomotives for transborder transportation was an example of such efforts in 2017. As a result, we now have 16 locomotives of this type. There are also plans to purchase 80-foot platform wagons in connection with the anticipated financing for this project using EU funds to develop intermodal transport.

An important step toward modernizing rolling stock was the opening of a modern line of wheel set production and wagon repairs in PKP CARGOTABOR in Zduńska Wola-Karsznice. This new investment will enable the unit to increase the number of wagon sets by 150% ultimately. The manufactured wheel sets were granted with a certificate admitting them for usage in the European Union, and they will soon be used in the rolling stock of the PKP CARGO Group not only in the country but also across Europe. Therefore, we will practically be self-sufficient in terms of manufacturing single block wheel sets.

As we care about high client service standards and natural environmental protection we have launched a formal process to outfit the brake systems of wagons operated thus far with cast iron brake inserts, modern composite inserts which greatly reduce noise when riding the rails and when braking. We will strengthen our presence on the market for European rail transportation by fulfilling the new EU requirements in this field.

The reinstatement to full activity of the rolling stock maintenance units (PUT) located in Jasło, Stróże and Nowy Sącz, which are successfully discharging their current maintenance tasks, rounds out the list of actions referring to the rolling stock maintenance stock.

We gaze into the future with optimizm

The PKP CARGO S.A. Management Board's dialogue with trade unions is conducive to effective collaboration. By the power of the memorandum of agreement entered into by both parties, as of 1 September 2017 the salaries of the Company's employees grew. This memorandum of agreement and the successful completion of this stage of social dialogue mean that the relations between the trade unions and the Management Board are full of understanding. This portends well for the future and evidences that in an atmosphere of calmness we can jointly measure up to the challenges we face.

I can assure you that the PKP CARGO Group is well prepared to handle the higher demand for transport linked to the development of the economy, including also large infrastructural projects that will take on an ever greater pace in subsequent years. By rendering logistics services at the highest level we would like to sustain this favorable trend from 2017. The multi-billion investments co-funded using EU funds to modernize rail lines and create a coherent network of rail connections contributing to improved operation of cargo transport that are steadily being launched should advance our cause. I am also counting on a return to the concept of energy security based on having our own fuel resources and implementing EU regulations concerning EU regulations pertaining to the fees for road transport contributing to enhancing the railway's competitiveness.

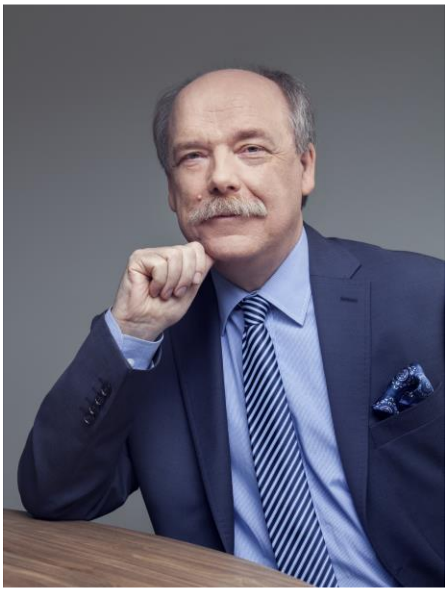
The PKP CARGO Group has enormous potential we will strive to utilize in the interest of the Polish economy, our clients and shareholders.

Respectfully,

Krzysztof Mamiński

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

Dear Investors,



In 2017 the PKP CARGO Group operated under conditions in which the demand for rail freight rose significantly. Its driving force was rooted in the persistently robust business conditions in Poland and in the European Union member states. The GDP growth rate in Poland accelerated in this period to 4.6% yoy from 2.9% yoy in 2016, while rail freight transport measured by freight turnover rose by 8.3% yoy. The intensification of road and rail investments co-financed by European funds under the 2014-2020 financial perspective, among other factors, the development of intermodal transport along the New Silk Road, greater demand for ores and metals stemming from the favorable standing of the metallurgical industry on global markets, the upswing in transshipments in sea ports and the introduction of further regulations to curtail the illicit economy in fuel sales were conducive to increasing domestic and international transport.

The PKP CARGO Group functioned on a competitive market in 2017 on which more than 70 licenses rail operators were service providers. During this period the Group strengthened its leadership position and its market share measured by freight turnover rose to 51.4%. Here one must emphasize that transport services were provided in a period in which many rail lines were closed on account of refurbishment and modernization. In turn, this contributed to the cargo supply routes getting longer and therefore more rolling stock and employee resources had to be involved. The PKP CARGO Group's transportation and financial results generated in these conditions in 2017 may be deemed to be very good. The positive net profit and its growth compared to 2016 are particularly pleasing. The growth in EBITDA is also noteworthy as it proves the Group is more strongly committed to renewing its rolling stock potential and its ability to conduct repairs and renovations. I am convinced that these results confirming the PKP CARGO Group's robust financial condition will be well received by our investors.

In October of 2017 the CEO and CFO of PKP CARGO S.A. tendered their resignations from serving in these capacities. In this situation, without any unnecessary delay, the Supervisory Board delegated Mr. Krzysztof Mamiński, the PKP CARGO S.A. Supervisory Board Chairman to discharge the CEO's duties temporarily as it was driven by the need to ensure that the Company has the ability to operate efficiently and manage its operations. At the same time, an executive search was announced to fill the vacant positions in the Company's Management Board. We are counting on the Management Board being able to function with a full team in the near future and for it to utilize its competences completely and focus on achieving the targets embraced in the Business Plan for 2018.

From the outset of 2017, rail freight operators have been supported by the strong and stable pace of GDP growth in Poland, and by the gradually improving circumstances in the key branches of industry, inter alia, the metallurgical industry and the construction industry. We may also gaze into the future with optimism because cargo transport is strongly correlated with the Polish economy's macro economic ratios, especially with the situation in the power sector, the construction industry and the manufacturing industry. In turn, the leading market indicators published by the Central Statistics Office suggest that the positive economic trends will continue over the upcoming months. In 2018 further growth in the transport of aggregates and construction materials is anticipated as a result, among others, of the intensification in infrastructural investments and civil engineering and building construction. Growth in hard coal transport is also assumed as Polish mines ramp up their production according to the statement made by the ministry of energy, and this will be supported by imports of this commodity. The further development of intermodal transport within the framework of the New Silk Road and in transport services furnished to sea ports is also planned.

All these factors stimulate the demand for the PKP CARGO Group's logistics and transport services on the domestic and international markets. I am convinced that the company will utilize its entire potential in an optimal manner during these favorable conditions. We are poised to achieve this objective organizationally and in terms of our human resources and to sustain this favorable trend in the operations of the PKP CARGO Group throughout 2018.

Respectfully,

Mirosław Antonowicz

Deputy Chairman of the PKP CARGO S.A. Supervisory Board

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Audit Report
on the consolidated financial statements
for the period from 1 January to 31 December 2017

BDO

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INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS for the General Meeting and Supervisory Board of PKP CARGO SA

We have audited the accompanying consolidated financial statements of PKP CARGO SA ("the Holding Company") with its registered office in Warsaw, consisting of: the consolidated statement of comprehensive income for the period from 1 January to 31 December 2017, the consolidated statement of financial position prepared as at 31 December 2017, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period from 1 January to 31 December 2017, as well as notes to the consolidated financial statements ("the consolidated financial statements").

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

The Holding Company's Management Board is responsible for the preparation of the consolidated financial statements of the PKP CARGO Group ("the Group") and for their fair presentation in accordance with International Accounting Standards, International Financial Reporting Standards and the related interpretations announced in the form of European Commission regulations, as well as other binding legal regulations and the Holding Company's Statute. The Holding Company's Management Board is also responsible for such internal controls as it considers necessary to ensure that the consolidated financial statements are free from material misstatements resulting from fraud or error.

In accordance with the Accounting Act of 29 September 1994 (2018 Journal of Laws item 395) ("the Accounting Act"), the Holding Company's Management Board and members of its Supervisory Board are required to ensure that the consolidated financial statements meet the requirements of the Accounting Act.

Responsibilities of the Auditor

Our responsibility was to express an opinion whether the consolidated financial statements present truly and fairly the group's financial position and financial result in accordance with the applicable International Accounting Standards, International Financial Reporting Standards and the related interpretations announced in the form of European Commission regulations, as well as with the adopted accounting methods (policies).

We performed the audit of the consolidated financial statements in accordance with the provisions of:

1) the Act of 11 May 2017 on certified auditors, audit firms and on public supervision (2017 Journal of Laws, item 1089) ("the Certified Auditors Act"),
2) National Standards on Auditing in the wording of International Standards on Auditing, adopted in Resolution No. 2783/52/2015 passed by the National Council of Certified Auditors on 10 February 2015 with subsequent amendments,
3) Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (Official Journal of the EU L 158 of 27 May 2014, page 77 and Official Journal of the EU L 170 of 11 June 2014, page 66) ("Regulation 537/2014").

These regulations require us to comply with ethical requirements and to plan and perform the audit in a manner that allows us to obtain sufficient assurance that the consolidated financial statements are free from material misstatements.

The objective of an audit is to obtain sufficient assurance about whether the consolidated financial statements as a whole are free from material misstatements due to fraud or error, and to issue an independent auditor's report that includes our opinion. Sufficient assurance is a high level of assurance, but it is not a guarantee that an audit performed in accordance with the above standards will always detect an existing material misstatement. Misstatements can arise from fraud or error and are considered material if it could be reasonably expected that they, individually or in aggregate, could influence the economic decisions of users made on the basis of these consolidated financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than the risk of not detecting a material misstatement resulting from error, because fraud may involve collusion, forgery, deliberate omission, misrepresentation or circumvention of internal controls, and may pertain to every area of law and regulations, not just those that have a direct impact on the consolidated financial statements.

The audit consisted of performing procedures aimed at obtaining audit evidence on the amounts and information disclosed in the consolidated financial statements. We choose the procedures based on our judgement, including an assessment of the risk of material misstatements in the financial statements due to fraud or error. In assessing this risk we consider the internal controls related to the preparation and fair presentation of the consolidated financial statements in order to plan our audit procedures, and not to express an opinion on the effectiveness of internal controls. An audit also includes assessing the appropriateness of the accounting policies used and the reasonableness of the estimates made by the Holding Company's Management, as well as evaluating the overall presentation of the consolidated financial statements.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our opinion is consistent with the additional report for the Audit Committee issued on the date of the present audit report.

Independence

During the audit the auditor in charge and the audit firm remained independent of the entities comprising the Group in accordance with the provisions of the Certified Auditors Act, Regulation 537/2014 and the ethical standards adopted by the National Council of Certified Auditors.

To the best of our knowledge and belief we declare that we have provided no non-audit services forbidden by the provisions of Article 136 of the Certified Auditors Act and Article 5 point 1 of Regulation 537/2014 to the entities comprising the Group. The auditor in charge and the audit firm provided the following non-audit services to the Company and its subsidiaries: agreed upon procedures to confirm the accuracy of the calculation of annual ratios defined in credit agreements, verification of reporting packages and translation of financial statements.

Selection of Auditor

We were selected as the auditor of the Group's consolidated financial statements in a resolution passed by the Supervisory Board on 30 June 2016. We have audited the Group's consolidated financial statements since the financial year ended 31 December 2016; i.e. for 2 consecutive years.

Most Significant Types of Risk

In the course of the audit we identified the below described most significant types of risk of material misstatement, and have designed audit procedures appropriate for those types of risk. In order to afford an understanding of the identified risks and of the procedures performed by the auditor, we have also included the most important observations associated with the risks.

Risk of material misstatement	*Procedures performed in response to the risk*
	Tangible assets
In its consolidated financial statements the Group lists 4.688 million zł in tangible assets, constituting 71% of its total assets and liabilities as at 31 December 2017. The details of the Group's accounting policies on the valuation of tangible assets, including the methods used to perform impairment write downs and calculate depreciation charges, are disclosed in Note 10 to the consolidated financial statements. The matter has been classified as a risk of material misstatement due to: a) the high percentage of tangible assets in the Group's total assets, b) approval of the restructuring plan of the AWT group's main vendor, which had a significant effect on the projected cash flows of the AWT group, c) the significant effect of management's judgement on the values of assets disclosed in the financial statements.	In response to the identified risk, we applied the following audit procedures: a) familiarized ourselves with the Group's accounting policies on the determination of depreciation rates and impairment write downs on tangible assets, as well as - in the case of rolling stock - on the determination of the residual values of those assets, b) checked for unfounded changes in the Group's approach to estimating impairment of tangible assets, determining depreciation rates and calculating the residual value of rolling stock compared to the prior year; we obtained relevant documentation that has been analyzed, c) performed analytical completeness tests of depreciation, d) verified the asset impairment tests performed by the Holding Company and by the AWT group by assessing the correctness and completeness of the disclosures relating to the tests made in the consolidated financial statements and evaluating the validity of the test assumptions and final conclusions, e) checked if the applied valuation models are consistent with IAS 36 "Impairment of Assets", f) checked the feasibility of forecasts by comparing the realized values with the forecasts, g) assessed the effect of subsequent events on the estimates made as at the balance sheet date.

Risk of material misstatement	Procedures performed in response to the risk
Provisions for employee benefits	
In its consolidated financial statements as at 31 December 2017 the Group presents provisions for employee benefits in the amount of 663 million zł, which constitute 10% of its total assets and liabilities. The provisions have been classified as a key audit area due to their significant effect on the consolidated financial statements. The Group has made disclosures relating to the provisions for employee benefits in Note 26 to the consolidated financial statements.	In response to the identified risk, we applied the following audit procedures: a) analyzed the reports on the actuarial valuation of provisions for employee benefits, b) evaluated the credentials of the companies that prepared the reports, c) analyzed the key assumptions used in the valuation of the provisions, including the discount rates, d) analyzed the effect of departures from key assumptions (discount rate, increase in wages, increased employment) on the value of the provisions, e) analyzed the use of short-term provisions in 2017 compared to the estimates made as at 31 December 2016, f) assessed the accuracy and completeness of the disclosures made in the consolidated financial statements.
Contingent liabilities	
In Note 33 to the financial statements the Group presents other contingent liabilities relating to court proceedings resulting from claims filed against companies from the Group. These proceedings include claims made by two vendors against the Holding Company for the payment of damages in the amount of 101 million zł for acts of unfair competition that the vendors allege the Holding Company practiced in the years 2010-2015. The above contingent liabilities have been classified as a key audit area due to difficulties in assessing their future outcome and their significant effect on the consolidated financial statements.	Our audit procedures included: a) becoming familiar with the vendors' claims, b) becoming familiar with the Holding Company's responses to the claims, c) obtaining the standpoints of the Holding Company's legal advisors on the risk that the outcome of the disputes will be unfavorable for the Holding Company, d) assessing whether the disclosures made in the consolidated financial statements are consistent with the provisions of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

Opinion

In our opinion, the accompanying consolidated financial statements:

a) give a true and fair view of the Group's financial position as at 31 December 2017, as well as of its financial result for the period from 1 January to 31 December 2017, in accordance with International Accounting Standards, International Financial Reporting Standards and the related interpretations announced in the form of European Commission regulations, as well as the adopted accounting methods (policies),

b) are consistent, in content and in form, with the requirements of the Minister's of finance Decree of 19 February 2009 on the current and periodic information provided by the issuers of securities and on the conditions for recognizing as equally valid the information required by the regulations of a state that is not a member state (2014 Journal of Laws, item 133 with subsequent amendments) ("the MF Decree"), as well as with other applicable laws and regulations and with the Holding Company's Statute.

Report on Other Legal and Regulatory Requirements

Opinion on the Directors' Report on the Group's Activities

Our opinion on the consolidated financial statements does not cover the Directors' Report on the Group's activities.

In accordance with the Accounting Act and other binding regulations, the preparation of the Directors' Report on the Group's activities is the responsibility of the Holding Company's Management Board. In addition, the Holding Company's Management Board and members of its Supervisory Board are responsible for ensuring that the Directors' Report on the Group's activities meets the requirements of the Accounting Act.

Our responsibility under the Certified Auditors Act was to express an opinion on whether the Directors' Report on the Group's activities, with the exception of the section relating to the declaration on non-financial information, complies with the applicable binding regulations and is consistent with the information presented in the separate and consolidated financial statements. It was also our responsibility to report whether, based on our knowledge obtained about the Group and its environment during the audit of the separate and consolidated financial statements, we have identified any material misstatements in the Directors' Report on the Group's activities, as well as to indicate the nature of each such misstatement.

In our opinion, the Directors' Report on the Group's activities complies with the applicable binding regulations and is consistent with the information presented in the separate and consolidated financial statements. Furthermore, based on our knowledge obtained about the Group and its environment during the audit of the separate and consolidated financial statements, we have identified no material misstatements in the Directors' Report on the Group's activities.

Opinion on the Declaration on the Application of Corporate Governance

The Holding Company's Management Board and members of its Supervisory Board are responsible for the preparation of a declaration on the application of corporate governance in accordance with binding regulations.

In connection with our audit of the consolidated financial statements it was our responsibility under the Certified Auditors Act to express an opinion on whether an issuer required to file a declaration on the application of corporate governance, which constitutes a separate section of the Directors' Report on the Group's activities, included in this declaration the information required by legal regulations, and - with respect to certain information indicated in the regulations - to report on whether this information is consistent with the applicable regulations and with the information contained in the year-end consolidated financial statements.

In our opinion, the Holding Company's declaration on the application of corporate governance contains the information specified in paragraph 91 section 5 point 4 letters a, b, g, j, k and l of the MF Decree. The information indicated in paragraph 91 section 5 point 4 letters c-f, h and i of the MF Decree, contained in the declaration on the application of corporate governance is consistent with the applicable regulations and with the information contained in the year-end consolidated financial statements.

Information about the Preparation of a Declaration on Non-financial Information

In accordance with the requirements of the Certified Auditors Act we hereby inform you that the Holding Company has prepared the declaration on non-financial information referred to in Article 49b par. 1 of the Accounting Act as a separate section of the Directors' Report on the Group's activities.

We have performed no assurance work on the declaration on non-financial information and, accordingly, do not express any assurance on the declaration.

Katowice, 15 March 2018

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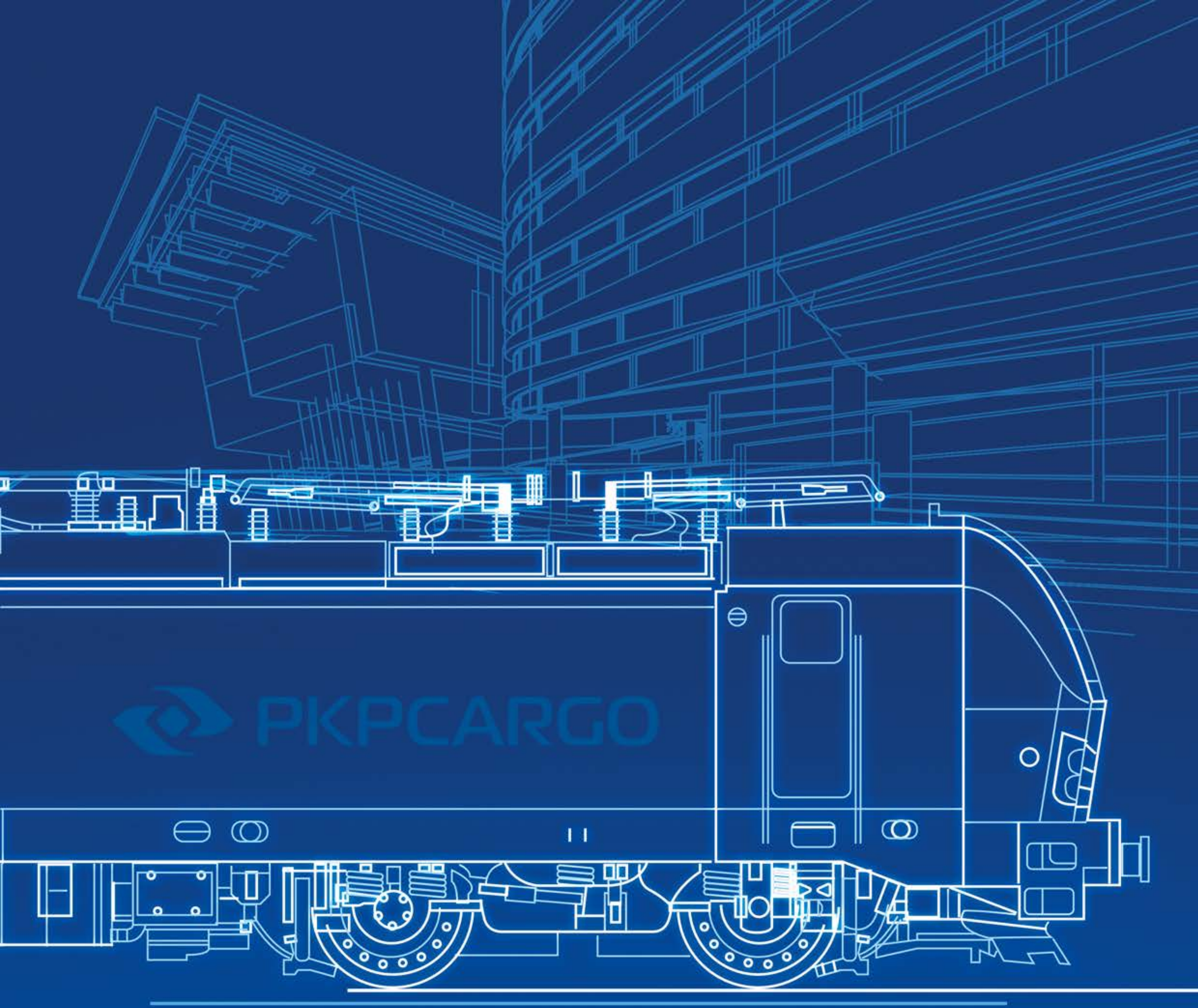
Authorized Audit Company No. 3355

Auditor in charge:

Leszek Kramarczuk
Certified Auditor
No. 1920

On behalf of BDO Sp. z o.o.:

Dr. André Helin
Managing Partner
Certified Auditor No. 90004



CONSOLIDATED FINANCIAL STATEMENTS OF **PKP CARGO** CAPITAL GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 PREPARED IN ACCORDANCE WITH IFRS AS ENDORSED BY THE EUROPEAN UNION

PKPCARGO

pkp**cargo**.com

Table of Contents

according to EU IFRS (in thousands of PLN)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2017 TO 31 DECEMBER 2017

	Note	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Revenue from sales of services and finished products	5	4,640,808	4,341,874
Revenue from sales of goods and materials		51,845	30,085
Other operating revenue	7	45,958	39,310
Total operating revenue		**4,738,611**	**4,411,269**
Depreciation, amortization and impairment losses	6	546,885	621,592
Consumption of materials and energy	6	706,468	675,000
External services	6	1,618,716	1,573,059
Taxes and charges		38,987	36,256
Employee benefits	6	1,508,716	1,442,301
Other expenses by kind	6	57,580	55,494
Cost of goods and materials sold		39,132	22,066
Other operating expenses	7	67,127	117,572
Total operating expenses		**4,583,611**	**4,543,340**
Operating profit / (loss)		**155,000**	**(132,071)**
Financial revenue	8	20,167	38,925
Financial expenses	8	59,540	61,239
Share in the profit / (loss) of entities accounted for under the equity method	12	806	3,461
Profit (loss) before tax		**116,433**	**(150,924)**
Income tax	9	34,760	(17,152)
NET PROFIT / (LOSS)		**81,673**	**(133,772)**
OTHER COMPREHENSIVE INCOME			
Other comprehensive income subject to reclassification in the financial result			
Effective portion of gains / (losses) related to a hedging instrument to hedge cash flow		27,865	(3,920)
Income tax referring to the other comprehensive income line item	9	(5,294)	745
Foreign exchange differences resulting from translation of financial statements of foreign entities		(598)	28,470
Total other comprehensive income subject to reclassification in the financial result		**21,973**	**25,295**
Other comprehensive income not subject to reclassification in the financial result			
Actuarial gains / (losses) on post-employment benefits	26	(35,982)	21,482
Income tax referring to the other comprehensive income line item	9	6,836	(4,081)
Total other comprehensive income not subject to reclassification in the financial result		**(29,146)**	**17,401**
Total other comprehensive income		**(7,173)**	**42,696**
TOTAL COMPREHENSIVE INCOME		**74,500**	**(91,076)**
Net profit / (loss) attributable to:			
Shareholders of the parent company		81,673	(133,772)
Non-controlling interests		-	-
Total other comprehensive income attributable to:			
Shareholders of the parent company		74,500	(91,076)
Non-controlling interests		-	-
Earnings / (losses) per share (PLN per share)			
Basic	20	1.82	(2.99)
Diluted	20	1.82	(2.99)

according to EU IFRS (in thousands of PLN)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	Note	As at 31/12/2017 (audited)	As at 31/12/2016 (restated*)	As at 01/01/2016 (restated*)
ASSETS				
Non-current assets				
Property, plant and equipment	10	4,687,982	4,700,550	4,719,748
Intangible assets	11	43,927	55,831	66,437
Investment property		1,205	1,257	1,309
Investments in entities accounted for under the equity method	12	53,610	58,219	57,240
Trade and other receivables	16	1,836	2,223	5,074
Other non-current financial assets	13	10,537	8,649	9,849
Other non-current non-financial assets	14	14,726	25,987	32,666
Deferred tax assets	9	133,583	107,554	104,587
Total non-current assets		**4,947,406**	**4,960,270**	**4,996,910**
Current assets				
Inventories	15	148,464	121,189	128,513
Trade and other receivables	16	729,535	639,866	654,116
Income tax receivables		115	2,793	2,748
Other current financial assets	13	263,670	892	4,046
Other current non-financial assets	14	35,593	27,277	13,281
Cash and cash equivalents	17	516,776	755,919	276,191
Non-current assets classified as held for sale	18	-	-	44,061
Total current assets		**1,694,153**	**1,547,936**	**1,122,956**
TOTAL ASSETS		**6,641,559**	**6,508,206**	**6,119,866**
EQUITY AND LIABILITIES				
Equity				
Share capital	19	2,239,346	2,239,346	2,239,346
Supplementary capital	19	619,306	618,666	619,407
Other items of equity		4,872	11,447	(2,779)
Foreign exchange differences resulting from **translation** of financial statements of foreign entities		59,896	60,494	32,024
Retained earnings		411,358	330,325	463,356
Total equity		**3,334,778**	**3,260,278**	**3,351,354**
Long-term liabilities				
Long-term bank loans and borrowings	21	1,312,629	1,273,605	460,577
Long-term finance lease liabilities	22	91,055	140,923	193,500
Long-term trade and other payables	25	1,578	1,845	25,953
Long-term provisions for employee benefits	26	558,547	525,571	603,621
Other long-term provisions	27	22,446	26,420	28,886
Other long-term financial liabilities	23	-	1,042	155,198
Deferred tax liability	9	107,418	106,675	118,353
Long-term liabilities, total		**2,093,673**	**2,076,081**	**1,586,088**
Short-term liabilities				
Short-term bank loans and borrowings	21	249,701	197,803	253,592
Short-term finance lease liabilities	22	48,040	59,567	65,416
Short-term trade and other payables	25	749,736	670,021	739,509
Short-term provisions for employee benefits	26	104,006	99,256	100,383
Other short-term provisions	27	59,726	24,950	17,856
Other short-term financial liabilities	23	272	118,889	2,174
Short-term tax liabilities		1,627	1,361	3,494
Short-term liabilities, total		**1,213,108**	**1,171,847**	**1,182,424**
Total liabilities		**3,306,781**	**3,247,928**	**2,768,512**
TOTAL EQUITY AND LIABILITIES		**6,641,559**	**6,508,206**	**6,119,866**

(*) restatement of comparable data is described in **Note 4** to the Consolidated Financial Statements.

according to EU IFRS (in thousands of PLN)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JANUARY 2017 TO 31 DECEMBER 2017

	Share capital	Supplementary capital	Other items of equity: Actuarial gains / (losses) on post-employment benefits	Other items of equity: Gains / (losses) related to a hedging instrument to hedge cash flow	Foreign exchange differences resulting from translation of financial statements of foreign entities	Retained earnings	Attributable to the owners of the parent company	Attributable to non-controlling interests	Total
As at 1/01/2017 (restated*)	**2,239,346**	**618,666**	**13,521**	**(2,074)**	**60,494**	**330,325**	**3,260,278**	**-**	**3,260,278**
Net result for the financial year	-	-	-	-	-	81,673	**81,673**		**81,673**
Other comprehensive income for the financial year (net)	-	-	(29,146)	22,571	(598)	-	**(7,173)**		**(7,173)**
Total comprehensive income	**-**	**-**	**(29,146)**	**22,571**	**(598)**	**81,673**	**74,500**		**74,500**
Other changes for the financial year	-	640	-	-	-	(640)	**-**		**-**
As at 31/12/2017 (audited)	**2,239,346**	**619,306**	**(15,625)**	**20,497**	**59,896**	**411,358**	**3,334,778**		**3,334,778**
As at 1/01/2016 (restated*)	**2,239,346**	**619,407**	**(3,880)**	**1,101**	**32,024**	**463,356**	**3,351,354**	**-**	**3,351,354**
Net result for the financial year	-	-	-	-	-	(133,772)	**(133,772)**	-	**(133,772)**
Other comprehensive income for the financial year (net)	-	-	17,401	(3,175)	28,470	-	**42,696**	-	**42,696**
Total comprehensive income	**-**	**-**	**17,401**	**(3,175)**	**28,470**	**(133,772)**	**(91,076)**	**-**	**(91,076)**
Other changes for the financial year	-	(741)	-	-	-	741	**-**	-	**-**
As at 31/12/2016 (restated*)	**2,239,346**	**618,666**	**13,521**	**(2,074)**	**60,494**	**330,325**	**3,260,278**	**-**	**3,260,278**

(*) restatement of comparable data is described in **Note 4** to the Consolidated Financial Statements.

according to EU IFRS (in thousands of PLN)

CONSOLIDATED CASH FLOW STATEMENT FOR THE PERIOD FROM 1 JANUARY 2017 TO 31 DECEMBER 2017 [INDIRECT METHOD]

	Note	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Cash flow from operating activities			
Profit (loss) before tax		**116,433**	**(150,924)**
Adjustments:			
Depreciation of property, plant and equipment and amortization of intangible assets	**6**	574,051	596,178
Impairment of non-current assets	**6**	(27,166)	25,414
(Profit) / loss on the sale and liquidation of property, plant and equipment, intangible assets and non-current assets held for sale		(4,573)	(1,558)
(Profit) / loss on investing activities		225	(724)
Foreign exchange (gains) / losses		(7,904)	1,473
(Profits) / losses on interest, dividends		24,758	31,945
Share in the (profit) / loss of entities measured by the equity method	**12**	(806)	(3,461)
Received / (paid) interest		3,106	(523)
Received / (paid) income tax		(55,322)	(6,633)
Other adjustments	**28**	(22,858)	24,069
Change in working capital:			
(Increase) / decrease in trade and other receivables	**28**	(94,779)	14,214
(Increase) / decrease in inventories	**28**	3,080	10,119
(Increase) / decrease in other assets	**28**	(18,991)	(10,337)
Increase / (decrease) in trade and other payables	**28**	48,606	(37,213)
Increase / (decrease) in other financial liabilities	**28**	(5,649)	(37,441)
Increase / (decrease) in provisions		68,528	(74,549)
Net cash on operating activities		**600,739**	**380,049**
Cash flow from investing activities			
Expenditures to acquire property, plant and equipment and intangible assets		(511,090)	(588,094)
Proceeds on the transfer of property, plant and equipment, intangible **assets and non-current assets held for sale**		9,065	13,927
Expenditures to acquire other financial assets		-	(111)
Proceeds on the sale of other financial assets		876	932
Proceeds from interest received		9,062	566
Proceeds from dividends received		5,187	3,087
(Outflow) / inflows from l**oans** granted		(117)	(133)
(Outflow) / inflows from bank deposit over 3 months		(253,000)	1,259
Net cash on investing activities		**(740,017)**	**(568,567)**
Cash flow from financing activities			
Payments of finance lease **liabilities**	**24**	(59,632)	(67,393)
Payments of interest under finance leases	**24**	(6,095)	(8,556)
Proceeds from bank loans and borrowings	**24**	366,332	1,004,598
Repayment of bank loans and borrowings	**24**	(255,210)	(257,855)
Interest paid on bank loans and borrowings	**24**	(28,053)	(16,753)
Grants received		225	13,803
Transactions with non-controlling interests		(114,744)	-
Other outflows from financing activities		(2,251)	(3,984)
Net cash on financing activities		**(99,428)**	**663,860**
Net increase / (decrease) in cash and cash equivalents		(238,706)	475,342
Cash and cash equivalents at the beginning of the reporting period	**17**	755,919	276,191
Impact of changes foreign exchange rates on the cash balance in foreign currencies		(437)	4,386
Cash and cash equivalents at the end of the reporting period, including:	**17**	**516,776**	**755,919**
restricted cash	**17**	35,444	8,607

EXPLENATORY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

1. General information

Information about the Parent Company

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

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

The composition of the Parent Company's management and supervisory bodies and the Parent Company's shareholding structure as at 31 December 2017 are presented in the Management Board Report on the Activity of the PKP CARGO Group for the 2017 financial year, in **Notes 9.11** and **9.4**, respectively.

Information about the Group

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

The duration of individual Group companies is unlimited.

As at the balance sheet date, the PKP CARGO Group (hereinafter Group) comprised of PKP CARGO S.A. as its parent company and 25 subsidiaries. In addition, the Group held stakes in 4 associated entities and 2 joint ventures.

according to EU IFRS (in thousands of PLN)

1. General information (cont.)

The detailed information about the subsidiaries consolidated using the full method as at 31 December 2017 and 31 December 2016 is as follows:

Item	Name of the subsidiary	Core business	Place of registration and business	Percent of shares held by the Group	
				As at 31/12/2017	As at 31/12/2016
1	PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	Service activity incidental to land transport, cargo handling and wholesale and retail sale of waste and scrap	Małaszewicze	100.0%	100.0%
2	PKP CARGO Centrum Logistyczne Medyka - Żurawica Sp. z o.o.	Service activity incidental to cargo transshipment in other transshipment points	Żurawica	100.0%	100.0%
3	PKP CARGO SERVICE Sp. z o.o.	Activity incidental to comprehensive handling of sidings	Warsaw	100.0%	100.0%
4	PKP CARGO CONNECT Sp. z o.o.	Freight forwarding services	Warsaw	100.0%	100.0%
5	PKP CARGOTABOR Sp. z o.o.	Service activity incidental to repair and overhaul of rolling stock	Warsaw	100.0%	100.0%
6	PKP CARGOTABOR USŁUGI Sp. z o.o.	Activity related to collecting, processing and neutralizing waste and recovery of raw materials	Warsaw	100.0%	100.0%
7	CARGOTOR Sp. z o.o.	Management of logistic and service infrastructure in the form of rail sidings and railway tracks. Providing access to such infrastructure to rail operators.	Warsaw	100.0%	100.0%
8	CARGOSPED Terminal Braniewo Sp. z o.o.	Freight transshipment, customs warehouse	Braniewo	100.0%	100.0%
9	Advanced World Transport B.V. (1)	Holding and financial activity	Amsterdam	100.0%	80.0%
10	Advanced World Transport a.s. (2)	Provision of comprehensive services: rail transport, railway shipping, sidings handling, rolling stock repairs	Ostrava	100.0%	80.0%
11	AWT ROSCO a.s.	Rolling stock management, rolling stock lease	Ostrava	100.0%	80.0%
12	AWT Čechofracht a.s.	Freight forwarding and customs service	Prague	100.0%	80.0%
13	AWT Rekultivace a.s.	Provision of comprehensive services: land reclamation, construction services, waste management, zoning design	Hawierzów-Sucha Średnia	100.0%	80.0%
14	AWT Rail HU Zrt.	Provision of comprehensive services: rail transport, railway shipping, sidings handling	Budapest	100.0%	80.0%
15	AWT Coal Logistics s.r.o. (2)	Freight forwarding	Prague	-	80.0%

(1) As a result of the acquisition, on 2 November 2017, of an additional 20% stake in AWT B.V., The Parent Company became directly the owner of a 100% stake in the share capital of AWT B.V. The transaction was described in Note 23 of these Consolidated Financial Statements. At the same time, as a result of this transaction, the Parent Company became indirectly the owner of a 51% stake in the share capital of RND s.r.o. and a 100% stake in the share capital of the remaining companies owned directly by AWT B.V.

(2) Two companies from the AWT Group merged effective 1 June 2017: Advanced World Transport a.s. acquired AWT Coal Logistics s.r.o., as a result of which AWT Coal Logistics s.r.o. ceased to exist as a separate entity.

according to EU IFRS (in thousands of PLN)

1. General information (cont.)

The detailed information about the remaining subsidiaries from the Group as at 31 December 2017 and 31 December 2016 is as follows:

Item	Name of the subsidiary	Core business	Place of registration and business	Percent of shares held by the Group	
				As at 31/12/2017	As at 31/12/2016
16	ONECARGO Sp. z o.o.	Rail cargo transport	Warsaw	100.0%	100.0%
17	ONECARGO CONNECT Sp. z o.o.	Service activities supporting to land transport	Warsaw	100.0%	100.0%
18	Transgaz S.A.	Transport agency	Zalesie near Małaszewicze	64.0%	64.0%
19	Trade Trans Finance Sp. z o.o.	Financial and accounting service	Warsaw	100.0%	100.0%
20	PKP CARGO CONNECT GmbH	Customs and forwarding service	Hamburg	100.0%	100.0%
21	PPHU "Ukpol" Sp. z o.o.	Freight transshipment, trading services	Werchrata	100.0%	100.0%
22	AWT Rail SK a. s.	Rail transport, freight forwarding	Bratislava	100.0%	80.0%
23	AWT DLT s.r.o.	Siding services	Kladno	100.0%	80.0%
24	AWT Trading s.r.o.	Trading in products for the army	Pietwałd	100.0%	80.0%
25	AWT Rekultivace PL Sp. z o.o.	Provision of comprehensive services: land reclamation, construction services, waste management, zoning design	Cieszyn	100.0%	80.0%
26	RND s.r.o.	Freight forwarding, transport monitoring	Olomouc	51.0%	40.8%

2. Basis for preparation of Consolidated Financial Statements

These Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards and related interpretations adopted by the European Union ("EU IFRS"), published and in effect at the time of preparation of these Consolidated Financial Statements and in accordance with the Finance Minister's Regulation of 19 February 2009 on the current and periodic information transmitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent (Journal of Laws of 2014 Item 133, as amended) ("Regulation").

These Consolidated Financial Statements for the year ended 31 December 2017 have been prepared on the assumption that the Company will continue to be a going concern in the foreseeable future. As at the preparation date of the financial statements, there are no circumstances indicating any substantial doubt about the Group's ability to continue as a going concern operations for the period of at least 12 months of the date of the financial statements.

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

according to EU IFRS (in thousands of PLN)

2. Basis for preparation of Consolidated Financial Statements (cont.)

Group's accounting principles described in individual notes were applied in a continuous manner to all presented periods. The accounting principles and material estimates and judgments for the key items of the consolidated financial statements were presented in individual notes to these Consolidated Financial Statements.

Note	Title	Amount recognized in the consolidated financial statements		Accounting policy	Material estimates and judgments
		31/12/2017	31/12/2016		
5	Revenue from sales of services and finished products	4,640,808	4,341,874	X	
6	Expenses by kind	4,476,425	4,403,702		
7	Other income and operating expenses	(22,096)	(78,262)		
8	Financial income and expenses	(39,373)	(22,314)		
9	Current and deferred income tax	32,973	(9,530)	X	X
10	Property, plant and equipment	4,687,982	4,700,550	X	X
11	Intangible assets	43,927	55,831	X	
12	Investments in entities accounted for under the equity method	53,610	58,219	X	
13	Other financial assets	274,207	9,541	X	
14	Other non-financial assets	50,319	53,264		
15	Inventories	148,464	121,189	X	
16	Trade and other receivables	731,371	642,089	X	X
17	Cash and cash equivalents	516,776	755,919	X	
18	Non-current assets held for sale	-	-		
19	Equity	3,334,778	3,260,278	X	
21	Bank loans and borrowings	1,562,330	1,471,408	X	
22	Finance Lease liabilities	139,095	200,490	X	
23	Other financial liabilities	272	119,931		
25	Trade and other payables	751,314	671,866	X	
26	Provisions for employee benefits	662,553	624,827	X	X
27	Other provisions	82,172	51,370	X	

Consolidation rules

The Consolidated Financial Statements comprise the separate financial statements of the Parent Company and its controlled entities (subsidiaries) for the financial year ended on 31 December 2017 and 31 December 2016. Control means a case when the Group has the ability to manage the financial and operational policy of the entity to draw economic benefits from its operations. The financial statements of the subsidiaries, after taking into consideration adjustments introduced to make them compliant with EU IFRS, are prepared for the same reporting period as the statements of the Parent Company, based on uniform accounting principles applied for transactions and similar economic events.

Revenues and costs of subsidiaries acquired or sold during the year are taken into account in the consolidated statement of comprehensive income as of the actual date of acquisition of the given entity to the date of its effective disposal. Comprehensive income of the subsidiaries are attributed to owners of the Parent Company and to non-controlling interests even if such attribution results in a negative balance of the non-controlling interests. All transactions effected within the Group, negative balances and revenues and costs of operations effected between the Group companies have been fully excluded from the consolidation.

The Parent Company settles business combinations using the acquisition method.

according to EU IFRS (in thousands of PLN)

2. Basis for preparation of Consolidated Financial Statements (cont.)

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

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

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

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

As at 31 December 2017 and 31 December 2016, for the needs of valuation of financial statements of foreign entities included in consolidation, the Group adopted the following exchange rates:

Currency	Items of the statement of financial position		Items of the statement of comprehensive income and cash flow statement	
	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
EUR	4.1709	4.4240	4.2447	4.3757
CZK	0.1632	0.1637	0.1614	0.1618
HUF	0.0134	0.0142	0.0137	0.0140

These Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 15 March 2018.

3. Applied International Financial Reporting Standards platform

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

Approving the Consolidated Financial Statements the Group applied the following amendments of the standards and interpretations issued by the International Accounting Standards Board for application by the EU:

- **Amendments to IAS 7 Statement of cash flows - Disclosure Initiative** - applicable to periods beginning on 1 January 2017 or afterwards. Amendments clarifying IAS 7 to improve information provided to users of financial statements about an entity's financing activities. The amendments require that the entity use disclosures enabling the users of financial statements to assess the changes in the liabilities following from financing activities, both changes resulting from cash and non-cash flows.
- **Amendments to IAS 12 Income Tax -** entitled Recognition of Deferred Tax Assets for Unrealized Losses - applicable to periods beginning on 1 January 2017. The amendments clarify the need to form deferred tax assets on losses on the valuation of financial instruments classified as available for sale. In particular, the change pertains to debt instruments, for which the entity should consider the existence of evidence that it is likely that it will realize the financial instrument for an amount higher than its balance sheet value.
- **Amendments to IFRS 12 as a result of "Amendments to IFRS (cycle 2014-2016)" -** added changes as part of the procedure of annual amendments to IFRS (IFRS 1, IFRS 12 and IAS 28) focused mainly on resolving inconsistencies and unification of terminology. Amendments to IFRS 12 apply to annual periods beginning on 1 January 2017 or afterwards.

Application of the above changes to the standards did not have any significant impact on the existing policy applied by the Group.

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

Approving these Consolidated Financial Statements the Group did not apply the following standards, amendments of the standards and interpretations which have been issued by the International Accounting Standards Board and approved for application by the EU but have not entered into effect:

- **IFRS 15 – Revenue from Contracts with Customers** – applicable to annual periods beginning on 1 January 2018 or afterwards. This standard contains rules which will replace most of the detailed guidelines regarding recognition of revenues currently existing in EU IFRS. In particular, as a result of adoption of the new standard, IAS 18 Revenues and IAS 11 Construction Contracts and the related interpretations will stop applying. The fundamental principle of the new standard provides for recognition of the revenues in the financial statements in such a way as to show the transfer of goods or services to clients in the amount that reflects the amount of the remuneration (i.e. payment) which the Group expects in return for such goods or services. In accordance with the new regulations a revenue occurs at the time when control over the goods or services passes on to the customer. The standard proposes a 5-step approach to revenue recognition:
  1) Identify the contracts with customers, which are understood as parties which concluded a contract with the entity to purchase goods or services, resulting from ordinary activity of the entity, in exchange for compensation;
  2) Identify the performance obligations in the contract;
  3) Determine the transaction price. Determining the transaction price, in addition to the base compensation, one should consider such other components as: variable compensation, non-pecuniary compensation which should be carried at fair value, factors associated with financing the price (by the seller or buyer) e.g. discount resulting from a time difference between the performance of the obligation and the payment for its performance or amounts paid in connection with performance of the obligations of the contract;
  4) Allocate the transaction price to the performance obligations in the contract. The best basis to determine the individual price is the price for which the entity may separately sell the given good or service.
  5) Recognize revenue when (or as) the entity satisfies a performance obligation. The performance obligation is recognized as satisfied upon transfer of the control over the goods or services subject to the agreement to the customer.
- **Clarifications to IFRS 15 Revenue from Contracts with Customers** – applicable to annual periods beginning on 1 January 2018 or afterwards. The amendment provides additional explanations regarding certain requirements and introduces additional exemptions for entities which implementing IFRS 15 "Revenue from Contracts with Customers".

3. Applied International Financial Reporting Standards platform (cont.)

- **IFRS 16 Leases** – applicable to annual periods beginning on 1 January 2019 or afterwards. In accordance with IFRS 16 the lessee recognizes the right to use an asset and lease liability. The right to use an asset is treated like other non-financial assets and amortized accordingly. Lease liabilities are initially measured at current value of the lease payments payable during the lease term, discounted by the lease rate, if it is not difficult to determine it. If such rate cannot be easily determined the lessee applies the marginal interest rate.
- **IFRS 9 – Financial Instruments** – the key amendments introduced by the new standard pertain to:
  1) Changes of the rules of classification and valuation of financial assets which are based on the entity's business model for managing the assets and the cash flow characteristics. The existing categories of financial assets have been replaced with new ones, i.e. carried out at:
  - Amortized cost,
  - Fair value through other comprehensive income,
  - Fair value through profit or loss.

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

Impact on consolidated financial statements:

Below we present the impact of the following published standards on the accounting policy (principles):

- **IFRS 9 – Financial Instruments** – change of the rules of classification will cause a change of classification of financial assets in the Group's financial statements. Instruments currently classified into the loans and receivables category satisfy the conditions of classification into assets carried at amortized cost, hence the entry into force of IFRS 9 will not cause a change in the rules of their valuation. Shares held by the Group in companies not listed on active markets are currently carried at purchase price minus impairment losses, if any. As at 31 December 2017 the Group, as part of interests in unlisted companies, presents mainly the value of the shares in Euroterminal Sławków Sp. z o.o. in the amount of PL 6,021 thousand. The process of valuation of the shares of Euroterminal Sławków Sp. z o.o. by an independent advisor is currently underway. In the case of shares in other companies not listed on active markets, the Group does not have sufficient up-to-date information to determine their fair value. The amendments to the accounting policy assume that the effects of fair value valuation of investments in equity instruments will be recognized in other comprehensive income. Below are presented the changes in the classification and valuation of financial assets and liabilities in connection with entry into force of IFRS 9.

according to EU IFRS (in thousands of PLN)

3. Applied International Financial Reporting Standards platform (cont.)

Existing approach			IFRS 9	
Financial assets by category and class	**As at 31/12/2017 (audited)**	**Valuation method**	**Financial assets by category and class**	**Valuation method**
Hedging financial instruments			**Hedging financial instruments**	
Derivative instruments	12,047	at fair value through other comprehensive income	Derivative instruments	at fair value through other comprehensive income
Available-for-sale financial assets			**Financial assets measured at fair value through other comprehensive income**	
Shares in unlisted companies	7,286	at cost minus impairment losses	Investments in equity instruments	at fair value through other comprehensive income
Loans and receivables			**Financial assets measured at amortized cost**	
Trade receivables	688,806	at amortized cost	Trade receivables	at amortized cost
Receivables from sale of non-current assets	111	at amortized cost	Receivables from sale of non-current assets	at amortized cost
Loans granted	1,069	at amortized cost	Loans granted	at amortized cost
Bank deposits above 3 months	253,805	at amortized cost	Bank deposits above 3 months	at amortized cost
Cash and cash equivalents	516,776	at amortized cost	Cash and cash equivalents	at amortized cost
Total	**1,479,900**			

The new financial assets impairment assessment model implemented by the Group is based on an analysis of the probability of expected credit losses on trade receivables. The probability of expected credit losses was estimated on the basis of the historical analysis of recoverability of the balances of trade receivables in specific aging ranges. The initially determined amount of the additional impairment loss on trade receivables resulting from the implementation of IFRS 9 amounts to PLN 3.3 million. The Group has taken advantage of the IFRS 9 transition provisions allowing for refraining from conversion of comparative data as regards the changes regarding classification and valuation and impairment of financial assets. As per initial estimates changes resulting from application of IFRS 9 will be reflected as at 1 January 2018 as follows:
- trade receivables will be reduced in the amount of PLN 3.3 million,
- deferred tax assets will increase in the amount of PLN 0.6 million,
- retained earnings will be reduced by the amount of PLN 2.7 million.

The changes in hedge accounting in the case of the Group pertained mainly to documentation issues and hence entry into force of IFRS 9 in this extent, did not impact the Group's asset and financial standing.

3. Applied International Financial Reporting Standards platform (cont.)

- **IFRS 15 – Revenue from Contracts with Customers** – Analyzing the 5-step approach to recognition of revenues in accordance with IFRS 15, the Group has identified in the analyzed agreements (primarily agreements associated with rail transport and freight forwarding) an inbuilt variable compensation component resulting primarily from:
  - the possibility of imposing fines on the client in connection with failure to meet the contractual provisions pertaining to transport of a specified freight volume during the term of the agreement;
  - the possibility of imposing fines on the Group by the client in the event of failure to transport the ordered freight volume / failure to perform the agreement.

  So far these fines have been presented as other revenues or operating expenses depending on the nature of the fine. According to the new standard, starting from 1 January 2018 the above fines will be treated as an element of revenues from sales of services. As at 31 December 2017, other operating revenue comprised fines resulting from not ordering the contractual freight volume in the amount of PLN 2.1 million. Other operating expenses, in turn, included the fines due to the Group's customers in the amount of PLN 5.6 million. In accordance with the new standard, the amount of revenues from sales of services as at 31 December 2017 as a result of restatement will be reduced by PLN 3.5 million to PLN 4.637.3 million. Based on IFRS 15 C3 a) the Management Board of the Parent Company has decided that the standard will be implemented retrospectively in accordance with the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, with the possibility of taking into account the instructions contained in clause C5. As a result of carried out analyses, it has not been identified that the application of this approach should result in correction of the Group's equity as at the date of its first application.
- **IFRS 16 Leases** - preliminary analysis of the impact of IFRS 16 on the applied accounting principles has shown that the Group will have to recognize retrospectively in the financial statements significant lease liabilities and the rights to use assets (mainly land, buildings and structures) which are currently subject to long-term operational leasing agreements, or rental or lease agreements. The Group is currently in the process of detailed identification of the agreements subject to the new requirements of the standard and preliminary preparation of possible valuation models and capturing of the aforementioned agreement in the financial statements. At this stage it is not possible to determine the numerical impact of IFRS 16 on the Group's financial statements.

The Group has carried out an analysis of the potential impact of the remaining standards, interpretations and amendments to the standards, as mentioned above, on the accounting policy (principles) applied by the Group and in the opinion of the Management Board of the Parent Company, they will not have any material impact on the currently applied accounting policy (principles).

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

IFRS as approved by the EU do not currently differ materially from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following standards, their amendments and interpretations, which as at 31 December 2017 have not yet been approved by the EU and have not entered into effect:

- **Amendments to IFRS 2 Share-based Payment** entitled Classification and valuation of share-based payment transactions apply to annual periods beginning on 1 January 2018. This amendment to IFRS 2 clarifies that the fair value of share-based payments settled in cash should be determined in the same way as in the case of payments settled in equity instruments. The amendment of the standard introduced a requirement of adjustment of the liability through taking into account each change of the value in the financial result before change of the classification from liabilities to equity. The cost recognized after modification is based on the fair value from the modification date. The amendment has introduced an exception according to which the payment of cash to the tax authority is treated as part of the settlement in the form of equity instruments. The entity should disclose the estimate amount that it expects to pay to the tax authority on account of such tax. As at the date of the first application of this amendment, the reclassification of the liability to equity will not have any impact on the financial result.
- **Amendments to IAS 19 Employee Benefits** – Amendment, limitation or settlement of the plan (applicable to annual periods beginning on 1 January 2019 or afterwards). The amendments require that after change of the plan, updated assumptions for valuation should be applied to determine the current costs of the services and interest (net) for the remaining part of the reporting period (issued on 7 February 2018).
- **Interpretation of IFRIC 22** - entitled Foreign Currency Transactions and Advance Consideration. applicable to annual periods beginning on 1 January 2018. The interpretation clarifies the term of transactions comprising receipt or payment of an advance consideration in a foreign currency.

3. Applied International Financial Reporting Standards platform (cont.)

- **Amendments to IAS 40 Investment Property –** entitled Reclassification of investment property - applicable to annual periods beginning on 1 January 2018. The amendments raise the question of whether an investment property under construction should be transferred from inventory to investment property if there is a clear change in its use.
- **IFRS 17 Insurance Contracts** – applicable to annual periods beginning on 1 January 2021 or afterwards. The aim of the standard is to introduce uniform, formalized accounting principles applicable to insurance contracts. The new standard stipulates that insurance liabilities are carried at the current value of the obligation performance and introduces uniform rules for valuation and presentation for all types of insurance contracts. IFRS 17 replaces IFRS 4 Insurance Contracts and the related interpretations.
- **Interpretation of IFRIC 23** entitled Uncertainty over Income Tax Treatments – applicable to annual periods beginning on 1 January 2019. The interpretation applies to determining the income to be taxed (tax loss), taxation basis, unused tax losses, unused tax reliefs, tax rates, if there is uncertainty as the treatment of the income tax pursuant to IAS 12.
- **Amendments to IFRS 9 Financial Instruments** entitled Prepayment Features with Negative Compensation – applicable to annual periods beginning on 1 January 2019. The amendments make it possible for entities to carry some financial assets subject to prepayment with the so-called negative compensation at amortized cost.
- **Amendment to IAS 28 –** Investments in Associates and Joint Ventures entitled Long-term shares in associates and joint ventures - applicable to annual periods beginning on 1 January 2019. The amendments clarify how the entity should apply IFRS 9 to long-term shares in associates and joint ventures which constitute part of the net investment.
- **Amendments to different standards "Amendments to IFRS (cycle 2015-2017)"** - changes made as part of the procedure of annual amendments to IFRS (IFRS 3, IFRS 11, IAS 12 and IAS 23) focused mainly on resolving inconsistencies and unification of terminology (applicable to annual periods beginning on 1 January 2019 or afterwards).

The Group has carried out an analysis of the potential impact of the standards, interpretations and amendments to the standards, as mentioned above, on the accounting policy (principles) applied by the Group and in the opinion of the Management Board of the Parent Company, they will not have any material impact on the currently applied accounting policy (principles).

4. Adjustment of prior period errors

During transition to the EU IFRS, the Parent Company simplified valuation of investments in entities accounted for under the equity method. As a result, the value of such investments disclosed in the consolidated financial statements of the PKP CARGO Group for the financial year ended on 31 December 2016 did not reflect the Group's share in the net assets of the entities accounted for under the equity method. As at 30 June 2017, the Parent Company Management Board revalued the investments accounted for under the equity method, adjusting their value to the Group's share in their net assets. As a result, the Group adjusted retained earnings. The impact of the adjustment as at 31 December 2016 was the following:
- the value of investments accounted for under the equity method was increased by PLN 17,409 thousand;
- the value of FX differences from translation of financial statements of foreign entities was increased by PLN 524 thousand; and
- the value of retained earnings was increased by PLN 16,885 thousand.

The Group restated comparative data for the financial year ended on 31 December 2016 in order to ensure comparability of presented data.

The effect of the restatement of the statement of financial position is presented below. Information disclosed in the additional explanatory notes to the Consolidated Financial Statement was restated as appropriate. Since the restatement does not have a significant impact on the Statement of Comprehensive Income and the Cash Flow Statement, the Group did not restate comparative data with this respect.

according to EU IFRS (in thousands of PLN)

4. Adjustment of prior period errors (cont.)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	As at 31/12/2016 (audited)	Adjustment of investments accounted for under the equity method	As at 31/12/2016 (restated)
ASSETS			
Non-current assets			
Investments in entities accounted for under the equity method	40,810	17,409	58,219
Total non-current assets	**4,942,861**	**17,409**	**4,960,270**
TOTAL ASSETS	**6,490,797**	**17,409**	**6,508,206**
EQUITY AND LIABILITIES			
Equity			
Foreign exchange differences resulting from translation of financial statements of foreign entities	59,970	524	60,494
Retained earnings	313,440	16,885	330,325
Total equity	**3,242,869**	**17,409**	**3,260,278**
TOTAL EQUITY AND LIABILITIES	**6,490,797**	**17,409**	**6,508,206**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 1 JANUARY 2016

	As at 1/01/2016 (audited)	Adjustment of investments accounted for under the equity method	As at 1/01/2016 (restated)
ASSETS			
Non-current assets			
Investments in entities accounted for under the equity method	39,831	17,409	57,240
Total non-current assets	**4,979,501**	**17,409**	**4,996,910**
TOTAL ASSETS	**6,102,457**	**17,409**	**6,119,866**
EQUITY AND LIABILITIES			
Equity			
Foreign exchange differences resulting from translation of financial statements of foreign entities	31,500	524	32,024
Retained earnings	446,471	16,885	463,356
Total equity	**3,333,945**	**17,409**	**3,351,354**
TOTAL EQUITY AND LIABILITIES	**6,102,457**	**17,409**	**6,119,866**

according to EU IFRS (in thousands of PLN)

5. Revenue from sales of services and finished products

Accounting policy applied

Revenue from sales is disclosed at fair value of the payment received or due less VAT, refunds, rebates and discounts.

Revenue from sales of services is recognized in the period in which the services were provided. Revenue from performance of uncompleted service is determined under the percentage of completion method. The percentage of completion is calculated on the basis of the percentage share of the service already completed in the total value of services to be performed.

In the domestic market, the date of sale is the date of performance provided in accordance with the contract of purchase and sale (dispatch or making available to the recipient of the delivery, or acceptance of a service). In the specific case of freight services, the date of sale of a service is each time the date of the service acceptance (completion). Regarding export sales, the date of sale is understood as the date of crossing the border, as confirmed by the border customs office.

Revenue from sales of goods and materials is disclosed if significant risk and benefits connected with the property rights have been transferred to the buyer and the amount of related revenue and expenses may be reliably assessed. The Group based its estimates on historical performance, taking into account the customer type, transaction type and details of the specific contracts.

Structure of revenue from sales of services and finished products

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

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

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Revenue from rail transportation and freight forwarding services	3,945,669	3,612,728
Revenue from other transport activity	167,862	169,180
Revenue from siding and traction services	239,930	267,263
Revenue from transshipment services	82,234	81,512
Revenue from reclamation services	77,090	73,864
Other revenues, including:		
Rent of assets	41,976	44,222
Revenue from customs agency services	15,517	15,148
Sales of finished products	24,414	28,200
Repair of rolling stock	16,067	21,030
Other	30,049	28,727
Total	**4,640,808**	**4,341,874**

Geography

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

according to EU IFRS (in thousands of PLN)

5. Revenue from sales of services and finished products (cont.)

Revenue from sales of services and finished products generated on external customers and broken down based on their headquarter is presented below:

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Poland	3,281,889	3,011,970
Czech Republic	585,741	685,244
Germany	242,237	180,928
Slovakia	115,468	75,076
Italy	83,207	69,955
France	50,738	60,569
Other countries	281,528	258,132
Total	**4,640,808**	**4,341,874**

Non-current assets excluding financial instruments and deferred income tax assets, broken down to localization:

	As at 31/12/2017 (audited)	As at 31/12/2016 (restated*)
Poland	3,984,039	3,987,209
Czech Republic	804,841	840,775
Other countries	12,570	13,860
Total	**4,801,450**	**4,841,844**

(*) restatement of comparable data is described in **Note 4** to the Consolidated Financial Statements.

Information on key customers

In the financial year ended 31 December 2017, the sales of services and finished goods to a single capital group exceeded 10% and amounted to 11.0% of the total revenue from sales of services and finished goods. In the financial year ended 31 December 2016, the Group's revenue from any single Group client did not exceed 10% of the total revenue from sales of services and finished goods.

6. Expenses by kind

Depreciation, amortization and impairment losses

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Depreciation of property, plant and equipment	556,579	577,609
Amortization of intangible assets	17,472	18,569
Recognized / (reversed) impairment losses:		
Property, plant and equipment [(1)]	(27,166)	25,414
Total	**546,885**	**621,592**

[(1)] Detailed information on the reversal of impairment losses in the financial year ended 31 December 2017 is presented in **Note 10** of these Consolidated Financial Statements.

Consumption of materials and energy

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Consumption of fuel	191,735	161,693
Consumption of materials	100,415	101,600
Consumption of electricity, gas and water	412,686	411,386
Recognized / (reversed) impairment losses on inventories	38	(1,318)
Other	1,594	1,639
Total	**706,468**	**675,000**

according to EU IFRS (in thousands of PLN)

6. Expenses by kind (cont.)

External services

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Line access services from infrastructure managers	717,559	668,596
Repair services	53,296	53,832
Rent and fees for the use of real properties and rolling stock	168,875	185,101
Transport services	450,582	431,706
Telecommunication services	7,451	8,330
Legal, consulting and similar services	22,676	23,356
IT services	45,244	48,947
Maintenance and operation services for facilities and fixed assets	29,944	31,616
Transshipment services	21,734	24,640
Reclamation services	51,215	47,091
Other services	50,140	49,844
Total	**1,618,716**	**1,573,059**

Employee benefits

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Payroll	1,137,464	1,131,052
Social security expenses	244,571	246,534
Costs of charges for the Company Employee Benefit Fund	24,409	21,378
Other employee benefits during employment	37,437	38,160
Post-employment benefits	6,057	7,787
Movement in provisions for employee benefits	55,228	(5,993)
Other employee benefits	3,550	3,383
Total	**1,508,716**	**1,442,301**

Other expenses by kind

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Business travel expenses	32,137	31,904
Insurance	13,263	11,961
Representation and advertising	8,443	7,936
Other	3,737	3,693
Total	**57,580**	**55,494**

according to EU IFRS (in thousands of PLN)

7. Other income and operating expenses

Other operating revenue

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Profit on disposal		
Profit on sale of non-financial non-current assets [(1)]	6,917	6,859
Reversed impairment losses		
Trade receivables	5,173	3,196
Other receivables	58	29
Other		
Penalties and compensations	19,083	14,555
Reversal of provisions for penalties from the Office for Protection of Competition and Consumers (UOKiK)	-	357
Reversal of other provisions	6,197	2,161
Interest on trade and other receivables	4,201	1,888
Net result on foreign exchange differences on trade receivables and payables	-	3,788
Grants	1,644	1,206
Trade payables written off	87	3,125
Other	2,598	2,146
Total	**45,958**	**39,310**

[(1)] In the financial year ended 31 December 2017, this item includes mainly profit on sale on a real property in Plzen.

Other operating expenses

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Impairment losses recognized		
Trade receivables	11,434	80,443
Other		
Penalties and compensations	12,492	9,935
Costs of liquidation of non-current and current assets	3,569	7,352
Provisions for penalties from the Office for Protection of Competition and Consumers (UOKiK)	957	2,032
Other provisions[(1)]	25,138	10,035
Court and enforcement expenses	1,302	1,291
Expenses under benefits in the form of train fares for persons who are not employees	1,616	2,204
Interest on trade and other payables	381	1,431
Net result on foreign exchange differences on trade receivables and payables	7,416	-
Trade receivables written off	70	-
Donations made	1,349	544
Other	1,403	2305
Total	**67,127**	**117,572**

[(1)] In the financial year ended 31 December 2017, this item includes mainly the provision for onerous contracts in the amount of PLN 14,902 thousand. Detailed information is presented in **Note 27** of these Consolidated Financial Statements.

according to EU IFRS (in thousands of PLN)

8. Financial income and expenses

Financial revenue

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Interest income		
Bank deposits and accounts	9,453	566
Loans granted	414	448
Other (including interest on public-law settlements)	163	185
Dividend income on shares and stocks	257	434
Other		
Profit on sale of shares and stocks	-	85
Profit on valuation of financial assets and liabilities accounted for at fair value through profit and loss, including:		
Valuation of liability related to **put option for non-controlling interest**	4,694	36,494
Valuation of FX forward contracts	108	94
Net result on foreign exchange differences	5,078	-
Other	-	619
Total	**20,167**	**38,925**

Financial expenses

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Interest expenses		
Interest on loans and borrowings	28,124	17,670
Interest on financial lease liabilities	6,095	8,556
Interest on long-term **liabilities**	504	2,587
Other (including interest on public-law settlements)	1,558	1,979
Other		
Settlement of discount on provisions for employee benefits	20,684	20,527
Net result on foreign exchange differences	-	5,268
Other	2,575	4,652
Total	**59,540**	**61,239**

9. Income tax

Accounting policy applied

The income tax of the reporting period includes current and deferred income tax. The current tax burden is calculated on the basis of the tax result for the given reporting period. The tax result differs from the accounting gross profit due to exclusion of revenue which temporarily is not subject to taxation, expenses which temporarily do not represent tax deductible revenue and those expenses and revenue that will not be subject to taxation. Tax burden is calculated based on the tax rates applicable in the given financial year. Deferred income tax resulting from temporary differences between the tax value of assets and liabilities and their carrying amounts is disclosed in the financial statements. However, if a deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or a liability as part of a transaction other than a merger which, at the time of the transaction, does not affect the result or the taxable income (tax loss), it not is recognized.

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

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

The Tax Group

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

- PKP CARGO S.A.,
- PKP CARGO SERVICE Sp. z o.o.,
- PKP CARGOTABOR Sp. z o.o.,
- PKP CARGOTABOR USŁUGI Sp. z o.o.,
- PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.,
- PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o.,
- PKP CARGO CONNECT Sp. z o.o.

PKP CARGO S.A. is the parent of the Tax Group and represents the Tax Group with respect to the obligations provided for in the CIT Act and the Tax Ordinance Act. The Head of the First Tax Office for Mazowsze Region in Warsaw registered the agreement on the establishment of the PKP CARGO Tax Group pursuant to a decision dated 21 November 2016.

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

according to EU IFRS (in thousands of PLN)

9. Income tax (cont.)

In accordance with the agreements entered into, when a given company of the Tax Group generates taxable profit, it transfers the respective amount of income tax to PKP CARGO S.A. which makes settlements with the Tax Office as the Tax Group representative. On the other hand, if a company of the Tax Group reports tax losses, the resulting tax benefit is attributed to the Tax Group representative, i.e. PKP CARGO S.A. Final settlements between the companies of the Tax Group are carried out after the Tax Group representative has submitted its annual tax return. The final amounts of tax attributed to the specific companies are then determined, account being taken of the pro-rata share in the tax result and use of tax losses generated by other entities of the Tax Group. The companies of the Tax Group must meet a number of requirements such as, inter alia, appropriate value of equity, share of the Tax Group representative in equities of the Tax Group companies, lack of tax arrears, achieving specific level of profitability and execution of transactions with companies out of the Tax Group on an arm's length basis only. Any breach of the above requirements shall entail dissolution of the tax group and loss of its tax payer status. As at 31 December 2017, the Tax Group satisfied the above requirements.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

The Group recognizes deferred tax assets assuming that the future taxable income will enable utilization of such deferred tax assets. A future deterioration of the tax results might lead to this assumption becoming unfounded. The Group Management Board reviews the adopted assumptions regarding probability of recovery of deferred income tax assets based on the changes in the factors taken into consideration at their establishment, new information and historical experience.

Income tax recognized in profit / loss

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Current income tax		
Current tax expense	58,126	4,489
Adjustments recognized in the current year with reference to past years' tax	133	626
Deferred income tax		
Deferred income tax of the reporting period	(23,499)	(22,267)
Income tax recognized in profit / loss	**34,760**	**(17,152)**

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

Deferred income tax recognized in other comprehensive income

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Deferred tax on re- measurement of fair value of financial instruments designated as cash flows hedges	5,294	(745)
Deferred tax on actuarial gains / (losses) on post-employment benefits	(6,836)	4,081
Foreign exchange differences resulting from translation of deferred tax balance of foreign entities recognized in other comprehensive income (1)	(245)	4,286
Deferred income tax recognized in other comprehensive income	**(1,787)**	**7,622**

(1) This item is disclosed under equity as FX differences resulting from translation of financial statements of foreign entities.

according to EU IFRS (in thousands of PLN)

9. Income tax (cont.)

Reconciliation of the effective tax rate

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Profit (loss) before tax	**116,433**	**(150,924)**
Income tax expense at 19%	22,122	(28,675)
Tax effect of revenue which does not constitute revenue within the meaning of tax regulations, including:		
Dividend	(49)	(82)
Reversal of non-tax provisions and impairment losses	(429)	(198)
Valuation under the equity method	(153)	(658)
Valuation of the put option for non-controlling interest	(892)	(6,934)
Recovered VAT	(817)	(1,195)
Other	(463)	(1,432)
Tax effect of non-deductible expenses within the meaning of tax regulations, including:		
PFRON (Disability Fund)	4,343	4,354
Non-tax provisions and impairment losses	1,357	1,363
Permanent differences in expenses related with property, plant and equipment	3,275	679
Representation expenses	824	1,213
Penalties and compensations	974	846
Value added tax and other public law liabilities	1,804	1,332
Other	1,318	1,627
Effect of unused / (used) tax losses in the period	-	8,089
Effect of recognition /(reversal) of deferred income tax asset on tax loss	1,074	1,671
Effect of application of various tax rates	339	222
Adjustments recognized in the current year with reference to past years' tax	133	626
Income tax recognized in profit / loss	**34,760**	**(17,152)**

The corporate income tax rate effective in Poland in the years 2016 - 2017 amounted to 19%. In the case of the AWT Group companies, the relevant tax rates were as follows: 19% in the Czech Republic, 10% in the Hungary, and 25% in the Netherlands.

Deferred tax assets and liability

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Deferred tax assets	133,583	107,554
Deferred tax liability	(107,418)	(106,675)
Total	**26,165**	**879**

according to EU IFRS (in thousands of PLN)

9. Income tax (cont.)

Movements in deferred income tax

Year ended 31/12/2017 (audited)	As at 1/01/2017 (audited)	Recognized in profit /loss	Recognized in other comprehensive income	Foreign exchange differences from restatement of deferred income tax balance recognized in other comprehensive income	As at 31/12/2017 (audited)
Temporary differences relating to deferred income tax items (liabilities) / assets:					
Property, plant and equipment, intangible assets and non-current assets held for sale (including financial lease)	(183,033)	38,647	-	302	**(144,084)**
Long-term liabilities	(97)	97	-	-	**-**
Inventories	936	(2,860)	-	-	**(1,924)**
Receivables - impairment losses	7,138	662	-	5	**7,805**
Accrued interest related to assets	(241)	(92)	-	-	**(333)**
Accrued interest related to liabilities	182	(29)	-	-	**153**
Provisions for employee benefits	118,565	422	6,836	(4)	**125,819**
Other provisions	3,904	2,495	-	(13)	**6,386**
Accrued expenses	6,008	(4,857)	-	-	**1,151**
Deferred income	(3,080)	(271)	-	-	**(3,351)**
Unpaid employee benefits	7,375	(5,544)	-	-	**1,831**
Foreign exchange differences	2,235	(1,017)	(2,889)	-	**(1,671)**
Valuation of derivative instruments	218	(458)	(2,405)	(2)	**(2,647)**
Unused tax loss (1)	40,769	(3,696)	-	(43)	**37,030**
Total	**879**	**23,499**	**1,542**	**245**	**26,165**

(1) As at 31 December 2017, deferred tax assets on tax losses to be used in future periods represented loss of the Parent Company in the amount of PLN 139,730 thousand and of the subsidiaries in the amount of PLN 55,165 thousand. It will be possible to deduct tax losses in the amount of PLN 167,073 thousand within five tax years following the end of operation of the Tax Group. Other tax losses may be deducted within five tax years following the establishment of the Tax Group. According to the Parent Company Management Board there is no risk as at 31 December 2017 that it will be impossible to realize the above assets.

according to EU IFRS (in thousands of PLN)

9. Income tax (cont.)

Movements in deferred income tax (cont.)

Year ended 31/12/2016 (audited)	As at 1/01/2016 (audited)	Recognized in profit /loss	Recognized in other comprehensive income	Foreign exchange differences from restatement of deferred income tax balance recognized in other comprehensive income	As at 31/12/2016 (audited)
Temporary differences relating to deferred income tax items (liabilities) / assets:					
Property, plant and equipment, intangible assets and non-current assets held for sale (including financial lease)	(185,146)	6,765	-	(4,652)	**(183,033)**
Trade payables	4,608	(4,608)	-	-	**-**
Long-term liabilities	(543)	446	-	-	**(97)**
Inventories	466	460	-	10	**936**
Receivables - impairment losses	6,856	265	-	17	**7,138**
Accrued interest related to assets	(157)	(84)	-	-	**(241)**
Accrued interest related to liabilities	(6)	188	-	-	**182**
Provisions for employee benefits	133,800	(11,250)	(4,081)	96	**118,565**
Other provisions	4,652	(852)	-	104	**3,904**
Accrued expenses	7,265	(1,257)	-	-	**6,008**
Deferred income	(4,731)	1,651	-	-	**(3,080)**
Unpaid employee benefits	7,188	187	-	-	**7,375**
Foreign exchange differences	1,582	(275)	928	-	**2,235**
Valuation of derivative instruments	450	(51)	(183)	2	**218**
Other	858	(858)	-	-	**-**
Unused tax loss (1)	9,092	31,540	-	137	**40,769**
Total	**(13,766)**	**22,267**	**(3,336)**	**(4,286)**	**879**

(1) As at 31 December 2016, deferred tax assets on tax losses to be used in future periods represented loss of the Parent Company in the amount of PLN 149,417 thousand and of the subsidiaries in the amount of PLN 65,157 thousand.

Tax losses not recognized in calculation of deferred tax assets

	As at 31 Dec 2017 (audited)	As at 31 Dec 2016 (audited)
As at the balance sheet date, no deferred income tax assets related with the following tax losses were disclosed	113,508	115,682

The amount of tax losses not recognized in the calculation of deferred tax assets as at 31 December 2017 represents losses of the companies of the AWT Group in the amount of PLN 104,345 thousand (AWT B.V. in the amount of PLN 59,073 thousand, AWT a.s. (legal successor of AWT Coal Logistics s.r.o.) in the amount of PLN 27,389 thousand, AWT Rail HU Zrt. in the amount of PLN 17,883 thousand) and loss of PKP CARGOTABOR USŁUGI Sp. z o.o. in the amount of PLN 7,558 thousand, and of CARGOSPED Terminal Braniewo Sp. z o.o. in the amount of PLN 1,605 thousand. As at 31 December 2016, the amount of tax losses not recognized in the calculation of deferred tax assets represented losses of the companies of the AWT Group in the amount of PLN 104,774 thousand (AWT B.V. in the amount of PLN 59,333 thousand, AWT Coal Logistics s.r.o. in the amount of PLN 30,930 thousand, AWT Rail HU Zrt. in the amount of PLN 14,511 thousand) and loss of PKP CARGOTABOR USŁUGI Sp. z o.o. in the amount of PLN 7,540 thousand, and CARGOSPED Terminal Braniewo Sp. z o.o. in the amount of PLN 3,368 thousand.

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

Year	2018	2019	2020	2021	2022	2023 and later on	Total
Unused tax loss	2,229	20,895	19,886	36,741	12,476	21,281	**113,508**

Expiry dates of tax losses to which deferred tax assets were not applied as at 31 December 2016:

Year	2017	2018	2019	2020	2021	2022 and later on	Total
Unused tax loss	5,711	6,093	18,352	20,221	40,979	24,326	**115,682**

10. Property, plant and equipment

Accounting policy applied

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

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

Fixed assets under construction are presented in the statement of financial position at the production cost reduced by recognized impairment losses.

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

Within rolling stock items, the Group identifies and separates all the material elements, or components, making up the given asset with different economic useful lives. Material rolling stock components distinguished by the Group comprise the main part of the rolling stock item and the repair / inspection part.

Repairs and inspections of rolling stock

Rolling stock undergoes maintenance operations at five levels. Detailed requirements for these operations are given in the Maintenance System Documentation, which is mandatory for each of the operated railroad vehicles. Rolling stock undergoes planned maintenance operations in accordance with repair cycles defined in the Maintenance System Documentation, depending on the permissible time and/or course of the vehicle's operation.

10. Property, plant and equipment (cont.)

Accounting policy applied

Repairs and inspections of rolling stock (cont.)

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

Residual value of rolling stock

The Group uses its own or leased locomotives and wagons for the needs of the conducted business activity and recognizes for them residual values separately. The residual value of rolling stock is measured based on prices of scrap of specific classes, taking into account disposal costs. The residual value is not depreciated within total initial value of a fixed asset but is subject to periodic verification.

The residual value is verified at the end of each financial year and is changed if the change thereto significantly affects the Group's Consolidated Financial Statements.

Depreciation of property, plant and equipment

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

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

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

The estimated useful lives and depreciation methods are verified at the end of each reporting period, including prospective application of any changes to estimates.

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

Buildings, premises and civil and water engineering facilities	from 5 to 75 years
Technical machinery and equipment	from 2 to 40 years
Means of transport, including:	
Freight cars:	
-main part of a wagon,	from 36 to 48 years
-periodic repairs of a wagon,	from 4 to 6 years
-periodic inspections of a wagon,	from 2 to 3 years
Locomotives:	
- main part of a locomotive,	from 24 to 45 years
- periodic repairs of a locomotive,	from 4 to 8 years
- periodic inspections of a locomotive,	from 2 to 4 years
Other means of transport	from 2 to 25 years
Other fixed assets	from 2 to 25 years

according to EU IFRS (in thousands of PLN)

10. Property, plant and equipment (cont.)

Accounting policy applied

Impairment of property, plant and equipment

At each balance sheet date, the Group performs an analysis of balance sheet values of the owned non-current assets to determine if there are any indications of their impairment. If such indications of impairment are identified, the Group estimates the recoverable amount of the cash generating units or individual assets, to determine a potential related charge.

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. If the recoverable amount of a cash generating unit or individual asset is lower than its carrying amount, the latter is reduced to the recoverable amount. An impairment loss is charged to profit or loss.

Where an impairment loss is reversed, the net value of the asset is increased to the revised estimate of the recoverable amount, which, however, does not exceed the carrying amount of the asset that would have been determined had an impairment loss not been recognized in previous years. Reversal of impairment is charged immediately to profit or loss.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

Economic useful lives of fixed assets

The Group estimates the economic useful lives of the individual fixed assets and intangible assets, and thus determines the depreciation rates for the items. The estimates are based on the expected economic useful lives of the assets. Depreciation or amortization rates may change in case of circumstances causing a change in the expected useful life, which in turn affects the value of the depreciation or amortization charges and the net carrying amount of the fixed assets and intangible assets in future periods. The verification of the useful lives of fixed assets conducted as at 31 December 2017 did not reveal the need to correct the previously applied depreciation rates.

Residual value of the rolling stock

As at 31 December 2017, the Group verified the residual value of its rolling stock. Following an increase in the market prices of scrap metal compared to the prices adopted by the Company for measurement of the residual value of rolling stock in previous periods, the Parent Company's Management Board, having analyzed the impact of this change on the Separate and Consolidated Financial Statements for 2017 year, decided to reassess the residual value of rolling stock. As at 31 December 2017, as a result of the revaluation of the residual value, the Parent Company reversed a part of the impairment loss of the rolling stock without valid technical railworthiness certificates in the amount of PLN 27,414 thousand. The rolling stock is depreciated and is recognized in the residual value.

A significant impact on the measurement of the residual value of rolling stock is exerted by accepted prices of particular scrap metal classes. Below, a sensitivity analysis is presented showing a change to the amount of impairment charge for rolling stock without valid technical railworthiness certificates with a 5% increase / decrease of particular scrap metal classes. The sensitivity analysis has been conducted while retaining the other measurement parameters unchanged.

	As at 31/12/2017 (audited)	Changes to scrap metal prices on the basis of which rolling stock is measured	
		+ 5%	5%
Impairment loss for rolling stock without valid technical railworthiness certificates	111,432	(19,183)	20,298

Impairment of non-current assets

As at 31 December 2017, the Group performed impairment tests with respect to two cash generating units defined at the level of assets of the Parent Company and the AWT Group. The main indications of potential impairment of the Group's selected assets were:

- the market value of the Group's net assets continued to be lower than their carrying amount,
- the approval of the restructuring plan of the main AWT Group business partner, which had a major impact on projected cash flows,

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

according to EU IFRS (in thousands of PLN)

10. Property, plant and equipment (cont.)

PKP CARGO S.A.

The recoverable value of analyzed assets was determined on the basis of their estimated useful value using the net discounted cash flows method, in line with detailed financial projections developed for 2018-2027. In the opinion of the Parent Company's Management Board, adopting financial projections for more than five years is reasonable because the property, plant and equipment used by the Parent Company have a considerably longer economic useful lives.

Presented below are the key assumptions affecting the estimate of the value in use of the tested cash generating units:

a) throughout the entire period of the detailed projection, the compound annual growth rate (CAGR) of freight revenue will amount to 1.6% in real term,
b) throughout the entire period of the detailed projection, CAPEX expenditures will achieve annual average operating revenue of 14% in real term,
c) the after-tax weighted average capital cost (WACC) level will be at 5.71% in real terms,
d) after the detailed projection period, the growth of future cash flows was assumed at 0.0% in real terms.

Because the recoverable amount determined as a result of the test exceeded the carrying amount of the tested non-current assets as at 31 December 2017, the Parent Company recognized no impairment loss for the assets.

The sensitivity analysis was conducted for key assumptions of the model testing the impairment of indices such as WACC and the future cash flows increase ratio after the detailed projection period. A change of WACC by +/- 0.3 p.p. and the increase ratio of future cash flows after the detailed projection period by +/- 0.3 p.p. does not cause the need to recognize an impairment charge for the assets.

AWT GROUP

The recoverable value of analyzed assets was determined on the basis of their estimated useful value using the net discounted cash flows method, in line with detailed financial projections developed for 2018-2027. In the opinion of the Group, adopting financial projections for more than five years is reasonable because the property, plant and equipment used by the AWT Group have a considerably longer period of economic life.

The key assumptions affecting the estimation of the value in use of the tested cash flows generation center were as follows:

a) the cash flows generation center was considered as the entirety of assets owned by the AWT Group, used mainly to service customers on the Czech railway market,
b) the volume of loads transported for an essential customer was assumed to be on the level of planned coal extraction, considering also plans to close down specific mines in 2023,
c) the after-tax weighted average capital cost (WACC) level was assumed as 5.63% in real terms (including a specific risk premium relating to the main customer),
d) the increase of remunerations in the residual period was on the level of 0.15% in real terms; no increase was assumed for other parameters.

Because the recoverable amount determined as a result of the test was not materially different from the carrying amount of the tested non-current assets owned by the AWT Group, the Group did not revalue the impairment loss for the assets as at 31 December 2017, which as at that date amounted to PLN 33,327 thousand.

Presented below is the change of estimated amount of impairment loss as at 31 December 2017 when changing only the following key parameters and keeping the other assumptions on a fixed level:

	AWT GROUP	
	- 0.3 p.p.	+0.3 p.p.
WACC	no charge	60,677
Increase after the detailed projection period	24,997	(25,830)

according to EU IFRS (in thousands of PLN)

10. Property, plant and equipment (cont.)

Change in the balance of property, plant and equipment

Year ended 31/12/2017 (audited)	Land	Buildings, premises and civil and water engineering facilities	Technical machinery and equipment	Means of transport	Other non-current assets	Fixed assets under construction	Total
Gross value							
As at 1 January 2017 (audited)	**162,389**	**742,757**	**381,563**	**5,925,512**	**39,889**	**44,274**	**7,296,384**
Increases / (decreases):							
Purchase	-	-	-	-	-	552,400	**552,400**
Financial lease	-	-	2,350	1,508	-	-	**3,858**
FX differences resulting from translation of financial statements of foreign entities	(74)	(925)	(151)	(3,539)	(12)	38	**(4,663)**
Settlement of fixed assets under construction	(3,482)	24,038	26,995	503,848	1,889	(553,288)	**-**
Grants	-	-	-	-	-	(2,195)	**(2,195)**
Sales	(955)	(705)	(1,200)	(4,464)	(152)	-	**(7,476)**
Liquidation	-	(5,364)	(2,780)	(293,392)	(384)	(80)	**(302,000)**
Other	(686)	(2,395)	(877)	(4,298)	(1,798)	114	**(9,940)**
As at 31 December 2017 (audited)	**157,192**	**757,406**	**405,900**	**6,125,175**	**39,432**	**41,263**	**7,526,368**
Accumulated depreciation							
As at 1 January 2017 (audited)	-	**167,999**	**241,431**	**1,953,606**	**31,223**	**-**	**2,394,259**
Increases / (decreases):							
Depreciation expenses	-	34,793	32,785	486,341	2,660	-	**556,579**
FX differences resulting from translation of financial statements of foreign entities	-	(62)	(20)	(159)	(3)	-	**(244)**
Sales	-	(249)	(906)	(3,873)	(152)	-	**(5,180)**
Liquidation	-	(3,502)	(2,626)	(241,814)	(370)	-	**(248,312)**
Other	-	(3,283)	(37)	(4,102)	(1,748)	-	**(9,170)**
As at 31 December 2017 (audited)	**-**	**195,696**	**270,627**	**2,189,999**	**31,610**	**-**	**2,687,932**
Accumulated impairment							
As at 1 January 2017 (audited)	**2,380**	**1,924**	**317**	**194,486**	**8**	**2,460**	**201,575**
Increases / (decreases):							
Recognition of impairment loss	-	-	-	-	-	248	**248**
Reversal of impairment loss	-	-	-	(27,414)	-	-	**(27,414)**
FX differences resulting from translation of financial statements of foreign entities	(2)	-	-	(2,022)	-	-	**(2,024)**
Sales	-	-	-	(49)	-	-	**(49)**
Liquidation	-	(1,560)	-	(20,242)	-	(80)	**(21,882)**
As at 31 December 2017 (audited)	**2,378**	**364**	**317**	**144,759**	**8**	**2,628**	**150,454**
Net value							
As at 1 January 2017 (audited)	**160,009**	**572,834**	**139,815**	**3,777,420**	**8,658**	**41,814**	**4,700,550**
including financial lease	-	-	*8,633*	*319,689*	-	-	***328,322***
As at 31 December 2017 (audited)	**154,814**	**561,346**	**134,956**	**3,790,417**	**7,814**	**38,635**	**4,687,982**
including financial lease	-	-	*10,796*	*253,155*	-	-	***263,951***

according to EU IFRS (in thousands of PLN)

10. Property, plant and equipment (cont.)

Year ended 31/12/2016 (audited)	Land	Buildings, premises and civil and water engineering facilities	Technical machinery and equipment	Means of transport	Other non-current assets	Fixed assets under construction	Total
Gross value							
As at 1 January 2016 (audited)	**153,323**	**735,423**	**362,904**	**5,441,611**	**39,283**	**30,332**	**6,762,876**
Increases / (decreases):							
Purchase	-	-	-	-	-	521,727	**521,727**
Financial lease	-	-	-	3,302	-	(93)	**3,209**
FX differences resulting from translation of financial statements of foreign entities	489	4,275	1,420	30,312	65	444	**37,005**
Reclassified from assets held for sale	8,307	5,830	-	94,688	-	-	**108,825**
Settlement of fixed assets under construction	319	7,804	24,210	467,224	1,416	(500,973)	**-**
Grants	-	-	-	-	-	(5,407)	**(5,407)**
Sales	(49)	(1,620)	(3,957)	(7,239)	(93)	-	**(12,958)**
Liquidation	-	(8,955)	(3,011)	(104,302)	(704)	(1,669)	**(118,641)**
Other	-	-	(3)	(84)	(78)	(87)	**(252)**
As at 31 December 2016 (audited)	**162,389**	**742,757**	**381,563**	**5,925,512**	**39,889**	**44,274**	**7,296,384**
Accumulated depreciation							
As at 1 January 2016 (audited)	**-**	**129,544**	**215,838**	**1,508,843**	**28,717**	**-**	**1,882,942**
Increases / (decreases):							
Depreciation expenses	-	39,412	31,787	503,095	3,315	-	**577,609**
FX differences resulting from translation of financial statements of foreign entities	-	225	250	3,187	13	-	**3,675**
Reclassified from assets held for sale	-	1,647	-	41,234	-	-	**42,881**
Sales	-	(577)	(3,635)	(5,285)	(88)	-	**(9,585)**
Liquidation	-	(2,252)	(2,806)	(97,429)	(656)	-	**(103,143)**
Other	-	-	(3)	(39)	(78)	-	**(120)**
As at 31 December 2016 (audited)	**-**	**167,999**	**241,431**	**1,953,606**	**31,223**	**-**	**2,394,259**
Accumulated impairment							
As at 1 January 2016 (audited)	**751**	**8,809**	**317**	**147,799**	**8**	**2,502**	**160,186**
Increases / (decreases):							
Recognition of impairment loss	133	335	-	34,992	-	-	**35,460**
Reversal of impairment loss	-	-	-	(10,046)	-	-	**(10,046)**
Foreign exchange differences resulting from translation of financial statements of foreign entities	1	-	-	357	-	-	**358**
Reclassified from assets held for sale	1,495	-	-	22,451	-	-	**23,946**
Utilization of impairment loss	-	(7,220)	-	(1,067)	-	(42)	**(8,329)**
As at 31 December 2016 (audited)	**2,380**	**1,924**	**317**	**194,486**	**8**	**2,460**	**201,575**
Net value							
As at 1 January 2016 (audited)	**152,572**	**597,070**	**146,749**	**3,784,969**	**10,558**	**27,830**	**4,719,748**
including financial lease	-	-	*12,427*	*346,493*	-	-	***358,920***
As at 31 December 2016 (audited)	**160,009**	**572,834**	**139,815**	**3,777,420**	**8,658**	**41,814**	**4,700,550**
including financial lease	-	-	*8,633*	*319,689*	-	-	***328,322***

10. Property, plant and equipment (cont.)

As at 31 December 2017 and 31 December 2016, the value of the rolling stock owned by the Parent Company without valid technical railworthiness certificates was PLN 349,697 thousand and PLN 267,659 thousand, respectively.

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

a) As a backup from which additional resources can be drawn to increase freight turnover following P4 and P5 level repairs,

b) As a necessary set of rail vehicles to be rotated in the maintenance process. Performing a P4 or P5 level repair lasts from 30 to 90 days depending on vehicle type. To prevent a decrease in the number of operated wagons and locomotives with a valid technical railworthiness certificate, it is necessary to have a larger pool of vehicles so that a vehicle whose technical railworthiness certificate expires can be replaced at least on the same day with another that has been repaired and had a technical efficiency certificate issued.

11. Intangible assets

Accounting policy applied

Intangible assets are presented at the cost of production less amortization and impairment loss. The Group includes among intangible assets mainly software, licenses and economic copyright. Other intangible assets presented by the Group are intangible assets under development, such as all costs related to implementing an IT system until the implementation is completed.

The Group applies straight-line amortization. For items with a definite useful life, amortization is applied during the period of economic useful life of a assets. To calculate amortization, the Group uses periods ranging from 2 to 10 years.

The economic useful life and method of amortization are verified at the end of each reporting period, and the results of estimate changes are settled prospectively. The verification of economic useful live of intangible assets conducted as at 31 December 2017 and 31 December 2016 did not reveal a need to change the previously used amortization rates.

As at 31 December 2017 and 31 December 2016, the Group did not ascertain the need to recognize impairment losses for intangible assets under development.

according to EU IFRS (in thousands of PLN)

11 Intangible assets (cont.)

Change in the balance of intangible assets

Year ended 31 December 2017 (audited)	Licenses - software	Other intangible assets	Intangible assets under development	Total
Gross value				
As at 1 January 2017 (audited)	**166,845**	**11,193**	**10,474**	**188,512**
Increases / (decreases):				
Purchase	-	-	5,711	**5,711**
Settlement of intangible assets under development	12,271	-	(12,271)	**-**
Liquidation	(95)	-	-	**(95)**
Foreign exchange differences resulting from translation of financial statements of foreign entities	(14)	(15)	(4)	**(33)**
Other	(61)	61	(114)	**(114)**
As at 31 December 2017 (audited)	**178,946**	**11,239**	**3,796**	**193,981**
Accumulated amortization				
As at 1 January 2017 (audited)	**122,149**	**10,532**	**-**	**132,681**
Increases / (decreases):				
Amortization expenses	17,081	391	-	**17,472**
Liquidation	(95)	-	-	**(95)**
Foreign exchange differences resulting from translation of financial statements of foreign entities	(3)	(1)	-	**(4)**
Other	(75)	75	-	**-**
As at 31 December 2017 (audited)	**139,057**	**10,997**	**-**	**150,054**
Net value				
As at 1 January 2017 (audited)	**44,696**	**661**	**10,474**	**55,831**
As at 31 December 2017 (audited)	**39,889**	**242**	**3,796**	**43,927**

Year ended 31 December 2016 (audited)	Licenses - software	Other intangible assets	Intangible assets under development	Total
Gross value				
As at 1 January 2016 (audited)	**153,420**	**10,796**	**17,909**	**182,125**
Increases / (decreases):				
Purchase	-	-	7,803	**7,803**
Settlement of intangible assets under development	15,024	250	(15,274)	**-**
Liquidation	(1,729)	-	-	**(1,729)**
Foreign exchange differences resulting from translation of financial statements of foreign entities	130	147	36	**313**
As at 31 December 2016 (audited)	**166,845**	**11,193**	**10,474**	**188,512**
Accumulated amortization				
As at 1 January 2016 (audited)	**107,585**	**8,103**	**-**	**115,688**
Increases / (decreases):				
Amortization expenses	16,242	2,327	-	**18,569**
Liquidation	(1,729)	-	-	**(1,729)**
Foreign exchange differences resulting from translation of financial statements of foreign entities	51	102	-	**153**
As at 31 December 2016 (audited)	**122,149**	**10,532**	**-**	**132,681**
Net value				
As at 1 January 2016 (audited)	**45,835**	**2,693**	**17,909**	**66,437**
As at 31 December 2016 (audited)	**44,696**	**661**	**10,474**	**55,831**

according to EU IFRS (in thousands of PLN)

12. Investments in entities accounted for under the equity method

Accounting policy applied

Investments in selected subsidiaries, associates and joint ventures are accounted for under the equity method. In accordance with the equity method, investments are initially recognized in the consolidated statement of financial position at cost, and then included in the portion of the profit / loss corresponding to the Group, or in the valued entity's other comprehensive income. If the Group's share in the losses of an investments accounted for under the equity method exceeds the value of its shares of the entity (including long-term interests which essentially constitute a portion of the net value of the investment in the entity), the Group ceases to recognize its shares in the subsequent losses of the valued entity. Subsequent losses are recognized only up to the value of the Group's legal or customary liabilities or payments made on behalf of the entity accounted for under the equity method.

The excess of the costs of acquisition over the Group's share in the net value of the identifiable assets, liabilities and contingent liabilities of the entity accounted for under the equity method as at the acquisition date is recognized as goodwill, constituting a component of the investment's carrying amount. The excess of the Group's share in the net value of the identifiable assets, liabilities and contingent liabilities over the costs of the acquisition after another verification is recognized directly in the profit or loss. If necessary, the carrying amount of the investment (subject to goodwill) is tested for impairment in accordance with IAS 36 "Impairment of Assets" as if it were a single asset item, by comparing its recoverable amount (higher of the two: value in use or fair value less costs to sell) with its carrying amount. Impairment losses are included in the carrying amount of the investment. Losses are reversed in accordance with IAS 36 at an amount that corresponds to the increase in the investment's recoverable amount. If an entity belonging to the Group performs transactions with a given entity accounted for under the equity method, then the profits and losses arising out of those transactions are recognized in the Group's consolidated financial statements only with regard to the shares of this entity that are unrelated to the Group.

Detailed information on the entities accounted for under the equity method

Name of the entity accounted for under the equity method	Percent of shares held by the Group		Carrying amount	
	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)	As at 31/12/2017 (audited)	As at 31/12/2016 (restated*)
COSCO Shipping Lines (POLAND) Sp. z o.o.	20.0%	20.0%	483	763
Pol - Rail S.r.l	50.0%	50.0%	8,437	8,088
Terminale Przeładunkowe Sławków - Medyka Sp. z o.o.	50.0%	50.0%	18,885	20,983
Transgaz S.A.	64.0%	64.0%	6,362	6,897
Trade Trans Finance Sp. z o.o.	100.0%	100.0%	7,935	7,830
Rentrans Cargo Sp. z o.o.	29.3%	29.3%	7,889	8,477
PPHU „Ukpol" Sp. z o.o.	100,0%	100,0%	-	-
PKP CARGO CONNECT GmbH	100.0%	100.0%	465	-
AWT Rail SK a. s.	100.0%	80.0%	3,154	5,181
Total			**53,610**	**58,219**

(*) restatement of comparable data is described in **Note 4** to the Consolidated Financial Statements.

Investments in entities accounted for under the equity method

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (restated*)
Balance at the beginning of the reporting period	**58,219**	**57,240**
Share in the profit of entities measured by the equity method	806	3,461
Change in equity arising from dividend payment	(4,930)	(2,663)
Inclusion of subsidiary to investments accounted for under the equity method	111	-
Exchange differences resulting from translation of financial statements of foreign entities	(596)	181
Balance at the end of the reporting period	**53,610**	**58,219**

(*) restatement of comparable data is described in **Note 4** to the Consolidated Financial Statements.

according to EU IFRS (in thousands of PLN)

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

Presented below is a summary of financial data of entities accounted for under the equity method:

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Non-current assets	40,319	38,961
Current assets	130,423	106,032
Total assets	**170,742**	**144,993**
Long-term liabilities	3,075	1,711
Short-term liabilities	62,184	35,897
Total liabilities	**65,259**	**37,608**
Net assets [1]	**105,483**	**107,385**
Group's shares in the net assets of the entities accounted for under the equity method	53,610	58,219
Total revenue	286,962	162,921
Net result for the financial year	4,785	5,898
Group's shares in the result of the entities accounted for under the equity method	806	3,461
Group's shares in the comprehensive income of the entities accounted for under the equity method	806	3,461

[1] Data calculated as the total of the net assets of all of the entities accounted for under the equity method.

13. Other financial assets

Accounting policy applied

As at 31 December 2017 and 31 December 2016, the Group presented the following categories under the other financial assets heading:

a) Loans and receivables

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

b) Available-for-sale financial assets

In the Group, financial assets available for sale include capital investments not quoted in an active market, whose fair value cannot be reliably carried. They are carried at cost less impairment. A dividend from available-for-sale capital instruments is recognized in the result once the Group acquires the right to dividend.

Additionally, for other financial assets the Group presents derivative forward-like financial instruments. These instruments are used to hedge future cash flows described in Note 29 of these Consolidated Financial Statements. Upon providing the hedging the Group defines and properly documents hedging relationships, the purpose of risk management and hedging provision strategy. The effective portion of profits / (losses) related to a hedging instrument is recognized in other comprehensive income. The non-effective portion of profits or losses related to the hedging instrument is recognized in the period's financial performance, unless it has no material value. Profits/losses related to evaluation of hedging instruments and recognized in other comprehensive income are recognized in the financial result when the hedged item affects the financial performance.

according to EU IFRS (in thousands of PLN)

13. Other financial assets (cont.)

Structure of other financial assets

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Derivative instruments		
FX forwards	12,047	235
Available-for-sale financial assets		
Shares and stock in Polish entities [1]	6,040	7,141
Shares and stock in foreign entities [1]	1,246	1,360
Loans and receivables		
Loans granted to related parties	1,069	796
Deposits above 3 months	253,805	-
Other		
Other	-	9
Total	**274,207**	**9,541**
Non-current assets	10,537	8,649
Current assets	263,670	892
Total	**274,207**	**9,541**

[1] The value of impairment losses on investments in shares and stock as at 31 December 2017 was equal to PLN 11,811 thousand and on 31 December 2016 equal to PLN 11,833 thousand.

14. Other non-financial assets

Structure of other non-financial assets

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Costs settled in time		
Lease rents	12,829	14,210
Insurance	7,934	7,667
Prepayments for purchase of electricity	23,433	14,673
Other costs settled in time	4,093	5,583
Other		
Advances for purchase of non-financial non-current assets	1,060	10,477
Other	970	654
Total	**50,319**	**53,264**
Non-current assets	14,726	25,987
Current assets	35,593	27,277
Total	**50,319**	**53,264**

according to EU IFRS (in thousands of PLN)

15. Inventories

Accounting policy applied

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

Structure of inventories

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Row materials [1]	145,820	120,619
Semi-finished products	5,912	6,027
Commodities	1,766	1,872
Impairment losses	(5,034)	(7,329)
Total	**148,464**	**121,189**

[1] The increase in inventory value in the financial year ended on 31 December 2017 is mainly the result of the Parent Company's decision to physically liquidate some rolling stock items for the purpose of recovering spare parts and scrap. The residual value of rolling stock items recognized in 2017 in inventories was PLN 30,355 thousand.

Changes in impairment losses for inventory value

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Balance at the beginning of the reporting period	**7,329**	**9,815**
Recognition	789	717
Reversal	(751)	(2,035)
Utilization	(2,328)	(1,224)
Foreign exchange differences resulting from translation of financial statements of foreign entities	(5)	56
Balance at the end of the reporting period	**5,034**	**7,329**

16. Trade and other receivables

Accounting policy applied

Trade receivables include amounts due from customers for materials sold or services provided in the ordinary course of business of the enterprise. If a receivable can be expected to be paid within one year (or in the ordinary course of business of the enterprise, if it is longer), it is classified as current assets. Otherwise it is shown as non-current assets.

Trade receivables are initially recognized at their fair value, with the fair value at the moment of initial recognition being the nominal value resulting from issued sale invoices. After initial recognition, trade receivables and other financial receivables are measured at depreciated cost using the effective interest rate method, taking into account impairment losses. Other receivables that are not financial assets are measured as at the last day of the reporting period in the amount required to be paid.

according to EU IFRS (in thousands of PLN)

16. Trade and other receivables (cont.)

Accounting policy applied

Impairment losses for receivable value are made when objective proof exists that the Group will be unable to recover the due amounts. In line with accounting policy used, the following are created:

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

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

The amount of an impairment loss for receivable value is the difference between the current carrying amount and the recoverable value, which is lower. An impairment loss for receivables is recognized in other operating expenses.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

As at the balance sheet date, the Group estimates whether objective proof of receivable item or receivable group impairment exists. If the recoverable value of an asset is lower than its balance sheet value, an impairment loss is made to bring it to the current level of planned cash flows.

Structure of trade and other receivables

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Trade receivables	844,834	768,873
Impairment losses for trade receivables	(156,028)	(152,873)
	688,806	616,000
Receivables from sale of non-financial non-current assets	111	-
State settlements	1,682	5,216
Guarantees, security deposits and bid bonds	1,474	1,415
VAT settlements	37,276	17,754
Other settlements	2,022	1,704
Total	**731,371**	**642,089**
Non-current assets	1,836	2,223
Current assets	729,535	639,866
Total	**731,371**	**642,089**

The trade and other receivables item includes receivables from related parties. Detailed information on trade receivables from related parties is presented in **Note 30** to these Consolidated Financial Statements.

according to EU IFRS (in thousands of PLN)

16. Trade and other receivables (cont.)

Age analysis of trade receivables

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Non-overdue receivables	606,299	547,240
Overdue receivables		
up to 30 days	59,380	48,340
from 31 to 90 days	15,002	8,934
from 91 to 180 days	3,982	7,886
from 180 to 365 days	1,458	2,349
over 365 days	2,684	1,251
Total	**688,806**	**616,000**
Average age of receivables (days)	54	51

Changes of impairment losses for trade receivables

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Balance at the beginning of the reporting period	**152,873**	**87,252**
Recognition	11,434	80,443
Reversal	(5,173)	(3,196)
Utilization	(1,673)	(13,380)
FX valuation	(1,224)	673
Foreign exchange differences resulting from translation of financial statements of foreign entities	(209)	1,081
Balance at the end of the reporting period	**156,028**	**152,873**

17. Cash and cash equivalents

Accounting policy applied

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

Structure of cash and cash equivalents

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Cash on hand and in bank accounts	172,100	282,870
Bank deposits up to 3 months	344,676	473,049
Total	**516,776**	**755,919**
including restricted cash	35,444	8,607

Decrease of the value of bank deposits to 3 months is attributable to change of the term for which the bank deposits are concluded. As at 31 December 2017, a portion of bank deposits are concluded for the term longer than 3 months carried as part of other current financial assets.

As at 31 December 2017 and as at 31 December 2016, cash with restricted cash included mostly cash accumulated on bank accounts kept for deposits and guarantees.

according to EU IFRS (in thousands of PLN)

18. Non-current assets classified as held for sale

Movements in assets classified as held for sale

In the financial year ended 31 December 2017, there were no movements as regards the position of non-current assets classified as held for sale. Movements for the 12-month period ended 31 December 2016 were as follows:

Year ended 31/12/2016 (audited)	Land	Buildings, units and civil engineering facilities	Means of transport	Total
Balance as at 1 January 2016 (audited)	**6,811**	**4,183**	**33,067**	**44,061**
Increases / (decreases):				
Sales	-	-	(2,063)	(2,063)
Reclassification to property, plant and equipment	(6,811)	(4,183)	(31,004)	(41,998)
Balance as at 31 December 2016 (audited)	-	-	-	-

19. Equity

Accounting policy applied

Share capital in the consolidated financial statements is presented in the amount stated in the articles of association of the Parent Company, regardless of entry in the the national court register (principle of substance over legal form).

Share capital

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
The share capital consists of:		
Common shares – fully paid and registered	2,239,346	2,239,346

As at 31 December 2017 and as at 31 December 2016, the share capital of the Parent Company consisted of common shares with par value of PLN 50 each. Fully paid common shares with the par value of PLN 50 are equivalent to one vote at the shareholder meeting and entail the right to dividend.

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

In the financial year ended 31 December 2017 and 31 December 2016, there were no movements in the share capital of the Parent Company.

Supplementary capital

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Supplementary capital, including:	**619,306**	**618,666**
Share premium (agio)	201,263	201,263
Charges to earnings (established pursuant to statutory regulations)	46,730	47,346
Distribution of profit (established in excess statutory value)	231,331	230,075
Capital formed from retirement of shares	139,982	139,982

Pursuant to the requirements of the Commercial Company Code, the entities with the status of joint-stock companies are obligated to establish supplementary capital to cover the loss. Transfers to supplementary capital should be at least 8% of the earnings for given financial year indicated in the company's separate financial statements, until that capital reaches at least one-third of the company's share capital.

according to EU IFRS (in thousands of PLN)

19. Equity (cont.)

The use of the supplementary capital is decided upon by the Shareholder Meeting, however, the portion of the supplementary capital representing one-third of the share capital may only be used to cover a loss shown in the standalone financial statements and it shall not be earmarked for other purposes. The amount to be divided among the shareholders may be increased by undistributed earnings from previous years and the amounts transferred from the supplementary capital established from earnings.

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

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

In the financial year ended 31 December 2017, changes to the Group's supplementary capital were attributable to resolution of 30 June 2017 adopted by the Ordinary Shareholder Meeting of CARGOSPED Terminal Braniewo Sp. z o.o. in the matter of partial coverage with the supplementary capital of the net loss for 2016 of PLN 616 thousand, and resolution of 4 December 2017 adopted by the Extraordinary Shareholder Meeting of PKP CARGO SERVICE Sp. z o.o. in the matter of partial earmarking to supplementary capital of the net earnings for 2016 of PLN 1,256 thousand.

Retained earnings

The Group's retained earnings include:

a) financial performance of the current year,
b) undistributed earnings and accumulated loss from previous years,
c) differences attributable to transition to EU IFRS.

On 30 May 2017, the Ordinary General Meeting of the Parent Company adopted resolutions to approve the Standalone and Consolidated Financial Statements for 2016 and to cover the Parent Company's loss for 2016 with undistributed earnings from previous years.

20. Earnings / (losses) per share

Profit / (losses) used for calculation of basic and diluted earnings / (losses) per share:

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Profit / (losses) attributable to the owners of the Parent Company	81,673	(133,772)

Basic earnings / (losses) per share

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Weighted average number of common shares (pcs.)	44,786,917	44,786,917
Basic earnings / (losses) per share (PLN per share)	1.82	(2.99)

Net earnings / (losses) per one share for every period are calculated as the net earnings / (losses) for the given period divided by the weighted average number of shares occurring in that period.

Diluted earnings / (losses) per share

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Weighted average number of common shares (pcs.)	44,786,917	44,786,917
Diluted earnings / (losses) per share (PLN per share)	1.82	(2.99)

In the financial year ended 31 December 2017 and 31 December 2016, there were no diluting transactions.

according to EU IFRS (in thousands of PLN)

21. Bank loans and borrowings

Accounting policy applied

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

Structure of bank loans and borrowings

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Bank loans – secured on assets	99,430	118,236
Bank loans – other	1,460,651	1,348,479
Loans from related parties	1,311	3,605
Loans from other entities	938	1,088
Total	**1,562,330**	**1,471,408**
Long-term liabilities	1,312,629	1,273,605
Short-term liabilities	249,701	197,803
Total	**1,562,330**	**1,471,408**

Summary of loan agreements

Loan agreements were concluded in the Group mostly for financing the investment plan, acquisition and day-to-day operations. The currencies of loan agreements include PLN, EUR and CZK.

Parent Company

Type of loan	Bank Name	Collateral	Maturity	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Investment loan	mBank S.A.	Bank enforcement title	30/06/2017	-	4,210
Investment loan	Bank Polska Kasa Opieki S.A. (1)	Bank enforcement title	31/12/2017	822	9,840
Investment loan	Bank Gospodarstwa Krajowego	Bank enforcement title	31/03/2021	275,341	377,478
Investment loan	European Investment Bank	No collateral	29/05/2020	42,578	59,608
Investment loan	Bank Gospodarstwa Krajowego	Statement on submission to enforcement certified by a notary	20/12/2026	60,072	66,373
Investment loan	Bank Gospodarstwa Krajowego	Statement on submission to enforcement certified by a notary	20/12/2026	340,421	75,884
Investment loan	Bank Polska Kasa Opieki S.A.	Statement on submission to enforcement certified by a notary	31/12/2026	617,489	649,759
Investment loan	European Bank for Reconstruction and Development (2)	No collateral	25/09/2027	-	42,748
Investment loan	European Investment Bank	No collateral	29/08/2031	93,777	62,494
Total				**1,430,500**	**1,348,394**

(1) Liability under the loan was repaid on 2 January 2018.

(2) The Loan Agreement concluded by the Parent Company with the European Bank of Reconstruction and Development earmarked for refinancing the purchase of shares in AWT B.V. was entirely repaid early on 27 March 2017.

according to EU IFRS (in thousands of PLN)

21. Bank loans and borrowings (cont.)

Subsidiaries

Type of loan	Bank Name	Collateral	Maturity	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Overdraft facility	PKO Bank Polski S.A.	Capped mortgage, pledge on inventories	15/07/2019	25	429
Investment loan	Bank Polska Kasa Opieki S.A. [(2)]	Statement on submission to enforcement certified by a notary	20/12/2021	6,004	-
Investment loan	Bank Polska Kasa Opieki S.A. [(2)]	Statement on submission to enforcement certified by a notary	31/12/2021	3,771	-
Investment loan	mBank S.A.	Surety of PKP CARGO S.A.	30/06/2017	-	85
Loan	WFOŚIGW Łódź [(1)]	1) Blank promissory note2) Irrevocable power-of-attorney to bank account3) Surety of PKP CARGO S.A.	31/03/2024	938	1,088
Investment loan	Bank Polska Kasa Opieki S.A. [(2)]	Statement on submission to enforcement certified by a notary	31/12/2021	8,844	-
Investment loan	Bank Polska Kasa Opieki S.A. [(2)]	Statement on submission to enforcement certified by a notary	31/12/2021	11,532	-
Investment loan	ING Bank N.V. UniCredit Bank Czech Republic and Slovakia a.s. Raiffeisenbank a.s.	1) Pledge on tangible non-current assets and receivables 2) Pledge on bank accounts 3) Assignment of rights under insurance policy	26/09/2021	48,713	48,663
Investment loan	ING Bank N.V. UniCredit Bank Czech Republic and Slovakia a.s. Raiffeisenbank a.s. [(1)]	1) Pledge on tangible non-current assets and receivables 2) Pledge on bank accounts 3) Assignment of rights under insurance policy	30/06/2021	50,692	69,144
Loan	AWT Rail SK a.s. [(1)]	No collateral	31/12/2018	1,311	3,605
Total				**131,830**	**123,014**

[(1)] As at 31 December 2017, interest of bank loans and liabilities under fixed-interest-rate loans ranged from 0.06% to 4%.

[(2)] In February and March 2017, PKP CARGO SERVICE Sp. z o.o., CARGOTOR Sp. z o.o., PKP CARGOTABOR Sp. z o.o., PKP CARGO CONNECT Sp. z o.o. concluded loan agreements with Bank Polska Kasa Opieki S.A. for refinancing the fixed assets purchased in 2015 – 2016.

according to EU IFRS (in thousands of PLN)

21. Bank loans and borrowings (cont.)

Unused lines of credit

Type of loan	Bank Name	Period of availability	Currency	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Investment loan	European Investment Bank	31/12/2016	PLN	-	155,000
Investment loan	European Investment Bank	19/07/2020	EUR	68,549	113,918
Investment loan	Bank Gospodarstwa Krajowego (1)	27/12/2017	EUR	-	300,171
Investment loan	Bank Polska Kasa Opieki S.A.	31/12/2016	PLN	-	50,500
Investment loan	European Bank for Reconstruction and Development	31/12/2016	EUR	-	398,160
Overdraft facility	mBank S.A. (2)	31/05/2017	PLN	-	100,000
Overdraft facility	Bank Polska Kasa Opieki S.A. (3)	25/05/2018	PLN	100,000	-
Overdraft facility	PKO Bank Polski S.A.	15/07/2019	PLN	974	572
Total				**169,523**	**1,118,321**

(1) On 14 March 2017, an annex to the loan agreement with Bank Gospodarstwa Krajowego was signed, pursuant to which the period of availability of the loan in question was extended from 31 December 2016 to 27 December 2017.
(2) 31 May 2017 marked the end of the overdraft facility agreement concluded with mBank S.A.
(3) On 26 May 2017, the overdraft facility agreement was concluded with Bank Polska Kasa Opieki S.A.

The foregoing changes regarding overdraft facility agreements are attributable to change of the bank servicing the cash pooling agreement in which selected the PKP CARGO Group companies participate.

Breach of the terms and conditions of the loan agreements

As at 31 December 2017, portion of the Group's long-term liabilities related to loans of PLN 6,628 thousand was presented as short-term liabilities. This stems from breach by a subsidiary company PKP CARGOTABOR Sp. z o.o. of one of the conditions of the loan agreement concerning the keeping of the required total debt ratio. Pursuant to the requirements of IAS 1, if an entity is in breach of the terms and conditions of the loan agreement, and, as a result of this, that liability may become due and payable on demand, such liability shall be classified as short-term liabilities. In February 2018, the subsidiary company PKP CARGOTABOR Sp. z o.o. obtained from the bank, which is a party to the agreement in question, the approval for increase of total debt ratio and the assurance of further continuation of cooperation in financing, and, as a result of this, if in subsequent reporting periods this new ratio is not exceeded, the liability will be once again presented as long-term liabilities.

Breach of the terms and conditions of the agreement in question shall not have any effect on presentation of liabilities under other loan agreements concluded by the Group.

As at 31 December 2017, there were no breaches of any other loan agreements.

22. Financial lease liabilities

Accounting policy applied

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

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

according to EU IFRS (in thousands of PLN)

22. Financial lease liabilities (cont.)

Structure of financial lease liabilities

As at 31 December 2017, the Group was using the main rolling stock components, vehicles and IT hardware under the financial lease agreements in effect. The agreements that are currently in effect were concluded for the term from 3 to 10 years in PLN, EUR and CZK.

	As at 31/12/2017 (audited)			As at 31/12/2016 (audited)		
	Minimum lease payments	Future financial charges	Present value of minimum lease payments	Minimum lease payments	Future financial charges	Present value of minimum lease payments
Up to 1 year	51,955	(3,915)	48,040	65,173	(5,606)	59,567
Longer than 1 year and up to 5 years	93,623	(7,444)	86,179	113,170	(10,890)	102,280
Over 5 years	4,991	(115)	4,876	39,348	(705)	38,643
Total	**150,569**	**(11,474)**	**139,095**	**217,691**	**(17,201)**	**200,490**
Long-term liabilities	98,614	(7,559)	91,055	152,518	(11,595)	140,923
Short-term liabilities	51,955	(3,915)	48,040	65,173	(5,606)	59,567
Total	**150,569**	**(11,474)**	**139,095**	**217,691**	**(17,201)**	**200,490**

23. Other financial liabilities

Structure of other financial liabilities

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Derivative instruments		
Interest Rate Swap (IRS)	272	1,042
FX forwards	-	185
Other		
Liability related to **put option for non-controlling interest** [(1)]	-	118,704
Total	**272**	**119,931**
Long-term liabilities	-	1,042
Short-term liabilities	272	118,889
Total	**272**	**119,931**

[(1)] On 4 May 2017, the Parent Company received from Minezit S.E. (hereinafter referred to as "MSE"), which is the minority shareholder of AWT B.V., the notification of exercise of the put option for the sale of 20% of shares in AWT B.V. to the Parent Company. Following the MSE's exercise of the put option, the financial instrument expired and the liability related to purchase of shares in AWT B.V. was created in its place. On 20 June 2017, the Management Board of the Parent Company signed the memorandum with MSE governing the performance of the joint project on the basis of which the put option for 20% of shares in AWT B.V. was to be settled. On 3 October 2017, the Parent Company received a notification of MSE's withdrawal from the signed Memorandum. At the same time, MSE summoned the Parent Company to pay the price for the put option to sell the 15,000 shares representing 20% of all the shares in the share capital of AWT B.V. totaling EUR 27,000 thousand within 20 business days from the date of receipt of the withdrawal notification. On 2 November 2017, the payment was made and the ownership title to the remaining 20% of shares in the share capital of AWT B.V. was transferred to the Parent Company.

according to EU IFRS (in thousands of PLN)

24. Reconciliation of debt liabilities

The Group's debt liabilities consist of the three main categories: bank loans and borrowings, financial lease and other.

Net debt

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Bank loans and borrowings	1,562,330	1,471,408
Financial lease	139,095	200,490
Other	-	118,704
Total debt	**1,701,425**	**1,790,602**
Cash and cash equivalents	516,776	755,919
Deposits above 3 months	253,805	-
Total net debt	**930,844**	**1,034,683**
EBITDA	**701,885**	**489,521**
Net debt / EBITDA	**1.33**	**2.11**

Debt liabilities – broken down into currencies / interest rate type

As at 31/12/2017 (audited)	In functional currency PLN	In foreign currency EUR	In foreign currency CZK	Total
Bank loans and borrowings	967,344	546,273	48,713	**1,562,330**
Financial lease liabilities	64,089	67,336	7,670	**139,095**
Total	**1,031,433**	**613,609**	**56,383**	**1,701,425**
Variable-interest-rate liabilities	1,030,495	523,382	48,713	**1,602,590**
Fixed-interest-rate liabilities	938	90,227	7,670	**98,835**
Total	**1,031,433**	**613,609**	**56,383**	**1,701,425**

As at 31/12/2016 (audited)	In functional currency PLN	In foreign currency EUR	In foreign currency CZK	Total
Bank loans and borrowings	1,145,245	277,500	48,663	**1,471,408**
Financial lease liabilities	81,933	108,625	9,932	**200,490**
Other		118,704	-	**118,704**
Total	**1,227,178**	**504,829**	**58,595**	**1,790,602**
Variable-interest-rate liabilities	1,222,992	258,475	48,663	**1,530,130**
Fixed-interest-rate liabilities	4,186	246,354	9,932	**260,472**
Total	**1,227,178**	**504,829**	**58,595**	**1,790,602**

Reconciliation of debt liabilities

	Bank loans and borrowings	Financial lease	Other	Total
As at 1 January 2017 (audited)	**1,471,408**	**200,490**	**118,704**	**1,790,602**
Proceeds from take out debt	366,332	3,858	-	**370,190**
Commissions	1,660	4		**1,664**
Accrual of interest	28,123	6,095	-	**34,218**
Payments under debt, including:				
Repayments of the principal	(255,210)	(59,632)	-	**(314,842)**
Paid interest	(28,053)	(6,095)	-	**(34,148)**
Commissions	(1,660)	(4)	-	**(1,664)**
(Gains) / losses from revaluation of liability related to put option for non-controlling interest	-	-	(4,694)	**(4,694)**
Settlement of put option for non-controlling interest	-	-	(114,010)	**(114,010)**
FX valuation	(19,563)	(5,735)	-	**(25,298)**
Foreign exchange differences resulting from translation of financial statements of foreign entities	(707)	114	-	**(593)**
As at 31 December 2017 (audited)	**1,562,330**	**139,095**	**-**	**1,701,425**

according to EU IFRS (in thousands of PLN)

24. Reconciliation of debt liabilities (cont.)

	Bank loans and borrowings	Financial lease	Other	Total
As at 1 January 2016 (audited)	**714,169**	**258,916**	**155,198**	**1,128,283**
Proceeds from take out debt	1,004,598	3,209	-	**1,007,807**
Commissions	1,398	-	-	**1,398**
Accrual of interest	17,718	8,556	-	**26,274**
Payments under debt, including:			-	
Repayments of the principal	(257,855)	(67,393)	-	**(325,248)**
Paid interest	(16,753)	(8,556)	-	**(25,309)**
Commissions	(1,398)	-	-	**(1,398)**
(Gains) / losses from revaluation of liability related to put option for non-controlling interest	-	-	(36,494)	**(36,494)**
FX valuation	4,895	3,517	-	**8,412**
Foreign exchange differences resulting from translation of financial statements of foreign entities	4,636	2,241	-	**6,877**
As at 31 December 2016 (audited)	**1,471,408**	**200,490**	**118,704**	**1,790,602**

25. Trade and other payables

Accounting policy applied

Payables are the Group's present obligation resulting from future events, whose fulfillment will, according to expectations, cause the outflow from the entity of the means entailing economic benefits. Trade payables and liabilities related to purchase of non-financial non-current assets are initially carried at fair value. Later, financial liabilities are carried at amortized cost using the effective interest rate method. Other non-financial liabilities are carried at the amount which is required to be paid.

Structure of trade and other payables

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Trade payables	398,478	327,389
Accruals	48,708	49,826
Liabilities related to purchase of non-financial non-current assets	79,046	46,402
Liabilities related to received collateral (deposits, bid security guarantees, guarantees)	42,114	20,289
State liabilities	78,360	103,170
Settlements with employees	87,261	78,836
Received grants	6,019	8,490
Other settlements	3,070	3,287
VAT settlements	8,258	34,177
Total	**751,314**	**671,866**
Long-term liabilities	1,578	1,845
Short-term liabilities	749,736	670,021
Total	**751,314**	**671,866**

according to EU IFRS (in thousands of PLN)

26. Provisions for employee benefits

Accounting policy applied

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

The amount of long-term benefits during the employment period and benefits after the employment period is calculated by an independent actuarial firm using the forecasted individual benefits method. The current value of liability on that account is determined through discounting the estimated future cash expenditures – using the interest rates based on market interest rates for government bonds. The current service cost of the specified benefits program is recognized in the result as costs of employee benefits, except when it is recognized as costs of creating an asset component, and it reflects the growth of liabilities related to employee benefit plans attributable to work performed by the employees in the current period. The costs of past employment are recognized directly in the financial result. Interest expense is calculated using a discount rate to the net value of the liabilities and presented within financial expenses.

Actuarial earnings and losses resulting from adjustments of actuarial assumptions ex post and changes to actuarial assumptions are referred to equity through other comprehensive income in the period in which they arose. In case of jubilee awards, they are referred to the result for the period.

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

As at 31 December 2017 and 31 December 2016, the actuarial valuation of provisions for employee benefits for the Polish Group companies was based on the following assumptions:

	Valuation as at	
	31/12/2017	31/12/2016
	%	%
Discount rate	3.25	3.50
Assumed average annual growth of the base for calculation of provisions for retirement and disability severance benefits and jubilee awards	0 – 3.5	1.35
Assumed growth of the price of transportation benefits	0 – 2.5	0 – 2.5
Assumed average annual growth of the base for calculation of provisions for Company Social Benefits Fund	3.3 – 5.0	3.5 – 8.4
Weighted average employee mobility ratio	1.1 – 10.0	2.3
Inflation (annual)	2,3 – 2.7	1.3 – 2.5

The actuarial valuation of provisions for employee benefits for the Group companies located beyond Poland was based on assumptions specific to the countries in which they conduct their operations.

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

according to EU IFRS (in thousands of PLN)

26. Provisions for employee benefits (cont.)

	As at 31/12/2017 (audited)	Discount rate		Salary growth ratio		Employee mobility ratio	
		+0.30 pp.	-0.30 pp.	+0.25 pp.	-0.25 pp.	+0.25 pp.	-0.25 pp.
Jubilee awards	274,116	(4,303)	4,442	4,586	(3,293)	(3,529)	3,548
Retirement and disability severance benefits	166,898	(3,156)	3,268	3,333	(2,502)	(2,646)	2,619
Post-mortem benefits	7,145	(146)	152	147	(110)	(115)	117
Company Social Benefits Fund	143,522	(5,604)	5,981	5,245	(4,984)	(789)	786
Transportation benefits	33,665	(1,289)	1,434	1,286	(1,087)	(229)	292
Total	**625,346**	**(14,498)**	**15,277**	**14,597**	**(11,976)**	**(7,308)**	**7,362**

	As at 31/12/2016 (audited)	Discount rate		Salary growth ratio		Employee mobility ratio	
		+0.30 pp.	-0.30 pp.	+0.25 pp.	-0.25 pp.	+0.25 pp.	-0.25 pp.
Jubilee awards	268,875	(4,257)	4,394	4,511	(3,249)	(3,435)	3,457
Retirement and disability severance benefits	153,230	(2,990)	3,097	3,113	(2,381)	(2,532)	2,499
Post-mortem benefits	6,836	(139)	145	140	(106)	(108)	100
Company Social Benefits Fund	128,614	(5,009)	5,348	4,695	(4,462)	(735)	727
Transportation benefits	33,286	(1,290)	1,377	1,236	(1,094)	(256)	263
Total	**590,841**	**(13,685)**	**14,361**	**13,695**	**(11,292)**	**(7,066)**	**7,046**

Liabilities related to employee benefit plans

	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total provisions
Balance as at 1 January 2017 (audited)	**153,230**	**128,614**	**33,286**	**6,836**	**268,875**	**33,986**	**624,827**
Current service cost	4,801	1,731	516	98	10,478	-	**17,624**
Interest expenses	5,408	4,535	1,179	241	9,321	-	**20,684**
Actuarial losses / (gains) – recognized in the statement of profit or loss [(1)]	-	-	-	-	29,311	-	**29,311**
Actuarial losses / (gains) – recognized in other comprehensive income [(1)]	20,168	15,359	(260)	715	-	-	**35,982**
Recognition of provisions	-	-	-	-	-	26,690	**26,690**
Reversal of provisions	-	-	-	-	-	(18,397)	**(18,397)**
Benefits paid out	(16,703)	(6,717)	(1,056)	(745)	(43,844)	(5,071)	**(74,136)**
FX differences	(6)	-	-	-	(25)	(1)	**(32)**
Balance as at 31 December 2017 (audited)	**166,898**	**143,522**	**33,665**	**7,145**	**274,116**	**37,207**	**662,553**
Long-term provisions	144,741	137,795	32,358	6,342	237,311	-	**558,547**
Short-term provisions	22,157	5,727	1,307	803	36,805	37,207	**104,006**
Total	**166,898**	**143,522**	**33,665**	**7,145**	**274,116**	**37,207**	**662,553**

[(1)] Changes in actuarial losses / (gains) in 2017 is mainly caused by effect of salaries increase in Parent Company effective from September 2017.

according to EU IFRS (in thousands of PLN)

26. Provisions for employee benefits (cont.)

	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total provisions
Balance as at 1 January 2016 (audited)	**154,828**	**124,118**	**33,654**	**31,660**	**318,239**	**41,505**	**704,004**
Current service cost	5,179	1,305	401	301	13,023	-	**20,209**
Interest expenses	4,811	3,870	1,052	907	9,887	-	**20,527**
Actuarial losses / (gains) – recognized in the statement of profit or loss	-	-	-	-	(15,215)	-	**(15,215)**
Actuarial losses / (gains) – recognized in other comprehensive income	(12,535)	610	(2,781)	(6,776)	-	-	**(21,482)**
Cost of past employment	16,378	6,442	2,054	(18,612)	(20,084)	-	**(13,822)**
Recognition of provisions	5	-	-	-	-	4,957	**4,962**
Reversal of provisions	-	-	-	-	-	(2,127)	**(2,127)**
Benefits paid out	(15,487)	(7,731)	(1,094)	(644)	(37,179)	(10,645)	**(72,780)**
FX differences	51	-	-	-	204	296	**551**
Balance as at 31 December 2016 (audited)	**153,230**	**128,614**	**33,286**	**6,836**	**268,875**	**33,986**	**624,827**
Long-term provisions	134,261	123,429	31,934	6,098	229,849	-	**525,571**
Short-term provisions	18,969	5,185	1,352	738	39,026	33,986	**99,256**
Total	**153,230**	**128,614**	**33,286**	**6,836**	**268,875**	**33,986**	**624,827**

Items recognized in the result in reference to employee benefits programs

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Costs of employee benefits	55,228	(5,993)
Financial expenses	20,684	20,527
Total recognized in the result before tax	**75,912**	**14,534**

Actuarial (earnings) / losses

Year ended 31/12/2017 (audited)	change of demographic assumptions	change of financial assumptions	other changes	Total
Actuarial losses / (gains) – benefits after the employment period				
Retirement and disability severance benefits	26	2,555	17,587	20,168
Company Social Benefits Fund	1,383	5,169	8,807	15,359
Transportation benefits	(229)	129	815	715
Post-mortem benefits	348	1,157	(1,765)	(260)
Actuarial losses / (gains) – other long-term benefits				
Jubilee awards	(487)	3,248	26,550	29,311
Total	**1,041**	**12,258**	**51,994**	**65,293**

Year ended 31/12/2016 (audited)	change of demographic assumptions	change of financial assumptions	other changes	Total
Actuarial losses / (gains) – benefits after the employment period				
Retirement and disability severance benefits	11,788	(4,293)	(20,021)	(12,526)
Company Social Benefits Fund	4,600	9,207	(13,197)	610
Transportation benefits	2,036	(1,789)	(3,028)	(2,781)
Post-mortem benefits	(907)	(244)	(5,634)	(6,785)
Actuarial losses / (gains) – other long-term benefits				
Jubilee awards	(12,569)	(6,546)	3,900	(15,215)
Total	**4,948**	**(3,665)**	**(37,980)**	**(36,697)**

according to EU IFRS (in thousands of PLN)

26. Provisions for employee benefits (cont.)

Analysis of maturities of paid out employee benefits

Balance as at 31/12/2017 (audited)	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total
up to 1 year	22,157	5,727	1,307	803	36,805	37,207	**104,006**
from 1 to 5 years	49,883	23,773	4,963	2,728	121,577	-	**202,924**
over 5 years	94,858	114,022	27,395	3,614	115,734	-	**355,623**
Total	**166,898**	**143,522**	**33,665**	**7,145**	**274,116**	**37,207**	**662,553**

Balance as at 31/12/2016 (audited)	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total
up to 1 year	18,969	5,185	1,352	738	39,026	33,986	**99,256**
from 1 to 5 years	44,085	21,131	5,053	2,580	111,523	-	**184,372**
over 5 years	90,176	102,298	26,881	3,518	118,326	-	**341,199**
Total	**153,230**	**128,614**	**33,286**	**6,836**	**268,875**	**33,986**	**624,827**

Average vesting period of employee benefits in the Parent Company was 8.7 years as at 31 December 2017 and 8.9 years as at 31 December 2016. The Parent Company's share in the value of the Group's provisions for employee benefits, valuated by actuarial methods, is more than 90%.

27. Other provisions

Accounting policy applied

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

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

Structure of other provisions

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Provisions for penalties from the Office for Protection of Competition and Consumers (UOKiK)	14,224	16,455
Provision for land reclamation	5,000	4,908
Provision for onerous contracts	16,660	8,159
Provision for liabilities related to VAT settlements	22,334	-
Other provisions	23,954	21,848
Total	**82,172**	**51,370**
Long-term provisions	22,446	26,420
Short-term provisions	59,726	24,950
Total	**82,172**	**51,370**

according to EU IFRS (in thousands of PLN)

27. Other provisions (cont.)

Change to the current value of other provisions

	Provisions for penalties from the Office for Protection of Competition and Consumers (UOKiK)	Provision for land reclamation	Provision for onerous contracts	Provision for liabilities related to VAT settlements	Other provisions	Total
As at 1 January 2017 (audited)	**16,455**	**4,908**	**8,159**	**-**	**21,848**	**51,370**
Recognition	957	106	14,902	22,334	10,130	48,429
Reversal	-	-	-	-	(6,197)	(6,197)
Utilization	(3,188)	-	(6,356)	-	(1,807)	(11,352)
Foreign exchange differences resulting from translation of financial statements of foreign entities	-	(14)	(44)	-	(20)	(78)
As at 31 December 2017 (audited)	**14,224**	**5,000**	**16,660**	**22,334**	**23,954**	**82,172**
As at 1 January 2016 (audited)	**16,209**	**5,356**	**9,737**	**-**	**15,440**	**46,742**
Recognition	2,032	127	-	-	9,908	12,067
Reversal	(357)	-	-	-	(2,161)	(2,518)
Utilization	(1,429)	(772)	(1,926)	-	(1,455)	(5,582)
Foreign exchange differences resulting from translation of financial statements of foreign entities	-	197	348	-	116	661
As at 31 December 2016 (audited)	**16,455**	**4,908**	**8,159**	**-**	**21,848**	**51,370**

Provisions for penalties from the Office for Protection of Competition and Consumers (UOKiK)

As at 31 December 2016, the provision represented an estimate by the Parent Company's Management Board in connection with probable payment of two financial penalties imposed by the Office for Protection of Competition and Consumers (UOKiK) in the amount of PLN 14,224 thousand and 2,231 thousand respectively.

In the financial year ended on 31 December 2017, the amount of provisions changed regarding the penalty imposed on the Parent Company based on decision no. RWR 44/2012 issued by the President of the UOKiK on 31 December 2012 and stating that the Parent Company used a practice which involved making it difficult for a business partner to be able to compete with freight forwarding companies belonging to the PKP CARGO Group. The penalty was imposed in the amount of PLN 16,576 thousand. The Parent Company filed an appeal in the case, as a result of which, on 23 November 2015, the Regional Court in Warsaw changed the appealed decision and reduced the originally imposed penalty from PLN 16,576 thousand to PLN 2,231 thousand. Consequently, as at 31 December 2015, the Parent Company revalued the provision down to the amount of PLN 2,231 thousand. Both parties filed an appeal against the verdict of the court of the first instance. On 24 August 2017, the Appellate Court in Warsaw issued a verdict changing the first instance court's decision by raising the penalty amount to PLN 3,188 thousand. The verdict is final, so the Parent Company, as at 30 June 2017, increased the provision for the penalty by PLN 957 thousand. The penalty was paid in full by the Parent Company on 7 September 2017.

As at 31 December 2017, no circumstances have occurred that would cause the need to revalue the established provision in the amount of PLN 14,224 thousand. As a result of the occurrence of future events, the estimates made by the Parent Company's Management Board may be changed in subsequent reporting periods.

Provision for land reclamation

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

Provision for onerous contracts

As at 31 December 2016, the provision represented the amount of predicted loss on the executed property lease agreement, for which the expected revenues would not cover the lease expenses incurred by the Group. In the financial year ended 31 December 2017, as a result of conducted analysis, the Group identified two procurement agreements valid until 31 December 2017 and 31 December 2018 respectively, for which the inevitable costs of fulfilling the resulting duties were higher than the predicted benefits achievable pursuant to these agreements.; a provision was therefore established in the amount of PLN 14,902 thousand. As a result of performing these agreements, some part of the provision was utilized.

according to EU IFRS (in thousands of PLN)

27. Other provisions (cont.)

Provision for liabilities related to VAT settlements

In the 2014-2016 period, the Fiscal Inspection Authority (*Urząd Kontroli Skarbowej*, "UKS") conducted an inspection procedure in PKP CARGO CONNECT Sp. z o.o. (formerly: Przedsiębiorstwo Spedycyjne Trade Trans sp. z o.o., "PKP CC") to verify the declared taxation bases and calculations and payments of the goods and services tax for the period from April 2013 to July 2013. As a result of the conducted procedures, the UKS found that some invoices did not reflect the actual course of economic events and therefore the input tax amount in excess of the tax due for refund for the above months was incorrectly calculated. On 29 December 2016, PKP CC received a decision issued by the Head of the UKS in Warsaw in which the authority defined new VAT amounts to be refunded for the period from April to July 2013, in connection with which there emerged an overdue tax liability of PLN 16,627 thousand with interest of PLN 4,623 thousand as at 31 December 2016. PKP CC appealed the decision, but it nevertheless paid the entire overdue amount with the interest on 13 January 2017. As a result of the conducted appeal proceeding, a decision was issued by the Head of the Fiscal Administration Chamber in Warsaw to hand over the case to be reexamined by the first instance authority. In September 2017, the amount previously paid by PKP CC was refunded for procedural reasons. Following an analysis of the risk that the tax authorities will challenge the VAT settlements, the PKP CC's Management Board decided to recognize a provision in the amount of the refund received. Recognition of the transaction did not affect the Group's financial result.

Other provisions

The item includes mainly provisions for contractual penalties, disputed claims and litigation. According to the Parent Company's Management Board, the amount of other provisions as at 31 December 2017, and as at 31 December 2016, constitutes the best estimate of the amount that will likely have to be paid. The estimate is based on the management's best knowledge, the experience to date and other factors which are considered to be the most reasonable in the given situation.

28. Explanations to the cash flow statement

(Increase) / decrease in trade and other receivables

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Change in the balance from the statement of financial position	(89,282)	17,101
Change in the balance of receivables for sale of non-current assets	90	(1,786)
Change in the balance of receivable interest	(775)	(238)
Offsetting mutual settlements	(4,656)	-
Other	(156)	(863)
Change in the balance of trade and other receivables in the cash flow statement	**(94,779)**	**14,214**

(Increase) / decrease in inventories

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Change in the balance from the statement of financial position	(27,275)	7,324
Change in the balance of inventories reclassified from fixed assets	30,355	2,795
Change in the balance of inventories in the cash flow statement	**3,080**	**10,119**

(Increase) / decrease in other assets

(Increase) / decrease in other assets	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Change in the balance from the statement of financial position	(261,721)	(2,963)
Change in the balance of advances paid for the purchase of fixed assets	(9,322)	(2,908)
Change in the balance of other assets from bank term deposits longer than 3 months	253,000	(1,282)
Change in the balance of other assets from granted loans	117	(1,867)
Change in the balance of other assets from sale and liquidation of shares and ownership interests	(1,101)	(1,540)
Other	36	223
Change in the balance of other assets in the cash flow statement	**(18,991)**	**(10,337)**

according to EU IFRS (in thousands of PLN)

28. Explanations to the cash flow statement (cont.)

Increase / (decrease) in trade and other payables

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Change in the balance from the statement of financial position	79,448	(93,596)
Change in the balance of liabilities related to purchase of non-financial non-current assets	(32,873)	64,776
Change in the balance of liabilities related to grant received	1,969	(8,393)
Other	62	-
Change in the balance of trade and other payables in the cash flow statement	**48,606**	**(37,213)**

Increase / (decrease) in other financial liabilities

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Change in the balance from the statement of financial position	(119,659)	(37,441)
Settlement of put option for non-controlling interest	114,010	-
Change in the balance of other financial liabilities in the cash flow statement	**(5,649)**	**(37,441)**

Other adjustments

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Actuarial earnings / (losses) recognized in other comprehensive income	(35,982)	21,482
Effective portion of profits and losses related to a hedging instrument to hedge cash flow	12,766	966
Foreign exchange differences resulting from translation of financial statements of foreign entities	358	1,621
Other adjustments in the cash flow statement	**(22,858)**	**24,069**

Non-financial transactions

In the 12-month period ended 31 December 2017 and 31 December 2016, major non-financial transactions concerning investing and financial activity which were not reflected in the consolidated cash flow statement were as follows:

a) Purchase of asset components in the form of financial lease

In the 12-month period ended 31 December 2017, the Group, under executed financial lease agreements, purchased fixed assets worth PLN 3,858 thousand. In the 12-month period ended 31 December 2016, the value of fixed assets acquired under financial lease agreements was PLN 3,209 thousand.

b) Derecognition of rolling stock

When it is decided to derecognize a rolling stock component, its residual value is recognized in the item of inventories. In 2017, the residual value of fixed asset components reclassified to inventories was PLN 30,355 thousand, while it was PLN 2,795 thousand in 2016.

c) Offsetting mutual settlements

In 2017, the Company offset trade receivables with liabilities relating to purchase of non-financial non-current assets. The total amount of the offsetting was PLN 4,656 thousand in 2017.

29. Financial instruments and principles of financial risk management

Accounting policy applied

Derivative financial instruments are recognized initially at fair value as at the contract execution date, and then they are restated to the current fair value. The method of recognizing the resulting profit or loss depends on whether the derivative instrument has been classified as a hedging instrument or not. If it has, the method of recognizing profit or loss also depends on the nature of the hedged item. The Group selects certain derivative instruments to hedge particular risks associated with recognized liabilities or highly probable planned transactions (cash flow hedges).

When entering into transactions, the Group records the connection between the hedging instruments and hedged items as well as the objectives of risk management and the strategy for executing various hedging transactions. The Group also records, both as at the date of initiating a hedge and on an ongoing basis, its assessment of whether the derivative instruments used in hedging transactions are highly effective in compensating changes to fair values or cash flows of the hedged items.

The total value of the hedging derivative instruments is included in non-current assets or long-term liabilities if the period remaining to the maturity of the hedged item is longer than 12 months or in current assets or short-term liabilities if the period remaining to the maturity of the hedged item does not exceed 12 months. Derivative instruments held for sale are classified as current assets or short-term liabilities.

The effective portion of changes to the fair value of derivative instruments selected for and qualifying as cash flow hedges is recognized in other comprehensive income. Profit or loss from the ineffective portion is recorded directly in the result. Amounts collected in equity are reclassified to the financial result in the periods in which the hedged item contributed to the result.

Offsetting financial instruments

Financial assets and liabilities are offset, and the net amount is recorded in the statement of financial position, if there is a legally enforceable right to offset the recognized amounts and if there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The legally enforceable right cannot depend on the occurrence of a specific future event and must be enforceable in the regular course of conducting business activity and also in the event of a failure to make payment, insolvency or bankruptcy on the part of the entity and all the business partners.

according to EU IFRS (in thousands of PLN)

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

Categories and classes of financial instruments

Financial assets by categories and classes	Note	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Hedging financial instruments			
Derivative instruments	13	12,047	235
Available-for-sale financial assets			
Shares in unlisted companies	13	7,286	8,501
Loans and receivables			
Trade receivables	16	688,806	616,000
Receivables from sale of non-financial non-current assets	16	111	-
Loans granted	13	1,069	796
Bank deposits	13	253,805	-
Other	13	-	9
Cash and cash equivalents	17	516,776	755,919
Total		**1,479,900**	**1,381,460**

Financial liabilities by categories and classes	Note	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Financial liabilities measured at fair value through profit or loss			
Liabilities related to put option for non-controlling interest	23	-	118,704
Hedging financial instruments (1)			
Derivative instruments	23	272	1,227
Loans and borrowings	21	494,171	204,711
Financial liabilities measured at amortized cost			
Loans and borrowings	21	1,068,159	1,266,697
Trade payables	25	447,186	377,215
Liabilities related to purchase of non-current assets	25	79,046	46,402
Financial liabilities excluded from the scope of IAS 39	22	139,095	200,490
Total		**2,227,929**	**2,215,446**

Impairment losses to revalue shares in unlisted companies and trade receivables have been described in **Notes 13** and **16** of this Consolidated Financial Statements respectively.

(1) In the period from 1 January 2017 to 31 December 2017, the Group applied cash flow hedging accounting. The purpose of the hedging activity is to mitigate the impact of the FX risk within the EUR/PLN currency pair on the future cash flows. The hedged item is a highly probable cash flow denominated in EUR.

The Parent Company established the following hedging instruments:

- investment loans denominated in EUR. The hedged cash flows will be realized until August 2031. As at 31 December 2017, the nominal amount of the hedging instrument was EUR 118,480 thousand, which is an equivalent of PLN 494,171 thousand,
- forward foreign exchange contracts. The hedged cash flows will be realized until December 2019. As at 31 December 2017, the value of the assets on the valuation of hedging instrument was PLN 10,545 thousand.

The item also includes measurement of hedging instruments in a subsidiary in the form of:

- forward interest rate swaps (IRS) hedging cash flows related to future repayments of lease liabilities at variable interest rates. The hedged cash flows will be realized until May 2018. As at 31 December 2017, the value of liabilities related to hedging instrument measurement was PLN 272 thousand,
- forward foreign exchange contracts on the EUR/PLN currency pair, hedging future cash flows. The hedged cash flows will be realized until November 2018. As at 31 December 2017, the value of the assets on the valuation of hedging instrument was PLN 1,502 thousand.

according to EU IFRS (in thousands of PLN)

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

Fair value hierarchy

As at 31 December 2017 and 31 December 2016, the financial instruments measured at fair value were financial derivatives. The maturity date for these instruments falls after the date ending the reporting period. In terms of measurement procedures, they qualify to level 2 and 3 of the fair value hierarchy.

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)	
	Level 2	Level 2	Level 3
Assets			
Derivative instruments – forward foreign exchange contracts	12,047	235	-
Liabilities			
Derivative instruments – forward foreign exchange contracts and IRS	272	1,227	-
Liabilities related to put option for non-controlling interest	-	-	118,704

Measurement methods for financial instruments carried at fair value

a) Forward foreign exchange contracts

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

b) IRS contracts

The fair value of interest rate swaps is determined on the basis of discounted future cash flows from concluded transactions based on the difference between the forward price and the transaction price. The fair value is calculated and discounted by the bank according to WIBOR 1M.

c) Other financial instruments

For the category of financial instruments which are not carried at fair value as at the balance sheet date, the Group does not disclose fair value because the fair values of these financial instruments as at 31 December 2017 and 31 December 2016 were not materially different from their values presented in the statement of financial position. Similarly, the Group does not disclose fair values for shares and ownership interests in companies unlisted on active markets classified to the category of financial assets available for sale. The Group is not able to determine the fair value in any reliable way in the case of owned interests in companies unlisted on active markets. As at the balance sheet date, these are measured at the purchase price reduced by impairment losses.

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

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Balance at the beginning of the reporting period	**(118,704)**	**(155,198)**
Gains / (losses) on revaluation	4,694	36,494
Settlement of put option for non-controlling interest [1]	114,010	-
Balance at the end of the reporting period	**-**	**(118,704)**

[1] The reduction follows from the realization of put option by a minority shareholder. Details are given in **Note 23** of these Consolidated Financial Statements.

In the financial year ended 31 December 2017 and 31 December 2016, there were no transfers between levels 2 and 3 of the fair value hierarchy.

according to EU IFRS (in thousands of PLN)

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

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

Year ended 31/12/2017 (audited)	Hedging financial instruments	Available-for-sale financial assets	Loans and receivables	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IAS 39	Total
Dividends and profit-sharing	-	257	-	-	-	-	**257**
Interest income / (expense)	(1,225)	-	14,068	-	(28,699)	(6,095)	**(21,951)**
Foreign exchange differences	723	-	(16,060)	-	6,567	5,736	**(3,034)**
Impairment losses / revaluation	108	-	(6,261)	4,694	-	-	**(1,459)**
Commission on bank loans	-	-	-	-	(1,660)	(4)	**(1,664)**
Profit / (loss) on the sale of investments	-	(225)	-	-	-	-	**(225)**
Effect of settlement of cash flow hedging accounting [(1)]	7,951	-	-	-	-	-	**7,951**
Gross profit / (loss)	**7,557**	**32**	**(8,253)**	**4,694**	**(23,792)**	**(363)**	**(20,125)**
Revaluation	27,865	-	-	-	-	-	**27,865**
Other comprehensive income	**27,865**	**-**	**-**	**-**	**-**	**-**	**27,865**

[(1)] In the financial year ended 31 December 2017, the effect of settling cash flow hedging accounting was presented in the following items of the statement of comprehensive income:
- revenue from sales of services and finished products in the amount of PLN 8,867 thousand,
- financial expenses - interest on financial lease liabilities in the amount of PLN 916 thousand,

Year ended 31/12/2016 (audited)	Hedging financial instruments	Available-for-sale financial assets	Loans and receivables	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IAS 39	Total
Dividends and profit-sharing	-	434	-	-	-	-	**434**
Interest income / (expense)	(765)	-	2,902	-	(21,688)	(8,556)	**(28,107)**
Foreign exchange differences	(10)	-	(150)	-	2,158	(3,478)	**(1,480)**
Impairment losses / revaluation	94	-	(77,247)	36,494	-	-	**(40,659)**
Commission on bank loans	-	-	-	-	(1,398)	-	**(1,398)**
Profit / (loss) on the sale of investments	-	85	-	-	-	-	**85**
Effect of settlement of cash flow hedging accounting [(1)]	(131)	-	-	-	-	-	**(131)**
Gross profit / (loss)	**(812)**	**519**	**(74,495)**	**36,494**	**(20,928)**	**(12,034)**	**(71,256)**
Revaluation	(3,920)	-	-	-	-	-	**(3,920)**
Other comprehensive income	**(3,920)**	**-**	**-**	**-**	**-**	**-**	**(3,920)**

[(1)] In the financial year ended 31 December 2016, the effect of settling cash flow hedging accounting was presented in the following items of the statement of comprehensive income:
- revenue from sales of services and finished products in the amount of PLN 896 thousand,
- financial expenses - interest on financial lease liabilities in the amount of PLN 1,027 thousand.

according to EU IFRS (in thousands of PLN)

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

Offsetting financial assets

As at 31/12/2017 (audited)	Gross value of recognized financial assets	Gross value of recognized financial liabilities offset in the balance sheet	Net value of financial assets presented in the balance sheet	Associated values not offset in the balance sheet – received cash collateral	Net value
Trade receivables	688,806	-	688,806	(5,354)	683,452
Total	**688,806**	**-**	**688,806**	**(5,354)**	**683,452**

As at 31/12/2016 (audited)	Gross value of recognized financial assets	Gross value of recognized financial liabilities offset in the balance sheet	Net value of financial assets presented in the balance sheet	Associated values not offset in the balance sheet – received cash collateral	Net value
FX forwards	930	(695)	235	-	235
Trade receivables	616,000	-	616,000	(20,289)	595,711
Total	**616,930**	**(695)**	**616,235**	**(20,289)**	**595,946**

Offsetting financial liabilities

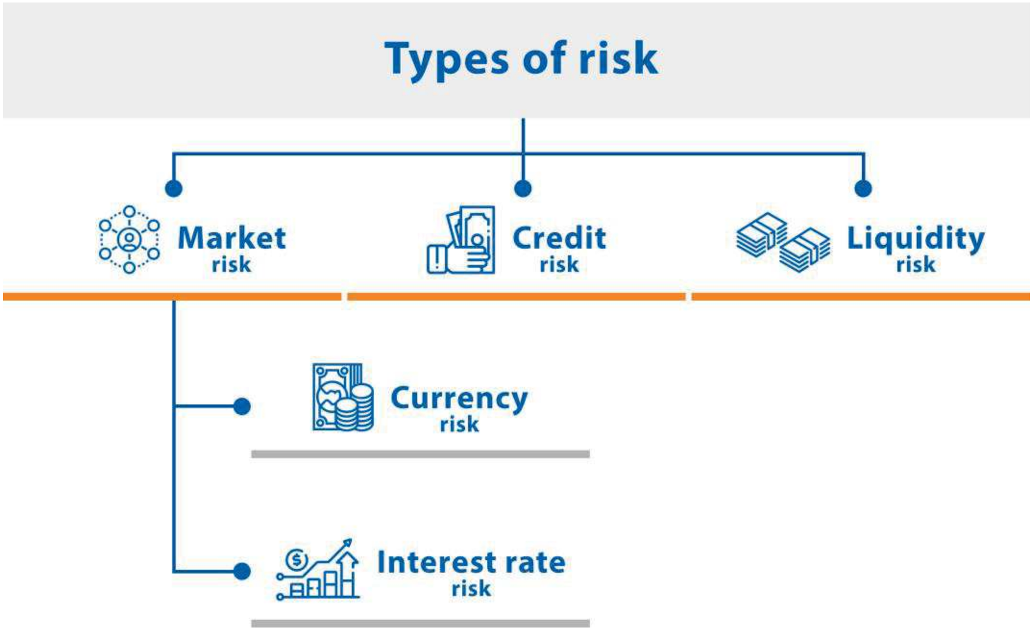
As at 31/12/2017 (audited)	Gross value of recognized financial liabilities	Gross value of recognized financial assets offset in the balance sheet	Net value of financial liabilities presented in the balance sheet	Associated values not offset in the balance sheet – provided cash collateral	Net value
Trade payables	447,186	-	447,186	(1,474)	445,712
Total	**447,186**	**-**	**447,186**	**(1,474)**	**445,712**

As at 31/12/2016 (audited)	Gross value of recognized financial liabilities	Gross value of recognized financial assets offset in the balance sheet	Net value of financial liabilities presented in the balance sheet	Associated values not offset in the balance sheet – provided cash collateral	Net value
FX forwards	357	(172)	185	-	185
Trade payables	377,215	-	377,215	(1,415)	375,800
Total	**377,572**	**(172)**	**377,400**	**(1,415)**	**375,985**

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

Objectives and principles of financial risk management

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



Market risk

The Group is exposed to market risks associated with changes of the exchange rates and interest rates. The objective of the market risk management process is to limit undesirable impact of changes of market risk factors on the cash flows and results in the short- and medium-term. The Group manages the market risk following from the aforementioned factors on the basis of internal procedures which define the rules of measurement of individual exposures, parameters and time horizon. The principles of market risk management are implemented through assigned organizational units under the supervision of the Parent Company's Management Board. Market risk management is executed based on developed strategies, with partial utilization of derivative instruments. Derivative instruments are used only to limit the risk of change of the balance sheet value and the risk of cash flow changes. Transactions are concluded only with reliable partners, admitted to participation as a result of application of internal procedures and execution of appropriate documentation.

Foreign exchange risk management

As at 31 December 2017, the Group was exposed to foreign exchange risk concerning for the most part trade receivables, loan liabilities and lease liabilities denominated in foreign currencies.

As a result of valuation of receivables and liabilities denominated in foreign currencies conducted as at the balance sheet date, and also as a result of ongoing settlements in foreign currencies, there arise positive and negative foreign exchange differences. Their values fluctuate during the year, which is caused by changes in exchange rates. In a long-term perspective, the valuation risk matches the risk of change of cash flows, therefore the Group's cash flows are subject to hedging operations.

For the EUR / PLN exchange rate, there is partial natural hedging due to the fact that sales revenues in EUR are partly balanced out by costs in the same currency. The FX risk management transactions used by the Group are aimed at hedging the net free position exposed to change of the value in PLN. To achieve this, the Group used forward transactions on the EUR / PLN currency pair in 2016-2017.

according to EU IFRS (in thousands of PLN)

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

Items in foreign currencies

As at 31/12/2017 (audited)	Total value of items in PLN	EUR / PLN		CHF / PLN		CZK / PLN	
		in a foreign currency	in PLN	in a foreign currency	in PLN	in a foreign currency	in PLN
ASSETS							
Trade receivables	212,823	33,589	140,097	491	1,752	434,887	70,974
Other current financial assets	1,069	256	1,069	-	-	-	-
Cash and cash equivalents	163,123	21,796	90,908	17	61	442,118	72,154
EQUITY AND LIABILITIES							
Long term liabilities							
Long-term bank loans and borrowings	538,732	117,535	490,226	-	-	297,220	48,506
Long-term finance lease liabilities	37,635	7,874	32,843	-	-	29,361	4,792
liabilities							
Short-term bank loans and borrowings	56,254	13,438	56,047	-	-	1,265	207
Short-term finance lease liabilities	37,372	8,270	34,493	-	-	17,639	2,878
Trade and other payables	187,837	21,566	89,952	864	3,082	580,899	94,803
Net currency item	**(480,814)**	**(113,042)**	**(471,486)**	**(356)**	**(1,269)**	**(49,379)**	**(8,058)**

As at 31/12/2016 (audited)	Total value of items in PLN	EUR / PLN		CHF / PLN		CZK / PLN	
		in a foreign currency	in PLN	in a foreign currency	in PLN	in a foreign currency	in PLN
ASSETS							
Trade receivables	213,632	31,631	139,935	294	1,210	442,805	72,487
Other current financial assets	796	180	796	-	-	-	-
Cash and cash equivalents	107,807	18,949	83,831	15	60	146,096	23,916
EQUITY AND LIABILITIES							
Long-term liabilities							
Long-term bank loans and borrowings	297,238	56,190	248,583	-	-	297,220	48,655
Long-term finance lease liabilities	77,134	16,150	71,448	-	-	34,733	5,686
Short-term liabilities							
Short-term bank loans and borrowings	28,925	6,536	28,917	-	-	50	8
Short-term finance lease liabilities	41,423	8,403	37,177	-	-	25,944	4,246
Trade and other payables	153,541	12,092	53,493	813	3,348	590,713	96,700
Other short-term financial liabilities	118,704	27,000	118,704	-	-	-	-
Net currency item	**(394,730)**	**(75,611)**	**(333,760)**	**(504)**	**(2,078)**	**(359,759)**	**(58,892)**

according to EU IFRS (in thousands of PLN)

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

Sensitivity to FX risk

The Group is exposed mainly to the foreign exchange risk regarding the following currency pairs: EUR/PLN, CHF/PLN, CZK/PLN, in connection with its operating and financing activity. Deviations in exchange rates have been calculated on the basis of average volatility of particular currency exchange rates. Sensitivity of financial Instruments to foreign exchange risk has been calculated as the difference between the carrying amount of the financial Instruments (excluding derivatives such as forward contracts) and their potential value while assuming changes to foreign exchange rates. The tables below present the Group's exposure to the foreign exchange risk in 2017 and 2016.

The tables below present the Group's exposure to the foreign exchange risk as at 31 December 2017 and 31 December 2016.

As at 31/12/2017 (audited)	Value of the item in PLN	FX risk							
		EUR / PLN				CHF / PLN		CZK / PLN	
		impact on the result		impact on other comprehensive income		impact on the result		impact on other comprehensive income	
		+5%	-5%	+5%	-5%	+5%	-5%	+5%	-5%
ASSETS									
Trade receivables	212,823	7,005	(7,005)	-	-	88	(88)	3,548	(3,548)
Other current financial assets	1,069	53	(53)	-	-	-	-	-	-
Cash and cash equivalents	163,123	4,545	(4,545)	-	-	3	(3)	3,608	(3,608)
EQUITY AND LIABILITIES									
Long-term liabilities									
Long-term bank loans and borrowings	538,732	(34)	34	(22,665)	22,665	-	-	(2,425)	2,425
Long-term finance lease liabilities	37,635	(1,642)	1,642	-	-	-	-	(240)	240
Short-term liabilities									
Short-term bank loans and borrowings	56,254	-	-	(2,802)	2,802	-	-	(10)	10
Short-term finance lease liabilities	37,372	(1,725)	1,725	-	-	-	-	(144)	144
Trade and other payables	187,837	(4,497)	4,497	-	-	-	-	(4,740)	4,740
Total gross effect		**3,705**	**(3,705)**	**(25,467)**	**25,467**	**91**	**(91)**	**(403)**	**403**

according to EU IFRS (in thousands of PLN)

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

As at 31/12/2016 (audited)	Value of the item in PLN	FX risk									
		EUR / PLN				CHF / PLN		CZK / PLN			
		impact on the result		impact on other comprehensive income		impact on the result		impact on the result		impact on other comprehensive income	
		+9%	-9%	+9%	-9%	+18%	-18%	+10%	-10%	+10%	-10%
ASSETS											
Trade receivables	213,632	12,594	(12,594)	-	-	218	(218)	-	-	7,249	(7,249)
Other current financial assets	796	72	(72)	-	-	-	-	-	-	-	-
Cash and cash equivalents	107,807	7,545	(7,545)	-	-	11	(11)	-	-	2,392	(2,392)
EQUITY AND LIABILITIES											
Long-term liabilities											
Long-term bank loans and borrowings	297,238	(22,373)	22,373	(17,531)	17,531	-	-	-	-	(4,865)	4,865
Long-term finance lease liabilities	77,134	(6,430)	6,430	-	-	-	-	-	-	(569)	569
Short-term liabilities											
Short-term bank loans and borrowings	28,925	(1,706)	1,706	(897)	897	-	-	-	-	(1)	1
Short-term finance lease liabilities	41,423	(3,346)	3,346	-	-	-	-	-	-	(425)	425
Trade and other payables	153,541	(4,814)	4,814	-	-	(603)	603	(158)	158	(9,512)	9,512
Total gross effect		**(18,458)**	**18,458**	**(18,428)**	**18,428**	**(374)**	**374**	**(158)**	**158**	**(5,731)**	**5,731**

FX forward transactions

To manage the foreign exchange risk in 2017 and 2016, FX forward transactions were applied on the EUR / PLN currency pair (sale of foreign currency).

List of unrealized FX forward contracts

Balance as at 31 December 2017 (audited)

Company	Transaction type	Transaction date	Contract settlement date	Currency pair	Amount in the base currency	Amount in the volatile currency	Fair value
BZ WBK	forward	06/2016 – 10/2017	01/2018 – 10/2019	EUR / PLN	2,550	11,507	697
mBANK	forward	11/2016 – 12/2017	01/2018 – 12/2019	EUR / PLN	12,900	56,946	2,092
Pekao	forward	06/2016 – 10/2017	01/2018 – 10/2019	EUR / PLN	15,050	66,980	3,355
PKO BP	forward	05/2016 – 12/2017	01/2018 – 12/2019	EUR / PLN	20,900	93,577	4,806
RCB	forward	10/2016 – 11/2016	01/2018 – 11/2018	EUR / PLN	1,000	4,484	286
Credit Agricole	forward	01/2017 – 12/2017	07/2018 – 12/2019	EUR / PLN	4,600	20,523	811
Total					**57,000**	**254,017**	**12,047**

according to EU IFRS (in thousands of PLN)

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

As at 31 December 2016 (audited)

Company	Transaction type	Transaction date	Contract settlement date	Currency pair	Amount in the base currency	Amount in the volatile currency	Fair value
BZ WBK	forward	06/2016 – 12/2016	05/2017 – 10/2018	EUR / PLN	4,000	18,199	160
mBANK	forward	02/2016 – 12/2016	01/2017 – 12/2018	EUR / PLN	17,900	80,026	(27)
Pekao	forward	04/2016 – 12/2016	01/2017 – 12/2018	EUR / PLN	12,100	54,569	(26)
PKO BP	forward	01/2016 – 11/2016	01/2017 – 11/2018	EUR / PLN	21,100	94,989	24
RCB	forward	10/2016 – 12/2016	09/2017 – 11/2018	EUR / PLN	1,500	6,723	(67)
Credit Agricole	forward	07/2016 – 09/2016	07/2017 – 08/2017	EUR / PLN	300	1,330	(14)
Total					**56,900**	**255,836**	**50**

Interest rate risk management

As at 31 December 2017, the Group is exposed to the risk of volatility of interest rate cash flows following from bank loans and leasing agreements based on variable interest rates. Interest on leasing agreements was accrued according to the reference rates increased by the financing party’s margin. The reference rate for agreements denominated in EUR is EURIBOR 3M and 6M and for agreements signed in PLN – WIBOR 1M and 3M. Interest on loan agreements were accrued according to the WIBOR 1M, 3M and 6M, EURIBOR 3M and PRIBOR 3M reference rates plus the banks’ margins. The interest rate risk in loan and leasing agreements is executed through revaluation of lease installments in monthly, quarterly and semi-annual periods, depending on the agreement.

In 2017 and 2016 the Group used interest rate risk management transactions (IRS) to hedge against fluctuations of interest rates for some of the financial leasing liabilities.

The cash held by the Group as at 31 December 2017 was mainly in the form of fixed rate bank deposits which were concluded with time horizons depending on the Group’s liquidity needs. In future periods, as a result of changes in the deposit interest rates, the cash position may be exposed to interest rate risk.

To present the effects of the hedging transactions in accordance with their economic content the Group (in the subsidiary PKP CARGO CONNECT Sp. z o.o.) used hedge accounting. In the interest rate risk management process the Group uses IRS instruments (interest rate swaps). These transactions hedge variable interest rates on lease liabilities. As a result of carrying out a test of hedging effectiveness the valuation for the following instruments (IRS) was recorded in the Group’s equity.

As at 31 December 2017 (audited)

Company	Transaction type	Transaction date	Transaction expiry date	Notional amount	Group pays	Group receives	Fair value
CITI Handlowy	IRS	2013-04-09	2018-05-01	74,776	3.33%	WIBOR 1M + margin	(272)

As at 31 December 2016 (audited)

Company	Transaction type	Transaction date	Transaction expiry date	Notional amount	Group pays	Group receives	Fair value
CITI Handlowy	IRS	2013-04-09	2018-05-01	74,776	3.33%	WIBOR 1M + margin	(1,042)

according to EU IFRS (in thousands of PLN)

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

Financial instruments by interest rate type

Financial assets	As at 31/12/2017 (audited)			As at 31/12/2016 (audited)		
	Interest rate			Interest rate		
	fixed interest rate	variable interest rate	Total	fixed interest rate	variable interest rate	Total
Loans granted	819	250	**1,069**	663	133	**796**
Bank deposits	253,805	-	**253,805**	-	-	**-**
Cash and cash equivalents	516,776	-	**516,776**	755,919	-	**755,919**
Total	**771,400**	**250**	**771,650**	**756,582**	**133**	**756,715**

Financial liabilities	As at 31/12/2017 (audited)			As at 31/12/2016 (audited)		
	Interest rate			Interest rate		
	fixed interest rate	variable interest rate	Total	fixed interest rate	variable interest rate	Total
Derivative instruments – IRS contracts	272	-	**272**	1,042	-	**1,042**
Bank loans and borrowings	52,941	1,509,389	**1,562,330**	73,837	1,397,571	**1,471,408**
Liabilities related to purchase of non-current assets	586	-	**586**	22,896	-	**22,896**
Financial lease liabilities	45,894	93,201	**139,095**	67,931	132,559	**200,490**
Total	**99,693**	**1,602,590**	**1,702,283**	**165,706**	**1,530,130**	**1,695,836**

Interest rate fluctuation sensitivity

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

As at 31/12/2017 (audited)	Value of the item in PLN	Interest rate risk					
		WIBOR		EURIBOR		PRIBOR	
		impact on the result		impact on the result		impact on the result	
		+ 50 pp	- 50 pp	+ 50 pp	- 50 pp	+ 70 pp	- 70 pp
ASSETS							
Other current financial assets	250	1	(1)	-	-	-	-
EQUITY AND LIABILITIES							
Long-term liabilities							
Long-term bank loans and borrowings	1,275,832	(3,957)	3,957	(2,270)	2,270	(343)	343
Long-term finance lease liabilities	56,119	(249)	249	(13)	13	-	-
Short-term liabilities							
Short-term bank loans and borrowings	232,697	(949)	949	-	-	-	-
Short-term finance lease liabilities	37,082	(46)	46	-	-	-	-
Total gross effect		**(5,200)**	**5,200**	**(2,283)**	**2,283**	**(343)**	**343**

according to EU IFRS (in thousands of PLN)

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

As at 31/12/2016 (audited)	Value of the item in PLN	Interest rate risk					
		WIBOR		EURIBOR		PRIBOR	
		impact on the result		impact on the result		impact on the result	
		+ 100 pp	- 100 pp	+ 70 pp	- 70 pp	+ 70 pp	- 70 pp
ASSETS							
Other current financial assets	133	1	(1)	-	-	-	-
EQUITY AND LIABILITIES							
Long-term liabilities							
Long-term bank loans and borrowings	1,219,825	(9,764)	9,764	(1,364)	1,364	(341)	341
Long-term finance lease liabilities	91,326	(604)	604	(216)	216	-	-
Short-term liabilities							
Short-term bank loans and borrowings	177,877	(1,679)	1,679	(69)	69	-	-
Short-term finance lease liabilities	41,422	(186)	186	(160)	160	-	-
Total gross effect		**(12,232)**	**12,232**	**(1,809)**	**1,809**	**(341)**	**341**

Credit risk management

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

Classes of financial instruments	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Trade receivables	688,806	616,000
Cash and cash equivalents	516,776	755,919
Deposits	253,805	-
Other financial assets	1,069	796
Total	**1,460,456**	**1,372,715**

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

Concentration of risk associated with trade receivables is limited due to the large number of business partners with commercial credit dispersed among different sectors of economy. The structure of the Group's trade receivables is as follows:

Structure of trade receivables	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Group of entities related to the biggest external counterparty	8.8%	7.7%
PKP Group related parties	0.7%	0.9%
Others State Treasury related parties	22.3%	25.5%
Other entities	68.2%	65.9%
Total	**100.0%**	**100.0%**

according to EU IFRS (in thousands of PLN)

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

In addition, to reduce the risk of problems with recovery of trade receivables, the Group insures its receivables and accepts from its customers securities in the form of, among others: receivables insurance, bank / insurance guarantees, assignment of contracts, blockage on bank accounts, and promissory notes. As at 31 December 2017, 11.85% of the trade receivables were secured. The credit risk associated with cash and bank deposits is perceived as low. All entities in which the Group invests free cash operate in the financial sector. These include domestic banks, foreign banks and branches of foreign banks of high level credit rating.

Liquidity risk management

The Group may be exposed to liquidity risk following from the ratio of current assets to short-term liabilities. To ensure an additional source of funds required to secure its short-term liquidity the Group had current account overdraft facilities. Additionally, to secure its long-term liquidity, the Group used investment loans and leasing (financing of capital expenditures). As at 31 December 2017, the Group had in aggregate unused credit facilities in the amount of PLN 169,523 thousand.

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

As at 31/12/2017 (audited)	Under 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years	Total
Interest-bearing bank loans and borrowings [1]	76,899	198,024	842,537	544,627	**1,662,087**
Trade payables	445,827	34	1,325	-	**447,186**
Liabilities related to purchase of non-current assets	79,008	42	-	-	**79,050**
Financial lease liabilities	15,089	36,866	93,623	4,991	**150,569**
Derivative instruments	204	68	-	-	**272**
Total	**617,027**	**235,034**	**937,485**	**549,618**	**2,339,164**

[1] Liabilities related to loans in the case of which the contractual terms were breached are presented as due and payable within 3 months.

As at 31/12/2016 (audited)	Under 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years	Total
Interest-bearing bank loans and borrowings	57,504	165,757	848,494	519,745	**1,591,500**
Trade payables	375,596	359	1,260	-	**377,215**
Liabilities related to purchase of non-current assets	33,290	13,018	586	-	**46,894**
Financial lease liabilities	14,319	50,855	113,170	39,348	**217,692**
Derivative instruments	-	185	1,042	-	**1,227**
Liabilities related to put option for non-controlling interest	-	118,704	-	-	**118,704**
Total	**480,709**	**348,878**	**964,552**	**559,093**	**2,353,232**

Equity management

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

according to EU IFRS (in thousands of PLN)

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

Total debt to total assets at the end of the year is as follows:

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Total debt [(1)]	3,306,781	3,247,928
Total assets	6,641,559	6,508,206
Debt to total assets	**50%**	**50%**

[(1)] Debt is understood as long- and short-term liabilities.

Equity management is effected on the Group level and is aimed at ensuring the Group's capability to continue operations.

30. Related party transactions

Transactions with the State Treasury and its other related parties

In the financial year ended 31 December 2017 and 31 December 2016, the State Treasury was for the PKP CARGO Group an upper level parent company. Accordingly, all companies owned by the State Treasury (directly or indirectly) are the Group's related parties and are presented separately as PKP Group related parties and other State Treasury related parties. In these Consolidated Financial Statements, the Management Board of the Parent Company has disclosed transactions with significant related parties identified as such according to the best knowledge of the Management Board.

In the financial years ended 31 December 2017 and 31 December 2016, there were no transactions conducted between the PKP CARGO Group and the State Treasury or other entities related to the State Treasury which would be significant due to a non-standard scope or amount. In the periods covered by this Consolidated Financial Statements, the Group's most important customers among other parties related to the State Treasury were Jastrzębska Spółka Węglowa S.A., Grupa Azoty, Grupa Enea, Węglokoks S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A. In the periods covered by this Consolidated Financial Statements there were no purchase transactions with other entities related to the State Treasury with any material value.

Transactions with PKP Group related parties

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

	Year ended 31/12/2017 (audited)		Year ended 31/12/2016 (audited)	
	Sales to related parties	Purchases from related parties	Sales to related parties	Purchases from related parties
Parent Company (PKP S.A.)	431	68,490	398	71,921
Subsidiaries / co-subsidiaries	9,517	15,324	13,579	17,707
Associates	2,440	503	2,442	506
Other PKP Group related parties	30,172	692,438	38,157	655,479

	As at 31/12/2017 (audited)		As at 31/12/2016 (audited)	
	Receivables from related parties	Liabilities to related parties	Receivables from related parties	Liabilities to related parties
Parent Company (PKP S.A.)	1,292	7,950	1,247	7,811
Subsidiaries / co-subsidiaries	1,226	1,580	1,389	1,559
Associates	179	-	161	4
Other PKP Group related parties	2,529	60,879	3,062	75,331

Purchase transactions with the Parent Company (PKP S.A.) pertain in particular to rental and lease of real estate, supply of utilities and occupational medicine services.

according to EU IFRS (in thousands of PLN)

30. Related party transactions (cont.)

Sales transactions with other PKP Group related parties comprised, among others, train traction services, lease and operation of locomotives, services related to financial settlements with foreign rail freight companies, rolling stock maintenance services and sub-lease of real estate. Purchase transactions comprised, among others, access to rail infrastructure, lease of real estate, supply of utilities, maintenance of rail traffic facilities, purchase of network maintenance services, operation of IT systems, purchase of train fare discounts for employees, and retirement and disability pensioners.

Loans granted to / received from related parties

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Loans granted to related parties	1,069	796
Loans received from related parties	1,311	3,605

Remunerations of key management personnel

Remunerations of the Parent Company's Management Board Members were as follows:	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Short-term benefits	2,383	3,192
Post-employment benefits	1,097	1,515
Termination benefits	353	459
Total	**3,833**	**5,166**

Remunerations of the Parent Company's Supervisory Board Members were as follows:	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Short-term benefits	1,069	1,147
Total	**1,069**	**1,147**

Remunerations of other members of the key management personnel of the Parent Company were as follows[(1)]:	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (restated)
Short-term benefits	6,165	6,798
Post-employment benefits	1,089	2,588
Termination benefits	499	646
Total	**7,753**	**10,032**

Remunerations of the Subsidiaries' Management Board Members were as follows:	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Short-term benefits	8,845	8,409
Post-employment benefits	837	1,994
Termination benefits	295	471
Total	**9,977**	**10,874**

Remunerations of the Subsidiaries' Supervisory Board Members were as follows:	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Short-term benefits	1,493	1,470
Total	**1,493**	**1,470**

according to EU IFRS (in thousands of PLN)

30. Related party transactions (cont.)

Remunerations of other members of the key management personnel of the Subsidiaries were as follows[(1)]:	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (restated)
Short-term benefits	16,341	15,797
Post-employment benefits	531	9
Termination benefits	66	179
Total	**16,938**	**15,985**

(1) In the financial year ended 31 December 2017 the Group changed the presentation of other key management personnel, including into this group, in addition to Managing Directors, Head Office Department Directors and Directors of other organizational units responsible for individual areas of the Group's operations. In connection with the change of the presentation the Group accordingly restated the comparable data for the financial year ended 31 December 2016.

In the financial year ended 31 December 2017 and 31 December 2016, the members of the key management personnel of the Parent Company and the PKP CARGO Group subsidiaries did not enter into any loan and guarantee transactions with the Group.

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

31. Operating lease agreements

Group as a lessee

As at 31 December 2017 the Group's operating lease agreements comprise mainly agreements pertaining to lease of real estate, lease of buildings and office facilities and lease of wagons. Key real estate lease agreements are concluded for long-term periods with the possibility of early termination within specified contractual deadlines. In the case of agreements which can be terminated early without additional costs, the Group presents, as future minimum leasing fees, the fees which it is obligated to pay during the termination notice period for such agreements. Increase of future minimum lease payments as at 31 December 2017 is the effect of new freight wagon lease agreements entered into by the Parent Company in 2017.

Lease payments recognized as expense of the period

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Minimum lease payments	126,430	148,807
Payments received under sub-lease (subleasing)	(2,409)	(2,237)
Total	**124,021**	**146,570**

Future minimum lease payments under non-cancellable operating leases

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Up to 1 year	71,853	58,249
From 1 year to 5 years	66,412	56,805
Over 5 years	7,143	7,404
Total	**145,408**	**122,458**

32. Liabilities to incur expenditures for non-financial non-current assets

As at 31 December 2017 the Group's key future contractual investment liabilities are as follows:

Contractual liabilities related to purchase of non-financial non-current assets	Contractual execution deadline	Unrealized contract value as at 31/12/2017 (audited)
Terminal expansion in Paskov	by 31/122018	23,908
Total		**23,908**

according to EU IFRS (in thousands of PLN)

33. Contingent liabilities

Structure of contingent liabilities

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Guarantees issued on the Group's order	130,097	142,251
Other contingent liabilities	129,243	73,525
Total	**259,340**	**215,776**

Guarantees issued on the Group's order

As at 31 December 2017 the Group lists in contingent liabilities guarantees issued by banks and insurance companies on the order of PKP CARGO Group entities. This line item comprises mainly commercial contract performance bonds, tender deposits and customs guarantees.

Other contingent liabilities

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

The change in the balance of contingent liabilities as at 31 December 2017 is the effect of a statement of claim filed by a counterparty for PLN 70,000 thousand pertaining to payment of damages for loss of the plaintiff's enterprise value due to unfair competition acts and compensation for breach of the plaintiff's personal rights by the Parent Company's unlawful actions in 2010-2013. The Parent Company received the statement of claim on 22 June 2017. The Parent Company submitted its statement of defense on 1 September 2017. As at 31 December 2017 the Parent Company's Management Board believes that the outflow of cash in the future associated with the said claim is less probable than absence of such outflow, hence no provision has been recognized. Additionally, in 2017, a judgment was passed dismissing the claim of a counterparty for payment of damages on account of the improper functioning of the billing system in the Parent Company in 2002 in the amount of PLN 18,435 thousand, and consequently the Group ceased to present the said claim as a contingent liability.

according to EU IFRS (in thousands of PLN)

34. Collateral for repayment of liabilities

Assets constituting collateral for repayment of liabilities

As at 31 December 2017 and 31 December 2016 the Group had assets which constituted collateral for repayment of liabilities. The assets secure mainly correct performance of facility agreements. The amounts of the collateral are limited to the amount of the loan liability as at the balance sheet date. Detailed information about the liabilities secured by the said assets is presented in Note 21 of these Consolidated Financial Statements.

The carrying amount of assets securing repayment of liabilities as at 31 December 2017 and 31 December 2016 was as follows:

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Property, plant and equipment	285,457	301,460
Inventories	600	600
Trade receivables	52,979	56,773
Cash	897	197
Total	**339,933**	**359,030**

Other collateral for repayment of liabilities

As at 31 December 2017, as part of collateral for repayment of liabilities, the Group also had the following outstanding blank promissory notes:

- Blank promissory notes up to PLN 39,512 thousand, securing proper performance of the subsidy agreements for the investment projects executed by the Parent Company.
- Blank promissory notes issued under concluded guarantee limit agreements up to PLN 120,000 thousand. The limits under the aforementioned agreements are available to the Parent Company and other Group companies. The granted limits were secured by blank promissory notes together with promissory note declarations; each of them could be completed up to the limit amount provided that each company under the granted limits is liable only up to the amount of the guarantees issued on its order. As at 31 December 2017, the amount of the guarantees issued by the Group, secured by the said promissory notes was PLN 71,812 thousand. The utilization of the guarantee limits was presented in **Note 33** of these Consolidated Financial Statements in the item Guarantees issued by banks on the Group's order.
- Blank promissory notes issued by subsidiaries to secure guarantee limit agreements under which they could order guarantees to secure customs debt. As at 31 December 2017, the amount of the guarantees securing customs debt was PLN 21,000 thousand. The amount of utilization of the facility was presented in **Note 33** of these Consolidated Financial Statements in the item Guarantees issued by banks on the Group's order.
- Blank promissory notes up to PLN 93,842 thousand constituting collateral under the leases concluded by subsidiaries. As at 31 December 2017, the amount of liabilities under the leases secured by the said promissory notes was PLN 55,798 thousand. The amount of the leasing liabilities was presented in **Note 22** of these Consolidated Financial Statements.

35. Subsequent events

There we no material events affecting the Group's operations after the balance sheet date.

36. Approval of the financial statements

These Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 15 March 2018.

Parent Company's Management Board

Krzysztof Mamiński
acting President of the Management Board

Grzegorz Fingas
Management Board Member

Witold Bawor
Management Board Member

Zenon Kozendra
Management Board Member

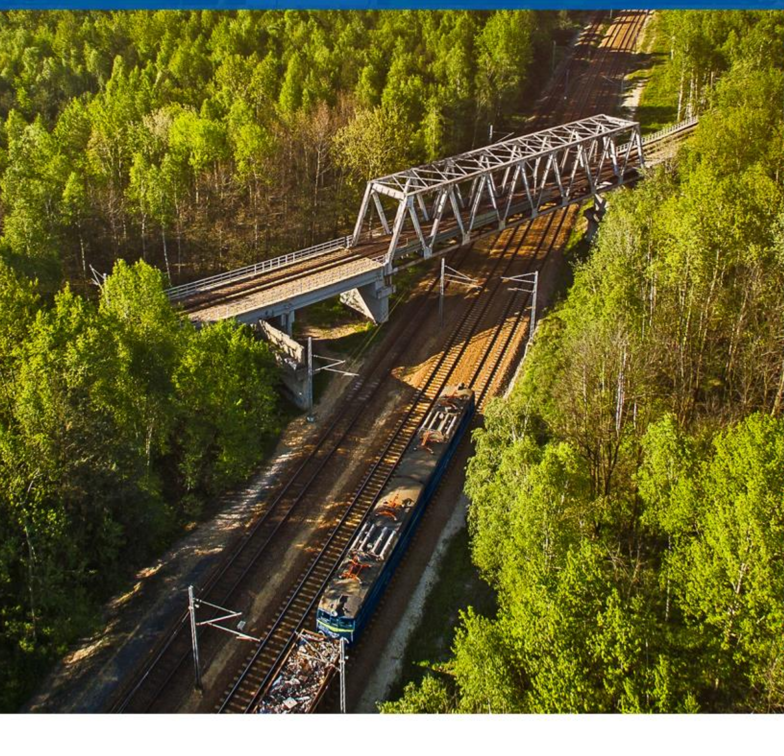
Warsaw, 15 March 2018

MANAGEMENT BOARD'S REPORT OF THE ACTIVITIES OF **PKP CARGO** CAPITAL GROUP IN 2017

PKPCARGO

pkp**cargo**.com

Management's Board Report of the activities of PKP CARGO Capital Group in 2017



PKPCARGO

PKP CARGO S.A.

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

This document comprises the Report of the Management Board of PKP CARGO S.A. (“Company”, “Parent Company”) on the Activity of the PKP CARGO Group (“Group”) in 2017. The document comprises also a report on the activity of the Parent Company.

MANAGEMENT BOARD REPORT ON THE ACTIVITY OF THE PKP CARGO GROUP FOR THE FINANCIAL YEAR 2017

LIST OF TABLES

LIST OF FIGURES

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

Table 1 Financial highlights of PKP CARGO S.A.

PKP CARGO S.A.	PLN 000s[1]				EUR 000s			
	2017	2016	2015	2014[2]	2017	2016	2015	2014
Operating revenue	3,591,814	3,250,457	3,514,154	3,880,181	846,188	742,843	839,742	926,212
Operating profit / (loss)	151,229	-31,111	-115,180	92,813	35,628	-7,110	-27,523	22,155
Profit / (loss) before tax	125,447	-70,690	-139,107	87,532	29,554	-16,155	-33,241	20,894
Net profit / (loss) from continuing operations	93,967	-68,565	-114,125	75,607	22,137	-15,669	-27,271	18,048
Comprehensive income	88,021	-53,876	-73,827	48,936	20,737	-12,313	-17,642	11,681
Adjusted profit (loss) on operating activities,****	*123,815*	*-31,111*	*126,544*	*349,929*	29,169	*-7,110*	*30,239*	*83,529*
*Adjusted profit (loss) before tax *,****	*98,033*	*-70,690*	*102,617*	*344,648*	23,095	*-16,155*	*24,521*	*82,269*
*Adjusted net profit (loss) *,****	*71,762*	*-68,565*	*81,671*	*283,871*	16,906	*-15,669*	*19,516*	*67,761*
*Adjusted comprehensive income *,****	*65,815*	*-53,876*	*121,969*	*257,200*	15,505	*-12,313*	*29,146*	*61,394*
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,524,924	44,786,917	44,786,917	44,786,917	44,524,924
Weighted average number of shares used to calculate diluted profit	44,786,917	44,786,917	44,786,917	44,790,878	44,786,917	44,786,917	44,786,917	44,790,878
Earnings / (loss) per share (PLN/EUR)	2.10	-1.53	-2.55	1.70	0.49	-0.35	-0.61	0.41
*Adjusted earnings / (losses) per share (PLN/EUR) *,****	*1.60*	*-1.53*	*1.82*	*6.38*	0.38	-0.35	*0.44*	*1.52*
Diluted earnings / (loss) per share (PLN/EUR)	2.10	-1.53	-2.55	1.69	0.49	-0.35	-0.61	0.40
Net cash flow from operating activities **	478,444	237,526	325,876	462,459	112,716	54,283	77,871	110,391
Net cash flow from investing activities	-780,286	-440,642	-584,858	-208,082	-183,826	-100,702	-139,758	-49,670
Net cash flow from financing activities	-14,238	731,009	-38,341	-102,189	-3,354	167,061	-9,162	-24,393
Movement in cash and cash equivalents	-316,080	527,893	-297,323	152,188	-74,465	120,642	-71,048	36,328
	31/12/2017	31/12/2016	31/12/2015	31/12/2014	31/12/2017	31/12/2016	31/12/2015	31/12/2014
Non-current assets	4,558,487	4,441,320	4,458,145	4,129,487	1,092,926	1,003,915	1,046,145	968,840
Current assets	1,178,549	1,106,405	559,110	1,207,089	282,565	250,091	131,200	283,201
Non-current assets classified as held for sale	-	6,000	44,061	17,560	-	1,356	10,339	4,120
Share capital	2,239,346	2,239,346	2,239,346	2,239,346	536,898	506,181	525,483	525,384
Equity	3,106,461	3,018,440	3,072,316	3,256,319	744,794	682,287	720,947	763,982
Non-current liabilities	1,731,536	1,697,385	1,150,212	1,034,276	415,147	383,676	269,908	242,657
Current liabilities	899,039	837,900	838,788	1,063,541	215,550	189,399	196,829	249,523

Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2017 prepared according to EU IFRS, Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2015 prepared according to EU IFRS

* the 2014 data were adjusted for presentation purposes for the costs following from the implemented 1st Voluntary Redundancy Program ("VRP") in the amount of PLN 257.1 million; additionally, the adjusted net profit/loss and adjusted comprehensive income take into consideration the deferred tax on the 1st VRP in the amount of PLN 48.9 million
the 2015 data were adjusted for presentation purposes for the costs following from the implemented 2nd VRP in the amount of PLN 63.9 million and impairment losses on non-current assets and assets classified as held for sale, in the amount of PLN 177.9 million; additionally, the adjusted net profit/loss and adjusted comprehensive income take into consideration the deferred tax on the 2nd VRP in the amount of PLN 12.1 million and deferred tax on impairment losses on non-current assets and assets classified as held for sale in the amount of PLN 33.8 million,
** including the payment of liabilities stemming from the implemented 1st and 2nd Voluntary Redundancy Programs in the amount of PLN 273.7 million in 2015 including the payment of liabilities stemming from the implemented 1st and 2nd Voluntary Redundancy Programs in the amount of PLN 47.4 million in 2016,
*** the 2017 data were adjusted for presentation purposes for revaluation of the residual value of rolling stock and reversal of part of the impairment loss on rolling stock components in the amount of PLN -27.4 million; additionally, the adjusted net profit/loss and adjusted comprehensive income take into consideration the deferred tax on the aforementioned revaluation in the amount of PLN -5.2 million.

[1] In this Management Board Report on the Activity of the PKP CARGO Group for the financial year 2017, to facilitate the reading, some figures were rounded off which may cause slight deviations in the presented data. In all cases of possible distortions, an attempt has been made at presenting the pertinent data with greater accuracy.

[2] The 4-year period is presented due to availability of comparable financial data, their transparency as well as a relatively short history of the Company's listing on the regulated market of the Warsaw Stock Exchange.

Table 2 Reconciliation of the differences between the reported and adjusted result on operating activities of PKP CARGO S.A.

PKP CARGO S.A.	PLN 000s				EUR 000s			
	2017	2016	2015	2014	2017	2016	2015	2014
Profit (loss) on operating activities	**151,229**	**-31,111**	**-115,180**	**92,813**	**35,628**	**-7,110**	**-27,523**	**22,155**
Adjustments:								
Operating expenses								
VRP 1				257,116				61,374
VRP 2			63,862				15,260	
Revaluation of assets	-27,414		177,862		-6,458		42,502	
Adjusted profit (loss) on operating activities	**123,815**	**-31,111**	**126,544**	**349,929**	**29,169**	**-7,110**	**30,239**	**83,529**

Source: Proprietary material

Table 3 Financial highlights of the PKP CARGO Group

PKP CARGO Group	PLN 000s				EUR 000s			
	2017	2016	2015 (restated*)	2014	2017	2016	2015 (restated*)	2014
Operating revenue	4,738,611	4,411,269	4,554,133	4,274,335	1,116,359	1,008,129	1,088,256	1,020,298
Operating profit / (loss)	155,000	-132,071	55,911	120,927	36,516	-30,183	13,361	28,866
Profit / (loss) before tax	116,433	-150,924	10,518	93,521	27,430	-34,491	2,513	22,324
Net profit / (loss)	81,673	-133,772	30,081	78,282	19,241	-30,572	7,188	18,686
Total comprehensive income attributable to the owners of the parent company	74,500	-91,076	107,619	43,759	17,551	-20,814	25,717	10,445
*Adjusted profit (loss) on operating activities**,***,******	*127,585*	*-25,293*	*166,970*	*386,258*	30,058	*-5,780*	*39,899*	*92,201*
*Adjusted profit (loss) before tax**,***,******	*89,018*	*-44,146*	*121,577*	*358,852*	20,972	*-10,089*	*29,052*	*85,659*
*Adjusted net profit (loss)**,***,******	*59,467*	*-41,470*	*93,861*	*293,200*	14,010	*-9,477*	*22,429*	*69,988*
*Adjusted total comprehensive income attributable to the owners of the parent company**,***,******	*52,294*	*1,227*	*171,399*	*258,677*	12,320	*280*	*40,957*	*61,747*
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,524,924	44,786,917	44,786,917	44,786,917	44,524,924
Weighted average number of shares used to calculate diluted profit (loss)	44,786,917	44,786,917	44,786,917	44,790,878	44,786,917	44,786,917	44,786,917	44,790,878
Earnings / (loss) per share (PLN/EUR)	1.82	-2.99	0.67	1.70	0.43	-0.68	0.16	0.41
Adjusted earnings / (losses) per share (PLN/EUR)	*1.33*	*-0.93*	*2.10*	*6.59*	0.31	-0.21	*0.50*	*1.57*
Diluted earnings / (loss) per share (PLN/EUR)	1.82	-2.99	0.67	1.70	0.43	-0.68	0.16	0.41
Net cash flow from operating activities***	600,739	380,049	387,502	559,932	141,527	86,854	92,598	133,658
Net cash flow from investing activities	-740,017	-568,567	-515,199	-238,743	-174,339	-129,937	-123,112	-56,989
Net cash flow from financing activities	-99,428	663,860	-29,447	-155,711	-23,424	151,715	-7,037	-37,169
Movement in cash and cash equivalents	-238,706	475,342	-157,144	165,478	-56,236	108,632	-37,551	39,500
	31/12/2017	31/12/2016	31/12/2015	31/12/2014	31/12/2017	31/12/2016	31/12/2015	31/12/2014
Non-current assets	4,947,406	4,960,270	4,996,910	4,254,465	1,186,172	1,121,218	1,172,571	998,162
Current assets	1,694,153	1,547,936	1,078,895	1,401,188	406,184	349,895	253,173	328,740
Non-current assets classified as held for sale	-	-	44,061	17,560	-	-	10,339	4,120
Share capital	2,239,346	2,239,346	2,239,346	2,239,346	536,898	506,181	525,483	525,384
Equity attributable to the owners of the parent company	3,334,778	3,260,278	3,351,354	3,321,464	799,534	736,953	786,426	779,266
Equity attributable to non-controlling interests	-	-	-	55,238	-	-	-	12,960
Non-current liabilities	2,093,673	2,076,081	1,586,088	1,165,414	501,971	469,277	372,190	273,424
Current liabilities	1,213,108	1,171,847	1,182,424	1,131,097	290,850	264,884	277,467	265,372

Source: Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2017 prepared according to EU IFRS, Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2016 prepared according to EU IFRS, Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2015 prepared according to EU IFRS

* restatement of data is described in detail in **Note 6**[3] to the CFS for the financial year ended 31 December 2016

** the data for 2014 were adjusted for presentation purposes for the costs following from the implemented 1st Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 265.3 million; additionally, the adjusted net profit and adjusted comprehensive income attributable to the owners of the Parent Company include deferred tax on account of VRP 1 in the amount of PLN 50.4 million

***presentation data for 2015 adjusted for the profit on the bargain acquisition of AWT in the amount of PLN 137.8 million and the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million, as well as the impairment of non-current assets and assets classified as held for sale in the amount of PLN 178.7 million; additionally the adjusted net profit/loss and the adjusted comprehensive income attributable to the owners of the Parent Company include deferred tax resulting from VRP 2 in the amount of PLN 13.3 million, deferred tax on account of an impairment loss on non-current assets classified as held for sale in the amount of PLN 33.9 million, while profit on the bargain acquisition of AWT does not take into account any deferred tax

the data for 2016 are adjusted for presentation purposes for an impairment loss on assets in the amount of PLN 34.1 million (the adjustment takes into account a loss on fixed assets in the amount of PLN 35.0 million and depreciation, reduced accordingly, in H2 2016 in the amount of PLN 0.9 million) and impairment of receivables in the amount of PLN 72.7 million, additionally adjusted net profit/loss and adjusted comprehensive income attributable to the owners of the

[3] Any reference to a Note in these Statements should be construed as a Note to the Standalone Financial Statements of PKP CARGO S.A. ("SFS") for the financial year ended 31 December 2017 prepared according to EU IFRS, if the reference is made to standalone data. In the case of consolidated data, it should be construed as a Note to the Consolidated Financial Statements of the PKP CARGO Group ("CFS") for the financial year ended 31 December 2017 prepared according to EU IFRS, unless specified otherwise, as in this case

Parent Company taken into consideration deferred tax on account of an impairment loss resulting from a test for impairment of AWT in the amount of PLN 6.5 million and deferred tax on account of an impairment loss of receivables from OKD a.s. ("OKD") in the amount of PLN 8.0 million,
**** including the payment of liabilities stemming from the implemented 1st and 2nd Voluntary Redundancy Programs in the amount of PLN 287.4 million in 2015, including the payment of liabilities stemming from the implemented 1st and 2nd Voluntary Redundancy Programs in the amount of PLN 48.2 million in 2016
**** the 2017 data were adjusted for presentation purposes for revaluation of the residual value of rolling stock and reversal of part of the impairment loss on rolling stock components in the amount of PLN -27.4 million; additionally, the adjusted net profit/loss and adjusted comprehensive income attributable to the owners of the Parent Company take into consideration the deferred tax on the aforementioned revaluation in the amount of PLN -5.2 million.

Table 4 Reconciliation of the differences between the reported and adjusted result on operating activities

PKP CARGO Group	PLN 000s				EUR 000s			
	2017	2016	2015 (restated*)	2014	2017	2016	2015 (restated*)	2014
Profit (loss) on operating activities	**155,000**	**-132,071**	**55,911**	**120,927**	**36,516**	**-30,183**	**13,361**	**28,866**
Adjustments:								
Operating revenues								
Bargain acquisition of AWT			-137,779				-32,924	
Operating expenses								
VRP 1				265,331				63,335
VRP 2			70,179				16,770	
Impairment loss on receivables from OKD		72,661				16,605		
Revaluation of assets	-27,414		178,659		-6,459		42,692	
Impairment loss on AWT's assets		34,117				7,797		
Adjusted profit (loss) on operating activities	**127,585**	**-25,293**	**166,970**	**386,258**	**30,058**	**-5,780**	**39,899**	**92,201**

Source: Proprietary material
* restatement of comparative data is described in detail in **Note 6** to the CFS for the financial year ended 31 December 2016

The following average PLN to EUR exchange rates set by the National Bank of Poland have been used to translate selected financial data in the periods covered by the Standalone Financial Statements and Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2017:

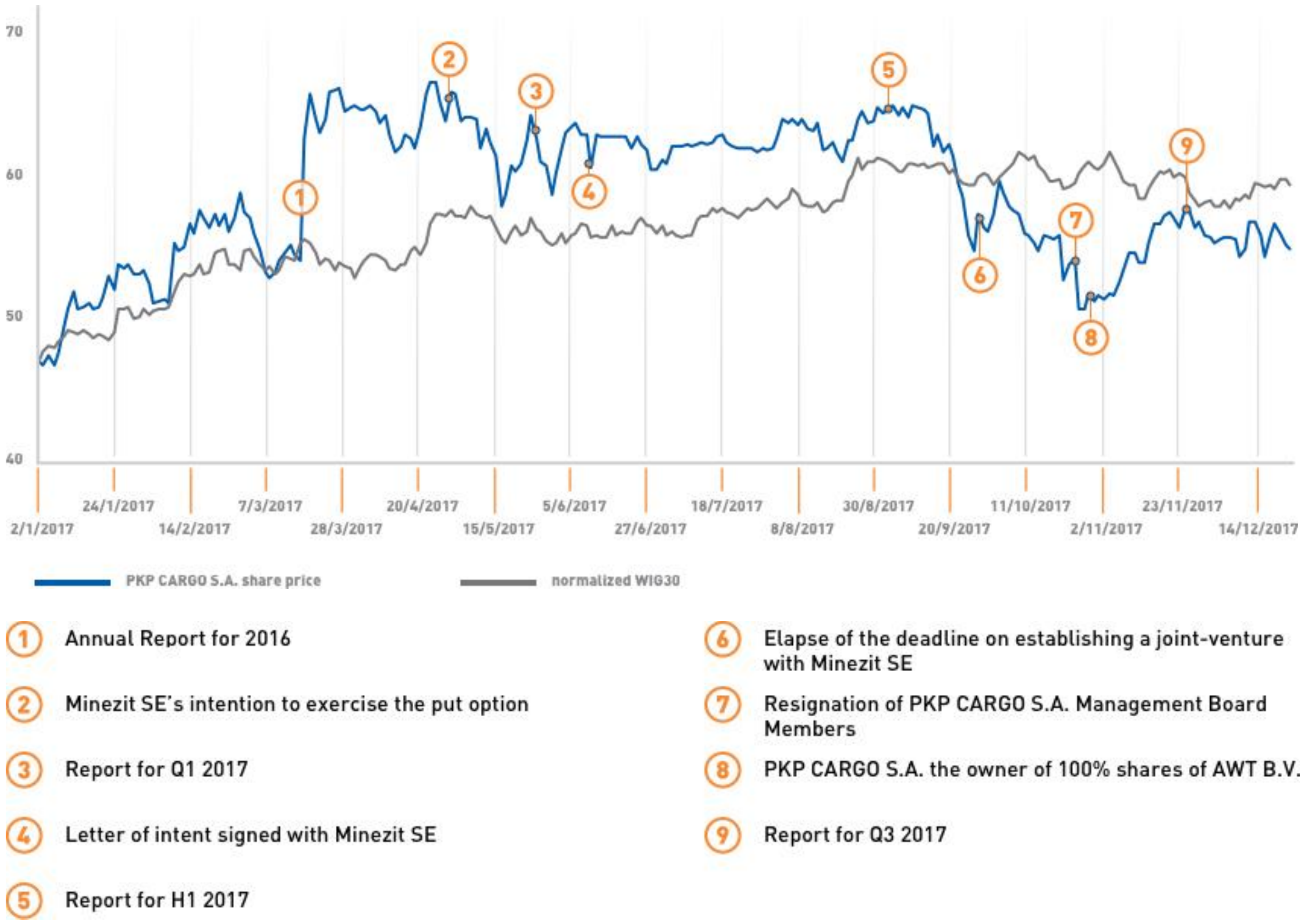
1. exchange rate prevailing on the last day of the reporting period: 31 December 2017 – 4.1709 PLN/EUR, 31 December 2016 – 4.4240 PLN/EUR, 31 December 2015 – 4.2615, PLN/EUR, 31 December 2014 – 4.2623 PLN/EUR.
2. the average exchange rate in the period calculated as the arithmetic mean of the FX rates prevailing on the last day of each month in a given period: 1 January – 31 December 2017 – 4.2447 PLN/EUR, 1 January – 31 December 2016 – 4.3757 PLN/EUR, 1 January – 31 December 2015 – 4.1848 PLN/EUR, 1 January – 31 December 2014 – 4.1893 PLN/EUR.

2. Investor Relations

To the Company's best knowledge, 11 recommendations were issued in 2017 for PKP CARGO S.A. stock. The target price of the Company's shares, according to valuations in 2017, oscillated between PLN 45.2 and PLN 77.0.

The following chart presents the stock exchange quotes for PKP CARGO S.A. in 2017.

Figure 1 Stock exchange quotes for PKP CARGO S.A. in 2017



Source: Proprietary material

From 30 October 2013, i.e. the Company's IPO on the main floor of the Warsaw Stock Exchange, to 31 December 2017, the price of PKP CARGO S.A.'s shares dropped by -27.4%. In the same period the WIG 30 index comprising 30 biggest and the most liquid companies from WSE main market, being a price index, where PKP CARGO S.A. has been listed as of 18 December 2015, increased 4.4%.

In 2017, the PKP CARGO S.A. share price increased by 17.2% while the shares of companies listed in the WIG30 index increased slightly more, by 25.9%.

From the Company's IPO at the WSE to 31 December 2017 the average price of PKP CARGO S.A. shares was PLN 64.74, reaching the maximum (PLN 89.77) and the minimum (PLN 28.99) on 1 June 2015 and 23 May 2016, respectively.

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

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

In 2017, PKP CARGO S.A., seeking to ensure the highest standards in the area of investor relations, conducted numerous events targeted at the investor community.

The primary objective of PKP CARGO S.A. is the correct and timely fulfillment of a listed company's disclosure duties. In this context, the Company identified a number of events in 2017 that require an immediate public announcement.

As part of its stock exchange reporting activities, PKP CARGO S.A. published 36 current reports in 2017.

In 2017, PKP CARGO S.A. held four conferences for analysts and investors to discuss the Company's published interim results. During the conference, representatives of the PKP CARGO S.A. Management Board presented the Group's results and answered the participants' questions. In order to ensure the broadest possible outreach to the conference, PKP CARGO S.A. provided webcasts of the events through the Company's website. During the conference, PKP CARGO S.A. provided simultaneous translation into English of each event, both for the attending participants and for Internet viewers or persons participating via teleconference.

Within the framework of activities targeted at the Company's current and potential investors, in 2017 representatives of PKP CARGO S.A. participated in domestic and foreign conferences and roadshows organized by professional capital market institutions.

PKP CARGO S.A. runs a corporate website containing a comprehensive section for investors. The "Investor Relations" section, in order to ensure equal access to information for Polish and international investors and analysts is provided and continuously updated in two languages (Polish and English). In order to provide transparent and easy access, the section has been broken down into the following topics:

1. Interactive 2016 Report – the Interactive Annual Report published by the Company for 2016.
2. Financial data – a block containing the Company's fundamental data on its operating and financial performance as well as financial reports (quarterly, semi-annual and annual).
3. Presentations – containing presentations prepared for conferences devoted to end-of-period results and industry-specific events,
4. Current reports – a block containing all current reports published by the Company.
5. Shares – a block containing stock exchange data such as: an up-to-date share price chart, data on the current share price, shareholders and dividend payments as well as a calculator of the current value of shares. Moreover, this block features analysts' recommendations and information about employee shares.
6. General Meetings – containing information on General (Shareholder) Meetings convened by PKP CARGO S.A., including announcements on convening the General Meetings, draft resolutions and forms enabling the exercise of voting rights by proxy.
7. Corporate governance – a block containing bios of persons in charge of PKP CARGO S.A. (Management Board and Supervisory Board) and information on the Audit Committee, the Nomination Committee and the Strategy Committee. This block also contains the Company's constitutional documents such as the Articles of Association, the Management Board Bylaws, the Supervisory Board Bylaws and the issue prospectus. Also published under this heading are the principles of good practice which PKP CARGO S.A. applies to achieve maximum operational transparency and an appropriate, high quality of communication with investors.
8. Calendar – containing events of the highest significance from the investor's point of view.
9. Contact – a block containing contact data of PKP CARGO S.A.'s Investor Relations Department.

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

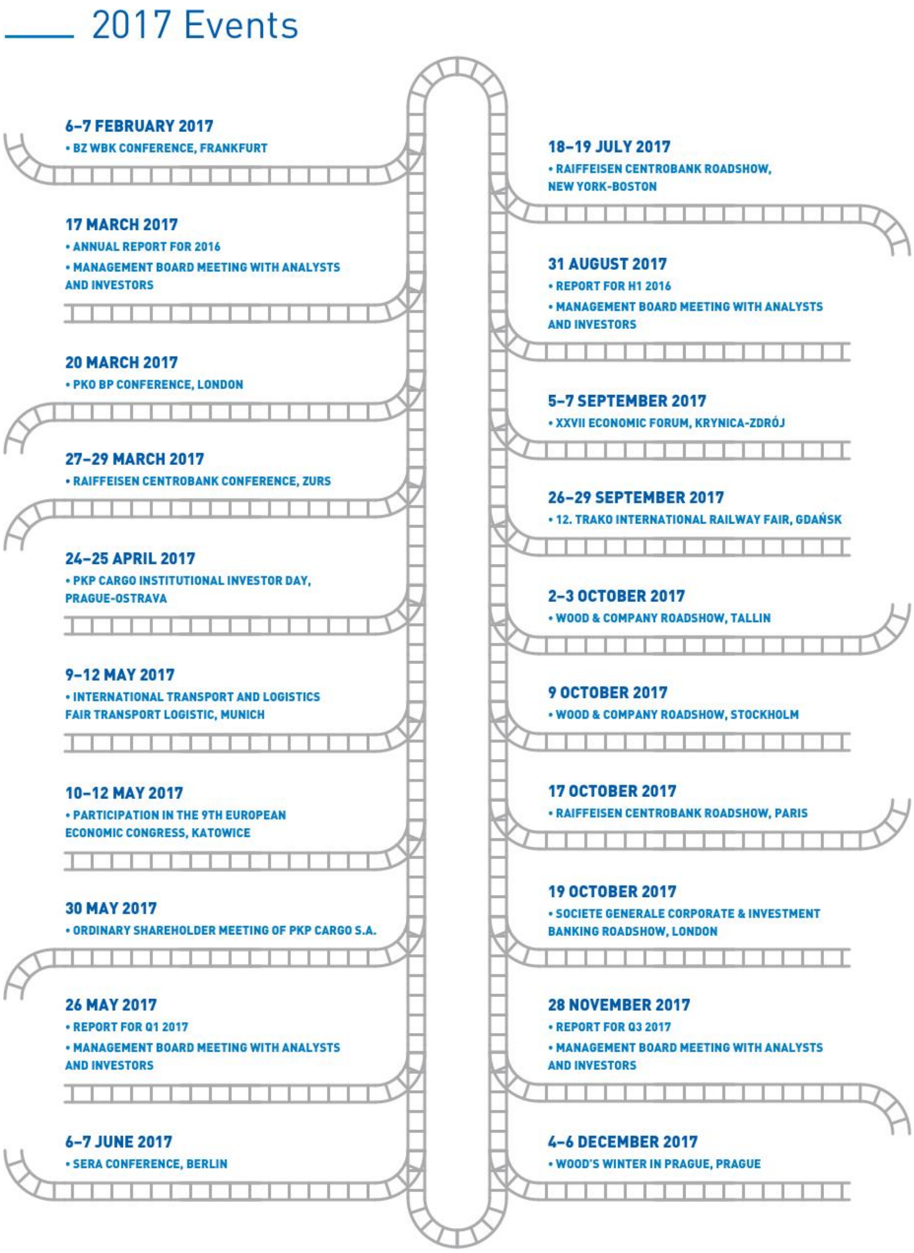
On 24-25 April 2017, PKP CARGO S.A. held the third edition of the "Investor Day" targeted at stock exchange analysts and institutional investors. The event was attended by several dozen participants representing various financial institutions. During the "Investor Day", the participants visited the AWT Group's key assets located in the Czech Republic, among others the Paskov Terminal.

The high level of PKP CARGO S.A.'s investor relations was confirmed by the awards and recognitions received – for the high quality of communication with the market and fulfillment of information and reporting duties the Company was awarded with the prestigious title "Transparent Company of the Year 2016".

As part of the Company's continuous efforts aimed at improving the quality of its investor services, in 2018 PKP CARGO S.A. intends to continue its activities and develop communication tools in the area of investor relations.

The chart below presents a timeline demonstrating key investor relations events and activities which occurred in 2017.

Figure 2 Major events and activities in the area of investor relations in 2017



Source: Proprietary material

3. Organization of the PKP CARGO Group

3.1 Highlights on the Company and the PKP CARGO Group

Both PKP CARGO S.A. and the PKP CARGO Group are the biggest in Poland and one of the biggest rail freight operators in the European Union ("EU"). The Group's development is focused on enhancing and extending its operations in terms of its product range and geographic area. At present, the Group is the leader on the Polish market (according to the Office of Rail Transport – UTK[4]) and it is the second largest operator on the Czech market (according to SZDC[5]). Notwithstanding the areas mentioned above, the Company and the Group conduct and constantly develop operations in the Czech Republic, Slovakia, Germany, Austria, the Netherlands, Lithuania and Hungary.

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

3.2 Consolidated entities

The Consolidated Financial Statements for the financial year ended on 31 December 2017 encompass PKP CARGO S.A. and 14 subsidiaries consolidated by the full method:

- **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 TERMINAL BRANIEWO Sp. z o.o.**
- **CARGOTOR Sp. z o.o.**
- **PKP CARGO CONNECT Sp. z o.o.**
- **Advanced World Transport B.V.**
- **Advanced World Transport a.s.**
- **AWT Rosco a.s.**
- **AWT Cechofracht a.s.**
- **AWT Rekultivace a.s.**
- **AWT Rail HU Zr**
- **AWT Coal Logistics s.r.o.**[6]

[4] Office of Rail Transport
[5] Správa železniční dopravní cesty (entity responsible for management of the state railway network in the Czech Republic)
[6] As of 1 June 2017, two AWT Group companies were merged, with Advanced World Transport a.s. acquiring AWT Coal Logistics s.r.o. in full, as a result of which AWT Coal Logistics s.r.o. has ceased to exist as a separate entity.

In addition, the following companies are measured using the equity method as at 31 December 2017 in the PKP CARGO Group's Consolidated Financial Statements:

- **COSCO Shipping Lines (POLAND) Sp. z o.o.**
- **Pol – Rail S.r.l.**
- **Terminale Przeładunkowe Sławków – Medyka Sp. z o.o.**
- **Transgaz S.A.**
- **Trade Trans Finance Sp. z o.o.**
- **Rentrans Cargo Sp. z o.o.**
- **PKP CARGO CONNECT GmbH**
- **AWT Rail SK a.s.**

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

PKP CARGO S.A.

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

PKP CARGO SERVICE Sp. z o.o.

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

PKP CARGOTABOR Sp. z o.o.

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

PKP CARGOTABOR USŁUGI Sp. z o.o.

Until 22 October 2014, PKP CARGOTABOR USŁUGI Sp. z o.o. did business under the name of PKP CARGOLOK Sp. z o.o. The Company's line of business includes activity related to collecting, processing and neutralizing waste and recovery of raw materials. As at the delivery date of the report, the company does not conduct any operating activity.

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

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

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

PKP CARGO Centrum Logistyczne Medyka - Żurawica Sp. z o.o. was established on 5 January 2011. It has been conducting business since 1 February 2011. The company's line of business is to provide comprehensive cargo handling through transshipment, storage, segregation, packaging, crushing and a number of other border services. The company has the ability to offer rail gauge switching services (change of carriages at an intersection point between normal, i.e. 1,435 mm, and wide, i.e. 1,520 mm gauge rail tracks), chiefly in the transport of hazardous materials and the transshipment of oversized consignments necessitating the usage of specialized transshipment equipment and as the only company on the country's eastern border has a 6-chamber thaw room with a technological capacity of concurrent defrosting of goods in 120 rail cars.

PKP CARGO CONNECT Sp. z o.o.

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

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

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

Cargosped Terminal Braniewo Sp. z o. o.

Cargosped Terminal Braniewo Sp. z o.o. has been part of the PKP CARGO Group since January 2010, when it was acquired by CARGOSPED Sp. z o.o. The company's major areas of activity are transshipment of goods and buying and selling coal. The company is a direct importer of coal from Russia and it is active in wholesale and retail sales in this area.

CARGOTOR Sp. z o.o.

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

Advanced World Transport B.V.

Parent Company in the AWT Group. The company's line of business is to discharge the function of the holding company. The company was established under Dutch law on 11 June 2007. PKP CARGO S.A. acquired an 80% stake in the company on 28 May 2015. As a result of the acquisition, on 2 November 2017, of an additional 20% stake in AWT B.V., PKP CARGO S.A. became the owner of a 100% stake in the share capital of AWT B.V.

Advanced World Transport a.s.

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

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

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

On 1 June 2017, Advanced World Transport a.s. acquired a wholly-owned subsidiary, namely AWT Coal Logistics s.r.o., as a result of which Advanced World Transport a.s. has become the legal successor of AWT Coal Logistics s.r.o, which itself has ceased to exist as a separate entity.

AWT Čechofracht a.s.

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

AWT Rekultivace a.s.

The company was established on 1 January 1994 with its registered office in Hawierzów. It specializes in civil engineering construction projects. The company's core offering consists of managing and revitalizing post-industrial areas (including mining areas), demolition works, managing waste utilization facilities, eliminating underground mining pits, decontaminating soil, providing specialist technical resources, storage of coal, etc.

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

AWT ROSCO a.s.

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

AWT Rail HU Zrt.

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

3.3 Organizational structure of the Company and PKP CARGO Group

PKP CARGO S.A.

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

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

The Company's Head Office, which is made up of departments, each of them managed by its director

Units performing the Company's tasks in specific areas of Poland.

Company's Head Office

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

Units

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

The Units of the Company are as follows:

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

PKP CARGO Group

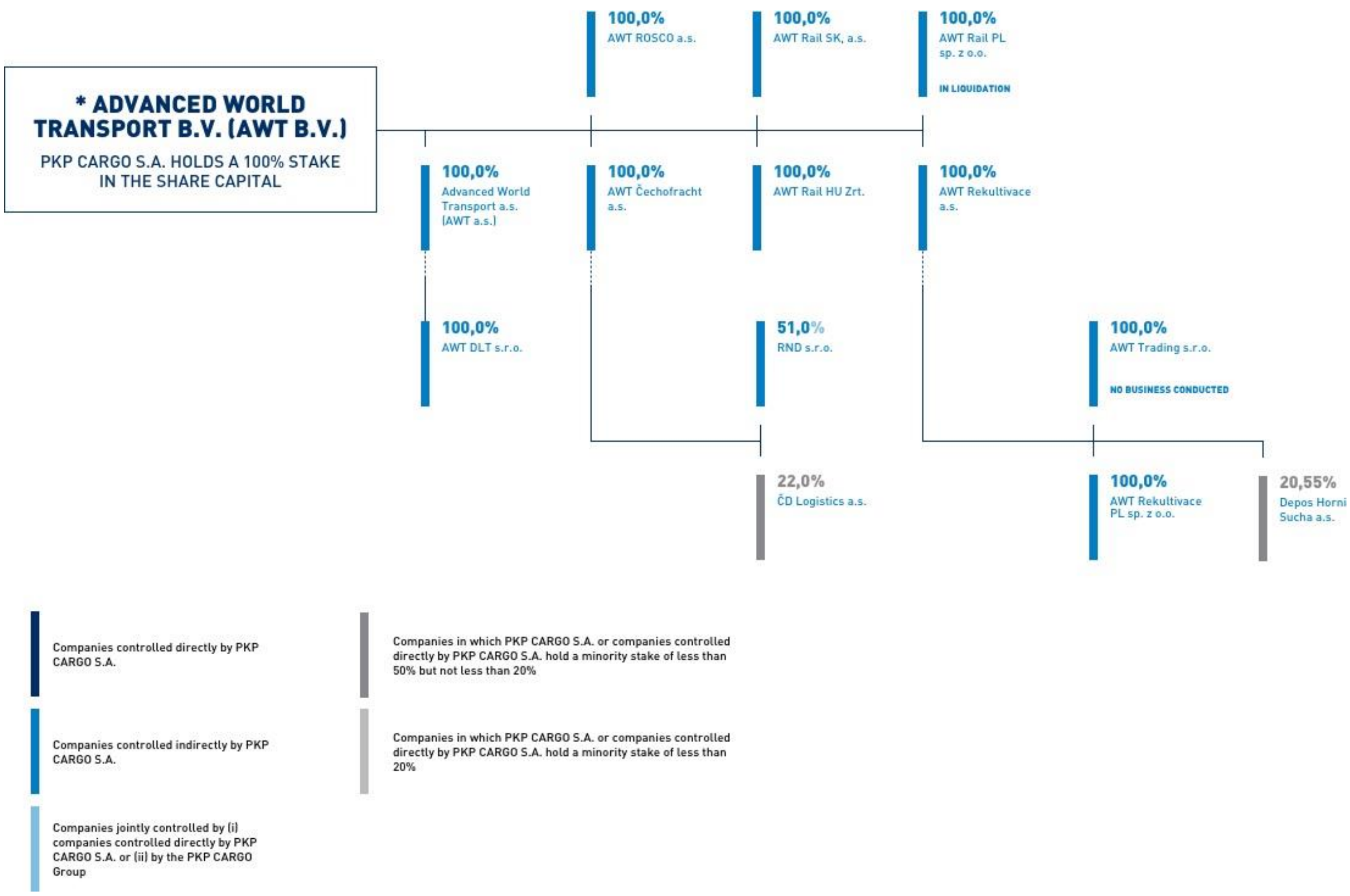
As at 31 December 2017, the PKP CARGO Group comprised of PKP CARGO S.A. as its parent company and 25 subsidiaries. In addition, the Group held stakes in 4 associated entities and 2 joint ventures.

The figure below presents the organizational links between PKP CARGO S.A. and other entities as at 31 December 2017:

Figure 3 Structure of equity links of PKP CARGO S.A. as at 31 December 2017

Source: Proprietary material

Figure 4 Structure of the AWT Group as at 31 December 2017



Source: Proprietary material

3.4 Changes to the Company's basic management principles

Amendments of PKP CARGO S.A.'s Articles of Association were related to entry of the following acts into force:

- Act on the Rules for Managing State Property of 16 December 2016 (Journal of Laws of 2016, Item 2259, as amended) and
- Act on the Rules for Setting the Compensation of Persons Managing Certain Companies of 9 June 2016 (Journal of Laws of 2016, Item 1202, as amended).

The above acts imposed on state-owned legal persons, including PKP S.A., an obligation to take actions aimed at introducing appropriate changes to the articles of association of companies in which state-owned legal persons hold shares. To execute the statutory obligation, on 30 May 2017, PKP S.A. submitted at the Ordinary Shareholder Meeting a proposal to make pertinent amendments to the PKP CARGO S.A. articles of association.

The decisions to introduce amendments to the PKP CARGO S.A. Articles of Association were made by virtue of Resolutions No. 28/2017 through 35/2017 of the Ordinary Shareholder Meeting of PKP CARGO S.A. dated 30 May 2017.

Subsequently, on 21 June 2017, the amendments to the Articles of Association of PKP CARGO S.A. were registered by the District Court for the Capital City of Warsaw in Warsaw, 12th Commercial Division of the National Court Register.

Pursuant to Resolution No. 36/2017 of the PKP CARGO S.A. Ordinary Shareholder Meeting dated 30 May 2017, the PKP CARGO S.A. Supervisory Board was authorized to adopt the consolidated version of the Articles of Association of PKP CARGO S.A., and consequently, executing this authorization, on 27 June 2017, by virtue of Resolution No. 1682/VI/2017 the Supervisory Board of PKP CARGO S.A. adopted the consolidated version of the Articles of Association of PKP CARGO S.A.

3.5 Description of changes in the Group's organization

Two companies in which PKP CARGO CONNECT sp. z o.o. held a minority stake (PPHU POLMIX Sp. z o.o. in liquidation and AGENCJA WĘGLA I STALI "AWIS" Sp. z o.o.) were registered only in RHB – both of these companies were deregistered by the statutory deadline from the RHB register (Commercial Register B) and entered in the KRS register (National Court Register), as a result of which these entities lost their legal existence.

By virtue of the decision of 2 February 2017, the District Court declared Trade Trans Karya sp. z o.o. bankrupt. Due to the declaration of bankruptcy, also the name of the company was changed from "Trade Trans Karya sp. z o.o." to: "Trade Trans Karya sp. z o.o. in bankruptcy".

On 22 May 2017, ZAO "Eurasia Rail Logistics" (where PKP CARGO held a 15% stake in the share capital) was closed down and deleted from the Russian register of business entities, as a result of which this entity ceased to exist and is not listed as a company related to PKP CARGO.

As of 1 June 2017, two AWT Group companies were merged, with AWT a.s. acquiring AWT Coal Logistics a.s. in full, as a result of which AWT Coal Logistics a.s. has ceased to exist as a separate entity.

As a result of a share purchase agreement entered into on 6 June 2017, the Czech company AWT Čechofracht a.s. sold all of the 50% shares held in Lex Logistics Express s.r.o. As a result of the transaction, AWT Čechofracht a.s. ceased to be a shareholder in Lex Logistics Express s.r.o. and Lex Logistics Express s.r.o. thereby ceased to be PKP CARGO's related party.

On 14 June 2017, the Ordinary Shareholder Meeting of Gdański Terminal Kontenerowy S.A. adopted a resolution on terminating the company and opening its liquidation. PKP CARGO CONNECT sp. z o.o. holds a 41.93% stake in Gdański Terminal Kontenerowy S.A. In connection with opening the liquidation, as of 14 June 2017 the company name was changed from: "Gdański Terminal Kontenerowy S.A." to: "Gdański Terminal Kontenerowy S.A. in liquidation".

On 2 November 2017, PKP CARGO acquired 20% shares in a Dutch company Advanced World Transport B.V. from a Czech company Minezit SE. The transaction involved payment by PKP CARGO of the price for the option to put 15,000 shares representing 20% of all the shares in the share capital of AWT B.V. to Minezit SE. As a result of the transaction, PKP CARGO became the owner of a 100% stake in AWT B.V.

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

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

The table below shows a list of all the shares owned directly by PKP CARGO S.A. as at 31 December 2017.

Table 5 Companies in which PKP CARGO S.A. owned shares directly as at 31 December 2017

Item	Company name	Place in the PKP CARGO Group	Registered office	Share capital amount	Value per share	Number of shares held	% of the share capital
SUBSIDIARIES in which PKP CARGO S.A. has over 50% shares and COMPANIES WITH PARTICIPATION OF PKP CARGO S.A.'S SUBSIDIARIES							
1.	PKP CARGO SERVICE Sp. z o.o.	daughter	Warsaw	PLN 30,827,000	PLN 500	61,654	100%
2.	PKP CARGOTABOR Sp. z o.o.	daughter	Warsaw	PLN 88,087,000	PLN 1,000	88,087	100%
3.	PKP CARGOTABOR USŁUGI Sp. z o.o.	daughter	Warsaw	PLN 18,138,000	PLN 1,000	18,138	100%
4.	PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	daughter	Małaszewicze	PLN 54,016,000	PLN 1,000	54,016	100%
5.	PKP CARGO CENTRUM LOGISTYCZNE MEDYKA-ŻURAWICA Sp. z o.o.	daughter	Żurawica	PLN 13,086,000	PLN 1,000	13,086	100%
6.	CARGOTOR Sp. z o.o.	daughter	Warsaw	PLN 20,181,000	PLN 1,000	20,181	100%
7.	PKP CARGO CONNECT Sp. z o.o.	daughter	Warsaw	PLN 24,750,000	PLN 10,000	2,475	100%
8.	ONECARGO Sp. z o.o.	daughter	Warsaw	PLN 5,000	PLN 50	100	100%
9.	ONECARGO CONNECT Sp. z o.o.	daughter	Warsaw	PLN 5,000	PLN 50	100	100%
10.	ADVANCED WORLD TRANSPORT B.V.	daughter	Amsterdam (The Netherlands)	EUR 75,000	EUR 1	75,000	100%
RELATED COMPANIES in which PKP CARGO S.A. has no less than 20% and no more than 50% shares							
11.	Międzynarodowa Spedycja MIRTRANS Sp. z o.o. in liquidation	company with participation of PKP CARGO S.A.	Gdynia	PLN 1,114,000	PLN 2,000	245	43.99%
12.	POL-RAIL S.r.l.	company with participation of PKP CARGO S.A.	Rome (Italy)	EUR 2,000,000	shares of varied value	1 share worth EUR 435,443	21.77%
13.	COSCO SHIPPING LINES (POLAND) Sp. z o.o.	company with participation of PKP CARGO S.A.	Gdynia	PLN 250,000	PLN 2,500	20	20%
OTHER COMPANIES WITH PARTICIPATION of PKP CARGO S.A. in which PKP CARGO S.A. has less than 20% shares							
14.	EUROTERMINAL SŁAWKÓW Sp. z o.o.	company with participation of PKP CARGO S.A.	Sławków	PLN 182,479,000	PLN 50	340,000	9.32%
15.	Bureau Central de Clearing s.c.r.l.	company with participation of PKP CARGO S.A.	Brussels (Belgium)	EUR 110,250	EUR 750	2	1.34%
16.	Intercontainer-Interfrigo S.A. in liquidation	company with participation of PKP CARGO S.A.	Brussels (Belgium)	-	-	-	0.71%

Source: Proprietary material

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

4.1 Macroeconomic environment

Polish economy

In accordance with the quick GUS estimate published on 14 February 2018, Poland's GDP growth rate sped up in Q4 2017 to 5.1% yoy from 4.9% yoy in Q3 2017 (data not adjusted for seasonality). Although the growth pace turned slightly weaker than expected by the economists surveyed by the ISBnews agency, who expected a rate of 5.2% yoy[7], it was the fastest since Q4 2011. As a result the average economic growth rate in Poland was 4.6% in 2017, compared to 2.9% in 2016, which means that the Polish economy recorded the most dynamic growth since 2011.[8]

The most powerful driver of the economic growth in 2017 was private consumption (average increase of +4.8% yoy), supported by social transfers under the *Family 500+* program and improving situation in the domestic labor market[9]. The unemployment rate registered as at the end of December 2017 dropped to 6.6%, which is the lowest level since 1991.[10] At the same time, in accordance with GUS data, in 2017, the average nominal salary in national economy increased by 5.5% yoy, and in real terms by 3.4% yoy, to PLN 4271.51[11]. In 4Q 2004 only, a nominal growth of salaries of 7.1% yoy was recorded, which shows that the salary growth rate was the highest since Q3 2007, i.e. before the Global Financial Crisis.

Investments were the next major factor that boosted GDP in 2017. Their growth rate strongly accelerated in H2 2017. As a consequence, the average annual growth rate of gross fixed capital formation was +5.4%, compared to the -7.9% yoy decrease recorded in 2016.[12] The growth rate of investments, in particular in the public sector was facilitated by a more dynamic than in 2016 inflow of EU structural funds under the financial perspective for 2014-2020, and better sentiments among enterprises and the highest since 2008 level of utilization of production capacity[13].

Also net exports had positive impact on the economic growth in Poland, but its contribution to GDP dropped compared to 2016 and 2015.

In accordance with the National Bank of Poland data, the CPI inflation rate in Poland in 2017 was 2.0% yoy, i.e. below the 2.5% NBP target. In 2016-2015, CPI was in the range of -0.6% yoy and -0.9% yoy, respectively.

The good indicators of Poland's GDP growth rate in Q4 2017 encouraged the European Commission to upgrade, in February, the economic growth projections for Poland for 2018 and 2019.

Compared to the projection from November 2017, EC analysts expect an average annual GDP growth rate at 4.2% yoy in 2018 (previously 3.8%) and 3.6% yoy in 2019 (previously expected growth was 3.4% yoy).[14] In EC's opinion, in 2018-2019, the GDP structure will be similar to the one in 2017, and the consumption and investment demand will be the main drivers of the economic growth in Poland. In the European Commission's opinion, just like in 2017, in the next two years the level of household consumption will be driven by the increase in salaries and continuing high level of optimism among consumers. At the same time EC analysts expect further gradual acceleration of the growth rate of capital expenditures, primarily in the public sector, due to the expected faster absorption of the monies under EU structural funds.

The European Commission expects further gradual increase in the inflation rate in Poland to 2.1% yoy in 2018 and 2.6% yoy in 2019.

According to the current economic projections of the National Bank of Poland (NBP) from November 2017, Poland's economic growth will be 3.6% yoy in 2018 and 3.3% yoy in 2019.[15]

According to NBP, the main driver of the economic growth in Poland in 2018-2019 will be private consumption, spurred by further increase in household disposable income due to the expected continuation of improvement of the situation in the domestic labor market (higher salaries and lower unemployment) and continuing good sentiments among consumers.

The Current Consumer Confidence Indicator (BWUK) and Forward-looking Consumer Confidence Indicator (WWUK), which are synthetic measures of the assessment of current and future economic standing of households, in January 2018 recorded the highest levels since the beginning of these indices, i.e. 1997.[16]

[7] ISBnews
[8] Central Statistical Office of Poland
[9] Business Insider
[10] Economy and Social Policy Ministry
[11] Central Statistical Office of Poland
[12] Central Statistical Office of Poland
[13] NBP: Inflation Report. November 2017.
[14] European Commission
[15] National Bank of Poland
[16] pracodawcyrp.pl, Central Statistical Office of Poland

The strong growth rate of individual consumption will be also driven by the possibility of financing consumption with cheap credit, especially in the context of the statements of Monetary Policy Council (MPC) suggesting its intention to maintain the interest rates in Poland on the existing historically low levels at least until the end of 2018.[17] In accordance with the Polish Financial Supervision Authority (KNF) data, the consumer loans growth rate oscillates currently around 7-8% yoy, which is tantamount to the fastest growth rate since the Global Financial Crisis[18]. In accordance with NBP projections, the consumption growth rate will be held back, in turn, by the gradual increase in inflation, exerting negative impact on the real purchasing power of the households.

In NBP's opinion, investments will be the next constituent of the aggregate demand driving Poland's economic growth within the time horizon of the projection, i.e. in 2018-2019. Their growth rate will remain under the positive influence of the growing absorption of EU structural funds from the 2014-2020 perspective (shifting some of the public finance sector expenditures from 2017 to the next years), low interest rates in Poland and expected improvement of sentiments about investors, increase in investment demand, orders and production[19].

Among the negative drivers of the growth rate in 2018-2019, in turn, one should list the net exports, whose contribution to GDP will be negative already in Q1 2018. This will result from the slowdown of exports, due to expected weakening of the economic growth rate in the macroeconomic environment, among others in the euro zone and forecast appreciation of PLN in relation to other currencies. Additionally, one should expect continuing strong growth rate of imports, considering the expected strong domestic demand.

In the opinion of NBP economists, within the time horizon of the perspective, the dynamic growth of economic activity in Poland should be supported by the good market conditions around national economy, both in the global economy and in the euro zone. Despite the expected slight slowdown of the GDP growth rate in the euro zone to 1.9% yoy in 2018 and 1.6% yoy in 2019, it will continue to be above the average trend in the period (potential growth rate is currently estimated at 1.0% yoy[20]). In the opinion of NBP experts, also the medium-term economic prospects for other leading global economies, such as USA, China or BRIC countries, are favorable. NBP economists note, however, that in the longer run, the global economic growth rate will be held back by the relatively low productivity and unfavorable demographic trends as well as weakening international exchange in the context of protectionists declarations made by some countries[21].

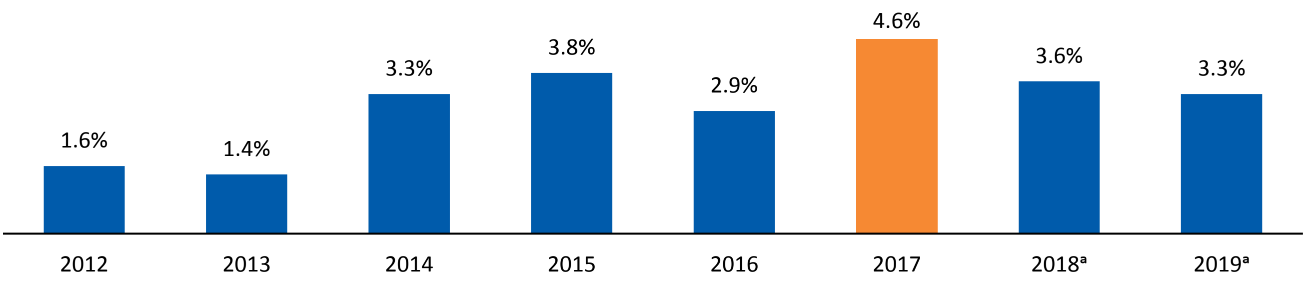
In accordance with November NBP projection, the average annual CPI inflation growth rate in Poland will be in the range of 2.3% yoy in 2018. This price increase will result primarily from higher base inflation, which as a result of intensifying pay pressure (increasing unit labor costs) and demand pressure (further expansion of the positive demand gap as the current GDP growth rate is higher than the medium-term trend) will gradually increase in the coming quarters, reaching 2.7% yoy in 2019. The inflation growth rate will be limited, in the opinion of NBP economists, by the expected decrease in energy fuel prices in global markets in the medium-term, supported by depreciation of the US dollar, in which they are quoted, and the expected moderate increases in food prices.

The key risk factors described in the NBP projection that may impact the future GDP and CPI inflation growth rater include among others:

- Weakening market conditions in the USA – resulting from worse consumer and investor sentiments as a result of delays in reforms and possible strong price decline in the stock market;
- Economic activity slowdown in the euro zone – on the back of the uncertainty associated with the stability of the financial system (among others in Italy), negotiations regarding the ultimate shape of the Brexit deal between the United Kingdom and the EU, current disintegration trends or parliamentary elections in Italy;
- Escalation of tensions in the Korean Peninsula;
- Change of labor supply, inter alia as a result of: impact of the act lowering the retirement age on professional activity, return migrations of Poles, the scale of labor migrations of Ukrainian citizens to Poland;
- Changes in oil prices in the global markets as a result of disruptions in global oil supply and prospects of growth in the global economy, especially in Asian emerging economies.

[17] Money.pl
[18] Polish Financial Supervision Authority (KNF)
[19] NBP Quick Market Trend Monitoring: January 2018
[20] Norges Bank
[21] National Bank of Poland": Inflation Report, November 2017

Figure 5 GDP growth rate in Poland in 2012-2017 per annum and forecasts for 2018-2019



Source: Central Statistical Office (revised estimate of gross domestic product for 2012-2016 dated 23 October 2017); National Bank of Poland forecast (November 2017)
**National Bank of Poland forecast on the basis of the "Inflation Report", November 2017*

Czech economy

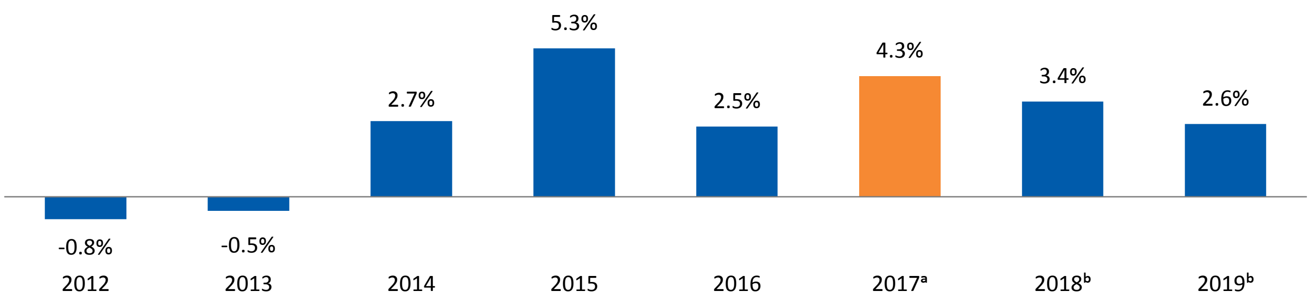
In accordance with the data of the Czech Statistical Office (ČSÚ), Czech Republic's GDP growth rate adjusted for seasonality in Q4 2017 was 0.5% qoq and 5.1% yoy, compared to 5.0% yoy in Q3 2017[22]. The result recorded by the Czech economy in Q4 2017 was weaker than the projections of the Czech Republic Finance Ministry, which expected that the economic growth rate would be 0.7% qoq and 5.3% yoy, respectively. The average GDP growth rate in the Czech Republic in 2017 was 4.5%, much higher than the rate of economic expansion in 2016 (2.5% yoy)[23].

According to figures not adjusted for seasonality, in 2017, GDP growth rate was 4.3% yoy, compared to 2.8% yoy in 2016.

According to the information of the Czech Statistical Office (ČSÚ), all aggregate demand components, in particular net exports and household consumer expenditures, contributed to the GDP growth rate in 2017. In 2017 both the Czech industry and the local services sector did well.

The strong economic growth rate had positive impact on the labor market – employment in the Czech Republic increased in 2017 by 1.6% yoy. In 2017, the average CPI inflation rate according to the data of the Czech Central Bank (ČNB) was the fastest in the past five years and stood at 2.5% yoy, i.e. in the top tolerance range above the ČNB inflation target (2.0%).

Figure 6 Real GDP growth rate in the Czech Republic in 2012-2016 and 2017-2019 forecasts – data not adjusted for seasonality



a preliminary data of the Czech Statistical Office
b Forecast of the Czech Republic's Finance Ministry – January 2018

Source: European Commission and the Czech Republic's Finance Ministry

In accordance with the Czech Republic's Finance Ministry's forecast of January 2018, in the coming years one should expect a gradual decrease in the economic growth rate which will stand at 3.4% yoy in 2018 and 2.6% yoy in 2019 – data not adjusted for seasonality. In the opinion of the Finance Ministry's experts, the main contributors to GDP growth in 2018 and in 2018

[22] Czech Statistical Office
[23] Czech Statistical Office

will be: individual consumption (stable growth of disposable income of the public and decrease of the savings rate) and corporate investments, both in the public and private sector. In the forecast for 2018-2019 the Finance Ministry expects that also the remaining components of aggregate demand will have positive impact on GDP, i.e. consumption in the government sector (investment expenditures associated with execution of public investments co-financed from EU funds) and net exports.

In accordance with the forecast of the Czech Republic's Finance Ministry, the average inflation rate in 2018 will increase to 2.6% yoy from 2.5% yoy in 2017, and then will gradually fall towards the ČNB's target (2.0% yoy) to the average level of 2.1% yoy in 2019. The pro-inflation factors present in 2017 will remain, in the opinion of FM experts, important also in the years to come. They include both supply factors (increasing oil prices and increasing unit labor costs as a result of higher salaries on the back of labor force shortages) and demand factors (increasing household consumption in the face of the positive demand gap, i.e. production exceeding the potential level). Expected further appreciation of the Czech crown in relation to the euro and dollar, after ČNB made a decision in April 2017 to free up the exchange rate, should support hold back price increases also in 2018-2019.

The key factors which constitute a risk for the development scenarios assumed by the Czech Republic's Finance Ministry include, among others[24]:

- Economic conditions abroad, both in global economy and in the euro zone;
- Potential increase in the barriers in international trade as a result of United Kingdom's exit from the European Union, and increase in protectionist trends in the Czech economy's environment;
- Geopolitical factors (including escalation of tensions in the Korean Peninsula);
- Increasing positive demand gap. The cyclical position of the economy suggests the possibility of a strong slowdown of the GDP growth rate over the next few quarters;
- Lower than assumed increase in productivity, which is required to maintain the strong GDP growth rate in the medium term – especially in the face of increasing shortages of labor force in the local labor market;
- Strong increase in unit labor costs weakening international competitiveness of Czech goods;
- Efficiency in spending EU structural funds under the financial perspective for 2014-2020;
- Bubble in the real estate market. Dynamic development of the economy coupled with low interest rates has caused acceleration of the mortgage loan growth rate, which, in combination with factors limiting supply of real estate, drives a strong increase in home prices.

European economy

In accordance with preliminary Eurostat data, GDP growth rate in the euro zone declined in Q4 2017 to 2.7% yoy compared to 2.8% yoy in Q3 2017.[25] Nonetheless in the entire 2017, the euro zone economy was growing at an average pace of 2.5% yoy, which was the fastest since 2007.[26] The strong economic growth rate was driven mainly by the strong internal demand (consumption and investments), supported by the recovery in the global economy, including stronger growth rate of the Chinese economy than expected at the beginning of 2017[27]. At the same time the HICP inflation rate for the euro zone dropped to 1.4% yoy in December 2017, compared to 1.5% yoy in November 2017. In January 2018, the inflation rate recorded further decrease to 1.3% yoy, much below the target of the European Central Bank (ECB), which is set as "below but close to 2.0% over the medium term"[28].

In light of the positive signals from the European economy, in February the European Commission (EC) upgraded the GDP growth rate forecast for the euro zone in relation to the projection from November 2017 from 2.1% yoy to 2.3% yoy in 2018 and from 1.9% yoy to 2.0% yoy in 2019. In the opinion of EU analysts, in the time horizon covered by the perspective, the economic activity rate will be supported by further improvement of the labor market condition, positive sentiment among consumers and investors and favorable conditions in global economy[29]. At the same time the gross fixed capital formation growth rate was driven by such factors as good prospects for demand for products, high utilization of production capacity and mild financial and monetary conditions resulting from ECB's current politics. EC analysts also expect that HICP inflation for the euro zone will stabilize at the average level of 1.5% yoy in 2018 (revision upwards by 0.1 p.p. compared to the November 2017 projection) and then slightly increase to the average level of 1.6% yoy in 2019 (no change in relation to the previous projection).

[24] Czech Republic's Finance Ministry
[25] Eurostat
[26] "Gazeta Giełdy Parkiet"
[27] Business Insider
[28] European Central Bank
[29] European Commission

In the opinion of EC experts, despite better condition of the European labor market, the base inflation pressure will remain low and changes in the HICP ratio will be driven mainly by slightly higher energy prices.

Also the December ECB projections carry a message similar to those of European Commission forecasts. In the opinion of ECB economists, the economic growth rate in the euro zone will remain relatively strong, although it will gradually drop in the next years to 2.3% yoy in 2018, 1.9% yoy in 2019 and 1.7% yoy in 2020.[30] In the ECB experts' opinion, the main factors affecting the economic growth in the euro zone over the time horizon of the perspective include access to favorable financing terms (as result of the ultra-dovish monetary policy pursued by the central bank), expected further improvement of the situation in the labor market (decline of unemployment and stable increase of real wages in the face of still low inflation) and continuing recovery in the remaining key global economies. At the same time ECB economists expect that the average annual HICP inflation growth rate for the euro zone will drop slightly to 1.4% yoy in 2018 from 1.5% yoy in 2017, mainly due to the strong negative base effect on oil prices from the beginning of 2017. Then the inflation rate should, in their opinion, gradually increase, reaching the average level of 1.5% yoy in 2019 and 1.7% yoy in 2020. This will be attributable mainly to the higher base inflation pressure (faster growth rate of unit labor costs), supported by gradual stable increase in food and energy prices.

The key factors which pose a risk for the GDP growth forecast in the euro zone presented by the European Commission include, among others, weakening condition of global economy and decline of prices on international equity markets, geopolitical risks, and the outcome of the negotiations regarding the ultimate shape of the Brexit deal between the United Kingdom and the EU and the resulting increase in protectionist trends.

Industry in Poland

The condition of the domestic rail freight market is highly correlated with the overall situation in Poland's main industries – in particular mining, construction and steel industry. This is associated with the leading role of these cargo categories in the total volume of cargo transported by rail. The volume of cargo transported by rail in Poland is also influenced by the condition of such industries as the fuel sector, metal processing, chemical industry, timber industry or container cargo shipment sector.

In 2017, total industrial production sold [31]increased 6.5% yoy, compared to a 3.1% yoy growth in 2016. In the last quarter of 2017, the average pace of growth of industrial production was 8.4% yoy, i.e. was the highest since Q4 2011, exceeding both the result from Q3 2017 (6.3% yoy) and H1 2017 (5.8% yoy)[32].

In 2017, an increase in industrial production sold in relation to the year before was observed in 30 out of 34 industrial sectors classified by GUS, including, among others, manufacture of machinery and equipment (+12.5% yoy); metals (+11.5% yoy), metal products (+10.7% yoy), manufacture of rubber and plastic products (+9.5% yoy); manufacture of other non-metallic mineral products (+8.3% yoy), manufacture of motor vehicles, trailers and semi-trailers (+7.7% yoy), furniture (+7.5% yoy), paper and paper products (+7.1% yoy) or foodstuffs (+6.6% yoy). However, extraction of hard coal and brown coal dropped, compared to 2016 (-14.4% yoy).

Labor productivity in industry, calculated as the quotient of total industrial production sold by the number employees in 2017 was 3.2% higher yoy.

Labor productivity in industry, calculated as the quotient of total industrial production sold by the number employees in 2017 was 3.2% higher yoy. At the same time, the average headcount in the industrial sector increased by 3.2% yoy, and the average monthly gross salary growth rate accelerated to 5.6% yoy on average[33].

Enterprises operating in the industrial processing sector have a positive outlook on the current economic situation, which is shown by the latest results of the GUS market situation analysis. The general economic climate indicator in industrial processing in the last few months increased gradually over the past few months reaching in January the highest level since June 2008. Companies have favorable opinions on both current and future estimates regarding production, order pipeline and their financial standing. Industrial enterprises expect increased employment and increasing prices of industrial products[34].

Continuation of the favorable trends in the domestic industrial sector is also suggested by the PMI (Purchasing Managers' Index). Following the upward trend in the last months, in January 2018 the index dropped to 54.6 points from 55.0 in December 2017, but still remained much above the 50.0 poin threshold signifying the conventional borderline between expansion and recession in the industrial processing sector. Additionally, the structure of the index (among others the highest in 3 years

[30] European Central Bank
[31] enterprises employing more than 9 persons
[32] Central Statistical Office of Poland
[33] Central Statistical Office of Poland
[34] Central Statistical Office of Poland

increase of new orders[35]) points to likely continuation of the strong growth rate of the domestic industrial sector in the months to come.

In 2017, foreign trade increased in relation to 2016; inter alia export of goods and services increased by 8.3% yoy while import volumes went up by 10.4% yoy. In absolute terms, exports in this period amounted to PLN 870.1 billion, while imports stood at PLN 868.0 billion, which means that Poland's trade surplus dropped to PLN 2.1 billion, compared to PLN 17.0 billion in 2016.The increase in trade exchange was observed in all country groups, including the biggest increase to Central and Eastern European countries (increase in exports expressed in PLN by 16.6% yoy and imports by 23.4% yoy). Poland also increased the volume of its trade with developed countries (exports grew by 8.4% yoy and imports by 9.1% yoy), including with European Union countries (exports up by 8.2% yoy with simultaneous increase of imports by 8.3% yoy)[36].

Mining industry

In 2017, Poland mined 65.8 million tons of hard coal, which was 5.0 million tons less yoy (-6.8% yoy)[37]. In 2017, also total coal sales dropped, reaching 66.3 million tons (-9.3% yoy). At the same time the inventories of hard coal have been gradually decreasing; as at the end of December 2017 there were nearly 1.7 million tons of this raw material stored in the mine storage yards (compared to 2.5 million tons and 5.8 million tons in December 2016 and 2015, respectively).[38]In the face of lower domestic output and simultaneously continuing high demand by the professional power sector and private buyers, foreign hard coal supplies have intensified. Coal imports stood at 14.4 million tons in 2017 and in 2016 at 8.3 million tons, up 73.5% yoy[39].

In accordance with the data of the Industrial Development Agency (ARP), professional energy sector remains to be the biggest hard coal buyer. In 2017 electricity production in Poland amounted to 165,852 GWh and was 2.0% higher yoy. Production of electricity in professional hard coal-fired power plants decreased in 2017 by 1.8% yoy, which indirectly contributed to the shrinking share of hard coal-fired power plants in total electricity production by 1.9 p.p. yoy to 48.2%[40].

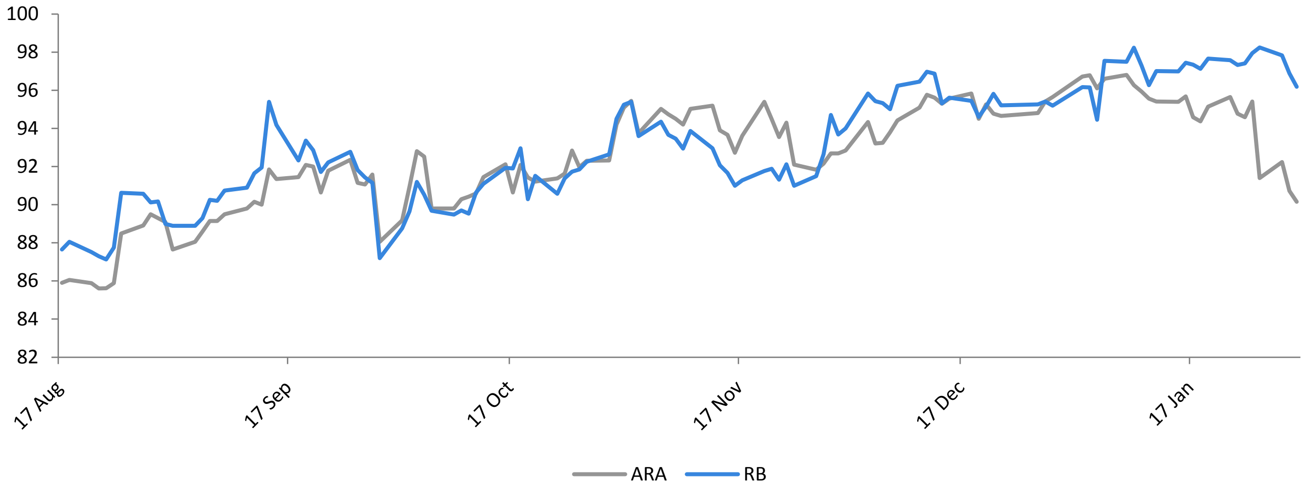
The Polish hard coal mining industry was spurred by increases in coking coal and steam coal prices on the domestic and global market and the resulting increase in sales revenues. In accordance with the information of the Industrial Development Agency, in 2017 total revenues of the hard coal mining industry in Poland amounted to PLN 20.5 billion (over +14.0% yoy). As a result, net profit of the mining industry in 2017 stood at PLN 3.6 billion, compared to a PLN 0.7 billion loss recorded in 2016.[41]

Q4 2017 brought a continuation of the upward trend in Poland's coal indices observed since the beginning of 2017. The PSCM1 index for the electricity generation market in Q4 2017 was on average PLN 210.94 per ton (up 2.8% qoq and 11.1% yoy). The heating coal index PSCM2 in this period stood at PLN 261.33 per ton (an increase by 9.9% qoq and 25.3% yoy)[42]. The high levels of the above indices directly translated into the aforementioned higher revenues of coal producers.

The coal prices in seaports, such as Amsterdam-Rotterdam-Antwerpia and Richards Bay (ARA) are also an important factor affecting the standing of the domestic hard coal mining industry. December 2017 brought a continuation of the steam coal price increases observed since May 2017 in ARA ports month over month to USD 94.7 USD per ton. In the entire 2017, the average price of ARA steam coal increased on average by 41.9% yoy to USD 84.2 per ton. Putting aside temporary drops which occurred in late winter of 2016 and in the spring of 2017, steam coal prices in global markets have been in an upward trend since April 2016 (when the prices of this raw material recorded long-term lows below USD 50 per ton), influenced among others by the dynamic development of global economy and China's attempts to restructure the local mining sector, reducing the supply of this raw material in global markets. From mid-January 2018 one can also observe a strong decline of coal prices in ARA ports, caused, among others, by limited demand for coal due to increase in energy production from wind in Germany[43]. ARA prices recorded a decline despite strong coal price increases in the Pacific and Australia regions in the face of, among others, the lifting the import quota for the steam coal by China[44].

[35] Markit IHS
[36] Central Statistical Office of Poland
[37] Central Statistical Office of Poland
[38] *Polski Rynek Węgla* [Polish Coal Market]
[39] Eurostat
[40] Polskie Sieci Elektroenergetyczne
[41] Industrial Development Agency (ARP)
[42] *Polski Rynek Węgla* [Polish Coal Market]
[43] http://www.energetyka24.com
[44] cire.pl

Figure 7 Current coal price indices on the European ARA* vs. RB markets**



*ARA – Amsterdam, Rotterdam and Antwerp;
**RB – Richards Bay (RSA)
Source: Virtual New Industry

Steel industry

In 2017, Poland produced 10.5 million tons of raw steel as compared to 9.2 million tons in 2016 (growth by +15.1% yoy)[45]. Production of hot rolled products in 2017 stood at 9.8 million tons, compared to 8.8 million tons in 2016 (+10.9% yoy). In the above period, total revenues from metal sales amounted to PLN 55.1 billion (real growth of 11.5% yoy), while revenues from metal product sales in 2017 were PLN 93.66 billion (real growth by 10.7% yoy). Coke production in Poland dropped in 2017 by PLN 0.5 million tons (-4.7% yoy) to 9.3 million tons.

In 2017 steel production increased also externally, both in Europe and among leading global producers (China, India and Japan). According to World Steel Association information, the total volume of raw steel produced by the 66 affiliated countries (responsible for approx. 99% of global production) amounted to 1,674.7 million tons (up 5.5% yoy)[46].

Steel production in the European Union in this period stood at 168.7 million tons (up 4.1% yoy). The EU countries which recorded the highest relative increase in production include Hungary (49.1% yoy to 1.9 million tons), Bulgaria (23.7% yoy to 652 thousand tons) and Greece (19.2% yoy to 1.4 million tons). The biggest European producers also recorded a significant increase in steel production: Germany by 3.5% yoy to 43.6 million tons, Italy by 2.9% yoy to 24.0 million tons and France by 7.6% yoy to 15.5 million tons. The volumes of produced steel shrank in the Czech Republic (-14.2% yoy to 4.6 million tons), Finland (-2.4% yoy to 4.0 million tons) or the Netherlands (-2.0% yoy to 6.8 million tons).

In the case of Eastern European producers outside the EU, in 2017 steel production increased in Russia by 1.3% yoy to 71.3 million tons and in the case of Ukraine production dropped by 6.4% yoy to 22.7 million tons. The leading global producers (China and India) showed an increase in production in 2017 by 5.7% yoy to 831.7 million tons and by 6.2% yoy to 101.4 million tons, respectively.

In accordance with the data of the European Steel Association (Eurofer), apparent steel consumption in the European Union increased 1.1% yoy in Q3 2017 compared to the decrease in consumption by -0.4% yoy in Q2 2017.[47] Deliveries of local (European) steel producers to the market increased in this period by 4.4% yoy, and imports from third party countries shrank by nearly 14.0% yoy. This is a reversal of the trends observed in H1 2017, when steel import from neighboring countries was higher

by nearly 8% yoy, and European producers recorded a strong decline of deliveries. The change resulted mainly from the increases in global steel prices (reducing international competitiveness of the neighboring countries), and from anti-doping regulations introduced by the European Commission to protect the home market.

Eurofer analysts expect that in Q4 2017 the above trends continued and, as a result, apparent steel consumption increased in 2017 by 1.9% yoy. At the same time production in steel-intensive industries increased in Q3 2017 by 4.6% yoy (mainly due

[45] Central Statistical Office of Poland
[46] World Steel Association
[47] Eurofer

to strong increase in construction, steel pipe and machinery production), and in the entire 2017 the increase is estimated at 4.7% yoy – which would be tantamount to the quickest pace of expansion of the industries using steel since 2011.

In the next quarters the demand for steel should remain strong due to the expected further stable growth of its consumption in the European Union.

Eurofer experts predict that the real steel consumption will grow on average by 1.8% yoy in 2018 and 1.6% yoy in 2019, which will correspond to the estimate increase in production in steel-intensive sectors by 2.2% yoy in 2018 and 1.8% yoy in 2019, respectively. As a result, an increase in the apparent steel consumption (supply) by 1.9% yoy in 2018 and 1.4% yoy in 2019 is expected. Also further projected increase in steel prices in the market will drive steel production. In the opinion of MEPS International experts, the upward trend of steel prices observed in 2016 and 2017 will continue in the quarters to come, which will be supported by application of market protection measures by EC[48].

Construction industry

Construction and assembly production expressed in fixed prices increased in 2017 by 12.1% yoy, compared to the 14.1% yoy decline in 2016.[49] Only in Q4 2017, construction and assembly output grew by 17.6% yoy, which exceeded the growth rate observed in Q3 2017 (13.0% yoy increase) and H1 2017 (7.6% yoy increase). At the same time, this is the highest average growth rate of construction and assembly output recorded in quarterly terms since 2011, i.e. the construction boom before the EURO 2012 in Poland.

The increase in construction and assembly output in 2017 occurred in all the construction sectors classified by GUS. Particularly strong growth was recorded in the civil and water engineering industry (16.7% yoy growth) and specialist construction works (increase by 11.1% yoy). Also the construction of buildings sector recorded a strong growth (by 7.5% yoy). The number of apartments under construction by the end of 2017 was 758.9 thousand and their growth rate in Q4 2017 stood at 3.8% yoy, reaching the highest level for nearly 6 years.

The intensification of investments (and this infrastructural expenditures) in 2014 was attributable primarily to the increased inflow of EU structural funds under the financial perspective 2014-2020. The non-smooth transition from the financial perspective 2007-2013 to the perspective 2014-2020 and the related delays in EU fund spending contributed to strong declines in capital expenditures in Poland, on average -7.9% yoy in 2016. In accordance with preliminary GUS data, in 2017 the growth rate of investments accelerated on average to 5.4% yoy, and in Q4 2017 the capital expenditures growth rate amounted to 11.3% yoy[50].

The increase in investments in Poland is attributable mainly to the public sector. In accordance with the Finance Ministry information, in Q3 2017, capital expenditures of the government and local government institutions sector increased by 22.2% yoy, out of which local self-government units recorded an increase by 44.1% yoy[51]. The expected faster absorption of moneys under EU funds should facilitate the growth rate of capital expenditures in the public sector also in 2018, especially in the context of the planned local government elections in Poland scheduled for the autumn this year.

One of the flagship projects in infrastructural investments executed from the central and local government budgets and co-financed from EU funds is the construction and modernization of the road and railway network in Poland. On 12 July 2017, the Council of Ministers adopted a resolution modifying the provisions of the long-term infrastructural program entitled “National Road Building Program in 2014-2023 (with an outlook to 2025)”. In accordance with the existing division of funds, total expenditures will amount to PLN 196.4 billion in 2014-2020, bulk of them to be spent in 2018-2020[52]. According to the amendment made in December 2017, in turn, total expenditures on rail infrastructure in the “National Rail Program until 2023” are estimated at PLN 66.4 billion.[53]

[48] http://hutnictwo.wnp.pl/
[49] Central Statistical Office of Poland
[50] Central Statistical Office of Poland, Preliminary estimate of the gross domestic product in Q4 2017, February 2018
[51] Finance Ministry
[52] Ministry of Infrastructure and Construction
[53] Ministry of Infrastructure and Construction

Industry in the Czech Republic

Industry in the Czech Republic

In 2017, industrial production in the Czech Republic increased by 5.7% compared to 2016.[54]In Q4 2017 the growth was 7.3% yoy compared to 5.0% yoy in Q3 2017 and 5.3% yoy in H1 2017.

Among the industries classified by CZSO, the growth of production of the whole sector in 2017 was driven primarily by: production of chemicals and chemical products (growth by +19.6% yoy), manufacture of computers, electronic and optical products (+9.9% yoy), production of basic pharmaceutical substances, medicines and other pharmaceutical preparations (+9.8% yoy), production of electrical devices (+9.1% yoy), manufacture of motor vehicles, trailers and semi-trailers (+9.6% yoy), manufacture of rubber and plastics (+7.9% yoy) and manufacture of machinery and equipment (+7.3% yoy). A decrease in activity, in turn, was recorded in such industries as: production of other transport equipment (decline by 11.1% yoy), repair and assembly of machinery and equipment (-6.4% yoy) and mining and quarrying (-6.1% yoy).

Total revenues from industrial activity (expressed in current prices) increased in 2017 by 6.5% yoy, including revenues from export activity increased by 6.3% yoy and domestic sales (comprising indirect exports, i.e. using enterprises from outside the industrial sector) increased by 6.7% yoy.

Also the strong inflow of new orders had a positive impact on the condition of the Czech industrial sector in 2017. In 2017, the total value of new orders increased by 6.6% yoy, including foreign orders by 5.3% yoy, and domestic orders by 9.1% yoy.

In Q3 2017, the average number of employees in the Czech industry was 1.38 million (increase by 1.4% yoy). In the same period, the average monthly nominal gross wages increased by 7.3% yoy and reached CZK 29,051 (i.e. currently nearly PLN 4,668[55])[56].

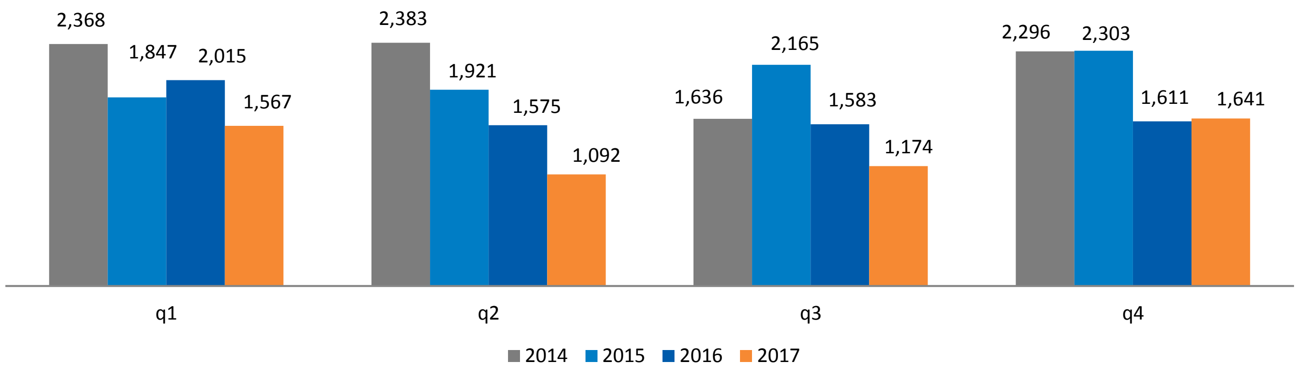
In addition, the good condition of the Czech industrial sector is confirmed by the recent levels of the forward-looking PMI (Purchasing Managers' Index). In December 2017 it reached 59.8 points, and in the entire 2017 on average 57.1 points, compared to 53.0 in 2016. A level above 50.0 points indicates a continuing upturn in the industrial sector. In January 2018, the PMI index was at the December level, i.e. 59.8 points, and its component associated with the current production reached the highest level since February 2011. Also new orders (both domestic and foreign) and employment recorded stable growth.[57]

Mining industry

In Q4 2017 the Czech Republic mined 1.6 million tons off hard coal (up by 1.9% yoy)[58]. In the entire 2017 hard coal production reached 5.5 million tons, down by 19.3% yoy. Such a strong decline of hard coal production in the Czech Republic is the direct result of decommissioning of the Paskov mine in March 2017 and the ongoing restructuring processes in the mining sector. The restructuring program for the Czech mining company OKD adopted by the Regional Court provides for gradual phasing out of the company's mines. Next, the following mines will be closed down: Darkow and Lazy (by the end of 2018) and CSA and CSM by 2021 and 2023, respectively. As a result, in the analysts' opinion, in 2018 one may expect further decline of production to approx. 4.6 million tons.

[54] Czech Statistical Office
[55]With the average CZKPLN exchange rate in 2017 of 0.1607 – NBP data
[56] Czech Statistical Office
[57] IHS Markit
[58]Czech Ministry of Industry and Trade

Figure 8 Quarterly extraction of hard coal in the Czech Republic in 2015-2017 (thousand tons)



Source: Czech Ministry of Industry and Trade

As opposed to hard coal, the level of brown coal production in the Czech Republic is relatively less volatile. In Q4 2017, it amounted to 11.2 million tons (up 1.3% yoy). In 2017, in turn, in total 39.3 million tons of brown coal was extracted (up by 2.1% yoy)[59]. The biggest companies operating in the lignite mining industry in the Czech Republic are: Severočeské doly a.s., Sokolovská uhelná a.s., Vršanská uhelná a.s. and Severní energetická a.s.

The condition of the brown coal mining industry is stable and the production volumes should not change significantly, at least until implementation of the provisions of the "Nuclear Energy Program until 2040" from 2015. In accordance with the program assumptions, in 2040, nuclear energy should become the main source of energy in the Czech Republic, with a 46% to 58% share in the mix (compared to 32.5% in 2017)[60]. The increase in the share of nuclear energy is expected to take place at the cost of the power sector based on brown coal. In addition to these sources, energy is to be provided by renewable sources, with a 25% target share in the energy mix (in 2013 the target set for 2020, i.e. 13.0% share of RES energy in consumption, and in 2016, the consumption of 14.9% was recorded[61]) and gas energy (15% share). The new nuclear reactors (with the existing nuclear power plants in Dokovany and Temelin) with the total capacity of 2500 MWe are expected to be ready in 2035, with a prospect of building further ones later on.

Steel industry

The metallurgical industry in the Czech Republic consists mainly of two sectors: metal processing (ferrous and non-ferrous metals) and metal foundry industry. The main determinants of demand for the metallurgical sector's products in the Czech Republic are: automotive industry, construction and mechanical engineering. The key development barriers in the development of the metallurgical industry include, in turn, high costs associated with other kinds of transport than maritime or inland waterway transport, which is due to the Czech Republic's lack of direct access to the sea and location away from water reservoirs used in transport.

This forces the steel industry to rely on more expensive rail transport[62]. In addition, the increasing shortages of qualified labor force reported by enterprises contribute to increasing pressure on salary increases and thus indirectly increase unit labor costs. As a result, the international price competitiveness of the products manufactured by the Czech metallurgical industry decreases.

In 2017 production in each of the three main steel industry categories decreased compared to 2016. According to Steel Federation a.s. data, raw steel production in 2017 totaled 4.6 million tons (down by 14.2% yoy). Production of pig iron declined in the period to 3.7 million tons (-11.4% yoy) and the volume of hot rolled products shrank to 4.6 million tons(-10.2% yoy)[63].

[59] Czech Ministry of Industry and Trade
[60] www.biznesalert.pl
[61] Eurostat
[62] National Training Fund, o.p.s., "Manufacture of basic metals and fabricated metal products"
[63] The Steel Federation a.s.

Construction industry

In 2017 the construction and assembly output in the Czech Republic increased 1.7% yoy, of which total construction output increased in the period by 5.0% yoy and the engineering construction output shrank by 5.7% yoy[64].

In Q4 2017 the volume of the construction and assembly output in the Czech Republic increased 1.7% yoy, and total construction output increased in total by 3.2% yoy and the engineering construction output growth rate decreased by 1.8% yoy.

Favorable conditions can be also seen when analyzing the scale of inflow of EU structural funds, the number of issued building permits and their value, construction orders, apartments under construction and completed apartments.

In the entire 2017, the total value of capital transfers from the EU to the Czech Republic was EUR 3.0 billion, approx. EUR 1.3 billion of which were paid under cohesion funds, and another EUR 1.2 billion under EU regional development funds. In total in the financial perspective for 2014-2020, nearly EUR 22 billion is slated for the Czech economy, which should drive intensification of infrastructural works in the next quarters[65].

In 2017 the number of granted building permits amounted to 84,164 (up by 1.0% yoy). At the same time, the estimated value of construction projects for which building permits were obtained is estimated at CZK 352.9 billion, or approx. PLN 57.06 billion [66](up +24.1% yoy).

In 2017 the number of construction orders[67] remained on the 2016 level and stood at 61,515 orders received and executed in the Czech Republic. Their total value increased by 9.3% yoy to CZK 202.6 billion (or approx. PLN 32.55 billion).

The number of apartments started in 2017 was 31,521 (+15.8% yoy). In the case of single-family houses, the increase in the period in question was 17.7% yoy and in the case of multi-family buildings the growth was 23.4% yoy.

The number of apartments completed in 2017 increased by 4.6% yoy and amounted to 28,575. The number of completed single-family houses increased in 2017 by 4.2% yoy and the number of multi-family facilities grew by 3.0% yoy.

Automotive industry

Due to the long-term tradition of car production, developed road infrastructure and qualified labor force, the Czech Republic is one of the key manufacturers of motor vehicles in Europe. The high headcount in the automotive industry and the steady growth in vehicle production have made this industrial output segment one of the strongest motors of development of the Czech economy. Currently the Czech automotive industry employs over 150 thousand people and accounts for 20% of Czech industrial output and Czech exports.[68]

The biggest producers of passenger cars operating in the Czech Republic in 2017 were: Škoda Auto a.s. (60.7% share in the car production market), Hyundai Motor Manufacturing Czech s.r.o. (a 25.2% market share) and TPCA Czech s.r.o. (Toyota, Peugeot, Citroën) with a 14.1% market share. In 2017, the automotive industry branch manufacturing delivery vans and buses was made up of the following entities: Iveco Czech Republic a.s. (a 88.6% market share), SOR Libchavy spol. s.r.o. (a 10.2% market share) and other manufacturers (a 1.2% market share)[69].

In 2017, the automotive industry in the Czech Republic reached historic production levels, which was driven, among other factors, by a rapid growth in both the global economy and the Czech economy, translating indirectly into an increase in demand for motor vehicles in the Czech economy and its macroeconomic environment. According data published by the Automotive Industry Association (Auto SAP), during 2017 the Czech Republic manufactured 1,421,324 road vehicles, which constituted a 5.2% yoy increase. The largest nominal increase in manufacturing output was recorded in the car manufacturing segment with the number of newly manufactured cars in 2017 higher by 5.2% yoy at 1,413,881 pieces. Car exports in the whole of 2017 increased by an average of 5.0% yoy and domestic sales in the same period hiked by 6.8% yoy[70].

However, the largest relative increase in output was recorded in the truck segment where in 2017 production surged 11.7% yoy from 2016 to 1,481. Also manufactured in 2017 were 4,631 buses (+5.5% yoy) and 1,331 motorcycles (+8.4% yoy).

According to the recent pronouncements by B. Wojnar, CEO of Auto SAP, a lower growth rate in the Czech motor vehicle production sector should be expected in the upcoming quarters due to the anticipated decrease in the rate of economic growth in the Czech Republic and the euro zone[71].

[64] Czech Statistical Office
[65] Eurostat
[66] With the assumed average CZKPLN exchange rate for 2017 in the amount of 0.1617 – National Bank of Poland (NBP) data
[67] The data comprise companies employing more than 50 employees
[68] https://www.czechinvest.org
[69] Auto SAP
[70] Auto SAP
[71] Auto SAP

Intermodal transport

Container transport is gradually becoming more and more significant in the volume of rail transport in the Czech Republic. According to most recently updated Eurostat data for 2016, the volume of containers transported in the Czech Republic by rail was 1.57 million twenty-foot equivalent units (TEUs), up 5.9% yoy. Since 2009, total container transport expressed in TEUs has increased 75.9%[72].

AWT, which belongs to the PKP CARGO Group, owns the Paskov intermodal terminal, established in 2007 in the area of the former Paskov mine. The strategic location of the terminal on the transport map of Europe allows for fast connections to leading European ports and terminals such as Hamburg, Rotterdam, Bremerhaven, Koper, Trieste, Gdańsk and Gdynia or other terminals in the Czech Republic: Prague, Mělník and Lovosicích. The present surface area of the terminal is 31 thousand m^2 and its total capacity is 2.4 thousand TEU. AWT provides there comprehensive services in the area of transshipment, storage or freight forwarding of containers.

The Paskov Terminal is being expanded, and these works are for the most part financed by UE funds (the total amount to support the project is EUR 5.9 million). After the expansion is completed (in 2020), the total surface area of the transshipment base will increase to 71 thousand square meters, and the total transshipment capacity of the terminal will double, reaching the level of 4.8 thousand TEU.

[72] Eurostat

4.2 Freight transportation activity

The rail transport market was presented taking into account the transport in the domestic and Czech markets where the transport activity in 2017 was the most important for the PKP CARGO Group, especially for PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and AWT a.s.

4.2.1 Rail transport market in Poland

Rail freight transport in Poland is regulated, and the authority which issues, prolongs and suspends licenses authorizing business entities to conduct rail transport activity is the Office of Rail Transport ("UTK").

Even though the rail freight market is regulated, there is a relatively high competition on it. Throughout 2017, the Polish market was served by 71 licensed rail freight transport operators, including PKP CARGO S.A. and PKP CARGO SERVICE Sp. z o.o. Compared to 2016, 3 companies left the rail freight transport market (Dolnośląskie Linie Autobusowe Sp. z o.o., Railpolonia Sp. z o.o. and WAM Sp. z o.o.), while other 5 ones (Colas Rail Sp. z o.o., LTE Polska sp. z o.o., Orion Rail Logistics sp. z o.o. , Polzug Intermodal Polska Sp. z o.o. and Trainspeed sp. z o.o.) were granted licenses from the Office of Rail Transport for rail freight transports in the territory of Poland.

In 2017, operators conducting business in Poland transported in total 239.9 million tons of cargo, which means an increase of 7.9% yoy (by 17.6 million tons yoy). At the same time, the freight turnover in 2017 was 54.8 billion tkm, which is an increase of 8.3% yoy (4.2 billion tkm yoy). The average haul of cargo by rail in 2017 increased by 0.8 km (+0.3% yoy) to 228.5 km.[73]

An intense increase of cargo transports by rail in 2017 yoy resulted primarily from the increase in hard coal transport, in particular in imports to Poland.

The imports of hard coal in 2017 amounted to 14.4 million tons, compared to 8.3 million tons in 2016 (a growth by 73.5% yoy).[74] In 2017, a total amount of 93.8 million tons of hard coal was transported by rail, which is 5.3% more yoy (+4.3 million tons) compared to 2016.[75] Another cargo categories distinguished by the Central Statistical Office (GUS) for which the situation greatly improved are aggregates and construction materials. The increased transport volumes in this cargo category are attributable mainly to intensification of the work on already started and launch of new infrastructural investment projects (road construction and railway modernization), strongly supported by the EU structural funds within the expenditure perspective for 2014-2020. In 2017, Polish rail operators transported altogether 51.0 million tons of aggregates, sand and gravel, as well as cement, lime and gypsum and other construction materials (growth by 12.6% yoy and 5.7 million tons yoy). Additionally, due to better economic situation in Poland and macroeconomic environment (and hence increased demand from buyers), there was a strong increase in the transports of iron ore, metals and metal products. The production of raw steel in Poland in 2[0]17 was 10.5 million tons, up by 15.8% yoy compared to 2016 (+1.4 million tons).[76] At the same time, the global production of steel in 2017 was 1.7 billion tons (an increase of 5.5% yoy).[77] Total transports of iron ore, metal ores and metal products carried out by rail operators in Poland in 2017 amounted to 20.4 million tons (+5.0% yoy).In 2017, the transport market for petroleum oil refinery products also recorded a strong growth of 6.0% yoy, up to 16.8 million tons. Intensification of the transport of liquid fuels was facilitated by legislative changes reducing the grey market, which translated into an increase in the official demand for the fuels. According to data from PKN Orlen, the use of gasoline in Poland increased to 4.3 million tons in 2017 (+6.9% yoy), while the total consumption of diesel oil grew up to 15.6 million tons (+17.2% yoy).[78] The increased demand was satisfied to a considerable extent by imports, which contributed to an increase in the volumes transported by seaports and the border stations in the east of Poland. The continuing favorable economic conditions in Poland and in foreign markets also contributed to an increase in volumes in intermodal freight transport, mainly in connection with the development of transit routes and the handling of cargo connections on the China-Europe-China route as part of the "New Silk Road", the increasing share of transport between seaports and terminals in the interior of the country and a higher percentage of freight container shipments, mainly those transported in the conventional manner, e.g. coke, grains, automobile parts. Imports to Poland (and indirectly also intermodal transports) were also facilitated by the appreciation of the zloty, observed in 2017, increasing the purchasing power of the Polish currency and encouraging to make purchases of products

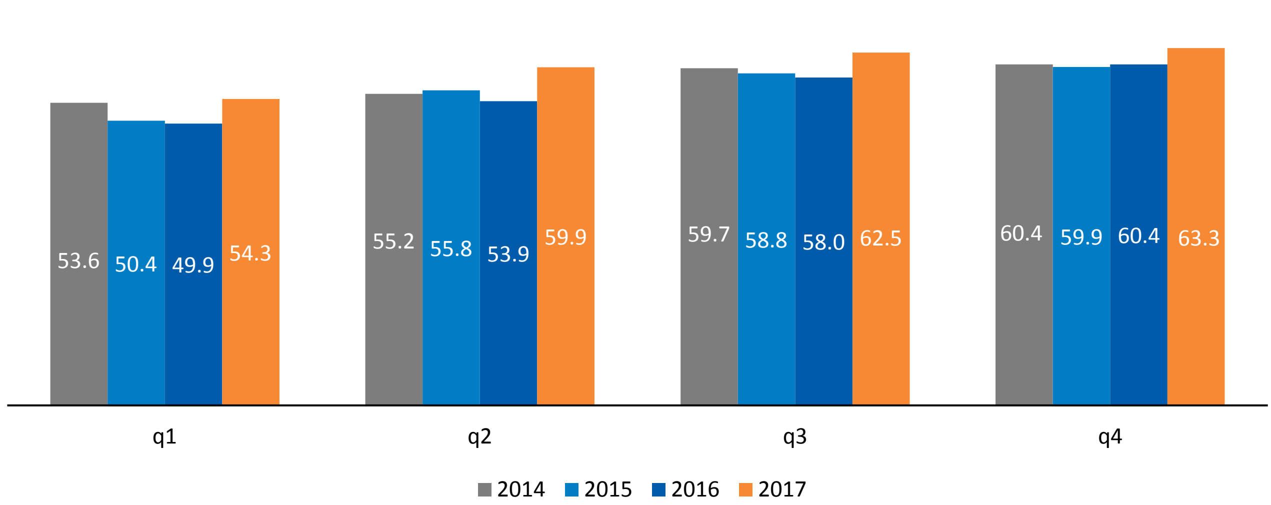
[73] Office of Rail Transport
[74] Eurostat
[75] Central Statistical Office of Poland
[76] Central Statistical Office of Poland
[77] worldsteel.org
[78] PKN Orlen

manufactured abroad. In 2017, the USD/PLN exchange rate dropped on average by -4.2% yoy, while the EUR/PLN exchange rate fell on average by 2.4% vs. 2016.[79]

In 2017, the total quantity of container shipments was 14.7 million tons, which is 1.9 million tons higher compared to 2016 (+145% yoy). On the other hand, transports measured in UTI container units amounted to 1,080.5 thousand items in 2017 (an increase by 129.6 thousand items yoy and 13.6% yoy).[80]

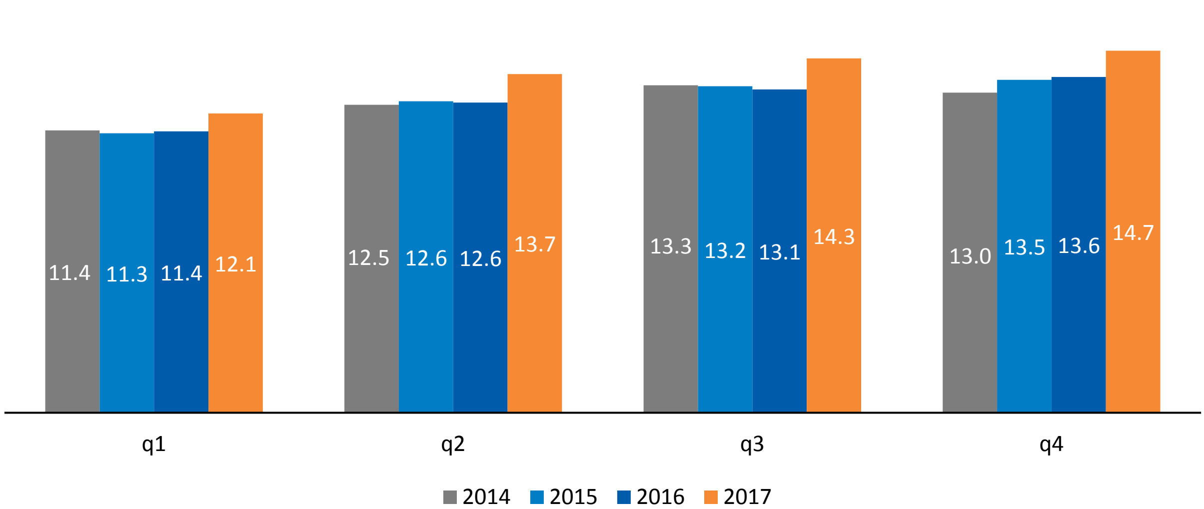
In 2017, transport of timber and wooden products declined on a year-over-year basis by 0.3 million tons, or 12.2% yoy, to 1.9 million tons. This was associated predominantly with the suspension of exports of this raw material by Belarus in January 2017 and the subsequent significant reduction in such exports (following their resumption) remaining throughout most of 2017.

Figure 9 Rail freight volumes in Poland (in million tons) in individual quarters of 2015-2017



Source: Office of Rail Transport

Figure 10 Quarterly rail freight turnover in Poland (billion tkm) in individual quarters of 2015-2017



Source: Office of Rail Transport

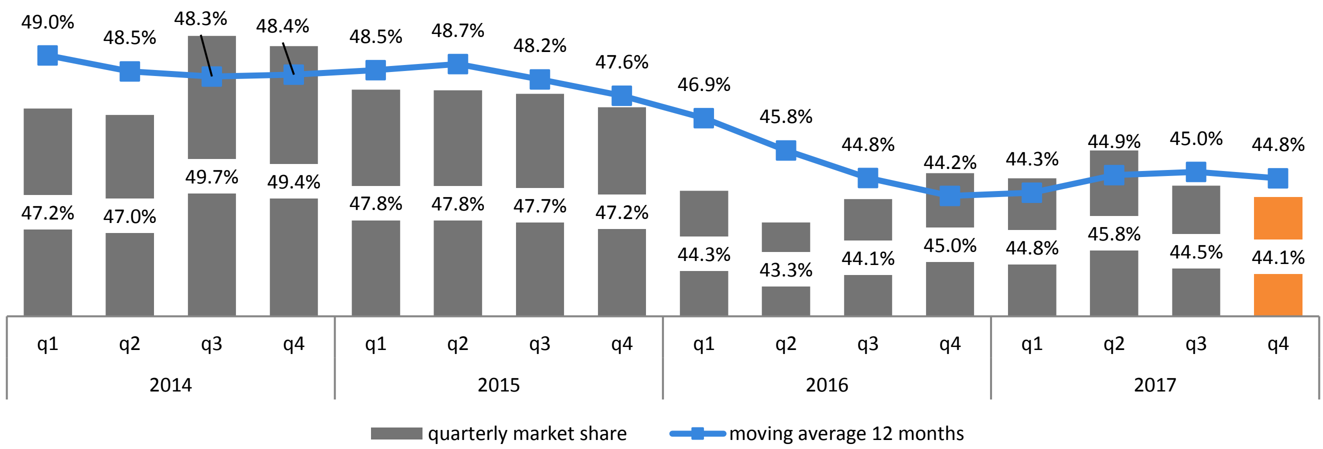
[79] National Bank of Poland
[80] Office of Rail Transport

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

In 2017, the PKP CARGO Group remained the leader in the Polish rail freight market; transport operations in the group are performed mainly by PKP CARGO S.A. The Group had a 44.8% market share (+0.6 p.p. yoy) in terms of freight volume and a 51.6% market share in terms of freight turnover (+0.1 p.p. yoy).[81] Within the Group, the Parent Company had a 44.2% market share (+0.3 p.p. yoy) in terms of freight volume and a 51.4% market share in terms of freight turnover (unchanged).

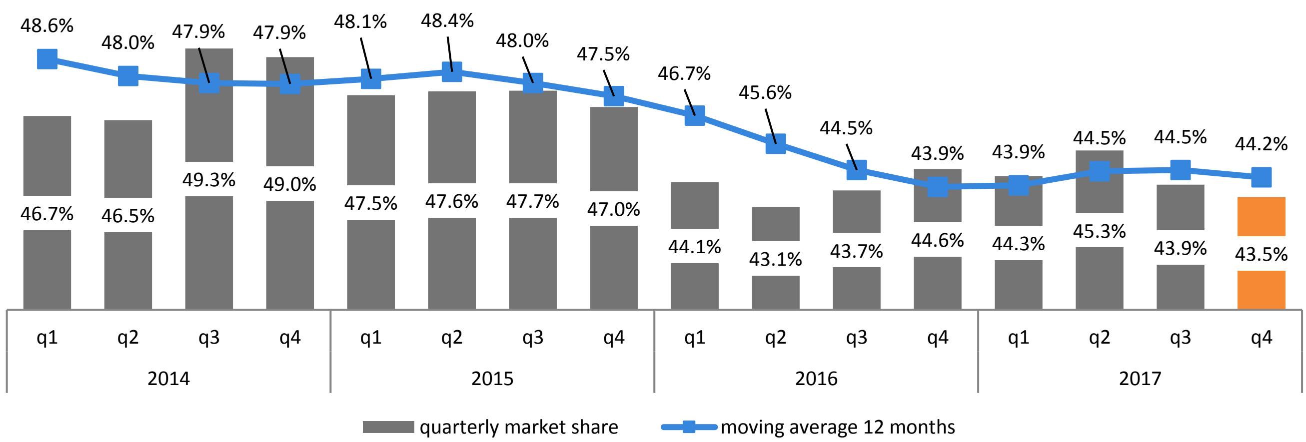
Market shares of both the PKP CARGO Group and the Parent Company are depicted in the following diagrams.

Figure 11 Share of the PKP CARGO Group total freight volume in Poland in 2014-2017



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

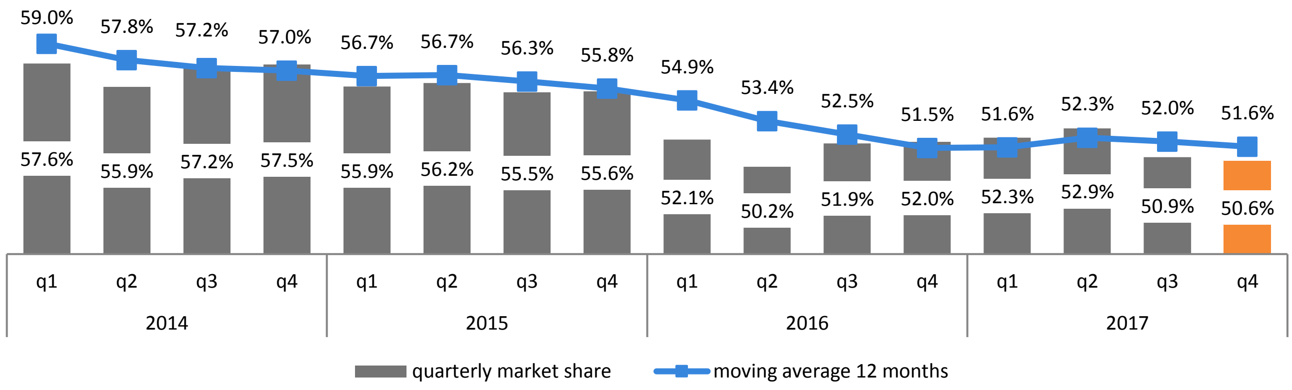
Figure 12 Share of PKP CARGO S.A. in total freight volume in Poland in 2014-2017



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

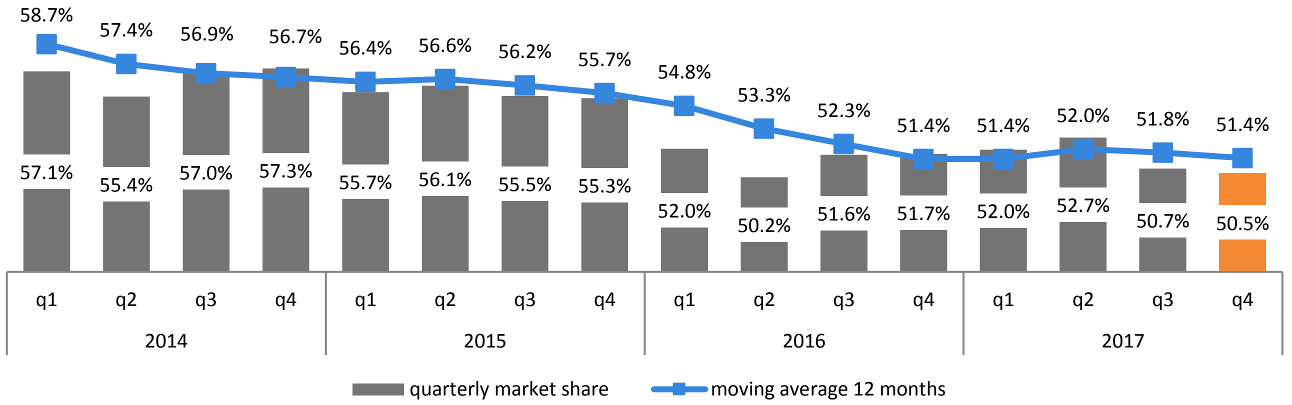
[81] Office of Rail Transport

Figure 13 Share of the PKP CARGO Group in total freight turnover in Poland in 2014-2017



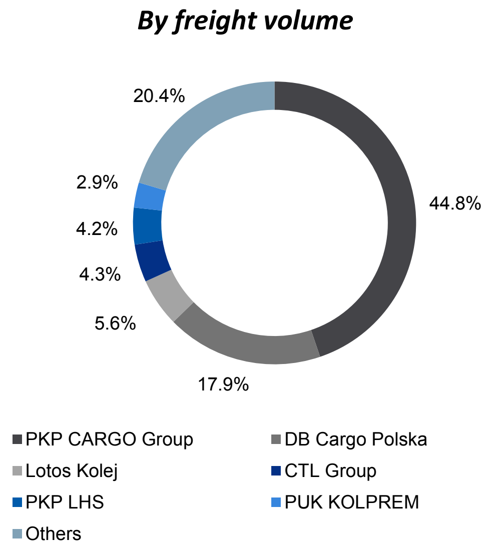
Source: Proprietary material based on the Office of Rail Transport's data

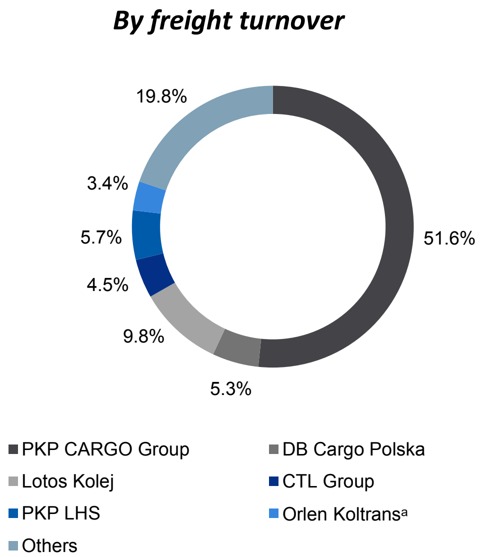
Figure 14 Share of PKP CARGO S.A. in total freight turnover in Poland in 2014-2017



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

Figure 15 Market shares of the largest rail operators in Poland in 2017 by freight volume and freight turnover





[a] As at 1 June 2017, Euronaft Trzebinia sp. z o.o. contributed to Orlen Kol-Trans sp. z o.o. the financially, functionally and organizationally spun-off part of the enterprise providing services related to rail transport. The aforementioned share of Orlen Kol-Trans takes into account the transport volumes carried out by Euronaft Trzebinia sp. z o.o. before 1 June 2017.

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

The largest operators conducting activity competitive to the activity of the PKP CARGO Group in the Polish freight rail transport market include the following companies: DB Cargo Polska, Lotos Kolej, Grupa CTL, PKP LHS, PUK KOLPREM, Freightliner PL, Pol-Miedź Trans and Orlen Kol-Trans.

In 2017, the following PKP CARGO Group's competitors transported the largest freight volumes: DB Cargo Polska (42.9 million tons), Lotos Kolej (13.3 million tons) and the CTL Group (10.4 million tons), which held market shares of 17.9%, 5.6% and 4.3%, respectively. In turn, the following PKP CARGO Group's competitors reported the greatest freight turnover: Lotos Kolej (5.4 billion tkm), PKP LHS (3.1 billion tkm) and DB Cargo Polska (2.9 billion tkm) with market shares of 9.8%, 5.7% and 5.3%, respectively.

Throughout 2017, the largest increases in freight turnover (compared to 2016) were posted by the following rail operators competitive to the PKP CARGO Group: Inter Cargo (+562 million tkm, which translated into an increase in the market share by 0.98 p.p. yoy to 1.52%), CD Cargo Poland (former Czech Railways) (+515 million tkm, which translated into an increase in the market share by 0.89 p.p. to 1.55%) and STK (+318 million tkm, with a 0.50 p.p. increase in the market share to 1.60%). On the other hand, there was a decrease in freight turnover performed by the CTL Logistics Group (-558 million tkm, which means a drop in the market share by 1.47 p.p. yoy) and PKP LHS (-233 million tkm, the market share decreased by -0.93 p.p. yoy). In terms of freight volume, however, the largest increases were posted by the following rail operators competitive to the PKP CARGO Group: DB Cargo Polska (+2.9 million tons, which nevertheless translated into a decrease in the market share by 0.11 p.p. yoy to 17.9%), CD Cargo Poland (+1.1 million tons, an increase in the market share by 0.4 p.p. to 1.3%) and PUK Kolprem (+0.8 million tons, with a 0.1 p.p. increase in the market share to 2.9%). A decrease in transports in terms of freight volume throughout 2017 yoy was observed in the CTL Group Logistics Group (-2.1 million tons, decrease in the marker share by 1.31 p.p. yoy).

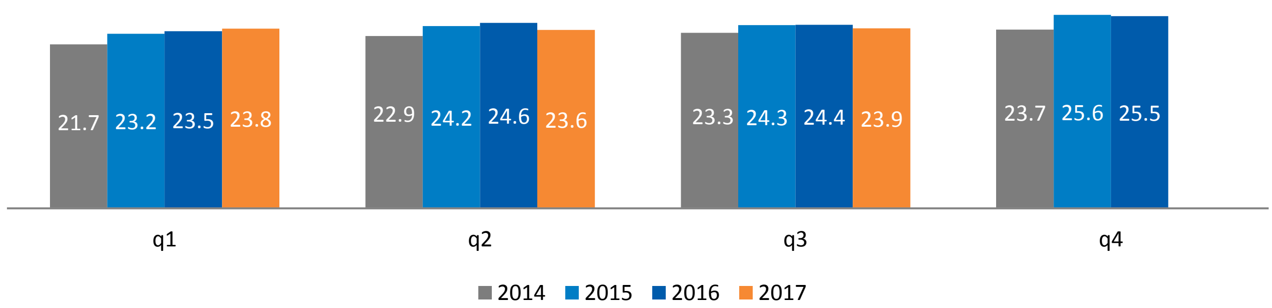
4.2.3 Rail freight transport market in the Czech Republic

According to the data of the Czech Ministry of Transport, in 9M 2017, 405.2 million tons of goods were transported and 45.8 billion tkm of freight turnover were carried out in the Czech Republic. Automobile transport remains the major branch in the freight transport market in the Czech Republic, and its share in the total freight volume increased in 9M 2017 by 0.4 p.p. yoy to 82.1%. In terms of freight turnover, however, road transport in 9M 2017 recorded a fall in the market share by 3.1 p.p. yoy down to 73.2%. Until the end of September 2017, a total of 332.6 million tons of goods were transported by car (+0.8% yoy), and the completed freight turnover fell by 4.9 billion tkm (-12.6% yoy). On the other hand, the average distance for transported goods decreased to 100.9 km, i.e. by 15.4 km yoy (-13.2% yoy).

At the same time, the performed freight turnover in 9M 2017 amounted to 11.8 billion tkm (an increase by 3.2% yoy). This contributed to an increase in the market share of railways in the period by 3.0 p.p. to 25.7%, and the average distance was 164.8 km (+4.8% yoy).

In 9M 2017, 1.2 million tons of goods were transported in the Czech Republic using the remaining transport branches (inland waterway and air transport), and their market share was 0.3%. The freight turnover performed by air and inland waterway transport was 0.5 billion tkm, which means a market share of 1.1%.[82]

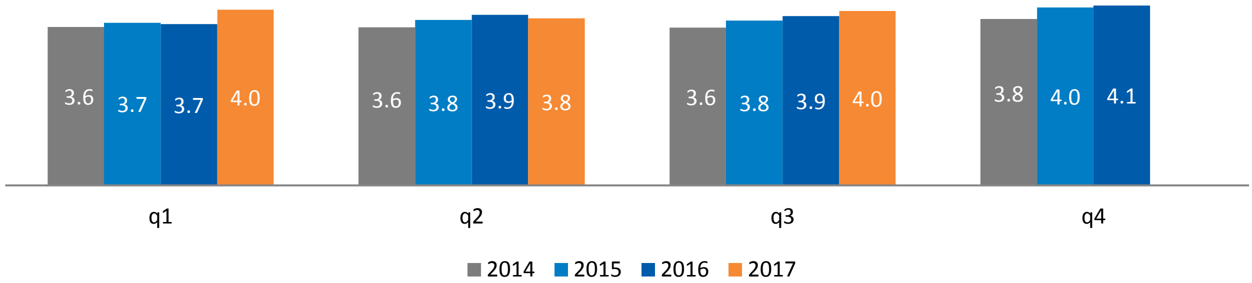
Figure 16 Rail freight transport by freight volume in Czech Republic in individual quarters of 2014-2017 (million tons)



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

[82] Ministry of Transport of the Czech Republic

Figure 17 Quarterly rail freight transport in the Czech Republic by freight turnover in 2014-2017 (billion tkm)



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

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

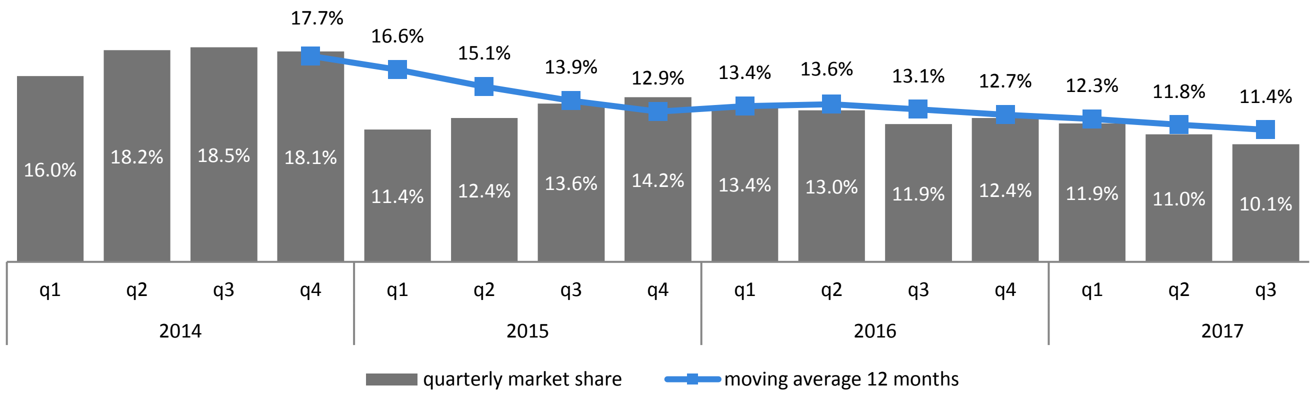
According to information published at the website of the Czech rail infrastructure manager (SŽDC), on the Czech market, there are altogether 100 companies holding licenses for rail transport of commodities and providing such services (data up to date as at 8 February 2018). This group of companies may also include PKP CARGO S.A. and a subsidiary of the PKP CARGO Group - Advanced World Transport a.s. (AWT).[83]

In 2017, the AWT Group's share in the Czech rail transport market decreased by 8.1% (-0.9 p.p. yoy) in terms of freight turnover. The implementation of the restructuring program for the hard coal mining sector carried out by Prisko (a company owned in 100% by the State Treasury of the Czech Republic) is at present of key importance for the transport results of AWT, when the program includes gradual closing of mines. As a result, reduced hard coal mining in the Czech Republic causes directly a fall in the volumes comissioned for transport for AWT. According to data for 2017, AWT transported in the period 4.3 million tons of hard coal (a drop by -32.6% yoy).

In the face of reduced volumes of transported hard coal, AWT made efforts to diversify its transport activity. Consequently, decreased hard coal transports were partly compensated by transports of liquid fuels, which rose by 181 thousand tons yoy (+33.0% yoy to 729 thousand tons), metals and metal ores by 115 thousand tons yoy (+78.9% yoy to 261 thousand tons), timber and agricultural produce by 98 thousand tons yoy (+83.5% yoy to 216 thousand tons) and chemical products by 41 thousand tons yoy (+9.1% yoy to 485 thousand tons), or intermodal transport by 31 thousand tons yoy (+3.9% yoy to 836 thousand tons).

Active commercial operations are currently being performed, talks are being held with clients and agreements are being negotiated to offset as much as possible the decrease of transported volumes attributable to lower freight volumes of hard coal to be contracted in the future.

Figure 18 AWT a.s.'s market shares in total freight volume in the Czech Republic quarterly in 2014-2017

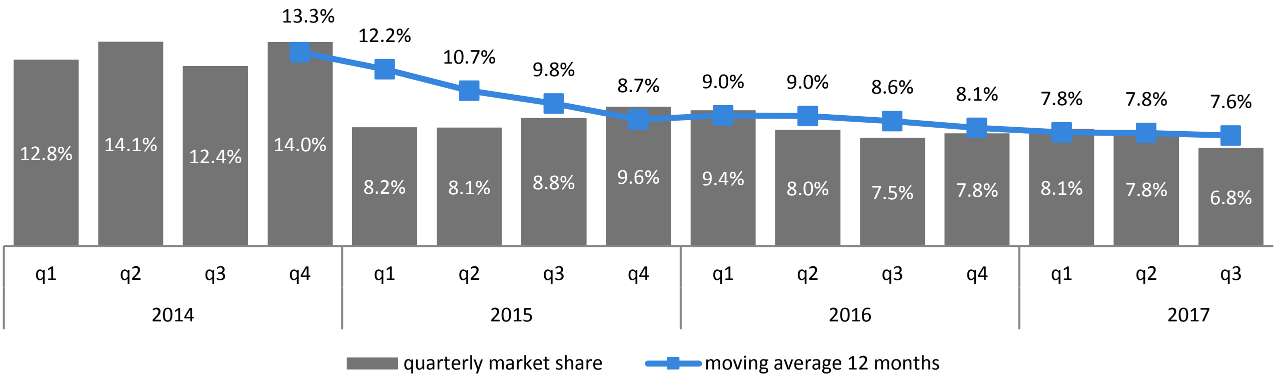


** data for Q4 2017 will be available at the turn of Q1 and Q2 2018.*

Source: Proprietary material based on data from the Czech Ministry of Transport and AWT a.s.'

[83] SŽDC

Figure 19 AWT a.s.'s market shares in total freight turnover in the Czech Republic quarterly in 2014-2017

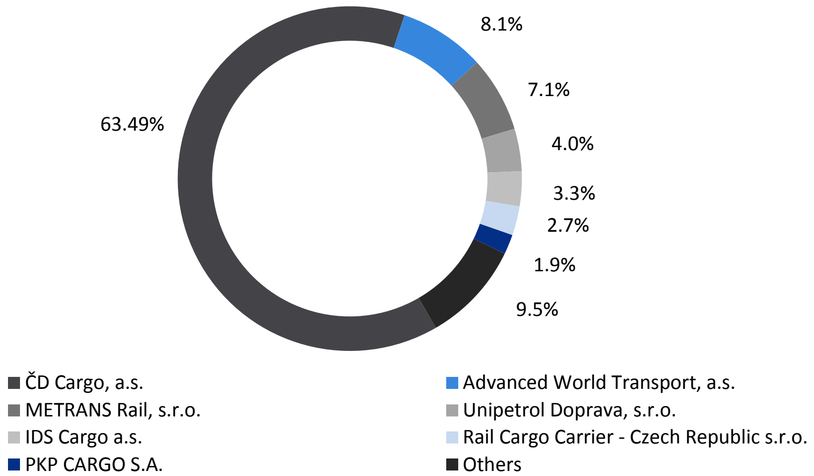


** data for Q4 2017 will be available at the turn of Q1 and Q2 2018.*

Source: Proprietary material based on data from the Czech Ministry of Transport and AWT a.s.'

Figure 20 Market shares of the biggest rail operators by operational freight turnover in the Czech Republic in 2017 (btkm)

Measured by gross freight turnover



Source: SŽDC

According to data from SŽDC for the entire 2017 year, the rail freight leader in the Czech Republic continued to be ČD Cargo a.s., which had a market share of 63.5% in terms of gross freight turnover. Compared to 2016, the company recorded, however, a fall in the market share in terms of freight turnover by 1.4 p.p. yoy.

With respect to freight turnover, a reduction of the market share by 0.9 p.p. yoy to 8.1% was also recorded for the second biggest Czech transport operator, AWT a.s. The lost part of the market was taken over mainly by small operators (with shares not exceeding 1% of the total size of the Czech rail transport market), for which the total share increased by 1.0 pp. yoy to 7.6%. The market share also rose for such companies as PKP CARGO S.A. (+0.8 p.p. yoy to 1.9%), Rail Cargo Carrier - Czech Republic s.r.o. (+0.5 p.p.yoy to 2.7%) and Unipetrol Doprava, s.r.o. (+0.2 p.p. yoy to 4.0%).

The reappearance of PKP CARGO S.A. in the classification published by the Rail Infrastructure Authority (SŽDC) for 2017 means that the Company continues to provide transport services in the Czech Republic at a level exceeding the 1% threshold of market share. This results from intensification of the Company's foreign trasports in the Czech Republic mainly owing to:

- acquisition of coke transport orders for exports to Romania via the territory of the Czech Republic and the simultaneous increase in coke transports to Bosnia,
- increase in metal transports between Poland and Hungary,
- increase in automotive transports from/to Italy,
- increase in intermodal transport between Poland and Italy, including via the territory of the Czech Republic, and development of transport in transit via the Czech Republic and Poland on the route between Slovakia and Russia,

The carriers which exceeded 5% of the share in the Czech rail freight transport market in terms of gross freight turnover throughout 2017 were the following: ČD Cargo a.s., Advanced World Transport a.s. and METRANS Rail s.r.o. Other companies with a market share of less than 5% but more than 1% included: Unipetrol Doprava, s.r.o., IDS Cargo a.s., Rail Cargo Carrier - Czech Republic s.r.o, PKP CARGO S.A. and SD - Kolejova doprava a.s.[84]

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

The data on the transport activity conducted by the PKP CARGO Group in 2017 and 2016 comprise consolidated data for PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and the AWT Group. The transport business in 2017 was conducted by five members of the Group. After the acquisition, on 28 May 2015, of an 80% equity stake in AWT B.V. (and the remaining 20% stake on 2 November 2017), three additional carriers (AWT a.s., AWT Rail HU Zrt, AWT Rail SK a.s.) were added to the two carriers already operating in the PKP CARGO Group, namely PKP CARGO S.A. and PKP CARGO SERVICE sp. z o.o.

The PKP CARGO Group collaborates with the largest Polish and global groups, including ArcelorMittal, PKN Orlen, PGNiG, Lafarge Group, Azoty Group, Jastrzębska Spółka Węglowa, Węglokoks, Enea Group, PGE Group, Tauron Group, Polska Grupa Górnicza and International Paper. The contracts with these business partners are regularly renewed, which confirms the high quality of the transportation services provided by the PKP CARGO Group. An example of this was the signing, in Q2 2017, of one of the largest contracts in the history of PKP CARGO S.A. with a value of almost PLN 1.3 billion for a term of the next 3 years with the ArcelorMittal Group for the transport of coal, coke, iron ore, stone and metals as well as the extension of cooperation with key clients purchasing transport services for such commodities as coal, aggregates, chemicals and timber.

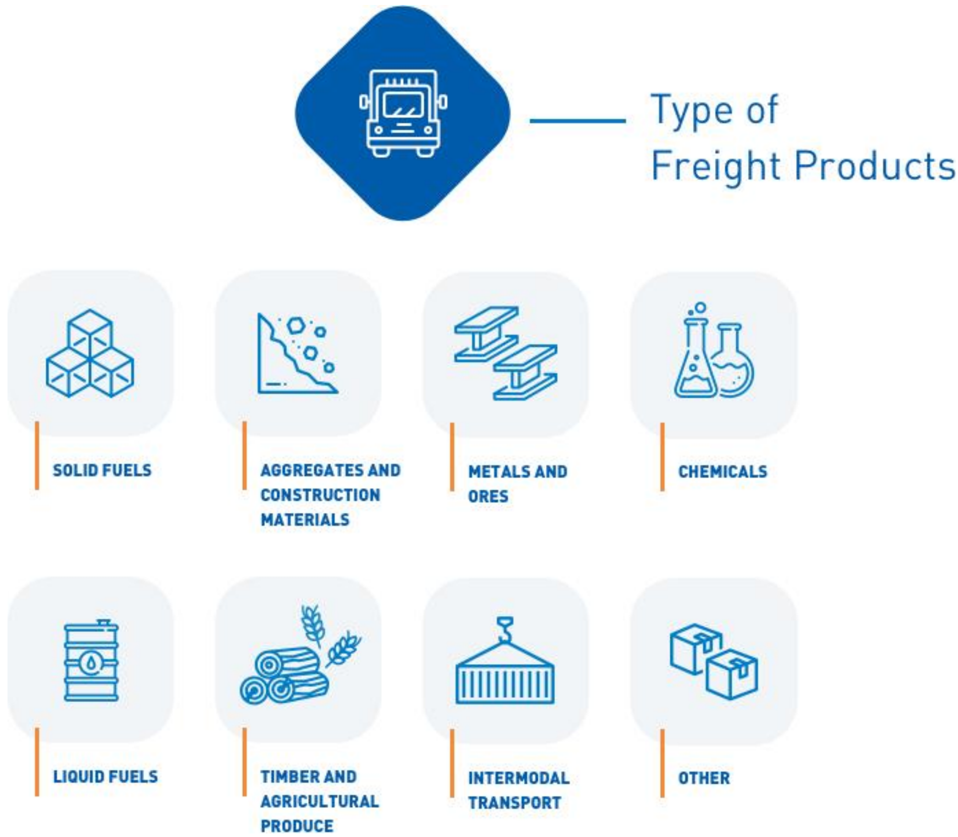
The PKP CARGO Group provides rail freight services in Poland and seven other European Union countries, namely Germany, the Czech Republic, Slovakia, Austria, the Netherlands, Hungary and Lithuania. The presence in these markets is a growth opportunity for the Group, since it allows the Group to handle independently the volumes transported to and from key European seaports, including those located on the North Sea (Amsterdam, Rotterdam, Zeebrugge, Antwerp, Hamburg) and those located on the Adriatic Sea (Koper, Triest, Rijeka). Moreover, in July 2017, PKP CARGO S.A. and the Port of Gdańsk signed a memorandum of collaboration with the Romanian rail operator CFR Marfa and the Port of Constanța for the development of logistics services in the rail corridor between the Port of Gdańsk and the Port of Constanța, with the aim of stimulating economic activity on Europe's North-South axis as part of the Three Seas Initiative spanning the Adriatic Sea, the Baltic Sea and the Black Sea.

Accordingly, the opening of the PKP CARGO Group to local and international markets causes exposure to various macroeconomic factors (such as e.g. the rate of economic growth on domestic and international markets, trends in various sectors of the industry, the condition and availability of transport infrastructure, adequate potential of the market for rolling stock repairs and maintenance, the intensity of competitors' activities within the transportation industry and among various types of transport), which to a significant extent affect the outlook for the development of transport activities conducted by each and every carrier. In addition to operations related to foreign ports, the PKP CARGO Group remains actively involved in the operation and further development of transportation as part of the route leading from China through Poland to Western Europe, which has led to cooperation with Chinese partners aimed at developing a whole-train rail link between China and Europe and developing strategic cooperation in the field of transshipment activity in the Małaszewicze Logistics Center. The primary objective of the project is to increase the volumes of overland intermodal transport between China and Western Europe through Małaszewicze and back to Asia.

[84] SŽDC; the presented data include carriers whose market share exceeds 1%

In 2017, the PKP CARGO Group carried 119.1 million tons of cargo (+7% yoy) and achieved freight turnover of 31.0 billion tkm (+9% yoy), with the Parent Company carrying 106.8 million tons (+8% yoy) and 29.2 billion tkm (+9% yoy). PKP CARGO S.A. accounted for 89.6% of the Group's transport in terms of freight volume and 94.3% of freight turnover.

This performance was driven by an increase in transport in Poland, which reached 107.4 million tons (+9% yoy)[85] in terms of freight volume and 28.3 billion tkm (+9% yoy) in terms of freight turnover, maintaining the freight volume in international transport at a level similar to that achieved in 2016, i.e. 17.6 million tons (-0.3% yoy), and an increase in freight turnover in international transport to a level of 2.7 billion tkm (+11% yoy) as a result of increasing the average haul in foreign transport to 154 km (or 16 km yoy). In 2017, members of the AWT Group carried 12.1 million tons of freight volume (-9% yoy) and achieved freight turnover of 1.7 billion tkm (+4% yoy), which was coupled with an increase in the average haul by 14% yoy. A crucial impact on the freight volume transported by AWT Group companies was exerted by a decrease in the share in coal transports from OKD mines, which are carried over shorter distances than is the case in most other cargo categories.



Solid fuels were the main type of commodity carried by the PKP CARGO Group, with hard coal being the dominant cargo. Transportation of solid fuels represented 48% of the Group's freight volume and 37% of freight turnover in 2017 (of which PKP CARGO S.A.'s transport services accounted for 47% and 38% yoy, respectively). In the same period, transport of solid fuels was down by 3% yoy in terms of freight turnover and by 8% yoy in terms of freight volume, while the Parent Company's results were 2% and 7%, respectively. In 2017, freight volume in hard coal transport decreased by 4% yoy and freight turnover decreased by 8% yoy, accompanied by a decrease in haul by 5% yoy, resulting primarily from an increase in the share of export carriage through Poland's southern border (shorter haul) at the expense of export carriage through Polish seaports (long haul). Freight volume in hard coal transport in Poland recorded a 1% increase yoy in terms of freight volume with a concurrent decrease in freight turnover by 7% yoy, which is attributable to a decrease in the average haul by 7% yoy (associated mostly with a decrease in the share of sea exports). The increase in freight volume in 2017 was driven, among other factors, by the acquisition of orders for transport services to a major power plant in the north of the country, exports to the Czech Republic, Slovakia and Ukraine and imports from Russia. This increase occurred despite a decline in hard coal output in Poland (-7% yoy),

[85] Transports in Poland contain part of the freight volume which was carried by PKP CARGO S.A. also beyond Polish boundaries – in 12M 2017, 4.7 million tons of cargo was carried, representing an increase by 47% yoy.

lower sales of this commodity (-9% yoy)[86] and a 2% yoy[87] lower level of electricity generation in hard coal-fired industrial power plants.

According to information from coal producers, anti-smog resolutions adopted in the Małopolskie and Śląskie Voivodeships eliminated from the market approx. 2 million tons of coal types which did not satisfy the quality requirements. Polish producers are changing the structure of their output but are unable to deliver the desired quantity of products with the parameters required by the anti-smog resolutions in the short term, thus giving rise to growing imports of the right types of coal (in 2017, hard coal imports to Poland increased 73.5% yoy).88 Freight volume in hard coal transport outside Poland decreased by 27% yoy and freight turnover fell by 29% yoy, driven primarily by less extensive transport of this commodity from OKD's mines.

In another cargo category included in solid fuels, namely in coke, the PKP CARGO Group's transport performance decreased in 2017 by 3% yoy in terms of freight volume, and freight turnover was 8% lower yoy. The decrease in transports of coke in Poland by 9% yoy was partly offset by an increase in transports of coke by the AWT Group companies by +12% yoy as a result of the PKP CARGO Group's acquisition from the competitor of the deliveries of this raw material in exports from Poland to Romania. The decrease in transports of this commodity was attributable to a shift of a portion of transports from conventional transports to intermodal transports due to the clients' growing interest in transports of this commodity in containers and the decline in export transports of coke due to a change in the direction of supply by one of the foreign customers.

In Q4 2017, transport of solid fuels was 8% lower yoy in terms of freight volume and 12% lower yoy in terms of freight turnover (in the Parent Company, by 8% and 11%, respectively). This decrease was largely driven by lower domestic hard coal transports by 10% yoy and export transports by 40% yoy (in both cases in terms of freight volume), mainly due to the lower supply of this raw material by Polish mines (coal output in Q4 2017 was 16.6 million tons, or 9.7% yoy lower, while sales stood at 17.0 million tons, down 10.4% yoy).

Aggregates and construction materials were the second largest group of products carried by the PKP CARGO Group in 2017, with an 19% share in total freight turnover (16% in 2016). In transport of aggregates and construction materials in 2017, a 22% yoy increase was recorded in the Group in terms of freight volume and a 27% yoy increase in terms of freight turnover, while PKP CARGO S.A. experienced increases of 24% and 28%, respectively. The increase in freight performance in this segment was associated with the intensification of road (e.g. for the construction of the A1, S6, S8, S10, S11 roads) and rail construction projects in Poland (e.g. for the purposes of modernization of the E20 rail line and the Warsaw ring road) co-funded by the European Union from the budget framework 2014-2020 and the increased demand for transports of aggregates to concrete-mixing plants and bituminous mass production plants as well as the higher demand for limestone resulting from the increased output of metallurgical products in Poland. The quantity of transports of aggregates and construction materials in 2017 was also favorably affected by the acquisition of aggregate transports from a competitor as well as higher imports from Ukraine and Belarus. Moreover, the PKP CARGO Group's growth in transports was driven by last year's successful acquisition of contracts based on the application of a flexible pricing policy and responsiveness to counterproposals submitted by competitors.

Products associated with the metallurgical industry, i.e. metals and ores, are another important market area serviced by the PKP CARGO Group. Their percentage of the Group's freight turnover in 2017 was 13% (12% in 2016), while the Parent Company's transportation services accounted for 98% of the Group's freight turnover in this area. This segment recorded an increase in freight volume by 15% yoy and freight turnover by 17% yoy in connection with the stronger demand for ores and metals resulting from the favorable situation in the metallurgical industry on the global markets (a 5.3% yoy increase in global steel output in 2017 according to data published by the World Steel Association), improving economic conditions in Poland and foreign markets and lower imports from China due to the European Commission's imposition of customs duties on products sold at dumping prices.

A significant impact on the level of transport of metals and ores (both raw materials and semi-finished products) in 2017 was also exerted by an increase in steel production in Poland to a level of 10.3 million tons (up 14.8% yoy)[89]. This was partly rooted in the low comparative base, because 2016 marked an overhaul of the blast furnace in Kraków as well as renovation of the continuous steel casting line in Zawiercie. Additionally, as a result of the active conduct of trade policy, transports of metals were acquired from a competitor, including, among others, in exports to Hungary and Italy.

[86] polskirynekwegla.pl – data for 12M 2017
[87] pse.pl
[88] Eurostat
[89] worldsteel.org

The PKP CARGO Group continues to be the market leader in intermodal transport in Poland, an important element of its growth strategy.

In 2017, the transport of intermodal units realized by the Group increased in terms of container freight volume by 17% yoy, while freight turnover increased by 31% yoy, which was attributable in part to an increase in the average haul by 11% yoy. The Parent Company's intermodal transport services accounted for 95% of the freight turnover and 90% of the freight volume in this area. The increase in intermodal transport was driven mainly by the development of transit routes and the handling of cargo connections on the China-Europe-China route as part of the "New Silk Road" (in transports to and from China, the share of container carriage by land was 24% in 2017 compared to 16% in 2016) and a higher percentage of cargo that used to be transported in conventional ways and is now being transported in containers (e.g. coke, grains, automobile parts, steel coils).
Transit between marine ports and inland terminals accounts for a significant share (which is closely associated with the development of this market of the rail market – the transshipment of containers in Polish marine ports climbed in 2017 by 15.6% yoy[90]). There was also a significant increase in the number of trains operated on the Group's own traction in Germany, which also contributed to an increase in the average haul in this cargo category by 11% yoy.

In 2017, freight volume rose by 11% yoy and freight turnover by 14% yoy in the transport of chemicals, which was due in part to an increase in the average haul by 3% yoy. The Parent Company's transport services accounted for 92% of the freight turnover and 92% of the freight volume in this area. Owing to amendments to legislation intended to combat the informal economy, in 2017 PKP CARGO S.A. obtained additional hydrocarbon transports from the east in imports and transit, and benefited from improved transports through the seaports. Moreover, PKP CARGO S.A. took over the transport of ammonium nitrate-urea solution from a competitive carrier and stepped up the provision of domestic and import transport services to domestic manufacturers (the increase in the output of nitrogen fertilizers in 2017 was 4.9% yoy)[91].

According to data for 2017, in the transport of liquid fuels, freight volume rose by 49% yoy (with a 91% share of the Parent Company in the freight volume) and freight turnover by 23% yoy (with an 80% share of the Parent Company in the freight turnover), whilst the average haul decreased by 18% yoy (a decrease in the average haul in the transport of imports in Poland by 47% yoy in connection with an increase in the share of short-distance transport in imports from Belarus and Lithuania). The increase in the quantum of transport in this cargo category was driven mainly by curtailment of the so-called "grey economy" in trade in liquid fuels as a result of amendments to legislation introduced in H2 2016 (the so-called "fuel package") and more effective law enforcement measures that were undertaken.

Demand grew in the Polish economy for fuel delivered by rail transport. The PKP CARGO Group has acquired and is now serving the majority of the volumes that have emerged on the market as a result of this situation (additional import transports via ports and the country's eastern border crossings). In terms of realized freight turnover, the following increases were recorded in the distinct quarters: 10% yoy in Q1 2017, 25% yoy in Q2, 43% yoy in Q3 and 14% yoy in Q4 2017. The quantum of freight turnover was also affected by a change in the supply logistics at PKP CARGO S.A.'s largest client in this segment (subcontracting for a competitive carrier due to its inability to provide the required transportation services using its own resources).

In 12M 2017, the transport of wood and agricultural products increased in terms of freight volume by 4% yoy, while freight turnover increased by 14% yoy, which was attributable in part to an increase in the average haul by 10% yoy. The Parent Company's transport services accounted for 79% of the freight turnover and 84% of the freight volume in this area. The increase in freight turnover in this segment was primarily attributable to greater transports of grain and agricultural products both in Poland (an increase in the share of hauls longer than 400 km: grains in sea exports and rapeseed in domestic transport) and outside Poland (performed by the AWT Group companies).

In 2017, in the remaining cargo categories transported by the PKP CARGO Group, freight volume increased by 27% yoy and freight turnover increased by 24% yoy. The increase in the quantum of transport of this product group is related to the provision of services by PKP CARGO S.A. to the U.S. Army as part of the deployment of NATO troops into Europe, the acquisition of the carriage of cars from/to Italy and the performance of domestic transport of concrete, prefabricated products and clay from Ukraine.

[90] Central Statistical Office – Statistical Bulletin No. 12/2017
[91] Central Statistical Office – Statistical Bulletin No. 12/2017

PKPCARGO CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Table 6 PKP CARGO Group's freight turnover in 2014-2017 and in Q4 of 2014-2017

Item	2017	2016	2015	2014	Change 2017/2016		Q4 2017	Q4 2016	Q4 2015	Q4 2014	Change Q4 2017/ Q4 2016	
	(million tkm)					%	(million tkm)					%
Solid fuels[1]	11,514	12,542	13,593	12,181	-1,027	-8%	2,923	3,339	3,926	3,307	-416	-12%
of which hard coal	10,154	11,070	12,387	10,757	-916	-8%	2,589	2,971	3,629	2,938	-383	-13%
Aggregates and construction materials[2]	5,882	4,636	5,261	6,142	1,246	27%	1,644	1,368	1,256	1,609	277	20%
Metals and ores[3]	3,986	3,401	3,709	3,650	585	17%	996	819	991	868	177	22%
Chemicals[4]	2,353	2,072	2,013	1,903	281	14%	580	524	483	497	56	11%
Liquid fuels[5]	1,340	1,091	839	781	249	23%	309	272	255	210	38	14%
Timber and agricultural produce[6]	1,744	1,533	1,629	1,694	211	14%	486	469	436	394	17	4%
Intermodal transport	3,235	2,474	2,031	1,832	762	31%	889	721	593	451	168	23%
Other[7]	956	774	764	764	183	24%	248	196	207	189	53	27%
Total	**31,010**	**28,521**	**29,839**	**28,947**	**2,490**	**9%**	**8,076**	**7,707**	**8,148**	**7,525**	**368**	**5%**

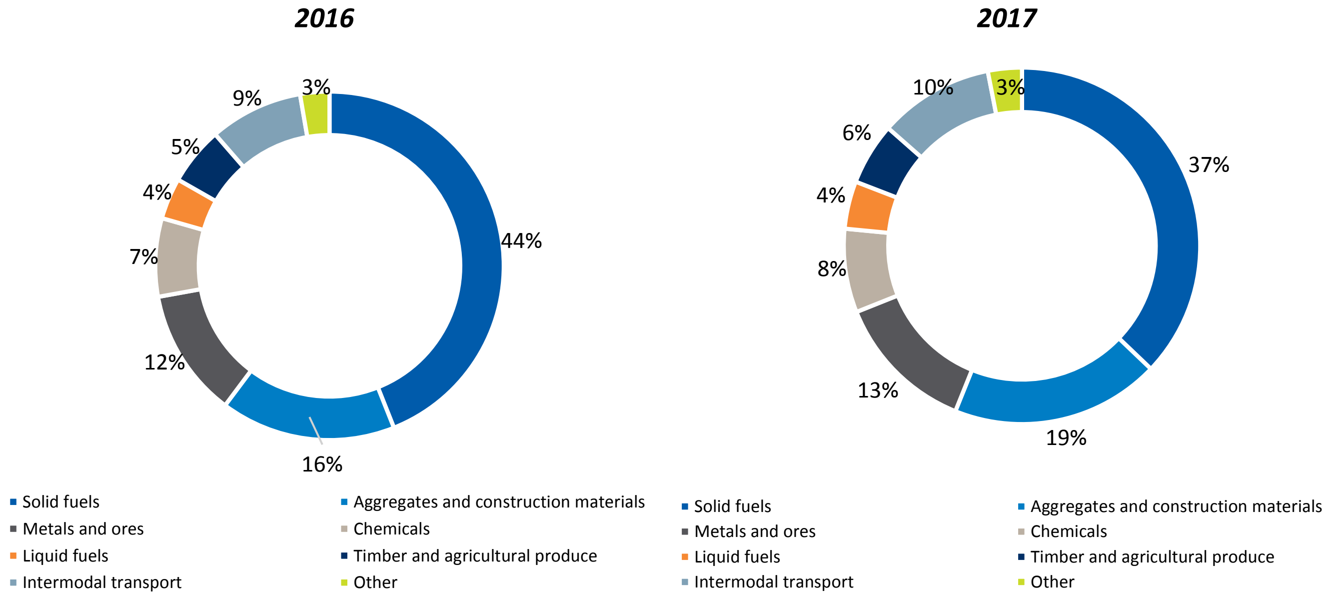
Source: Proprietary material

Table 7 PKP CARGO S.A.'s freight turnover in 2014-2017 and in Q4 of 2014-2017

Item	2017	2016	2015	2014	Change 2017/2016		Q4 2017	Q4 2016	Q4 2015	Q4 2014	Change Q4 2017/ Q4 2016	
	(million tkm)					%	(million tkm)					%
Solid fuels[1]	11,052	11,911	13,059	12,025	-859	-7%	2,834	3,185	3,664	3,283	-351	-11%
of which hard coal	9,864	10,605	11,967	10,601	-741	-7%	2,527	2,864	3,423	2,914	-337	-12%
Aggregates and construction materials[2]	5,832	4,555	5,216	6,123	1,277	28%	1,629	1,343	1,240	1,607	286	21%
Metals and ores[3]	3,892	3,333	3,654	3,650	559	17%	967	799	965	868	169	21%
Chemicals[4]	2,175	1,936	1,963	1,903	239	12%	527	493	460	497	34	7%
Liquid fuels[5]	1,068	885	743	781	183	21%	252	205	210	210	47	23%
Timber and agricultural produce[6]	1,384	1,312	1,483	1,694	73	6%	401	374	364	394	27	7%
Intermodal transport	3,079	2,316	1,928	1,832	764	33%	831	703	537	451	129	18%
Other[7]	761	589	673	764	172	29%	204	150	164	189	54	36%
Total	**29,244**	**26,836**	**28,720**	**28,772**	**2,408**	**9%**	**7,646**	**7,252**	**7,603**	**7,499**	**393**	**5%**

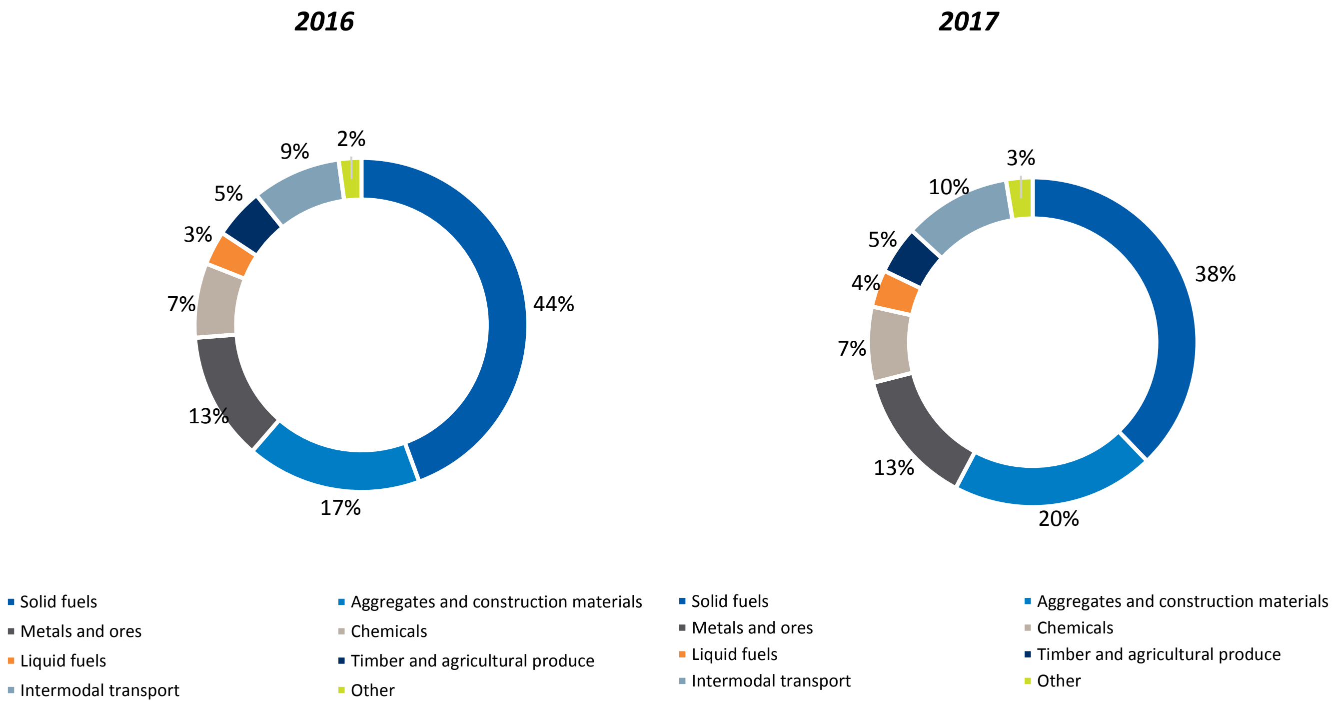
Source: Proprietary material

Figure 21 Structure of the PKP CARGO Group's freight turnover by cargo category in 2016 and 2017



Source: Proprietary material

Figure 22 Structure of PKP CARGO S.A.'s freight turnover by cargo category in 2016 and 2017



Source: Proprietary material

Table 8 PKP CARGO Group's freight volume in 2014-2017 and in Q4 of 2014-2017

Item	2017	2016	2015	2014	Change 2017/2016		Q4 2017	Q4 2016	Q4 2015	Q4 2014	Change Q4 2017/ Q4 2016	
			(000s tons)			*%*			*(000s tons)*			*%*
Solid fuels[1]	57,679	59,768	63,285	56,919	-2,089	-3%	14,795	16,078	18,726	16,150	-1,283	-8%
of which hard coal	51,755	53,690	57,847	51,976	-1,936	-4%	13,223	14,520	17,182	14,854	-1,297	-9%
Aggregates and construction materials[2]	22,161	18,173	19,898	21,526	3,988	22%	6,252	5,464	5,008	5,647	789	14%
Metals and ores[3]	12,981	11,266	12,311	12,293	1,715	15%	3,278	2,988	2,993	2,932	289	10%
Chemicals[4]	6,974	6,295	5,846	5,961	679	11%	1,777	1,603	1,428	1,491	174	11%
Liquid fuels[5]	4,534	3,042	3,001	2,692	1,492	49%	951	843	870	759	108	13%
Timber and agricultural produce[6]	4,485	4,331	4,673	4,709	154	4%	1,292	1,207	1,247	1,187	85	7%
Intermodal transport	7,605	6,473	5,173	4,536	1,132	17%	2,017	1,853	1,549	1,113	164	9%
Other[7]	2,728	2,147	2,070	2,072	581	27%	729	571	554	513	158	28%
Total	**119,147**	**111,495**	**116,257**	**110,706**	**7,652**	**7%**	**31,092**	**30,607**	**32,375**	**29,792**	**485**	**2%**

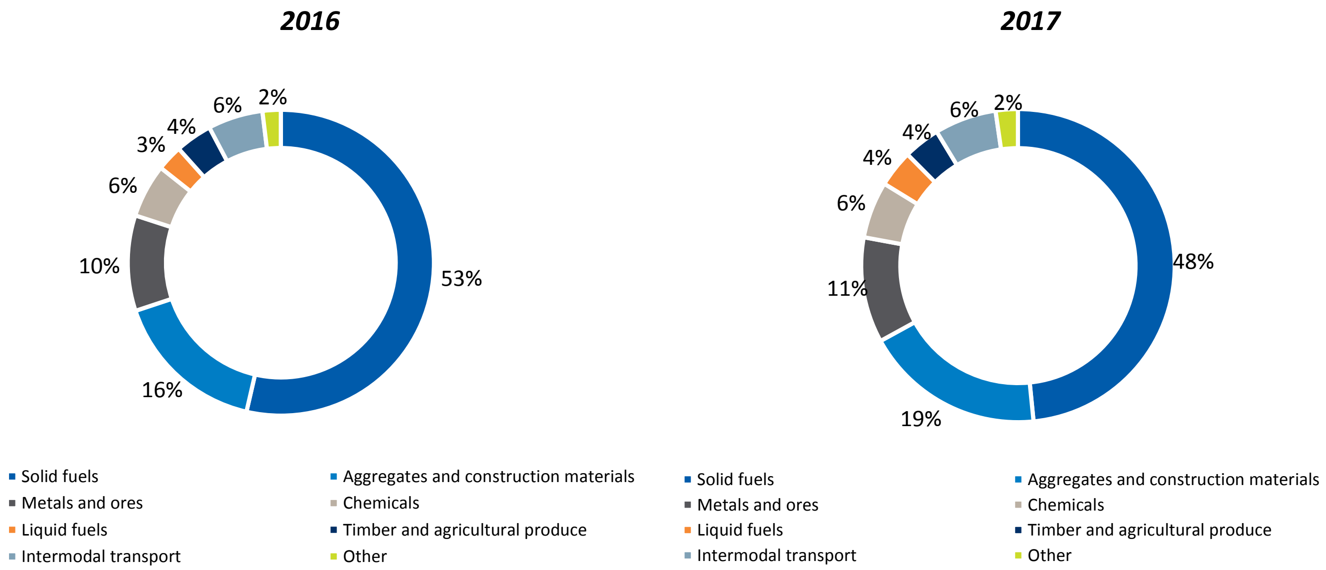
Source: Proprietary material

Table 9 PKP CARGO S.A.'s freight volume in 2014-2017 and in Q4 of 2014-2017

Item	2017	2016	2015	2014	Change 2017/2016		Q4 2017	Q4 2016	Q4 2015	Q4 2014	Change Q4 2017/ Q4 2016	
			(000s tons)			*%*			*(000s tons)*			*%*
Solid fuels[1]	50,527	51,375	57,491	56,237	-848	-2%	12,859	13,989	16,127	15,967	-1,131	-8%
of which hard coal	46,675	47,130	53,232	51,294	-455	-1%	11,835	12,929	15,130	14,670	-1,094	-8%
Aggregates and construction materials[2]	20,307	16,433	18,706	21,221	3,874	24%	5,596	4,933	4,464	5,610	664	13%
Metals and ores[3]	12,578	11,104	12,148	12,293	1,475	13%	3,129	2,944	2,916	2,932	186	6%
Chemicals[4]	6,391	5,749	5,581	5,961	642	11%	1,612	1,477	1,306	1,491	135	9%
Liquid fuels[5]	4,121	2,743	2,725	2,692	1,378	50%	893	731	741	759	162	22%
Timber and agricultural produce[6]	3,785	3,862	4,321	4,709	-77	-2%	1,118	1,028	1,071	1,187	90	9%
Intermodal transport	6,826	5,622	4,671	4,536	1,204	21%	1,808	1,651	1,312	1,113	158	10%
Other[7]	2,292	1,714	1,857	2,072	578	34%	623	463	460	513	159	34%
Total	**106,827**	**98,602**	**107,499**	**109,720**	**8,225**	**8%**	**27,638**	**27,216**	**28,397**	**29,571**	**422**	**2%**

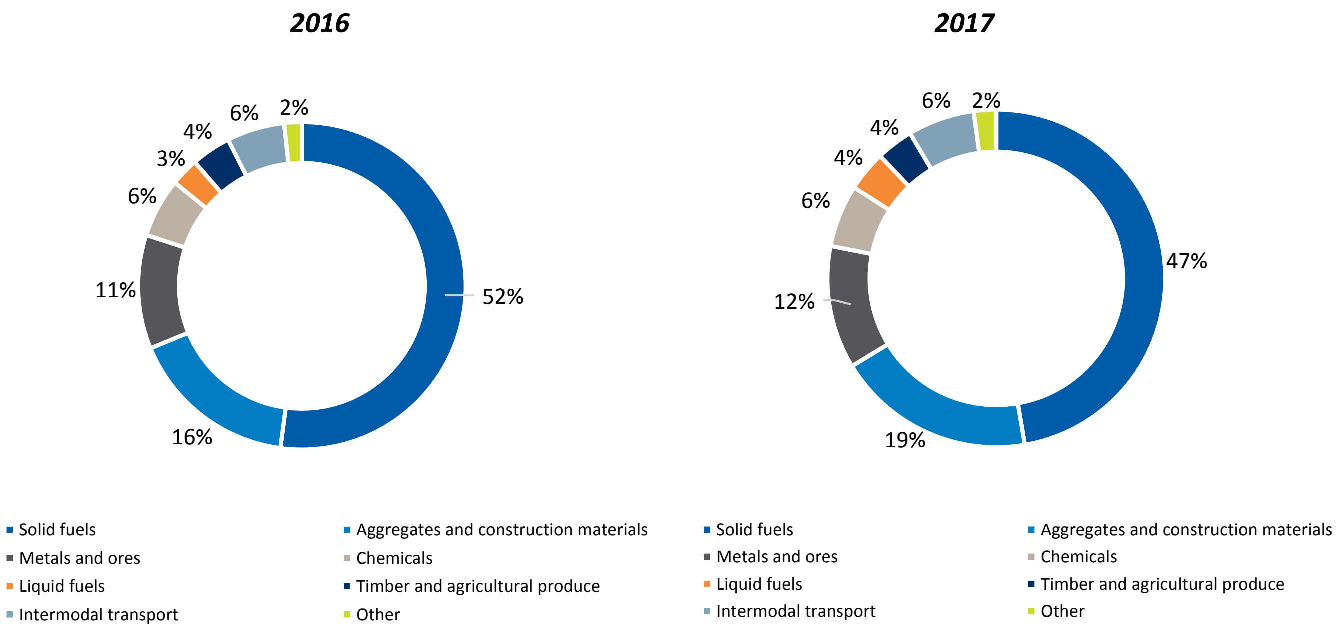
Source: Proprietary material

Figure 23 Structure of the PKP CARGO Group's freight volume by cargo category in 2016 and 2017



Source: Proprietary material

Figure 24 Structure of PKP CARGO S.A.'s freight volume by cargo category in 2016 and 2017



Source: Proprietary material

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Table 10 PKP CARGO S.A. Group's average haul in 2014-2017 and in Q4 of 2014-2017

Item	2017	2016	2015	2014	Change 2017/2016		Q4 2017	Q4 2016	Q4 2015	Q4 2014	Change Q4 2017/ Q4 2016	
			km			*%*			*km*			*%*
Solid fuels[1]	200	210	215	214	-10	-5%	198	208	210	206	-10	-5%
of which hard coal	196	206	214	207	-10	-5%	196	205	211	199	-9	-4%
Aggregates and construction materials[2]	265	255	264	289	10	4%	263	250	251	286	13	5%
Metals and ores[3]	307	302	301	297	5	2%	304	274	331	296	30	11%
Chemicals[4]	337	329	344	319	8	3%	326	327	338	333	-1	0%
Liquid fuels[5]	295	359	280	290	-63	-18%	325	322	293	276	3	1%
Timber and agricultural produce[6]	389	354	348	360	35	10%	376	389	350	332	-12	-3%
Intermodal transport	425	382	393	404	43	11%	440	389	383	406	51	13%
Other[7]	350	360	369	369	-10	-3%	341	343	373	368	-2	-1%
Total	**260**	**256**	**257**	**262**	**4**	**2%**	**260**	**252**	**252**	**254**	**8**	**3%**

Table 11 PKP CARGO S.A.'s average haul in 2014-2017 and in Q4 of 2014-2017

Item	2017	2016	2015	2014	Change 2017/2016		Q4 2017	Q4 2016	Q4 2015	Q4 2014	Change Q4 2017/ Q4 2016	
			km			*%*			*km*			*%*
Solid fuels[1]	219	232	227	214	-13	-6%	220	228	227	206	-7	-3%
of which hard coal	211	225	225	207	-14	-6%	214	222	226	199	-8	-4%
Aggregates and construction materials[2]	287	277	279	289	10	4%	291	272	278	286	19	7%
Metals and ores[3]	309	300	301	297	9	3%	309	271	331	296	38	14%
Chemicals[4]	340	337	352	319	4	1%	327	334	352	333	-7	-2%
Liquid fuels[5]	259	323	273	290	-64	-20%	282	280	284	276	2	1%
Timber and agricultural produce[6]	366	340	343	360	26	8%	359	364	340	332	-5	-1%
Intermodal transport	451	412	413	404	39	10%	460	426	409	406	34	8%
Other[7]	332	344	362	369	-12	-3%	328	324	357	368	4	1%
Total	**274**	**272**	**267**	**262**	**2**	**1%**	**277**	**266**	**268**	**254**	**10**	**4%**

Source: Proprietary material

[1] Includes hard coal, coke and lignite.

[2] Includes all kinds of stone, sand, bricks and cement.

[3] Includes ores and pyrites, as well as metals and metal products.

[4] Includes fertilizers and other chemicals.

[5] Includes crude oil and petrochemical products.

[6] Includes grain, potatoes, sugar beets, other produce, wood and wooden products.

[7] Includes ferry transportation and other freight.

From the point of view of the directions in which the PKP CARGO Group's transportation services were provided, transportation within Poland was dominant, accounting for 91% of the realized freight turnover in 12M 2017. In comparison with 12M 2016, the share of freight turnover realized outside Poland rose 0.2 p.p., which confirms the steady expansion of the PKP CARGO Group into foreign markets.

PKP CARGO S.A.'s transportation services performed in Poland accounted for 96% of the Company's freight turnover realized in 2017 (97% in 2016).

Compared to 2016, the Company delivered material growth in freight volume and freight turnover outside Poland, by 26% and 25% yoy, respectively, which highlights the growth of freight outside Poland.

4.3 Other services

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

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

Traction services and locomotive lease services which involve the provision of a traction unit with an operating team to perform a railway transport operation or to ensure its readiness, e.g. to propel repair or rescue trains. Such services are provided on the Polish market and abroad;

Comprehensive siding services, entailing among others formation of trains, maneuvering services, rail traffic management on sidings, loading and unloading, warehouse management, conservation and ongoing maintenance of point infrastructure. PKP CARGO SERVICE Sp. z o.o. and AWT a.s. are the main entities providing these services. Siding services are offered in Poland, the Czech Republic and Hungary;

Transshipment services – the PKP CARGO Group has been developing its transshipment activity on the basis of conventional and intermodal transshipment terminals owned by PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o., PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o., PS TRADE TRANS Sp. z o.o., CARGOSPED Sp. z o.o. and AWT a.s.;

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

INTERMODAL LOGISTIC SERVICES

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

ROLLING STOCK REPAIRS

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

LAND RECLAMATION SERVICES

Neither PKP CARGO S.A. nor the PKP CARGO Group distinguishes operating segments in their business since they have one main product to which all the material services rendered are allocated. They conduct business within one main segment – domestic and international cargo freight and provision of comprehensive logistics services related to rail freight. The Management Board of the Parent Company analyzes financial data in the layout in which they have been presented in the **Standalone and Consolidated Financial Statements.** The Group additionally provides services related to rolling stock repairs and land reclamation services, but they are not material for the Group's business and therefore are not treated as separate operating segments.

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

4.4 Information on selling markets and sources of supply.

Key clients

PKP CARGO S.A. operates in one principal geographic area, i.e. Poland, where the Company is domiciled. Total revenues for all geographic areas outside Poland in 2017 and 2016 did not exceed 13% of total sales revenues. There is no single geographic area (outside of Poland) which generates more than 5% of revenues from sales of services.

In the period ended 31 December 2017, sales to the Arcelor Mittal Group represented 13.8% of total revenues from the sales of the Company's services, while in the period ended 31 December 2016 they represented 12.8%.

In the period ended 31 December 2017, sales to PKP CARGO CONNECT Sp. z o.o. represented 14.1% of total revenues from the sales of the Company's services, while in the period ended 31 December 2016 they represented 12.9%.

The PKP CARGO Group, just like the Parent Company, operates in one principal geographic area, i.e. Poland.

In the period ended 31 December 2017, total revenues from Czech partners reached almost 13% of total revenues on the sale of the Group's services, compared to nearly 16% in the corresponding period of the previous year.

In the period ended 31 December 2017, sales to the Arcelor Mittal Group represented 11.0% of total revenues from the sales of the Group's services and finished products.

The Group's revenues obtained from external customers by geographic area are presented in **Note 5** to the CFS and the Company's revenues in **Note 4** to SFS.

Key suppliers

As they operate on the freight transport market, both the PKP CARGO Group and Parent Company are dependent on the largest supplier of access services to rail infrastructure in Poland, namely PKP Polskie Linie Kolejowe S.A. (PKP PLK). This company is a domestic supplier that provides access to the prevalent portion of rail infrastructure in Poland in accordance with the price list approved annually by the President of the Office of Rail Transport. This infrastructure is made available for a fee on the same terms to all carriers offering passenger and cargo rail transport. PKP PLK renders services to the PKP CARGO Group that include the provision of access to rail infrastructure, the provision of access to traction network equipment, the directing and carrying of traffic and access to train handling equipment. PKP PLK's percentage of procurement costs in 2017 (meaning the sum of the costs of external services and of the consumption of raw materials and supplies) was 36.5% in PKP CARGO S.A., while it was 27.3% in the Group.

Moreover, the Group's main supplier for traction fuel and traction energy is PKP Energetyka S.A. This supplier specializes in selling and supplying electricity, selling liquid fuels and providing electrical energy-related services. PKP Energetyka S.A.'s percentage of procurement costs in 2017 (meaning the sum of the costs of external services and of the consumption of raw materials and supplies) was 24.0% in the PKP CARGO S.A., while it was 17.9% in the Group.

4.5 Headcount

Information concerning movements in headcount in the PKP CARGO Group and PKP CARGO S.A. in 2014-2017 is provided below.

Table 12 Headcount in 12M and Q4 2017 in the PKP CARGO Group and PKP CARGO S.A. (pertains to active employees)

Item	Headcount as at:			Change YTD	Movement in Q4 2017
	31/12/2017	30/09/2017	31/12/2016		
PKP CARGO Group	**23,253**	**23,239**	**23,144**	**109**	**14**
including: PKP CARGO S.A.	*17,043*	*17,031*	*17,429*	*-386*	*12*

Source: Proprietary material

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Table 13 Headcount in 12M and Q4 2016 in the PKP CARGO Group and PKP CARGO S.A. (pertains to active employees)

Item	Headcount as at:			Change YTD	Movement in Q4 2016
	31/12/2016	30/09/2016	31/12/2015		
PKP CARGO Group	**23,144**	**23,292**	**23,805**	**-661**	**-148**
including: PKP CARGO S.A.	*17,429*	*17,569*	*17,979*	*-550*	*-140*

Source: Proprietary material

Table 14 Headcount in 12M and Q4 2015 in the PKP CARGO Group and PKP CARGO S.A. (pertains to active employees)

Item	Headcount as at:			Change YTD	Change in Q4 2015
	31/12/2015	30/09/2015	31/12/2014		
PKP CARGO Group	**23,805**	**23,634**	**24,960**	**-1,155**	**171**
including: PKP CARGO S.A.	*17,979*	*17,819*	*20,830*	*-2,851*	*160*

Source: Proprietary material

Table 15 Headcount in 12M and Q4 2014 in the PKP CARGO Group and PKP CARGO S.A. (pertains to active employees)

Item	Headcount as at:			Change YTD	Change in Q4 2014
	31/12/2014	30/09/2014	31/12/2013		
PKP CARGO Group	**24,960**	**26,090**	**26,553**	**-1,593**	**-1,130**
including: PKP CARGO S.A.	*20,830*	*21,870*	*22,480*	*-1,650*	*-1,040*

Source: Proprietary material

Table 16 Average headcount in FTEs in 12M of 2014-2017 in the PKP CARGO Group and PKP CARGO S.A. (pertains to active employees)

Item	Average headcount in FTEs				Change 2017-2016
	12 months	12 months	12 months	12 months	
	2017	2016	2015	2014	
PKP CARGO Group	**23,278**	**23,441**	**24,375**	**26,185**	**-163**
including: PKP CARGO S.A.	*17,177*	*17,698*	*18,484*	*22,010*	*-521*

Source: Proprietary material

Table 17 Average headcount in 12M of 2014-2017 in the PKP CARGO Group and PKP CARGO S.A. (pertains to active employees)

Item	Average headcount in persons				Change 2017-2016
	12 months	12 months	12 months	12 months	
	2017	2016	2015	2014	
PKP CARGO Group	**23,305**	**23,465**	**24,407**	**26,215**	**-160**
including: PKP CARGO S.A.	*17,182*	*17,702*	*18,486*	*22,012*	*-520*

Source: Proprietary material

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Table 18 Change in the headcount structure in 12M and Q4 2017 in the PKP CARGO Group and PKP CARGO S.A. (pertains to active employees)

Item	Headcount as at:			Change YTD	Movement in Q4 2017
	31/12/2017	30/09/2017	31/12/2016		
White-collar positions – the Group	**5,281**	**5,304**	**5,272**	**9**	**-23**
including: PKP CARGO S.A.	*3,805*	*3,804*	*3,825*	*-20*	*1*
Blue-collar positions – the Group	**17,972**	**17,935**	**17,872**	**100**	**37**
including: PKP CARGO S.A.	*13,238*	*13,227*	*13,604*	*-366*	*11*
Total	**23,253**	**23,239**	**23,144**	**109**	**14**
including: PKP CARGO S.A.	*17,043*	*17,031*	*17,429*	*-386*	*12*

Source: Proprietary material

Table 19 Change in the headcount structure in 12M and Q4 2016 in the PKP CARGO Group and PKP CARGO S.A. (pertains to active employees)

Item	Headcount as at:			Change YTD	Movement in Q4 2016
	31/12/2016	30/09/2016	31/12/2015		
White-collar positions – the Group	**5,272**	**5,263**	**5,324**	**-52**	**9**
including: PKP CARGO S.A.	*3,825*	*3,833*	*3,863*	*-38*	*-8*
Blue-collar positions – the Group	**17,872**	**18,029**	**18,481**	**-609**	**-157**
including: PKP CARGO S.A.	*13,604*	*13,736*	*14,116*	*-512*	*-132*
Total	**23,144**	**23,292**	**23,805**	**-661**	**-148**
including: PKP CARGO S.A.	*17,429*	*17,569*	*17,979*	*-550*	*-140*

Source: Proprietary material

Table 20 Change in the headcount structure in 12M and Q4 2015 in the PKP CARGO Group and PKP CARGO S.A. (pertains to active employees)

Item	Headcount as at:			Change YTD	Change in Q4 2015
	31/12/2015	30/09/2015	31/12/2014		
White-collar positions – the Group	**5,324**	**5,284**	**5,349**	**-25**	**40**
including: PKP CARGO S.A.	*3,863*	*3,819*	*4,462*	*-599*	*44*
Blue-collar positions – the Group	**18,481**	**18,350**	**19,611**	**-1,130**	**131**
including: PKP CARGO S.A.	*14,116*	*14,000*	*16,368*	*-2,252*	*116*
Total	**23,805**	**23,634**	**24,960**	**-1,155**	**171**
including: PKP CARGO S.A.	*17,979*	*17,819*	*20,830*	*-2,851*	*160*

Source: Proprietary material

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Table 21 Change in the headcount structure in 12M and Q4 2014 in the PKP CARGO Group and PKP CARGO S.A. (pertains to active employees)

Item	Headcount as at:			Change YTD	Change in Q4 2014
	31/12/2014	30/09/2014	31/12/2013		
White-collar positions – the Group	**5,349**	**5,464**	**5,566**	**-217**	**-115**
including: PKP CARGO S.A.	*4,462*	*4,577*	*4,706*	*-244*	*-115*
Blue-collar positions – the Group	**19,611**	**20,626**	**20,987**	**-1,376**	**-1,015**
including: PKP CARGO S.A.	*16,368*	*17,293*	*17,774*	*-1,406*	*-925*
Total	**24,960**	**26,090**	**26,553**	**-1,593**	**-1,130**
including: PKP CARGO S.A.	*20,830*	*21,870*	*22,480*	*-1,650*	*-1,040*

Source: Proprietary material

A comparison of 2017 with 2016 reveals a decline in the average headcount in the PKP CARGO Group by 163 FTEs (by 521 FTEs in PKP CARGO S.A. alone) – this ensued directly from the termination of employment contracts for natural causes, chiefly in connection with obtaining retirement or disability rights.

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

4.6.1 Capital expenditures

PKP CARGO S.A.

In 2017, the Company incurred capital expenditures for the acquisition of property, plant and equipment and intangible assets in the form of procurement, modernization and the overhaul component (periodic repairs of P4 and P5 rolling stock and P3 periodic inspections) of PLN 511.2 million, which was 14.7% higher than the actuals in 2016.

In 2017, the Company incurred capital expenditures in property, plant and equipment of PLN 53.0 million outside of Poland, primarily to purchase multi-system locomotives.

The biggest part of capital expenditures in the Company in 2017 was allocated for the execution of investment tasks associated with the rolling stock, mainly for repairs and periodic inspections of the rolling stock (the number of periodic repairs and periodic inspections performed in individual periods is derived from the cycles specified in the Maintenance System Documentation (DSU) of the rolling stock approved by the Office of Rail Transport and the quantum of rolling stock maintained as fit for operation as required for the provision of transportation services), purchase of multi-system locomotives (3 units), modernization of locomotives (16 locomotives) and the acquisition of used EAOS series coal wagons (89 pieces) – for a total amount of PLN 486.4 million (i.e. 95.1% of the capital expenditures). Moreover, the Company incurred capital expenditures in the IT area, in particular to purchase hardware and ICT equipment along with intangible assets (software) for the total amount of PLN 14.5 million (chiefly for the roll-out of IT systems and the acquisition of purchase of workstations, servers, mobile phones and VoIP devices), for investment construction in the amount of PLN 5.5 million, namely the construction and modernization of buildings, in particular workshop facilities, and the construction and modernization of water supply and sewage removal networks, the construction of boiler rooms and the acquisition of machinery and equipment and workshop and office fit-out in the amount of PLN 4.8 million.

Table 22 Capital expenditures in PKP CARGO S.A. in 2014-2017 (000s PLN)

Item	2017	2016	2015	2014	Change 2017 - 2016	Change %
Investment construction activity	5,551	4,528	19,870	11,135	1,023	22.6%
Purchase of traction vehicles	53,049	199,417	-	-	-146,368	-73.4%
Modernization of locomotives	64,157	35,375	69,642	48,242	28,782	81.4%
Purchase of wagons	12,460	-	20,063	57,224	12,460	-
Workshop machinery and equipment	4,292	2,827	6,051	5,900	1,465	51.8%
ICT development	14,507	16,477	32,294	20,615	-1,970	-12.0%
Other	513	2,207	5,473	2,673	-1,694	-76.8%
Components in overhaul:	356,697	184,981	283,609	433,203	171,716	92.8%
Repairs and periodic inspections of locomotives	*76,533*	45,001	137,824	125,198	31,532	70.1%
Repairs and periodic inspections of wagons	*280,164*	139,980	145,785	308,005	140,184	100.1%
Total	**511,226**	**445,812**	**437,002**	**578,992**	**65,414**	**14.7%**

Source: Proprietary material

The funding mix of capital expenditures towards property, plant and equipment and intangible assets was as follows: PLN 297.8 million of own funds and PLN 213.4 million of debt funds.

Overall, credit facilities were drawn for a total amount of PLN 213.4 million, including for the purchase of multi-system locomotives in the amount of PLN 51.4 million.

PKP CARGO Group

In 2017, the Group incurred capital expenditures for the acquisition of property, plant and equipment and intangible assets in the form of procurement, modernization and the overhaul component (periodic repairs of P4 and P5 rolling stock and P3 periodic inspections) as well as intangible assets of PLN 562.0 million, which was 5.5% higher than the actuals in 2016.

In 2017, in this expenditure category, the Group incurred capital expenditures outside Poland for property, plant and equipment, chiefly to purchase multi-system locomotives.

The majority of the capital expenditures in the Group in 2017 was allocated for the execution of investment tasks associated with rolling stock, mainly for periodic repairs and periodic check-ups of rolling stock (the number of periodic repairs and periodic check-ups performed in individual periods is derived from the cycles specified in the Maintenance System Documentation (DSU) of the rolling stock approved by the Office of Rail Transport and the quantum of rolling stock maintained as fit for operation as required for the provision of transportation services) and the acquisition and modernization of locomotives and wagons – for a total amount of PLN 493.6 million (i.e. 87.8% of the capital expenditures). Moreover, the Group incurred expenditures on computerization, i.e. purchases of computer hardware in the form of computers and ICT equipment as well as intangible assets (software) in the amount of PLN 16.3 million, for investment construction activity in the amount of PLN 32.1 million, chiefly to modernize container terminals and buildings, including workshop buildings and to build and modernize water supply and sewer grids, build boiler rooms, repair tracks and storage yards, and purchase and modernize machinery, plant and tools in container terminals and workshop buildings in the amount of PLN 17.6 million and to purchase office equipment and vehicles for PLN 2.4 million.

Table 23 Capital expenditures in the PKP CARGO Group in 2014-2017 (000s PLN)

Item	2017	2016	2015	2014	Change 2017 - 2016	Change %
Investment construction activity	32,101	19,079	28,084	18,130	13,022	68.3%
Purchase of traction vehicles	53,049	200,188	-	-	-147,139	-73.5%
Modernization of locomotives	67,010	40,470	70,400	48,544	26,540	65.6%
Purchase of wagons	13,260	-	20,063	57,301	13,260	-
Wagon upgrades	1,670	3,606	1,624	-	-1,936	-53.7%
Workshop machinery and equipment	17,617	14,416	12,170	9,469	3,201	22.2%
ICT development	16,260	20,114	34,862	21,972	-3,854	-19.2%
Other	2,420	4,206	9,744	4,163	-1,786	-42.5%
Components in overhaul:	358,583	230,660	307,613	437,154	127,923	55.5%
Repairs and periodic inspections of locomotives	77,301	72,134	150,681	126,072	5,167	7.2%
Repairs and periodic inspections of wagons	281,282	158,526	156,932	311,082	122,756	77.4%
Total	**561,970**	**532,739**	**484,560**	**596,733**	**29,231**	**5.5%**

Source: Proprietary material

The funding mix of capital expenditures towards property, plant and equipment and intangible assets in the Group was as follows: PLN 342.5 million of own funds, PLN 213.4 million of debt funds, PLN 3.9 million of lease funds and PLN 2.2 million of EU grants.

In addition, in 2017 the Group also used loans to refinance capital expenditures from the years 2015-2016 in the amount of PLN 25.3 million.

4.6.2 Assessment of the capacity to execute investment plans

PKP CARGO S.A. and the Group are able to finance their investment plans using current and planned financial surpluses of own funds, an investment loan obtained from the European Investment Bank and by contracting new financial lease contracts and other forms of external financing.

Additionally, a cash pooling system is in place in the PKP CARGO Group which comprises, as at 31 December 2017, 7 Group companies.

PKP CARGO S.A. has been efficiently managing the cash management cycle by matching the maturity of receivables and liabilities. To hedge the possible risk of a short-term cash shortage, PKP CARGO S.A. has in place an overdraft facility with a limit of PLN 100 million (as at 31 December 2017).

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

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

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

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

In 2017, PKP CARGO S.A. transported 106.8 million tons of cargo (i.e. 8% more than in 2016) and recorded freight turnover of 29.2 billion tkm (i.e. 9% more than in 2016), which is described in detail in the chapter entitled **4.2.5 "The Company's and PKP CARGO Group's rail transport".**

PKP CARGO S.A.'s operating revenues in 2017 increased 10.5% yoy while operating expenses increased by 4.8% yoy. The Company's result on operating activities and net profit/loss in 2017 were PLN 151.2 million and PLN 94.0 million, respectively. The Company's adjusted operating revenue increased 10.5% yoy and operating expenses increased 5.7% yoy. In 2017, the Company revalued the residual value of rolling stock and reversed a portion of the impairment loss on rolling stock components in the amount of PLN -27.4 million; additionally, the adjusted net profit/loss takes into consideration the deferred tax on the aforementioned revaluation in the amount of PLN -5.2 million. Accordingly, the adjusted result on operating activities in 2017 was PLN 123.8 million, while the adjusted net profit/loss was PLN 71.8 million. No material non-recurring events transpired in the Company in 2016; for that reason no adjustments were made to the result. The principal reason for the increase in the adjusted result in 2017 compared to the adjusted result in 2016 was the improved situation in the transport market, which translated directly into a larger volume of freight and higher prices of transport services.

The details of individual line items of the Statement of comprehensive income are presented in the further part of this section. The tables below present PKP CARGO S.A.'s results and adjusted results from 2014 to 2017.

Table 24 PKP CARGO S.A.'s result in 2014-2017 (thousands of PLN)

Item	2017	2016	2015	2014	Change	% change
					2017 - 2016	2017/2016
Total operating revenue	3,591,814	3,250,457	3,514,154	3,880,181	341,356	10.5%
Total operating expenses	3,440,585	3,281,568	3,629,334	3,787,368	159,017	4.8%
Result on operating activities	**151,229**	**-31,111**	**-115,180**	**92,813**	**182,340**	**-**
EBIT margin	*4.2%*	*-1.0%*	*-3.3%*	*2.4%*	*5.2 p.p.*	-
EBITDA margin	*16.5%*	*13.7%*	*12.9%*	*11.4%*	*2.8 p.p.*	*20.7%*
Financial revenue	30,915	20,532	45,024	49,497	10,383	50.6%
Financial expenses	56,697	60,111	68,951	54,778	-3,414	-5.7%
Earnings before tax	**125,447**	**-70,690**	**-139,107**	**87,532**	**196,138**	**-**
Gross margin	*3.5%*	*-2.2%*	*-4.0%*	*2.3%*	*5.7 p.p.*	-
Income tax	31,480	-2,125	-24,982	11,925	33,605	-
NET PROFIT/LOSS	**93,967**	**-68,565**	**-114,125**	**75,607**	**162,532**	**-**
Net profit margin	*2.6%*	*-2.1%*	*-3.2%*	*1.9%*	*4.7 p.p.*	-

Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2017 prepared according to EU IFRS, Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2015 prepared according to EU IFRS

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Table 25 PKP CARGO S.A.’s adjusted results in 2014-2017 (thousands of PLN)

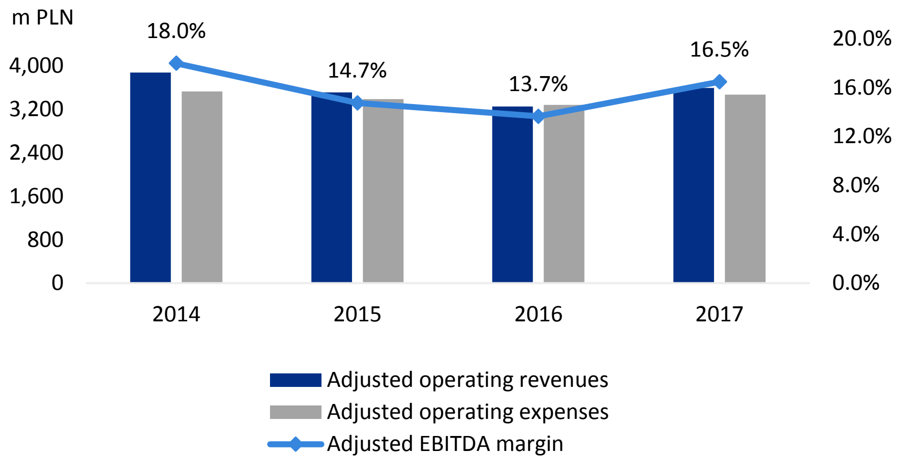
Item	2017 adjusted***	2016	2015 adjusted**	2014 adjusted*	Change	% change
					2017 - 2016	2017/2016
Total operating revenue	3,591,814	3,250,457	3,514,154	3,880,181	341,356	10.5%
Total operating expenses	3,467,999	3,281,568	3,387,610	3,530,252	186,431	5.7%
Result on operating activities	**123,815**	**-31,111**	**126,544**	**349,929**	**154,926**	**-**
EBIT margin	*3.4%*	*-1.0%*	*3.6%*	*9.0%*	*4.4 p.p.*	*-*
EBITDA margin	*16.5%*	*13.7%*	*14.7%*	*18.0%*	*2.8 p.p.*	*20.7%*
Financial revenue	30,915	20,532	45,024	49,497	10,383	50.6%
Financial expenses	56,697	60,111	68,951	54,778	-3,414	-5.7%
Earnings before tax	**98,033**	**-70,690**	**102,617**	**344,648**	**168,724**	**-**
Gross margin	*2.7%*	*-2.2%*	*2.9%*	*8.9%*	*4.9 p.p.*	*-*
Income tax	26,271	-2,125	20,945	60,777	28,396	-
NET PROFIT/LOSS	**71,762**	**-68,565**	**81,671**	**283,871**	**140,326**	**-**
Net profit margin	*2.0%*	*-2.1%*	*2.3%*	*7.3%*	*4.1 p.p.*	*-*

Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2017 prepared according to EU IFRS, Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2015 prepared according to EU IFRS

* the 2014 data were adjusted for presentation purposes for the costs following from the first Voluntary Redundancy Program implemented in the amount of PLN 257.1 million; additionally, the adjusted net profit/loss takes into consideration the deferred tax on the first VRP in the amount of PLN 48.9 million.
** the 2015 data were adjusted for presentation purposes for the costs following from the second VRP implemented in the amount of PLN 63.9 million and impairment losses on non-current assets and assets classified as held for sale, in the amount of PLN 177.9 million; additionally, the adjusted net profit/loss takes into consideration the deferred tax on the second VRP in the amount of PLN 12.1 million and deferred tax on impairment losses on non-current assets and assets classified as held for sale in the amount of PLN 33.8 million.
*** the 2017 data were adjusted for presentation purposes for revaluation of the residual value of rolling stock and reversal of part of the impairment loss on rolling stock components in the amount of PLN -27.4 million; additionally, the adjusted net profit/loss take into consideration the deferred tax on the aforementioned revaluation in the amount of PLN -5.2 million.

The figure below presents the adjusted EBITDA margin compared to selected items in the Company's statement of comprehensive income for 2014-2017.

Figure 25 Adjusted EBITDA margin compared to the Company's adjusted operating revenues and expenses in 2014-2017*



Source: Proprietary material

* the 2014 data were adjusted for presentation purposes for the costs following from the first Voluntary Redundancy Program implemented in the amount of PLN 257.1 million,
the 2015 data were adjusted for presentation purposes for the costs following from the second VRP implemented in the amount of PLN 63.9 million and impairment losses on non-current assets and assets classified as held for sale in the amount of PLN 177.9 million,
the 2017 data were adjusted for presentation purposes for revaluation of the residual value of rolling stock and reversal of part of the impairment loss on rolling stock components in the amount of PLN -27.4 million.

Operating revenue

Table 26 PKP CARGO S.A.'s operating revenue in 2014-2017 (000s PLN)

Item	2017	2016	2015	2014	Change	% change
					2017 - 2016	2017/2016
Revenue from sales of services, including:	3,542,472	3,208,165	3,472,945	3,775,863	334,307	10.4%
Revenue from rail transportation and freight forwarding services	*3,449,292*	*3,095,973*	*3,360,873*	3,646,968	*353,319*	11.4%
Revenues from sales of materials	12,216	10,840	9,435	28,809	1,376	12.7%
Other operating revenue	37,126	31,452	31,774	75,509	5,674	18.0%
Total operating revenue	**3,591,814**	**3,250,457**	**3,514,154**	**3,880,181**	**341,356**	**10.5%**

Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2017 prepared according to EU IFRS, Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2015 prepared according to EU IFRS

In the Company's total operating revenue the biggest item was revenue from sales of services (98.6% in 2017 compared to 98.7% in 2016). Revenue on the sale of services comprises mainly: revenue from rail transportation and freight forwarding services, revenue from siding and traction services and other revenue, which chiefly includes revenue on the lease of assets, revenue on administrative support services, operational support services, rolling stock repair services and other repair services. The remaining part of PKP CARGO S.A.'s operating revenue comprises revenue from sales of goods and materials, which includes, among others, sales of steel and cast iron scrap and other materials. Included in the category of operating revenue is other operating revenue comprising, among others, gains from sales of non-financial non-current assets, movement in impairment losses on receivables, interest on trade and other receivables, received fines and compensations, revenue from reversal of provisions and other items.

The increase in revenue from rail transportation and freight forwarding services by PLN 353.3 million, or 11.4% yoy, to PLN 3,449.3 million resulted from intensified sales activities which translated into higher transport volumes. The details pertaining to PKP CARGO S.A.'s transport business are described in chapter **4.2.5, "The Company's and the PKP CARGO Group's rail transport business".**

The growth in revenues from sales of materials by PLN 1.4 million, i.e. 12.7% yoy, was caused primarily by increased sales of other materials. At the same time, the Company continues the implementation of its program of decommissioning the extraneous, unused and obsolete rolling stock.

Other operating revenue increased by PLN 5.7 million, or 18.0% yoy, driven by higher fines and compensations received in the amount of PLN 10.7 million, or 74.3% yoy, mainly from the Company's business partners for the provision of transport services in breach of the agreement, with a drop in foreign exchange differences by PLN 3.4 million as a result of fluctuations in exchange rates.

Operating expenses

Table 27 PKP CARGO S.A.'s operating expenses in 2014-2017 (thousands of PLN)

Item	2017	2016	2015	2014	Change	% change
					2017 - 2016	2017/2016
Depreciation and amortization and impairment losses	440,610	474,844	569,630	347,782	-34,234	-7.2%
Consumption of materials and energy	565,239	532,655	595,633	587,736	32,584	6.1%
External services	1,165,181	1,078,527	1,114,951	1,169,207	86,654	8.0%
Taxes and charges	31,938	28,587	31,875	35,941	3,351	11.7%
Costs of employee benefits	1,149,084	1,089,101	1,229,890	1,553,670	59,983	5.5%
Other expenses by kind	43,133	41,820	44,611	43,117	1,312	3.1%
Cost of materials sold	8,358	7,670	5,840	15,353	688	9.0%
Other operating expenses	37,042	28,364	36,904	34,562	8,678	30.6%
Total operating expenses	**3,440,585**	**3,281,568**	**3,629,334**	**3,787,368**	**159,017**	**4.8%**

Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2017 prepared according to EU IFRS, Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2015 prepared according to EU IFRS

Table 28 PKP CARGO S.A.'s adjusted operating expenses in 2014-2017 (000s PLN)

Item	2017 adjusted***	2016	2015 adjusted **	2014 adjusted*	Change	% change
					2017 - 2016	2017/2016
Depreciation and amortization and impairment losses	468,024	474,844	391,768	347,782	-6,820	-1.4%
Consumption of materials and energy	565,239	532,655	595,633	587,736	32,584	6.1%
External services	1,165,181	1,078,527	1,114,951	1,169,207	86,654	8.0%
Taxes and charges	31,938	28,587	31,875	35,941	3,351	11.7%
Costs of employee benefits	1,149,084	1,089,101	1,166,028	1,296,554	59,983	5.5%
Other expenses by kind	43,133	41,820	44,611	43,117	1,312	3.1%
Cost of materials sold	8,358	7,670	5,840	15,353	688	9.0%
Other operating expenses	37,042	28,364	36,904	34,562	8,678	30.6%
Total operating expenses	**3,467,998**	**3,281,568**	**3,387,610**	**3,530,252**	**186,430**	**5.7%**

Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2017 prepared according to EU IFRS, Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2015 prepared according to EU IFRS

* the 2014 data were adjusted for presentation purposes for the costs following from the first Voluntary Redundancy Program implemented in the amount of PLN 257.1 million,
** the 2015 data were adjusted for presentation purposes for the costs following from the implemented 2nd VRP in the amount of PLN 63.9 million and impairment losses on non-current assets and assets classified as held for sale, in the amount of PLN 177.9 million
*** the 2017 data were adjusted for presentation purposes for revaluation of the residual value of rolling stock and reversal of part of the impairment loss on rolling stock components in the amount of PLN -27.4 million.

In 2017, operating expenses increased by PLN 159.0 million, or 4.8% yoy, to PLN 3,440.6 million. Adjusted operating expenses in 2017 increased by PLN 186.4 million, or 5.7% yoy, driven mainly by an increase in external services, employee benefits and the consumption of materials and energy in 2017.

In 2017, amortization and depreciation expenses and impairment losses fell by PLN 34.2 million, or 7.2% yoy, to PLN 440.6 million, mainly because of the non-recurring event in 2017, as described above. Adjusted amortization and depreciation expenses and impairment charges dropped by PLN 6.8 million, or 1.4% yoy.

In 2017, the consumption cost of materials and energy increased by PLN 32.6 million, or 6.1% yoy, mainly due to higher freight volumes. Fuel consumption costs increased by PLN 25.4 million, or 24.0% yoy, driven by the higher share of transport performed using the diesel traction as a result of difficulties in PLK lines and detours, in particular on the Bogdanka to the Kozienice Power Plant route. In addition, an increase in electricity, gas and water consumption was recorded, also as a result of increase in transport volumes, with lower unit variable cost and improved transport efficiency, as a result of improvement of the traction energy consumption measure in Poland.

The costs of external services increased by PLN 86.7 million, or 8.0% yoy, to PLN 1,165.2 million. The main reason for the hike in the above costs was the increase in the fees for access to the lines of infrastructure managers by PLN 56.3 million, or 8.6% yoy, caused by increasing freight transport. At the same time, in the category of external services, the costs of transport services increased by PLN 28.2 million, or 28.5% yoy, partly a result of higher freight forwarding costs.

In 2017, employee benefits increased to PLN 1,149.1 million, or 5.5% yoy, compared to PLN 1,089.1 million in 2016. This was caused by wage increases in the Company introduced on 1 September 2017 and a change in the value of employee provisions. At the same time, the Company recorded a decrease in the headcount by 521 FTEs yoy a result of natural employee departures. The detailed changes in headcount are presented in section **4.5. "Headcount".**

In 2017, the remaining expenses by kind increased by PLN 1.3 million, i.e. 3.1% yoy, mainly due to an increase in the costs of insurance by PLN 1.1 million, or 14.0% yoy as a result of higher insurance premiums.

In 2017, the cost of materials sold increased by PLN 0.7 million, or 9.0%, to PLN 8.4 million, following an increase in revenues from sales of materials.

Other operating expenses in 2017 increased by PLN 8.7 million, or 30.6% yoy, to PLN 37.0 million. This change was driven by movements in provisions, in particular those related to the provision established for onerous contracts of PLN 9.1 million, which is described in detail in **Note 29** to the SFS.

Result on operating activities

As a result of the aforementioned changes in operating revenue and operating expenses, the result on operating activities in 2017 reached PLN 151.2 million, up by PLN 182.3 million yoy. The adjusted result on operating activities reached PLN 123.8 million, up by PLN 154.9 million yoy.

EBITDA

In 2017, the result on operating activities increased by the line item "Depreciation and amortization and impairment losses" referred to as EBITDA, amounted to PLN 591.8 million, up by PLN 148.1 million, or 33.4% yoy. Adjustment of the revaluation of the residual value of rolling stock and reversal of part of the impairment loss on rolling stock components in 2017 does not impact the EBITDA result.

Financial activities

Table 29 Financial activities of PKP CARGO S.A. in 2014-2017 (000s PLN)

Item	2017	2016	2015	2014	Change	% change
					2017 - 2016	2017/2016
Financial revenue	30,915	20,532	45,024	49,497	10,383	50.6%
Financial expenses	56,697	60,111	68,951	54,778	-3,414	-5.7%
Result on financial activities	**-25,782**	**-39,579**	**-23,927**	**-5,281**	**13,797**	**-**

Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2017 prepared according to EU IFRS, Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2015 prepared according to EU IFRS

In 2017, PKP CARGO S.A. recorded a loss on financial activities in the amount of PLN -25.8 million. In the corresponding period of 2016, the Group also generated a loss on financial activities in the amount of PLN -39.6 million. The improvement in the result on financing activities by PLN 13.8 million yoy was driven by a reduction in the costs of valuation of the put/call option to acquire shares in AWT B.V. by PLN 10.2 million, down 84.5% yoy. Additionally, as a result of changes in exchange rates, the Company recorded a hike in net profit/loss on foreign exchange differences by PLN 6.8 million yoy.

For more detailed information, see **Note 7** to the SFS.

Earnings before tax

Earnings before tax amounted to PLN 125.4 million in 2017, up PLN 196.1 million yoy. Adjusted earnings before tax amounted to PLN 98.0 million in 2017, up PLN 168.7 million yoy.

Income tax

In 2017, PKP CARGO S.A. posted income tax in the amount of PLN 31.5 million, of which current tax was PLN 43.7 million and deferred income tax was PLN -12.3 million. The adjustment of the revaluation of the residual value of rolling stock and reversal of part of the impairment loss on rolling stock components reduces income tax by PLN 5.2 million, to PLN 26.3 million.

Net profit/loss

In 2017, the net profit/loss stood at PLN 94.0 million, up PLN 162.5 million yoy. Adjusted net profit/loss in 2017 stood at PLN 71.8 million, up PLN 140.3 million yoy as a result of the aforementioned changes in revenues, expenses and income tax paid.

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

ASSETS

Table 30 Horizontal and vertical analysis of assets of PKP CARGO S.A. (000s PLN)

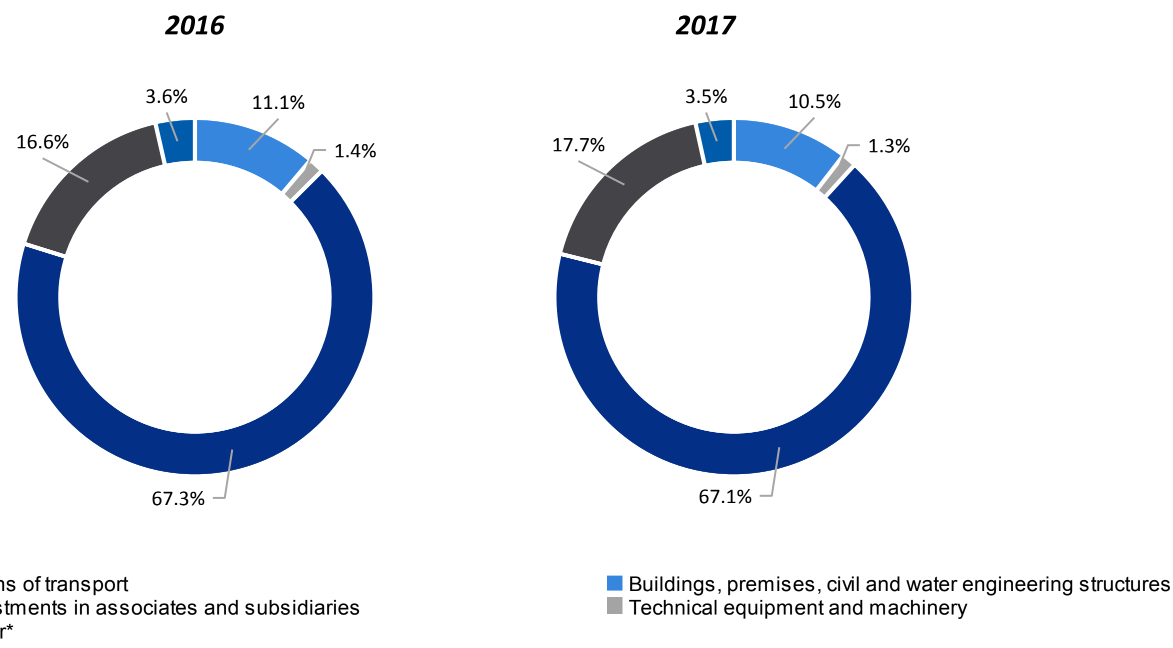
	As at 31/12/2017	As at 31/12/2016	As at 31/12/2015	As at 31/12/2014	Asset structure 31/12/2017	Asset structure 31/12/2016	Change 2017 - 2016	% change 2017/2016
ASSETS								
Non-current assets								
Property, plant and equipment	3,611,262	3,561,993	3,562,716	3,742,185	62.9%	64.1%	49,269	1.4%
Intangible assets	39,561	50,778	59,236	55,990	0.7%	0.9%	-11,217	-22.1%
Investments in subsidiaries, associates and joint ventures	804,629	737,974	734,643	262,846	14.0%	13.3%	66,655	9.0%
Other long-term financial assets	8,647	6,169	6,021	6,021	0.2%	0.1%	2,478	40.2%
Other long-term non-financial assets	4,484	8,162	18,927	1,464	0.1%	0.1%	-3,678	-45.1%
Deferred tax assets	89,904	76,244	76,602	60,981	1.6%	1.4%	13,660	17.9%
Total non-current assets	**4,558,487**	**4,441,320**	**4,458,145**	**4,129,487**	**79.5%**	**80.0%**	**117,167**	**2.6%**
Current assets								
Inventories	86,426	59,701	60,743	75,759	1.5%	1.1%	26,725	44.8%
Trade and other receivables	486,607	413,607	384,228	423,171	8.5%	7.4%	73,000	17.6%
Income tax receivables	-	1,304	-	-	0.0%	0.0%	-1,304	-100.0%
Other current financial assets	281,630	87	25,057	301,818	4.9%	0.0%	281,543	323612.5%
Other short-term non-financial assets	27,976	19,716	4,985	24,921	0.5%	0.4%	8,260	41.9%
Cash and cash equivalents	295,910	611,990	84,097	381,420	5.2%	11.0%	-316,080	-51.6%
Non-current assets classified as held for sale	-	6,000	44,061	17,560	0.0%	0.1%	-6,000	-100.0%
Total current assets	**1,178,549**	**1,112,405**	**603,171**	**1,224,649**	**20.5%**	**20.0%**	**66,144**	**5.9%**
Total assets	**5,737,036**	**5,553,725**	**5,061,316**	**5,354,136**	**100.0%**	**100.0%**	**183,311**	**3.3%**

Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2017 prepared according to EU IFRS, Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2015 prepared according to EU IFRS

Non-current assets

The figure below presents the structure of non-current assets in 2016 and 2017.

Figure 26 Structure of PKP CARGO S.A.'s non-current assets in 2016 and 2017



* The "other" item includes: intangible assets, other long-term financial assets, other long-term non-financial assets, deferred tax assets, other fixed assets and fixed assets under construction.

Source: Proprietary material

As at the and of 2017, means of transport constituted the largest percentage of non-current assets, accounting for 67.1% of them. Compared to the previous year, the percentage of means of transport dropped by 0.2 p.p. Other significant items included investments in subsidiaries, associates and joint ventures with a 17.7% share in 2017 compared to a 16.6% share in 2016, land and buildings, facilities and land and water engineering objects with a 10.5% share in 2017 compared to 11.1% in 2016. The remaining items, i.e. technical machinery and equipment and others accounted for 4.8% in 2017.

Property, plant and equipment dominated the structure of assets; at the end of 2017, this line item represented 62.9% of total assets, compared to 64.1% at the end of 2016. Means of transport (which include mainly locomotives and wagons) are the main component of non-current assets; their value at the end of 2017 was PLN 3,060.5 million (up by PLN 71.5 million or 2.4% yoy), which at the end of 2017 accounted for 84.7% of all property, plant and equipment, compared to 83.9% at the end of 2016. The increase in the value of means of transport was driven by the purchase of 3 multi-system locomotives, periodic repairs and periodic inspections of rolling stock, modernization of rolling stock and the reversal of the impairment loss due to the revaluation of the rolling stock in the amount of PLN 27.4 million, despite the decision to physically liquidate the rolling stock components to recover certain spare parts and scrap and reclassify them to inventories.

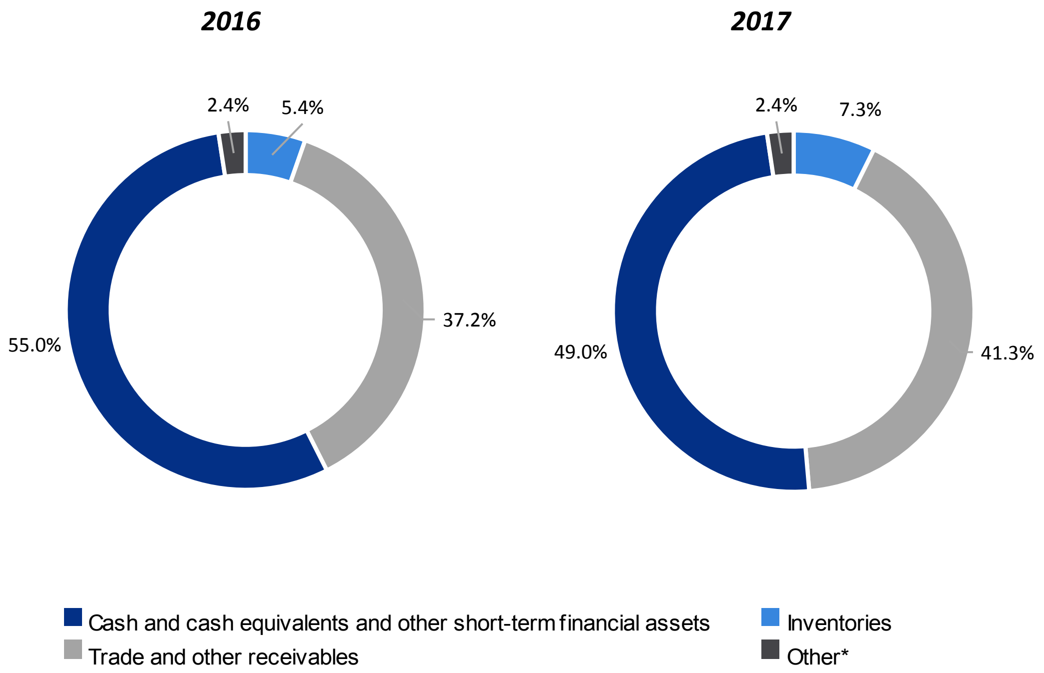
Out of other changes within the structure of property, plant and equipment, the largest movement was recorded in land and buildings, facilities and land and water engineering structures. This item recorded a decrease by PLN 17.0 million yoy. The primary reasons for the decrease in the value of these assets were accumulated depreciation costs and the absence of major capital expenditures. For more detailed information, see **Note 9** to the SFS. The decrease in intangible assets by PLN 11.2 million, or 22.1% yoy, was caused by a relatively low level of capital expenditures compared to accumulated depreciation.

In 2017, investment went up in subsidiaries, affiliates and joint ventures by PLN 66.7 million, or 9.0% yoy, driven directly by the acquisition of a 20% stake in AWT BV.

Current assets

The figure below presents the structure of current assets in 2016 and 2017.

Figure 27 Structure of PKP CARGO S.A.'s current assets in 2016 and 2017



* The "other" item includes: income tax receivables, other short-term non-financial assets and non-current assets classified as held for sale

Source: Proprietary material

The largest item of current assets in 2017 was cash and cash equivalents and other current financial assets, which stood at 49.0%; their share dropped by 6.0 p.p. compared to 2016. The second largest item of current assets in 2017 were trade and other receivables which stood at 41.3% (in 2016: 37.2%). The share of inventories in 2017 was 7.3% compared to 5.4% in 2016.

Current assets increased at the end of 2017 by PLN 66.1 million, or 5.9% yoy, in relation to the end of 2016.

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Within current assets, an increase was recorded in trade and other receivables by PLN 73.0 million, or 17.6% yoy. This was directly related to the increase in operating revenue toward the end of 2017. Moreover, inventories increased by PLN 26.7 million, or 44.8% yoy, which was caused for the most part by the decision made by the Company on physical elimination of certain rolling stock components in order to recover some spare parts and scrap metal (as described in detail in **Note 17** to the SFS).

Cash and cash equivalents and other short-term assets decreased in 2017 by PLN 34.5 million, or 5.6% yoy, driven chiefly by negative cash flows on investing activity caused by expenditures related to the acquisition of property, plant and equipment as well as equity stakes in subsidiaries. These include mostly repairs and periodic inspections resulting from the cycles defined in the Maintenance System Documentation and planned freight volumes. Accordingly, it is expected that in 2017 a large portion of Technical Railworthiness Certificates will be renewed for the Company's rolling stock. The level of available cash and cash equivalents as of the end of 2017 fully secures the general corporate needs of the Company.

The table below presents days inventory ratios.

Table 31 Days inventory ratio in 2014-2017

Item	2017	2016	2015	2014	Change 2017-2016	Change rate 2017/2016
Days inventory*	128.9	110.6	87.1	77.5	18.3	17.5%

* Indicator calculated for the number of days and depletion on a year-to-date basis since the beginning of the reporting year

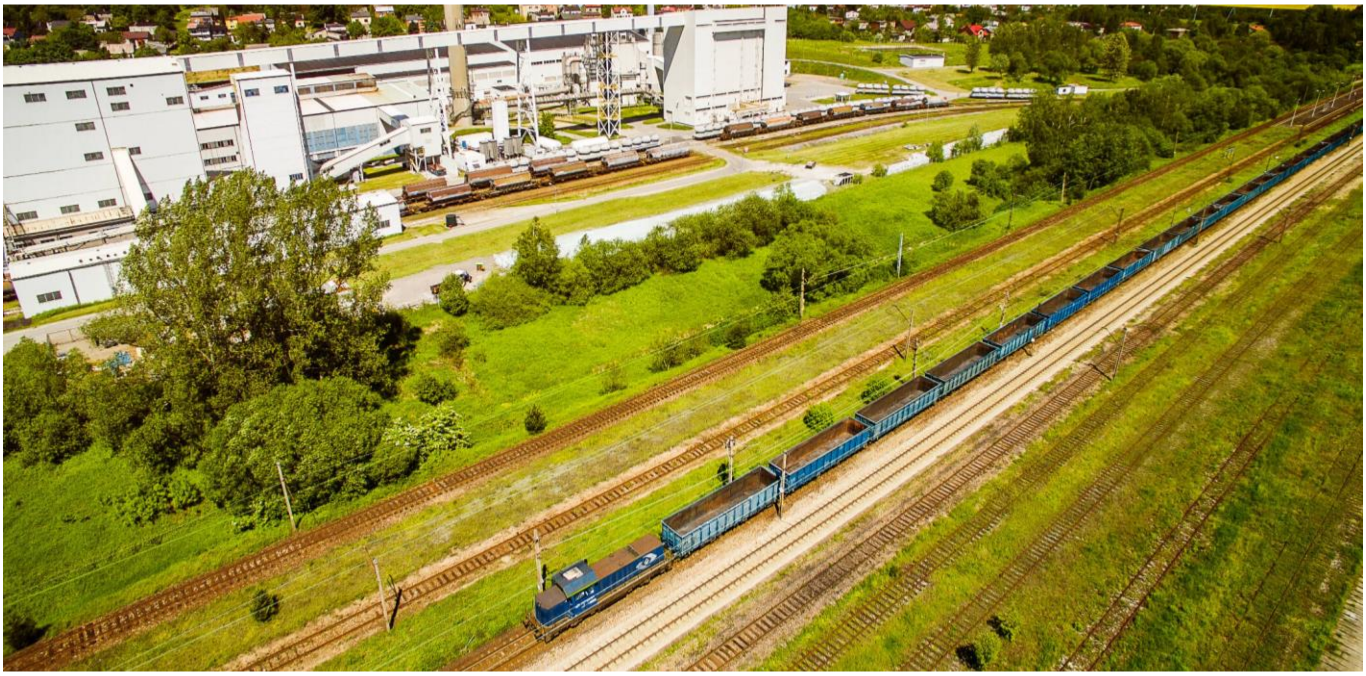
Source: Proprietary material

The net days inventory ratio as at the end of 2017 was 128.9 days and increased by 18.3 days relative to the end of 2016, with:

1. the inventories of materials at PLN 86.4 million (including PLN 28.6 million of residual value of rolling stock components designated for scrapping);
2. the net value of materials sold was PLN 8.4 million;
3. consumption of materials, together with employee benefits of PLN 232.9 million[92].

The ratio increased due to a 24.7% drop in the consumption of materials with a 44.8% increase in net inventories of materials. Consumption of materials in 2016 was PLN 186.7 million compared to PLN 232.9 million in 2017.

The level of inventories is adapted mainly to the level of the rolling stock maintenance and repair activity. The details regarding the level of inventories are presented in **Note 17** to the SFS.



[92] Consumption of materials – comprising consumption of materials for OPEX, CAPEX, consumption of fuel and employee benefits

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

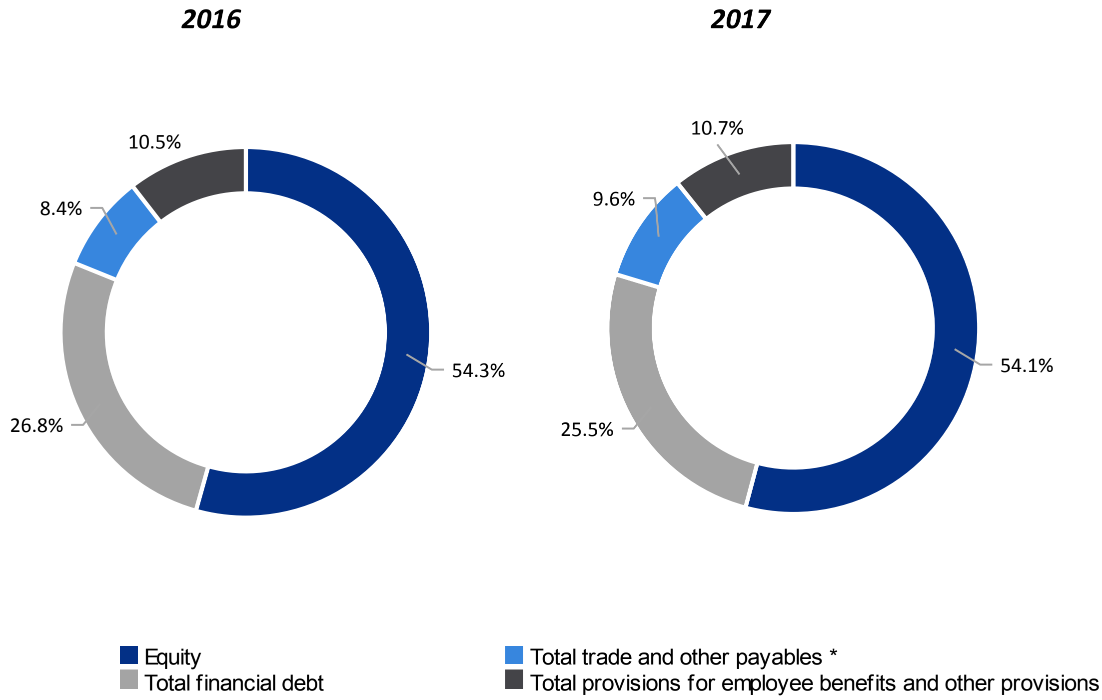
EQUITY AND LIABILITIES

Table 32 Horizontal and vertical analysis of liabilities and equity of PKP CARGO S.A. (thousands of PLN)

	As at 31/12/2017	As at 31/12/2016	As at 31/12/2015	As at 31/12/2014	Structure of liabilities and equity		Change	% change
					31/12/2017	31/12/2016	2017 - 2016	2017/2016
EQUITY AND LIABILITIES								
Equity								
Share capital	2,239,346	2,239,346	2,239,346	2,239,346	39.0%	40.3%	-	0.0%
Supplementary capital	589,202	589,202	589,202	584,513	10.3%	10.6%	-	0.0%
Other items of equity	12,469	18,415	3,726	-36,572	0.2%	0.3%	-5,946	-32.3%
Retained earnings	265,444	171,477	240,042	469,032	4.6%	3.1%	93,967	54.8%
Total equity	**3,106,461**	**3,018,440**	**3,072,316**	**3,256,319**	**54.1%**	**54.3%**	**88,020**	**2.9%**
Non-current liabilities								
Long-term bank loans and borrowings	1,211,148	1,170,224	459,305	206,112	21.1%	21.1%	40,924	3.5%
Long-term finance lease liabilities and leases with a purchase option	3,308	36,159	75,333	114,027	0.1%	0.7%	-32,851	-90.9%
Non-current trade and other payables	-	582	22,389	67,938	0.0%	0.0%	-582	-100.0%
Long-term provisions for employee benefits	502,856	473,965	549,280	637,783	8.8%	8.5%	28,891	6.1%
Other long-term provisions	14,224	16,455	16,209	8,416	0.2%	0.3%	-2,231	-13.6%
Other non-current financial liabilities	-	-	27,696	-	0.0%	0.0%	-	-
Total non-current liabilities	**1,731,536**	**1,697,385**	**1,150,212**	**1,034,276**	**30.2%**	**30.6%**	**34,151**	**2.0%**
Current liabilities								
Short-term bank loans and borrowings	219,352	178,170	129,914	87,971	3.8%	3.2%	41,182	23.1%
Short-term finance lease liabilities and leases with a purchase option	31,069	43,176	48,914	120,505	0.5%	0.8%	-12,107	-28.0%
Short-term trade and other payables	549,188	465,411	568,085	457,602	9.6%	8.4%	83,777	18.0%
Short-term provisions for employee benefits	81,424	80,524	81,581	318,600	1.4%	1.4%	900	1.1%
Other short-term provisions	16,905	11,640	8,256	17,414	0.3%	0.2%	5,265	45.2%
Other current financial liabilities	-	58,979	10	59,393	0.0%	1.1%	-58,979	-100.0%
Current tax liabilities	1,101	-	2,028	2,056	0.0%	0.0%	1,101	-
Total current liabilities	**899,039**	**837,900**	**838,788**	**1,063,541**	**15.7%**	**15.1%**	**61,139**	**7.3%**
Total liabilities	**2,630,575**	**2,535,285**	**1,989,000**	**2,097,817**	**45.9%**	**45.7%**	**95,290**	**3.8%**
Total liabilities and equity	**5,737,036**	**5,553,725**	**5,061,316**	**5,354,136**	**100.0%**	**100.0%**	**183,311**	**3.3%**

Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2017 prepared according to EU IFRS, Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2015 prepared according to EU IFRS

Figure 28 Structure of PKP CARGO S.A.'s liabilities and equity in 2016 and 2017



* Total trade and other payables also include current tax liabilities

Source: Proprietary material

In 2017, equity constituted the largest part (54.1%) of liabilities and equity. Relative to 2016, this share was lower by 0.2 percentage points. The second largest item in 2017 was financial debt, with the share of 25.5% down by 1.3 percentage points in comparison to the previous year, primarily due to the fall in other current financial liabilities on account of Minezit SE having exercised the put option for the sale of shares in AWT B.V. The remaining items, i.e. total trade and other payables, total provisions for employee benefits constituted 9.6% and 10.7%, respectively, compared to 8.4% and 10.5%, respectively, one year earlier.

Equity

Equity at the end of 2017 stood at PLN 3,106.5 million and was PLN 88.0 million or 2.9% yoy higher in relation to the end of 2016. The level of equity was affected by the increase in retained earnings by PLN 94.0 million, or 54.8% yoy, driven mainly by the positive financial result in 2017. Other items of equity decreased compared to the end of 2016 by PLN 5.9 million, or 32.3% yoy.

Non-current liabilities

At the end of 2017, non-current liabilities rose by PLN 34.2 million, or 2.0%, from the end of 2016. Long-term loans and borrowings increased by PLN 40.9 million, or 3.5% yoy, which is related to the investment loans taken by the Company for the purchase of a 20% stake in AWT B.V. Long-term provisions for employee benefits increased by PLN 28.9 million, or by 6.1% yoy, primarily as a result of recognizing employee provisions in response to changed assumptions related to salary increases since September 2017 (the main changes apply to provisions for jubilee awards and old age and disability pension severance pays). Long-term lease liabilities and long-term liabilities on account of leases with a purchase option decreased by PLN 32.9 million, or 90.9% yoy, due to the gradual repayment of this form of financing.

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Current liabilities

Current liabilities increased as at the end of 2017 compared to the end of 2016 by PLN 61.1 million, or 7.3% yoy. The biggest changes were noted in the following items:

- short-term bank loans and borrowings – an increase by PLN 41.2 million, or 23.1% yoy, as a result of loans extended to the Company and loans having been reclassified from long-term items,
- other current financial liabilities – a decrease by PLN 59.0 million yoy, primarily due to the execution of the put and call options for the non-controlling interests in AWT,
- short-term trade and other payables – an increase by PLN 83.8 million, i.e. by 18% yoy, attributable to higher cargo transport and higher liabilities resulting from the purchase of non-financial non-current assets.

5.1.3 Cash flow statement of PKP CARGO S.A.

The table below depicts the main line items of the cash flow statement of PKP CARGO S.A. in 2014-2017.

Table 33 Main line items of the cash flow statement of PKP CARGO S.A. in 2014-2017

Item	2017	2016	2015	2014	Change	% change
					2017 - 2016	2017/2016
Net cash on operating activities	478,444	237,526	325,876	462,459	240,918	101.4%
Net cash on investing activities	-780,286	-440,642	-584,858	-208,082	-339,644	-
Net cash from financing activities	-14,238	731,009	-38,341	-102,189	-745,247	-
Net increase / (decrease) in cash and cash equivalents	**-316,080**	**527,893**	**-297,323**	**152,188**	**-843,972**	**-**
Cash and cash equivalents at the beginning of the reporting period	**611,990**	**84,097**	**381,420**	**229,232**	**527,893**	**627.7%**
Cash and cash equivalents at the end of the reporting period	**295,910**	**611,990**	**84,097**	**381,420**	**-316,080**	**-51.6%**

Source: Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2017 prepared according to EU IFRS, Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2015 prepared according to EU IFRS

Cash flow from operating activities

In 2017, net cash flow from operating activities was PLN 478.4 million compared to PLN 237.5 million in 2016. The cash flow was generated on the result before tax of PLN 125.4 million and depreciation of property, plant and equipment and amortization of intangible assets and impairment losses of PLN 440.6 million. The biggest changes in working capital were noted in the trade and other receivables, whose balance increased by PLN 77.1 million, proportionally to the higher revenue. Furthermore, trade and other payables and other liabilities increased by PLN 32.5 million, as a result of higher costs and more intensive rolling stock repairs. Another factor influencing the cash flow from operating activities is income tax, paid in the amount of PLN 43.1 million.

Cash flow from investing activities

In 2017, net cash flow used in connection with investing activities was PLN -780.3 million versus PLN -440.6 million in 2016. Net cash flow from investing activities was affected primarily by capital expenditures on rolling stock, in particular the last delivered 3 multi-system locomotives, for which the Company spent PLN 53.0 million in 2017. The Company's major capital expenditures will also include spending on the existing rolling stock. Capital expenditures on periodic repairs (NO) and periodic inspections (P3) amounted to PLN 356.7 million. The significant growth of the expenditure in this item is attributable to the rolling stock utilization cycle, which follows the Maintenance System Documentation (DSU) approved by the Office of Rail Transport, as well as to the amount of operational rolling stock maintained for transportation needs. Periodic repairs (NO) and periodic inspections (P3) enable the Company to obtain or extend its Technical Railworthiness Certificates without which the Company's rolling stock would not be approved for traffic. Another major expenditure incurred by the Company in 2017 was the modernization of locomotives in the amount of PLN 64.2 million. The modernizations offer the possibility of extending life of a locomotive by replacing its engine with a new one and contribute to the reduction in the quantity of fuel used by up to 40%. Additionally in 2017 the Company received proceeds on the disposal of property, plant and equipment, intangible assets and non-current assets held for sale in the amount of PLN 8.5 million (the sale of a building at Lubelska Street in Warsaw to a subsidiary) and from dividends received from subsidiaries, in the amount of PLN 20.3 million. Another factor which had an impact on the cash flow from investing activities was the expenditure to buy subsidiaries and associates and interests in joint ventures, in the amount of PLN 114.7 million (acquisition of the remaining interest in AWT B.V.), as well as the Company's investment in bank deposits with maturities over 3 months, in the amount of PLN 250 million.

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Cash flow from financing activities

In 2017, the net cash flow from financing activities amounted to PLN -14.2 million, relative to PLN 731.0 million in 2016. Proceeds received from loans taken out in 2017 amounted to PLN 326.5 million, compared to PLN 884.5 million in 2016. In 2017, total cash expenditures for leases and repayments of bank loans and borrowings with interest were PLN 297.2 million versus PLN 199.4 million in 2016. Outflow of cash as part of cash pooling in the amount of PLN 41.7 million was an additional significant item that contributed to the decrease in net cash from financing activities in 2017.

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

The table below presents PKP CARGO S.A.'s key financial and operating ratios in the period of 2014-2017.

Table 34 Selected financial and operating ratios of PKP CARGO S.A. in the period of 2014-2017

Item	2017	2016	2015	2014	Change 2017 - 2016	% change 2016/2015
EBITDA margin[1]	16.5%	13.7%	12.9%	11.4%	2.8 p.p.	20.7%
Net profit margin[2]	2.6%	-2.1%	-3.2%	1.9%	4.7 p.p.	-
Net financial debt to EBITDA ratio[3]	1.5	2.0	1.4	-0.2	-0.5	-23.9%
ROA[4]	1.6%	-1.2%	-2.3%	1.4%	2.9 p.p.	-
ROE[5]	3.0%	-2.3%	-3.7%	2.3%	5.3 p.p.	-
Average distance covered per locomotive (km/day)[6]	256.8	249.5	240.6	243.9	7.3	2.9%
Average gross train tonnage per operating locomotive (tons)[7]	1,485.0	1,502.0	1,523.0	1,481.0	-17.0	-1.1%
Average running time of train locomotives (hours per day)[8]	15.6	15.1	15.2	15.4	0.5	3.3%
Freight turnover per employee (thousands tkm/employee)[9]	1,702.5	1,516.3	1,553.8	1,307.2	186.2	12.3%

Source: Proprietary material

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Table 35 Adjusted selected financial and operating ratios of PKP CARGO S.A. in the period of 2014-2017

Item	2017 adjusted***	2016	2015 adjusted**	2014 adjusted*	Change	% change
					2017 - 2016	2016/2015
EBITDA margin[1]	16.5%	13.7%	14.7%	18.0%	2.8 p.p.	20.7%
Net profit margin[2]	2.0%	-2.1%	2.3%	7.3%	4.1 p.p.	-
Net financial debt to EBITDA ratio[3]	1.5	2.0	1.2	-0.1	-0.5	-23.9%
ROA[4]	1.3%	-1.2%	1.6%	5.3%	2.5 p.p.	-
ROE[5]	2.3%	-2.3%	2.7%	8.7%	4.6 p.p.	-

Source: Proprietary material

* the 2014 data were adjusted for presentation purposes for the costs following from the first Voluntary Redundancy Program implemented in the amount of PLN 257.1 million; additionally, the adjusted net profit/loss takes into consideration the deferred tax on the first VRP in the amount of PLN 48.9 million

** the 2015 data were adjusted for presentation purposes for the costs following from the second VRP implemented in the amount of PLN 63.9 million and impairment losses on non-current assets and assets classified as held for sale, in the amount of PLN 177.9 million; additionally, the adjusted net profit/loss takes into consideration the deferred tax on the second VRP in the amount of PLN 12.1 million and deferred tax on impairment losses on non-current assets and assets classified as held for sale in the amount of PLN 33.8 million

*** the 2017 data were adjusted for presentation purposes for revaluation of the residual value of rolling stock and reversal of part of the impairment loss on rolling stock components in the amount of PLN -27.4 million; additionally, the adjusted net profit/loss take into consideration the deferred tax on the aforementioned revaluation in the amount of PLN -5.2 million.

The above adjustments concern only data from the Statement of Comprehensive Income.

1. Calculated as the ratio of the operating result plus amortization/depreciation and impairment losses to total operating revenue.
2. Calculated as the ratio of net profit to total operating revenue.
3. Calculated as the ratio of net financial debt (constituting the sum of (i) long-term bank loans and borrowings; (ii) short-term bank loans and borrowings, (iii) non-current finance lease liabilities and leases with a purchase option; (iv) current finance lease liabilities and leases with purchase option; and (v) other current financial liabilities and (vi) other long-term financial liabilities, minus (i) cash and cash equivalents; and (ii) other current financial assets) to EBITDA for the last 12 months (result on operating activities plus amortization/depreciation and impairment losses).
4. Calculated as the ratio of net profit/loss for the past 12 months to total assets.
5. Calculated as the ratio of net profit for the past 12 months to equity.
6. Calculated as the quotient of vehicle-kilometers (i.e. distance covered by PKP CARGO S.A.'s vehicles in the given period) / vehicle-days (i.e. product of the number of active vehicles and number of calendar days in the given period).
7. Calculated as the quotient of gross ton-kilometers and train-kilometers in train work in relation to the locomotives driving the train (in dual traction or pushing the train in the given period).
8. Calculated as the quotient of vehicle-hours (i.e. number of hours of work of PKP CARGO S.A.'s vehicles in the given period) and vehicle-days (i.e. the product of the number of active vehicles and number of calendar days in the given period).
9. Calculated as the quotient of the Company's freight turnover to the average headcount (in FTEs) in PKP CARGO S.A. in the given period.

In 2017, the key profitability ratios, i.e. EBITDA margin, net profit/loss margin, ROA, ROE were higher than in the same period of 2016, for the reasons described above. The net financial debt to EBITDA ratio improved. It fell down to 1.5 at the end of 2017 from 2.0 at the end of 2016. The improvement of the ratio was mainly caused by the improvement of the Company's financial performance. Adjusted profitability ratios, i.e. EBITDA margin, net profit/loss margin, ROA, ROE were also higher than in 2016, for the reason described above.

In 2017, the average daily mileage of locomotives was 256.8 km/day; it was 249.5 km/day in 2016. The improvement of this indicator resulted from the optimization of the transportation process.

The average gross train tonnage per operating locomotive (tons) in 2017 amounted to 1,485.0 tons, decreasing by 17.0 tons, i.e. by 1.1% yoy. This was caused by the fact that the transport process was performed in the period of very numerous closures and operating difficulties on the PKP PLK grid.

In 2017, the average running time of locomotives was 15.6 hours/day, while in 2016 it was 15.1 hours/day. This is an outcome of constantly monitoring how the freight turnover process is run while concurrently optimizing the match between the number of active locomotives and doing the work.

The freight turnover ratio per employee in 2017 was higher compared with 2016 by 186.2 thousand t/km per employee, i.e. by 12.3% yoy, which was influenced for the most part by the increase in freight turnover by 9.0% yoy, with decrease in the headcount by 2.9% yoy.

5.2 Key economic and financial figures of PKP CARGO Group

5.2.1 Statement of comprehensive income of the PKP CARGO Group

Analysis of key economic and financial figures of the PKP CARGO Group presented in this chapter takes into account a presentation adjustment of data in 2017 and 2016.

The financial data in 2017 data were adjusted for presentation purposes for revaluation of the residual value of rolling stock and reversal of part of the impairment loss on rolling stock components in the amount of PLN -27.4 million (details are described in **Note 10** to the CFS); additionally, the adjusted net profit/loss takes into consideration the deferred tax on the aforementioned revaluation in the amount of PLN -5.2 million.

The 2016 financial data are adjusted for presentation purposes for an impairment loss on receivables from OKD in the amount of PLN 72.7 million (described in **Note 19** of CFS of the PKP CARGO Group for the financial year ended 31 December 2017) and impairment losses arising from a test for impairment of AWT Group's non-current assets in the amount of PLN 34.1 million (the adjustments takes into account a loss on fixed assets in the amount of PLN 35.0 million and depreciation, reduced accordingly in H2 2016 in the amount of PLN 0.9 million), as described in **Note 12.1**. of CFS of the PKP CARGO Group for the financial year ended 31 December 2016.

Furthermore, the adjusted net profit/loss includes the deferred taxon the impairment loss of AWT, in the amount of PLN 6.5 million, and the deferred tax on the impairment loss on the receivables from OKD, in the amount of PLN 8.0 million.

In 2017, the PKP CARGO Group transported 119.1 million tons of cargo (i.e. 7% more than in 2016) and recorded freight turnover of 31.0 billion tkm (i.e. 9% more than in 2016), which is described in detail in the chapter entitled **4.2.5 "The Company's and PKP CARGO Group's rail transport".**

PKP CARGO Group's operating revenue in 2017 increased 7.4% yoy while operating expenses increased by 0.9% yoy. The Group's result on operating activities and net profit/loss in 2017 were PLN 155.0 million and PLN 81.7 million, respectively. The Group's adjusted operating revenues increased by 7.4% yoy. The adjusted operating expenses increased by 3.9% yoy (in 2017, revaluation of the residual value of the rolling stock was made and part of the impairment loss of the rolling stock components in the amount of PLN -27.4 million was reversed (a more detailed discussion is presented in **Note 10** to the CFS); furthermore in 2016 an impairment loss was recognized for the receivables from OKD, in the amount of PLN 72.7, and an impairment loss resulting from an impairment test of the non-current assets of the AWT Group, in the amount of PLN 34.1 million. The loss includes the loss on fixed assets in the amount of PLN 35.0 million and depreciation, reduced accordingly, in H2 2017 in the amount of PLN 0.9 million). The increase in both the reported and adjusted result for 2017, relative to 2016, is primarily attributable to the improved situation in the transport market, which translated directly into a larger volume of freight and higher prices of transport services.

The details of individual line items of the statement of comprehensive income are presented in the further part of this section. Tables below present the results of the PKP CARGO GROUP and adjusted results of the PKP CARGO Group from 2014 to 2017.

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Table 36 Results of the PKP CARGO Group in 2014-2017 (thousands of PLN)

Item	2017	2016	2015 (restated*)	2014	Change 2017 - 2016	% change 2017/2016
Total operating revenue	4,738,611	4,411,269	4,554,133	4,274,335	327,342	7.4%
Total operating expenses	4,583,611	4,543,340	4,498,222	4,153,408	40,271	0.9%
Result on operating activities	**155,000**	**-132,071**	**55,911**	**120,927**	**287,070**	**-**
EBIT margin	*3.3%*	*-3.0%*	*1.2%*	*2.8%*	*6.3 p.p.*	*-*
EBITDA margin	*14.8%*	*11.1%*	*15.5%*	*11.8%*	*3.7 p.p.*	*33.5%*
Financial revenue	20,167	38,925	14,723	33,812	-18,759	-48.2%
Financial expenses	59,540	61,239	66,397	62,099	-1,700	-2.8%
Share in the profit / (loss) of entities accounted for under the equity method	806	3,461	4,416	881	-2,655	-76.7%
Result on the sale of shares in entities accounted for under the equity method	-	-	1,865	-	-	-
Earnings before tax	**116,433**	**-150,924**	**10,518**	**93,521**	**267,357**	**-**
Gross margin	*2.5%*	*-3.4%*	*0.2%*	*2.2%*	*5.9 p.p.*	*-*
Income tax	34,760	-17,152	-19,563	15,239	51,912	-
NET PROFIT/LOSS	**81,673**	**-133,772**	**30,081**	**78,282**	**215,445**	**-**
Net profit margin	*1.7%*	*-3.0%*	*0.7%*	*1.8%*	*4.8 p.p.*	*-*

Source: Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2017 prepared according to EU IFRS, Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2016 prepared according to EU IFRS, Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2015 prepared according to EU IFRS

* restatement of data is described in detail in **Note 6** to the CFS for the financial year ended 31 December 2016

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Table 37 Adjusted results of the PKP CARGO Group for 2014-2017 (thousands of PLN)

Item	2017 adjusted*****	2016 adjusted****	2015 adjusted*** (restated*)	2014 adjusted**	Change 2017 - 2016	% change 2017/2016
Total operating revenue	4,738,611	4,411,269	4,416,355	4,274,335	327,342	7.4%
Total operating expenses	4,611,025	4,436,562	4,249,384	3,888,077	174,464	3.9%
Result on operating activities	**127,585**	**-25,293**	**166,970**	**386,258**	**152,878**	**-**
EBIT margin	*2.7%*	*-0.6%*	*3.8%*	*9.0%*	*3.3 p.p.*	-
EBITDA margin	*14.8%*	*12.7%*	*14.4%*	*18.0%*	*2.1 p.p.*	*16.2%*
Financial revenue	20,167	38,925	14,723	33,812	-18,759	-48.2%
Financial expenses	59,540	61,239	66,397	62,099	-1,700	-2.8%
Share in the profit / (loss) of entities accounted for under the equity method	806	3,461	4,416	881	-2,655	-76.7%
Result on the sale of shares in entities accounted for under the equity method	-	-	1,865	-	-	-
Earnings before tax	**89,018**	**-44,146**	**121,577**	**358,852**	**133,164**	**-**
Gross margin	*1.9%*	*-1.0%*	*2.8%*	*8.4%*	*2.9 p.p.*	-
Income tax	29,551	-2,676	27,716	65,652	32,228	-
NET PROFIT/LOSS	**59,467**	**-41,470**	**93,861**	**293,200**	**100,937**	**-**
Net profit margin	*1.3%*	*-0.9%*	*2.1%*	*6.9%*	*2.2 p.p.*	-

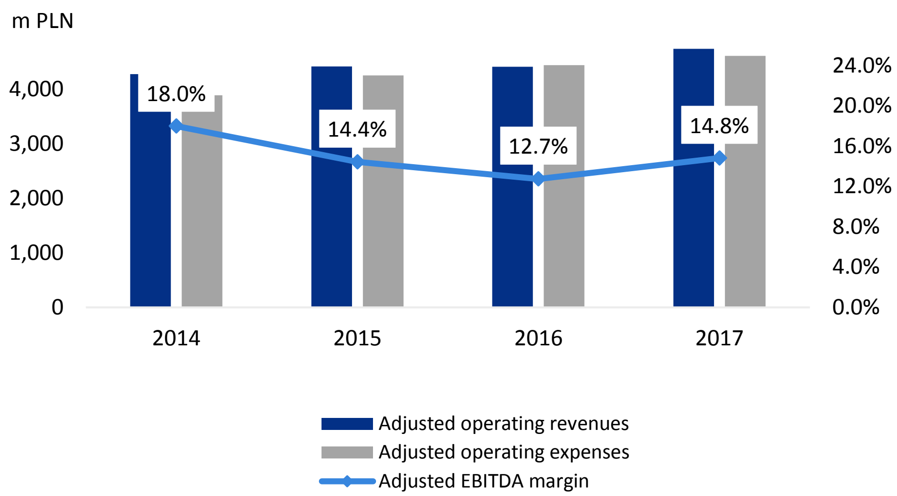
Source: Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2017 prepared according to EU IFRS, Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2016 prepared according to EU IFRS, Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2015 prepared according to EU IFRS

* restatement of data is described in detail in **Note 6** to the CFS for the financial year ended 31 December 2016
** the 2014 data were adjusted for presentation purposes for the costs following from the implemented 1st Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 265.3 million; additionally, the adjusted net profit includes deferred tax on account of VRP 1 in the amount of PLN 50.4 million
*** presentation data for 2015 adjusted for the profit on the bargain acquisition of AWT in the amount of PLN 137.8 million and the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million, as well as the impairment of non-current assets and assets classified as held for sale in the amount of PLN 178.7 million. In addition, the adjusted net profit/loss includes deferred tax resulting from VRP 2 in the amount of PLN 13.3 million, deferred tax on account of an impairment loss on non-current assets classified as held for sale in the amount of PLN 33.9 million, while profit on the bargain acquisition of AWT does not take into account any deferred tax,
**** the 2016 data were adjusted for presentation purposes for an impairment loss on assets in the amount of PLN 34.1 million (the adjustment takes into account a loss on fixed assets in the amount of PLN 35.0 million and depreciation, reduced accordingly, in H2 2016 in the amount of PLN 0.9 million), which was described in **Note 12.1**. to the CFS for the financial year ended 31 December 2016 and an impairment loss on receivables amounting to PLN 72.7 million (described in **Note 19** to the CFS for the financial year ended 31 December 2016); the adjusted net profit/loss additionally includes deferred tax resulting from an impairment loss resulting from a test for impairment of AWT's value in the amount of PLN 6.5 million and deferred tax resulting from an impairment loss on receivables from OKD in the amount of PLN 8.0 million,
***** the 2017 data were adjusted for presentation purposes for revaluation of the residual value of rolling stock and reversal of part of the impairment loss on rolling stock components in the amount of PLN -27.4 million (details are described in **Note 10** to the CFS); additionally, the adjusted net profit/loss takes into consideration the deferred tax on the aforementioned revaluation in the amount of PLN -5.2 million.

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

The figure below presents the adjusted EBITDA margin compared to the selected items of the Group's statement of comprehensive income for 2014-2017.

Figure 29 Adjusted EBITDA margin compared to the Group's adjusted operating revenues and expenses in 2014-2017*



Source: Proprietary material

* presentation data for 2014 adjusted for the costs following from the implemented 1st Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 265.3 million

presentation data for 2015 adjusted for the profit on the bargain acquisition of AWT in the amount of PLN 137.8 million and the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million, as well as the impairment of non-current assets and assets classified as held for sale in the amount of PLN 178.7 million

the data for 2016 are adjusted for presentation purposes for an impairment loss on assets in the amount of PLN 34.1 million (the adjustment takes into account a loss on fixed assets in the amount of PLN 35.0 million and depreciation, reduced accordingly, in H2 2016 in the amount of PLN 0.9 million), which was described in **Note 12.1.** to the CFS for the financial year ended 31 December 2016 and the receivables impairment loss in the amount of PLN 72.7 million (described in **Note 19** to the CFS for the financial year ended 31 December 2016).

the 2017 data were adjusted for presentation purposes for revaluation of the residual value of rolling stock and reversal of part of the impairment loss on rolling stock components in the amount of PLN -27.4 million (details are described in **Note 10** to the CFS).

Operating revenue

Table 38 Operating revenue of the PKP CARGO Group in 2014-2017 (thousands of PLN)

Item	2017	2016	2015 (restated*)	2014	Change 2017 - 2016	% change 2017/2016
Revenue from sales of services and finished products, including:	4,640,808	4,341,874	4,330,336	4,162,171	298,934	6.9%
Revenue from rail transportation and freight forwarding services	*3,945,669*	*3,612,728*	*3,727,552*	3,791,533	*332,942*	9.2%
Revenue from sales of goods and materials	51,845	30,085	33,132	54,902	21,760	72.3%
Other operating revenue	45,958	39,310	190,665	57,262	6,648	16.9%
Total operating revenue	**4,738,611**	**4,411,269**	**4,554,133**	**4,274,335**	**327,342**	**7.4%**

Source: Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2017 prepared according to EU IFRS, Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2016 prepared according to EU IFRS, Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2015 prepared according to EU IFRS

* restatement of data is described in detail in **Note 6** to the CFS for the financial year ended 31 December 2016

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Table 39 Adjusted operating revenues of the PKP CARGO Group in 2014-2017 (thousands of PLN)

Item	2017	2016	2015 adjusted** (restated*)	2014	Change 2017 - 2016	% change 2017/2016
Revenue from sales of services and finished products, including:	4,640,808	4,341,874	4,330,336	4,162,171	298,934	6.9%
Revenue from rail transportation and freight forwarding services	*3,945,669*	*3,612,728*	*3,727,552*	*3,791,533*	*332,942*	9.2%
Revenue from sales of goods and materials	51,845	30,085	33,132	54,902	21,760	72.3%
Other operating revenue	45,958	39,310	52,886	57,262	6,648	16.9%
Total operating revenue	**4,738,611**	**4,411,269**	**4,416,354**	**4,274,335**	**327,342**	**7.4%**

Source: Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2017 prepared according to EU IFRS, Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2016 prepared according to EU IFRS, Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2015 prepared according to EU IFRS

* restatement of data is described in detail in **Note 6** to the CFS for the financial year ended 31 December 2016
** the 2015 data were adjusted for presentation purposes for the profit on the bargain acquisition of AWT in the amount of PLN 137.8 million

In the Group's total operating revenue the biggest item was revenue from sales of services (97.9% in 2017 compared to 98.4% in 2016). Revenue from sales of services comprises mainly: revenue from rail transportation and freight forwarding services, revenue from other transportation activity, revenue from siding and traction services, revenue from transshipment, revenue from land reclamation, as well as other revenue (including primarily revenue from: the lease of assets, customs agency services, sales of finished products, rolling stock repair services and other revenue). The remaining part of the Group's operating revenue comprises revenue from sales of goods and materials, which includes, among others, sales of steel and cast iron scrap and other materials, as well as other operating revenue comprising, among others, gains from sales of non-financial non-current assets, change of the balance of impairment losses on receivables, interest on trade and other receivables, received fines and compensations, revenue from reversal of provisions and other items.

The increase in revenue from rail transportation and freight forwarding services by PLN 332.9 million, or 9.2% yoy, to PLN 3,945.7 million resulted from higher transport. The details pertaining to the Group's transport business are described in chapter **4.2.5 "The Company's and PKP CARGO Group's rail transport".** Revenue from sales of services other than transport decreased by PLN 34.0 million, or 4.7% yoy, to PLN 695.1 million, with the biggest declines recorded in revenues from siding and traction services, mainly as a result of discontinuation of the mining activity of the Makoszowy and Krupiński hard coal mines and lower revenues recorded on hard coal mine sidings (lower output as a derivative of OKD's problems and discontinuation of operation of the Budryk coal mine siding in June-October 2017, and further operation in changed conditions).

The increase in revenue from sales of goods and materials in by PLN 21.8 million, or 72.3% yoy, was attributable mainly to the higher sale of scrap (among others waste from overhaul activities) by PKP CARGOTABOR Sp. z o.o. and higher sales of goods, in particular coal by CARGOSPED Terminal Braniewo Sp. z o.o.

Other operating revenue increased by PLN 6.6 million, or 16.9% yoy, driven by higher fines and compensations received in the amount of PLN 4.5 million, or 31.1% yoy, mainly from the Company's business partners for execution of transport in breach of the agreement.

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Operating expenses

Table 40 Operating expenses of the PKP CARGO Group in 2014-2017 (thousands of PLN)

Item	2017	2016	2015 (restated*)	2014	Change 2017 - 2016	% change 2017/2016
Depreciation and amortization and impairment losses	546,885	621,592	648,982	382,791	-74,707	-12.0%
Consumption of materials and energy	706,468	675,000	696,994	594,010	31,468	4.7%
External services	1,618,716	1,573,059	1,501,160	1,315,778	45,657	2.9%
Taxes and charges	38,987	36,256	38,597	40,759	2,731	7.5%
Costs of employee benefits	1,508,716	1,442,301	1,484,764	1,698,873	66,415	4.6%
Other expenses by kind	57,580	55,494	53,854	43,955	2,087	3.8%
Cost of goods and materials sold	39,132	22,066	25,654	38,203	17,066	77.3%
Other operating expenses	67,127	117,572	48,217	39,039	-50,445	-42.9%
Total operating expenses	**4,583,611**	**4,543,340**	**4,498,222**	**4,153,408**	**40,271**	**0.9%**

Source: Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2017 prepared according to EU IFRS, Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2016 prepared according to EU IFRS, Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2015 prepared according to EU IFRS

* restatement of data is described in detail in **Note 6** to the CFS for the financial year ended 31 December 2016

Table 41 Adjusted operating expenses of the PKP CARGO Group in 2014-2017 (thousands of PLN)

Item	2017 adjusted*****	2016 adjusted****	2015 adjusted*** (restated*)	2014 adjusted**	Change 2017 - 2016	% change 2017/2016
Depreciation and amortization and impairment losses	574,299	587,475	470,323	382,791	-13,176	-2.2%
Consumption of materials and energy	706,468	675,000	696,994	594,010	31,468	4.7%
External services	1,618,716	1,573,059	1,501,160	1,315,778	45,657	2.9%
Taxes and charges	38,987	36,256	38,597	40,759	2,731	7.5%
Costs of employee benefits	1,508,716	1,442,301	1,414,585	1,433,543	66,415	4.6%
Other expenses by kind	57,580	55,494	53,854	43,955	2,087	3.8%
Cost of goods and materials sold	39,132	22,066	25,654	38,203	17,066	77.3%
Other operating expenses	67,127	44,912	48,217	39,039	22,215	49.5%
Total operating expenses	**4,611,025**	**4,436,562**	**4,249,384**	**3,888,077**	**174,462**	**3.9%**

Source: Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2016 prepared according to EU IFRS, Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2016 prepared according to EU IFRS, Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2015 prepared according to EU IFRS

* restatement of data is described in detail in **Note 6** to the CFS for the financial year ended 31 December 2016
** presentation data for 2014 adjusted for the costs following from the implemented 1st Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 265.3 million
*** presentation data for 2015 adjusted for the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million, as well as the impairment of non-current assets and assets classified as held for sale in the amount of PLN 178.7 million
**** the 2016 data were adjusted for presentation purposes for an impairment loss on assets in the amount of PLN 34.1 million (the adjustment takes into account a loss on fixed assets in the amount of PLN 35.0 million and depreciation, reduced accordingly, in H2 2016 in the amount of PLN 0.9 million), which was described in **Note 12.1.** to the CFS for the financial year ended 31 December 2016 and the receivables impairment loss in the amount of PLN 72.7 million (described in **Note 19** to the CFS for the financial year ended 31 December 2016)
**** the 2017 data were adjusted for presentation purposes for revaluation of the residual value of rolling stock and reversal of part of the impairment loss on rolling stock components in the amount of PLN -27.4 million (details are described in **Note 10** to the CFS).

In 2017, the Group's operating expenses increased by PLN 40.3 million, or 0.9% yoy, to PLN 4,583.6 million. Adjusted operating expenses increased by PLN 174.5 million, or 3.9% yoy, driven mainly by increase in employee benefits, external services and materials and energy.

In 2017, amortization and depreciation expenses and impairment losses fell by PLN 74.7 million (or 12.0% yoy) to PLN 546.9 million, mainly because of the non-recurring events in 2017 and 2016. In 2017, adjusted amortization and impairment losses were PLN 574.3 million compared to PLN 587.5 million in 2016, decreasing by PLN 13.2 million, or 2.2% yoy.

In 2017, the consumption cost of materials and energy increased by PLN 31.5 million, or 4.7% yoy, mainly due to higher freight volumes. Fuel consumption costs increased by PLN 30.0 million, or 18.6% yoy, driven by the higher share of transport performed using the diesel traction as a result of difficulties in PLK lines and detours, in particular on the Bogdanka to the Kozienice Power Plant route, and increase in PKP CARGO Group's transport volumes. In addition, an increase in electricity, gas and water consumption by PLN 1.3 million, or 0.3% yoy, was recorded, also as a result of increase in transport volumes, with lower unit variable cost and improved transport efficiency, as a result of improvement of the traction energy consumption measure in Poland.

In the analyzed period of 2017, the cost of external services grew by PLN 45.7 million, or 2.9% yoy, to PLN 1,618.7 million. The increase in these costs was driven mainly by an increase in the costs of access to the lines of infrastructure managers by PLN 49.0 million, or 7.3% yoy, caused by increasing freight transport. At the same time, within external services the costs of rent and charges for the use of property and rolling stock fell by PLN 16.2 million, or -8.8% yoy, as a result of lower rents for leased rolling stock (reduced lease of wagons in AWT as a result of expiry of earlier long-term lease agreements and increased use of own rolling stock), decrease in the costs of rent of property as a result of termination of lease of redundant properties.

Taxes and charges in 2017 increased compared to the corresponding period of 2016 by PLN 2.7 million, or 7.5% yoy, as a result of the low base, i.e. shifting of the refund of foreign VAT from 2015 to January 2016 in PKP CARGO S.A.

In 2017, employee benefits increased by PLN 66.4 million, i.e. 4.6% yoy, to PLN 1,508.7 million, compared to PLN 1,442.3 million in 2016. The higher level of employee benefits, accompanied by a decline in average headcount in the Group by 163 FTEs, i.e. 0.7% yoy, resulted mainly from salary raises in PKP CARGO Group companies (PKP CARGO S.A., PKP CARGO CENTRUM LOGISTYCZNE MAŁASZEWICZE Sp. z o.o., PKP CARGO SERVICE Sp. z o.o., PKP CARGOTABOR Sp. z o.o. oraz CARGOTOR Sp. z o.o., PKP CARGO CONNECT Sp. o.o. and Cargosped Terminal Braniewo Sp. z o. o.) and an update of the actuarial valuation of provisions for employee benefits. The changes in headcount are presented in section **4.5** "**Headcount**".

The remaining expenses by kind in 2017 increased compared to the corresponding period of 2016 by PLN 2.1 million, i.e. 3.8% yoy, mainly due to an increase in the costs of insurance by PLN 1.3 million, or 10.9% yoy as a result of higher insurance premiums.

In 2017, the cost of goods and materials sold increased by PLN 17.1 million, or 77.3%, to PLN 39.1 million, following an increase in revenue from sales of goods and materials.

Other operating expenses in 2017 amounted to PLN 67.1 million and were PLN 50.4 million, or 42.9% yoy lower, mainly as a result of the impairment loss recognized in 2016 for the receivables from OKD in the amount of PLN 72.7 million. Adjusted other operating expenses increased by PLN 22.2 million, or 49.5% yoy, chiefly due to other provisions, where in 2017 a provision for onerous contracts was recognized, as presented in detail in **Note 27** to the CFS.

Result on operating activities

As a result of the aforementioned changes in operating revenue and operating expenses, the result on operating activities in 2017 reached PLN 155.0 million, up by PLN 287.1 million yoy. The adjusted result on operating activities reached PLN 127.6 million, up by PLN 152.9 million yoy.

EBITDA

In 2017, the result on operating activities increased by the line item "Depreciation and amortization and impairment losses" referred to as EBITDA, amounted to PLN 701.9 million, up by PLN 212.4 million, or 43.4% yoy. Adjustment of the revaluation of the residual value of rolling stock and reversal of part of the impairment loss on rolling stock components in 2017 does not impact the EBITDA result.

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Financial activities

Table 42 Financial activities of the PKP CARGO Group in 2014-2017 (thousands of PLN)

Item	2017	2016	2015 (restated*)	2014	Change 2017 - 2016	% change 2017/2016
Financial revenue	20,167	38,925	14,723	33,812	-18,759	-48.2%
Financial expenses	59,540	61,239	66,397	62,099	-1,700	-2.8%
Share in the profit / (loss) of entities accounted for under the equity method	806	3,461	4,416	881	-2,655	-76.7%
Result on the sale of shares in entities accounted for under the equity method	-	-	1,865	-	-	-
Result on financial activities	**-38,567**	**-18,853**	**-45,392**	**-27,406**	**-19,714**	**-**

Source: Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2017 prepared according to EU IFRS, Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2016 prepared according to EU IFRS, Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2015 prepared according to EU IFRS
* restatement of data is described in detail in **Note 6** to the CFS for the financial year ended 31 December 2016

In 2017, the Group recorded a loss on financial activities in the amount of PLN 38.6 million, compared to the PLN 18.9 million loss in 2016. The main cause of the deterioration of the result on financial activities was the PLN 31.8 million yoy decrease in the revenues from valuation of the liability on account of the "put" option for non-controlling interests. Details regarding the valuation of the option are presented in **Note 23** to the CFS for the financial year ended 31 December 2016. Additionally, in 2017, as a result of changes of exchange rates, the net profit/loss on foreign exchange differences increased by PLN 10.4 million yoy.

Details are presented in **Note 8** to the CFS.

Earnings before tax

PKP CARGO Group's earnings before tax amounted to PLN 116.4 million in 2017, up PLN 267.4 million yoy. PKP CARGO Group's adjusted earnings before tax amounted to PLN 89.0 million in 2017, up PLN 133.2 million yoy, driven by the changes described above.

Income tax

In 2017, the PKP CARGO Group posted income tax in the amount of PLN 34.8 million, of which current tax was PLN 58.1 million and deferred tax was PLN -23.5 million. Adjustment of the revaluation of the residual value of rolling stock and reversal of part of the impairment loss on rolling stock components reduces the income tax by PLN 5.2 million, to PLN 29.6 million. The increase in the tax burden results from an increase in the PKP CARGO Group's result.

Net profit/loss

In 2017, PKP CARGO Group's net profit/loss amounted to PLN 81.7 million, up PLN 215.4 million yoy. PKP CARGO Group's adjusted net profit/loss in 2017 amounted to PLN 59.5 million, up PLN 100.9 million yoy as a result of the aforementioned changes in revenues, expenses and income tax paid.

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

5.2.2 Description of the structure of assets and liabilities of the PKP CARGO Group

ASSETS

Table 43 Horizontal and vertical analysis of PKP CARGO Group's assets (thousands of PLN)

	As at 31/12/2017	As at 31/12/2016 (restated*)	As at 31/12/2015 (restated*)	As at 31/12/2014 (restated*)	Asset structure 31/12/2017	Asset structure 31/12/2016	Change 2017 - 2016	% change 2017/2016
ASSETS								
Non-current assets								
Property, plant and equipment	4,687,982	4,700,550	4,719,748	4,044,606	70.6%	72.2%	-12,568	-0.3%
Intangible assets	43,927	55,831	66,437	58,268	0.7%	0.9%	-11,904	-21.3%
Goodwill	-	-	-	2,712	0.0%	0.0%	-	-
Investment property	1,205	1,257	1,309	1,362	0.0%	0.0%	-52	-4.2%
Investments accounted for under the equity method	53,610	58,219	57,240	35,246	0.8%	0.9%	-4,609	-7.9%
Trade and other receivables	1,836	2,223	5,074	-	0.0%	0.0%	-387	-17.4%
Other long-term financial assets	10,537	8,649	9,849	6,051	0.2%	0.1%	1,888	21.8%
Other long-term non-financial assets	14,726	25,987	32,666	14,645	0.2%	0.4%	-11,261	-43.3%
Deferred tax assets	133,583	107,554	104,587	91,575	2.0%	1.7%	26,029	24.2%
Total non-current assets	**4,947,406**	**4,960,270**	**4,996,910**	**4,254,465**	**74.5%**	**76.2%**	**-12,864**	**-0.3%**
Current assets								
Inventories	148,464	121,189	128,513	115,298	2.2%	1.9%	27,275	22.5%
Trade and other receivables	729,535	639,866	654,116	519,030	11.0%	9.8%	89,669	14.0%
Income tax receivables	115	2,793	2,748	3,053	0.0%	0.0%	-2,678	-95.9%
Other current financial assets	263,670	892	4,046	306,383	4.0%	0.0%	262,778	29472.7%
Other short-term non-financial assets	35,593	27,277	13,281	28,246	0.5%	0.4%	8,317	30.5%
Cash and cash equivalents	516,776	755,919	276,191	429,178	7.8%	11.6%	-239,143	-31.6%
Non-current assets classified as held for sale	-	-	44,061	17,560	0.0%	0.0%	-	-
Total current assets	**1,694,153**	**1,547,936**	**1,122,956**	**1,418,748**	**25.5%**	**23.8%**	**146,217**	**9.4%**
Total assets	**6,641,559**	**6,508,206**	**6,119,866**	**5,673,213**	**100.0%**	**100.0%**	**133,354**	**2.0%**

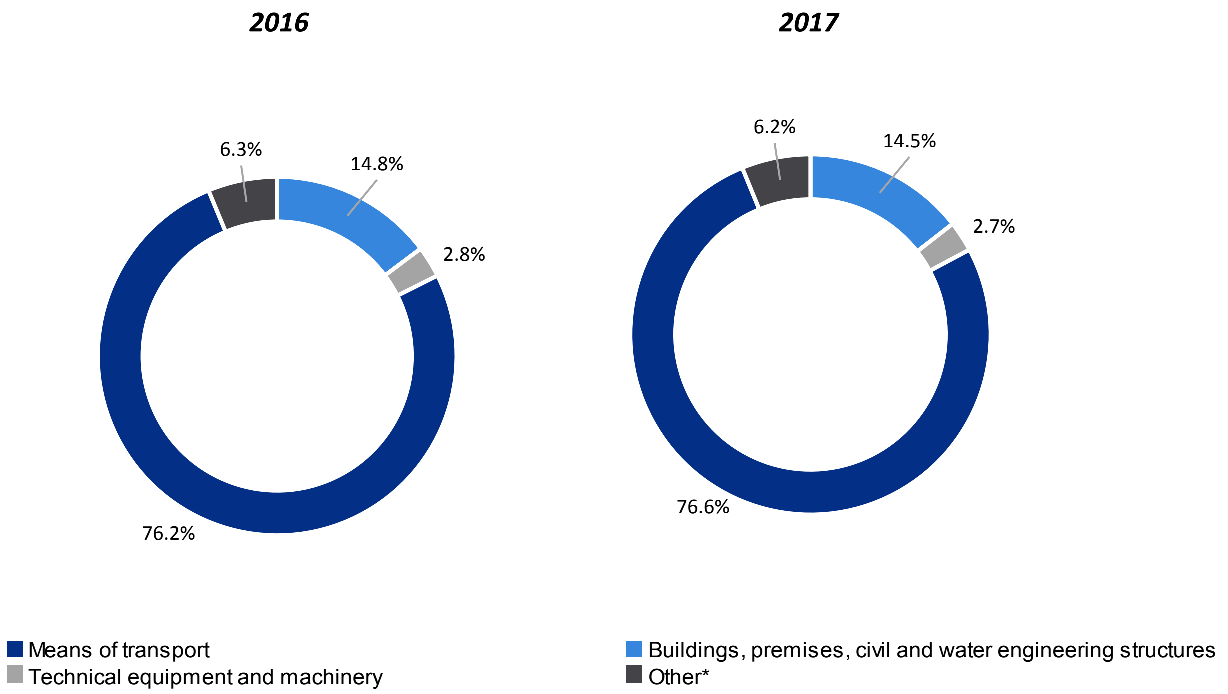
Source: Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2017 prepared according to EU IFRS, Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2015 prepared according to EU IFRS

* the restatement of data described in detail in **Note 4** to the CFS pertains to 2016 and 2015, and the restatement of data for 2014 was described in detail in **Note 5** to the CFS for the financial year ended 31 December 2015

Non-current assets

The figure below presents the structure of non-current assets in 2016 and 2017.

Figure 30 Structure of PKP CARGO Group's non-current assets in 2016 and 2017



* The "other" item includes: intangible assets, investment property, investments accounted for under the equity method, trade and other receivables, other long-term financial assets, other long-term non-financial assets, deferred tax assets, other fixed assets and fixed assets under construction

Source: Proprietary material

In 2017, means of transport constituted the largest percentage of non-current assets, accounting for 76.6% of non-current assets. Compared to 2016, the share of means of transport rose by 0.4 p.p. Other items include land and buildings and civil and water engineering facilities with a 14.5% share in 2017, compared to 14.8% in 2016. The remaining items, i.e. technical machinery and equipment and others accounted for 8.9% of non-current assets in 2017.

Property, plant and equipment dominated the structure of assets; at the end of 2017, this line item represented 70.6% of total assets, compared to 72.2% at the end of 2016. Means of transport (which include mainly locomotives and wagons) are the main component of property, plant and equipment; their value at the end of 2017 was PLN 3,790.4 million, increasing by PLN 13.0 million, or 0.3% compared to the end of 2016. The share of means of transport in property, plant and equipment at the end of 2017 was 80.9%, compared to 80.4% at the end of 2016.

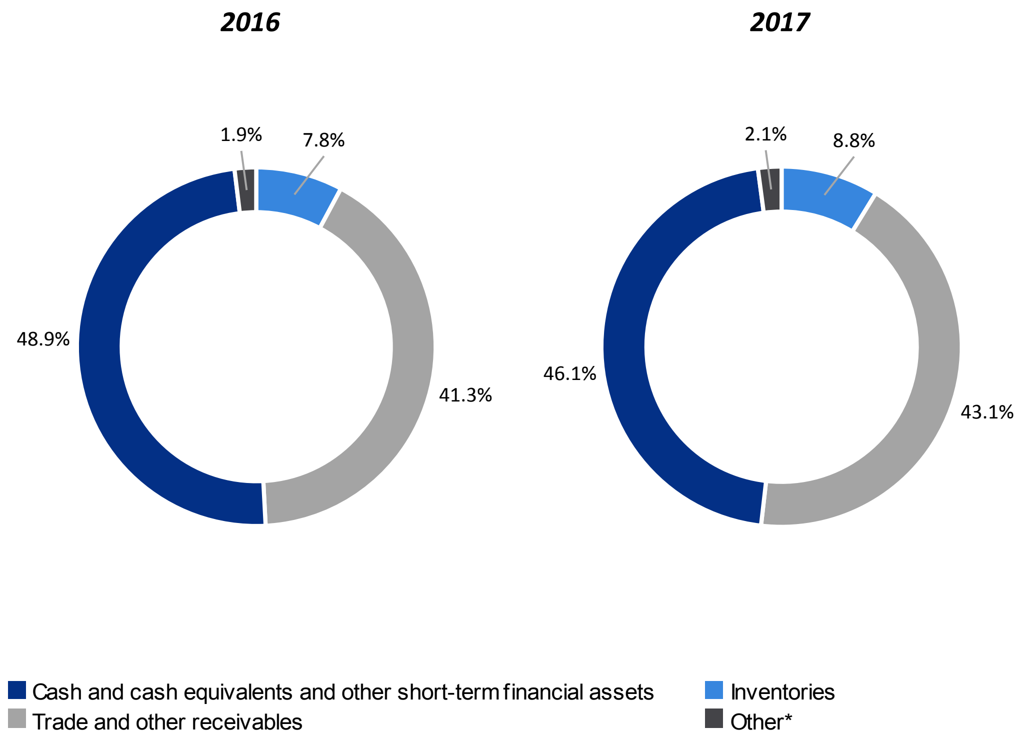
Out of other changes within the structure of property, plant and equipment, the largest movement was recorded in buildings and civil and water engineering facilities, which fell by PLN 11.5 million, or 2.0% yoy. A detailed description of changes in other property, plant and equipment items is presented in **Note 10** to the CFS.

Intangible assets fell by PLN 11.9 million, or 21.3% yoy, which was related largely to amortization of intangible assets, mainly computer software licences. Deferred tax assets rose in 2017 compared to 2016 by PLN 26.0 million, or 24.2% yoy as result of temporary differences. Details are presented in **Note 9** to the CFS.

Current assets

The figure below presents the structure of total current assets in 2016 and 2017.

Figure 31 Structure of PKP CARGO Group's current assets in 2016 and 2017



* The other item includes: income tax receivables, other short-term non-financial assets and non-current assets classified as held for sale

Source: Proprietary material

The largest item of current assets in 2017 was cash and cash equivalents and other current financial assets, which stood at 46.1%; their share dropped by 2.8 p.p. compared to 2016. The second largest item of current assets in 2017 were trade and other receivables which stood at 43.1%, compared to a 41.3% share in 2016. The remaining items: inventories and other, amounted to 10.9% in 2017, compared to 9.7% in 2016.

Current assets increased at the end of 2017 by PLN 146.2 million, or 9.4% yoy, in relation to the end of 2016. Trade and other receivables, higher by PLN 89.7 million, or 14.0% yoy, and inventories higher by PLN 27.3 million, or 22.5% yoy, had the biggest impact on the level of current assets. In addition, current assets saw a reclassification from cash and cash equivalents to other current financial assets (bank deposits were opened). The key reasons for the change in the aforementioned items resulted from changes in the Parent Company, as described in chapter **"5.1.2 Description of the structure assets and liabilities of PKP CARGO S.A.".**

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

EQUITY AND LIABILITIES

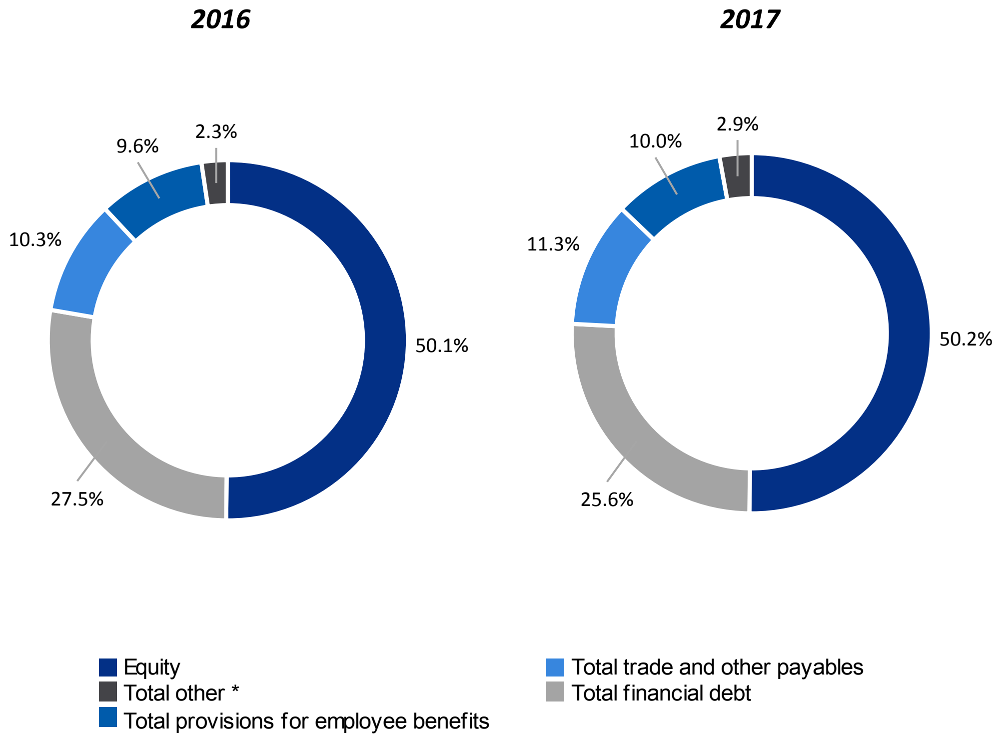
Table 44 Horizontal and vertical analysis of PKP CARGO Group's liabilities (thousands of PLN)

	As at 31/12/2017	As at 31/12/2016 (restated*)	As at 31/12/2015 (restated*)	As at 31/12/2014 (restated**)	Structure of liabilities and equity		Change	% change
					31/12/2017	31/12/2016	2017 - 2016	2017/2016
EQUITY AND LIABILITIES								
Equity								
Share capital	2,239,346	2,239,346	2,239,346	2,239,346	33.7%	34.4%	0	0.0%
Supplementary capital	619,306	618,666	619,407	615,343	9.3%	9.5%	640	0.1%
Other items of equity	4,872	11,447	-2,779	-48,617	0.1%	0.2%	-6,575	-57.4%
Exchange differences resulting from conversion of financial statements of foreign operations	59,896	60,494	32,024	-	0.9%	0.9%	-598	-1.0%
Retained earnings	411,358	330,325	463,356	515,392	6.2%	5.1%	81,033	24.5%
Equity attributable to the owners of the parent company	**3,334,778**	**3,260,278**	**3,351,354**	**3,321,464**	**50.2%**	**50.1%**	**74,500**	**2.3%**
Non-controlling interest	-	-	-	55,238	-	-	-	-
Total equity	**3,334,778**	**3,260,278**	**3,351,354**	**3,376,702**	**50.2%**	**50.1%**	**74,500**	**2.3%**
Non-current liabilities								
Long-term bank loans and borrowings	1,312,629	1,273,605	460,577	208,077	19.8%	19.6%	39,025	3.1%
Long-term finance lease liabilities and leases with a purchase option	91,055	140,923	193,500	190,836	1.4%	2.2%	-49,869	-35.4%
Non-current trade and other payables	1,578	1,845	25,953	67,982	0.0%	0.0%	-268	-14.5%
Long-term provisions for employee benefits	558,547	525,571	603,621	687,775	8.4%	8.1%	32,976	6.3%
Other long-term provisions	22,446	26,420	28,886	8,416	0.3%	0.4%	-3,974	-15.0%
Other non-current financial liabilities	-	1,042	155,198	-	0.0%	0.0%	-1,042	-100.0%
Deferred tax liabilities	107,418	106,675	118,353	2,328	**1.6%**	**1.6%**	743	**0.7%**
Total non-current liabilities	**2,093,673**	**2,076,081**	**1,586,088**	**1,165,414**	**31.5%**	**31.9%**	**17,591**	**0.8%**
Current liabilities								
Short-term bank loans and borrowings	249,701	197,803	253,592	92,123	3.8%	3.0%	51,898	26.2%
Short-term finance lease liabilities and leases with a purchase option	48,040	59,567	65,416	127,742	0.7%	0.9%	-11,527	-19.4%
Short-term trade and other payables	749,736	670,021	739,509	541,912	11.3%	10.3%	79,715	11.9%
Short-term provisions for employee benefits	104,006	99,256	100,383	338,618	1.6%	1.5%	4,750	4.8%
Other short-term provisions	59,726	24,950	17,856	24,214	0.9%	0.4%	34,776	139.4%
Other current financial liabilities	272	118,889	2,174	3,934	0.0%	1.8%	-118,617	-99.8%
Current tax liabilities	1,627	1,361	3,494	2,554	**0.0%**	**0.0%**	266	**19.5%**
Total current liabilities	**1,213,108**	**1,171,847**	**1,182,424**	**1,131,097**	**18.3%**	**18.0%**	**41,261**	**3.5%**
Total liabilities	**3,306,781**	**3,247,928**	**2,768,512**	**2,296,511**	**49.8%**	**49.9%**	**58,853**	**1.8%**
Total liabilities and equity	**6,641,559**	**6,508,206**	**6,119,866**	**5,673,213**	**100.0%**	**100.0%**	**133,354**	**2.0%**

Source: Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2017 prepared according to EU IFRS, Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2015 prepared according to EU IFRS

* the restatement of data described in detail in **Note 4** to the CFS pertains to 2016 and 2015, and the restatement of data for 2014 was described in detail in **Note 5** to the CFS for the financial year ended 31 December 2015

Figure 32 Structure of PKP CARGO Group's liabilities and equity in 2016 and 2017



* The "other" line item includes: other long-term and short-term provisions, deferred tax liabilities and current tax liabilities

Source: Proprietary material

In 2017, equity constituted the largest part (50.2%) of liabilities and equity. Compared to 2016, this share rose by 0.1 p.p. The second largest line item in liabilities and equity in 2017 was financial debt at 25.6%, which dropped by 1.9 p.p. from 2016, chiefly because of a decrease in other current financial liabilities as result of exercise of the put option for the shares in AWT B.V. by Minezit SE. The remaining items, i.e. total trade and other payables, total provisions for employee benefits in 2017 constituted 11.3% and 10.0%, respectively, compared to 10.3% and 9.6%, respectively, in 2016. The share of the remaining items was 2.9% in 2017, down by 0.6 p.p from 2016.

Equity

Equity at the end of 2017 stood at PLN 3,334.8 million and was PLN 74.5 million or 2.3% yoy higher in relation to the end of 2016. The level of equity was affected by the increase in retained earnings by PLN 81.0 million, or 24.5% yoy, driven mainly by the positive financial result in 2017, while other items of equity decreased by PLN 6.6 million yoy.

Non-current liabilities

Non-current liabilities at the end of 2017 rose by PLN 17.6 million, or 0.8% yoy. Long-term loans and borrowings increased by PLN 39.0 million (3.1% yoy) which is related to the loans taken and repaid mainly by the Parent Company. Long-term lease liabilities and long-term liabilities on account of leases with a purchase option decreased by PLN 49.9 million, or 35.4% yoy, mainly due to the gradual repayments according to the schedule. Long-term provisions for employee benefits increased by PLN 33.0 million, or 6.3% yoy, attributable to an update of the provisions for employee benefits as a result of actuarial valuation. The changes in these items were driven by the changes in the Parent Company. They are described in section **"5.1.2 Description of the asset and liability structure in PKP CARGO S.A.".**

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Current liabilities

Current liabilities increased as at the end of 2017 compared to the end of 2016 by PLN 41.3 million, or 3.5% yoy. The biggest changes were noted in the following items:

- short-term bank loans and borrowings – an increase by PLN 51.9 million, or 26.2% yoy, associated with the loans taken and reclassification from the long-term loans and bank loans and borrowings item in accordance with the repayment schedule,
- short-term trade and other payables – growth of PLN 79.7 million or 11.9% yoy, are mainly the result of changes in the Parent Company. They are described in section **"5.1.2 Description of the asset and liability structure in PKP CARGO S.A."**.
- other current financial liabilities – decrease by PLN 118.6 million, or 99.8% yoy, driven primarily by the exercise by Minezit S.E. of the put option for the sale of a 20% stake in AWT B.V.
- other short-term provisions – increase by PLN 34.8 million, or 139.4% yoy, driven mainly by recognizing a provision for VAT settlement liabilities, described in detail in **Note 27** to the CFS.

5.2.3 Statement of cash flows of the PKP CARGO Group

The table below depicts the main line items in the PKP CARGO Group's statement of cash flows in the years 2014-2017.

Table 45 Main line items in the PKP CARGO Group's statement of cash flows in 2014-2017

Item	2017	2016	2015 (restated*)	2014	Change 2017 - 2016	% change 2017/2016
Net cash on operating activities	600,739	380,049	387,502	559,932	220,690	58.1%
Net cash on investing activities	-740,017	-568,567	-515,199	-238,743	-171,450	-
Net cash from financing activities	-99,428	663,860	-29,447	-155,711	-763,288	-
Net increase / (decrease) in cash and cash equivalents	**-238,706**	**475,342**	**-157,144**	**165,478**	**-714,048**	**-**
Cash and cash equivalents at the beginning of the reporting period	**755,919**	**276,191**	**429,178**	**263,700**	**479,728**	**173.7%**
Impact exerted by FX rate movements on the cash balance in foreign currencies	-437	4,386	4,157	-	-4,823	-
Cash and cash equivalents at the end of the reporting period	**516,776**	**755,919**	**276,191**	**429,178**	**-239,143**	**-31.6%**

Source: Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2017 prepared according to EU IFRS, Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2016 prepared according to EU IFRS, Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2015 prepared according to EU IFRS

* restatement of data is described in detail in **Note 6** to the CFS for the financial year ended 31 December 2016

Cash flow from operating activities

In 2017, net cash flow from operating activities was PLN 600.7 million compared to PLN 380.0 million in 2016. The cash flow was generated on the result before tax of PLN 116.4 million and depreciation of property, plant and equipment and amortization of intangible assets and impairment losses of PLN 546.9 million. In addition, the most serious changes contributing to the decrease in cash from operating activities were an increase in the balance of trade and other receivables by PLN 94.8 million in proportion to higher revenue, as well as the payment of income tax in the amount of PLN 55.3 million. The balance of trade and other payables grew by PLN 48.6 million, proportionally to the increase in expenses. Furthermore, cash from operating activities was affected by the increase in the balance of provisions, mainly provisions for employee benefits, by PLN 68.5 million.

Cash flow from investing activities

In 2017, net cash flow used in connection with investing activities was PLN -740.0 million compared to PLN -568.6 million in 2016. Significant investments of the PKP CARGO Group include capital expenditures for the purchase of property, plant and equipment and intangible assets, on which the Group expended PLN 511.1 million in 2017 vs. PLN 588.1 million in 2016. The Parent Company contributed heavily to the Group's investing cash flows; a more detailed description of PKP CARGO S.A.'s cash flows is provided in section **"5.1.3 Statement of cash flows of PKP CARGO S.A."**

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Cash flow from financing activities

Net cash flow from financing activities in 2017 was PLN -99.4 million versus PLN 663.9 million in 2016. Proceeds of PLN 366.3 million were obtained from loans taken out in 2017, compared to PLN 1,004.6 million in 2016. In 2017, total cash expenditures for leases and repayments of bank loans and borrowings with interest were PLN 349.0 million versus PLN 350.6 million in 2016.

Selected financial and operating ratios of the PKP CARGO Group

The table below presents the key financial and operating ratios of the PKP CARGO Group in the period of 2014-2017.

Table 46 Selected financial and operating ratios of the PKP CARGO Group in the period of 2014-2017

Item	2017	2016	2015 (restated*)	2014	Change 2017 - 2016	% change 2017/2016
EBITDA margin[1]	14.8%	11.1%	15.5%	11.8%	3.7 p.p.	33.5%
Net profit margin[2]	1.7%	-3.0%	0.7%	1.8%	4.8 p.p.	-
Net financial debt to EBITDA ratio[3]	1.3	2.1	1.2	-0.2	-0.8	-37.9%
ROA[4]	1.2%	-2.1%	0.5%	1.4%	3.3 p.p.	-
ROE[5]	2.4%	-4.1%	0.9%	2.3%	6.6 p.p.	-
Average distance covered per locomotive (km/day)[6]	244.7	238.4	233.3	243.9	6.3	2.6%
Average gross train tonnage per operating locomotive (tons)[7]	1,460.0	1,436.0	1,500.0	1,481.0	24.0	1.7%
Average running time of train locomotives (hours per day)[8]	15.2	14.8	14.9	15.4	0.4	2.7%
Freight turnover per employee (thousands tkm/employee)[9]	1,332.2	1,216.7	1,224.2	1,105.5	115.5	9.5%

Source: Proprietary material

* restatement of data is described in detail in **Note 6** to the CFS for the financial year ended 31 December 2016

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Table 47Adjusted selected financial ratios of the PKP CARGO Group in the period of 2014-2017

Item	2017 adjusted*****	2016 adjusted****	2015 adjusted*** (restated*)	2014 adjusted**	Change 2017 - 2016	% change 2017/2016
EBITDA margin[1]	14.8%	12.7%	14.4%	18.0%	2.1 p.p.	16.2%
Net profit margin[2]	1.3%	-0.9%	2.1%	6.9%	2.2 p.p.	-
Net financial debt to EBITDA ratio[3]	1.3	1.8	1.3	-0.1	-0.5	-28.7%
ROA[4]	0.9%	-0.6%	1.5%	5.2%	1.5 p.p.	-
ROE[5]	1.8%	-1.3%	2.8%	8.7%	3.1 p.p.	-

Source: Proprietary material

* restatement of data is described in detail in **Note 6** to the CFS for the financial year ended 31 December 2016

** the 2014 data were adjusted for presentation purposes for the costs following from the implemented 1st Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 265.3 million; additionally, the adjusted net profit includes deferred tax on account of VRP 1 in the amount of PLN 50.4 million

*** the 2015 data were adjusted for presentation purposes for the profit on the bargain acquisition of AWT in the amount of PLN 137.8 million and the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million, and impairment of non-current assets and assets classified as held for sale in the amount of PLN 178.7 million; additionally, the adjusted net profit includes deferred tax on account of VRP 2 in the amount of PLN 13.3 million, deferred tax on impairment of non-current assets and assets classified as held for sale in the amount of PLN 33.9 million, while profit on bargain acquisition of AWT does not include deferred tax

**** the 2016 data were adjusted for presentation purposes for an impairment loss on assets in the amount of PLN 34.1 million (the adjustment takes into account a loss on fixed assets in the amount of PLN 35.0 million and depreciation, reduced accordingly, in H2 2016 in the amount of PLN 0.9 million), which was described in **Note 12.1.** to the CFS for the financial year ended 31 December 2016 and an impairment loss on receivables amounting to PLN 72.7 million (described in **Note 19** to the CFS for the financial year ended 31 December 2016); the adjusted net profit/loss additionally includes deferred tax resulting from an impairment loss resulting from a test for impairment of AWT's value in the amount of PLN 6.5 million and deferred tax resulting from an impairment loss on receivables from OKD in the amount of PLN 8.0 million

***** the 2017 data were adjusted for presentation purposes for revaluation of the residual value of rolling stock and reversal of part of the impairment loss on rolling stock components in the amount of PLN -27.4 million (details are described in **Note 10** to the CFS); additionally, the adjusted net profit/loss takes into consideration the deferred tax on the aforementioned revaluation in the amount of PLN -5.2 million.

The above adjustments concern only data from the Statement of Comprehensive Income. Items from 1 to 9 refer to selected financial and operating ratios of the PKP CARGO Group for 2014-2017, while items from 1 to 5 refer to adjusted selected financial ratios of the PKP CARGO Group for 2014-2017.

1. Calculated as the ratio of the operating result plus amortization/depreciation and impairment losses to total operating revenue
2. Calculated as the ratio of net profit to total operating revenue
3. Calculated as the ratio of net financial debt (constituting the sum of (i) long-term bank loans and borrowings; (ii) short-term bank loans and borrowings, (iii) non-current finance lease liabilities and leases with a purchase option; (iv) current finance lease liabilities and leases with purchase option; and (v) other current financial liabilities and (vi) other long-term financial liabilities, minus (i) cash and cash equivalents; and (ii) other current financial assets) to EBITDA for the last 12 months (result on operating activities plus amortization/depreciation and impairment losses).
4. Calculated as the ratio of net profit/loss for the past 12 months to total assets.
5. Calculated as the ratio of net profit for the past 12 months to equity.
6. Calculated as the quotient of vehicle-kilometers (i.e. distance covered by PKP CARGO Group's vehicles in the given period) / vehicle-days (i.e. product of the number of active vehicles and number of calendar days in the given period)
7. Calculated as the quotient of gross ton-kilometers and train-kilometers in train work in relation to the locomotives driving the train (in dual traction or pushing the train in the given period).
8. Calculated as the quotient of vehicle-hours (i.e. number of hours of work of PKP CARGO Group's vehicles in the given period)
   and vehicle-days (i.e. the product of the number of active vehicles and number of calendar days in the given period).
9. Calculated as the quotient of the Group's freight turnover to the average headcount (in FTEs) in the Group in the given period.

In 2017, the key profitability ratios, i.e. EBITDA margin, net profit/loss margin, ROA, ROE were higher than in the same period of 2016, for the reasons described above. The net financial debt to EBITDA ratio improved. It fell down to 1.3 at the end of 2017 from 2.1 at the end of 2016. The improvement of the ratio was mainly caused by the improvement of the Company's financial performance. Adjusted profitability ratios, i.e. EBITDA margin, net profit/loss margin, ROA, ROE were also higher than in 2016, for the reason described above.

In 2017, the average daily mileage of locomotives was 244.7 km/day, while in 2016 it was 238.4 km/day. The improvement of this indicator resulted from the optimization of the transportation process.

The average gross train tonnage per operating locomotive (tons) in 2017 amounted to 1,460.0 tons, increasing by 24.0 tons, i.e. by 1.7% yoy. This is the effect of better utilization of locomotives and optimization of the transportation process.

In 2017, the average running time of locomotives was 15.2 hours/day, while in 2016 it was 14.8 hours/day. This is an outcome of constantly monitoring how the freight turnover process is run while concurrently optimizing the match between the number of active locomotives and doing the work with changing freight turnover.

The freight turnover ratio per employee in 2017 was higher compared with 2016 by 115.5 thousand tkm per employee, i.e. by 9.5% yoy, which was influenced for the most part by the increase in freight turnover by 8.7% yoy, with decrease in the headcount by 0.7% yoy.

5.3 Information about production assets

5.3.1. Rolling stock

PKP CARGO Group's rolling stock is maintained through repair points functioning within the structures of PKP CARGO S.A. Units and in subsidiaries. The PKP CARGO Group's rolling stock repair and maintenance organization has the competences to repair and maintain wagons, electric locomotives at all the maintenance levels from P1 to P5 and to repair diesel locomotives at maintenance levels from P1 to P4. In addition to the rolling stock owned by the PKP CARGO Group, this organization belonging to the Group also repairs rolling stock and subassemblies for other owners.

Wagons and traction rolling stock are the main elements of the PKP CARGO Group's production assets. Changes in the rolling stock levels result directly from such actions as liquidation and sale of rolling stock or purchase of rolling stock. Additionally, locomotive modernizations are carried out, which do not affect the overall size of the rolling stock but they do change its age structure and in some cases change the quantities in individual series when a locomotive after a modernization changes its series and purpose.

In 2017, the number of locomotives in the Group fell after some of them were sold. The reduction in the numbers of owned wagons was caused by the liquidation of redundant rolling stock because of its technical condition (they were removed from the records).

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

The tables below present the structure of the locomotives and wagons used, by type and ownership in 2014-2017.

Table 48 Structure of the locomotives used by the PKP CARGO Group and PKP CARGO S.A., by traction type and ownership

Item	31/12/2017	30/09/2017	31/12/2016	31/12/2015	31/12/2014	Change 2017-2016	Change in Q4 2017
diesel locomotives	1,272	1,374	1,398	1,429	1,300	-126	-102
of which in PKP CARGO S.A.	*1,076*	*1,178*	*1,200*	*1,231*	*1,256*	*-124*	*-102*
electric locomotives	1,062	1,098	1,173	1,173	1,162	-111	-36
of which in PKP CARGO S.A.	*1,048*	*1,088*	*1,161*	*1,158*	*1,162*	*-113*	*-40*
Total	**2,334**	**2,472**	**2,571**	**2,602**	**2,462**	**-237**	**-138**
of which in PKP CARGO S.A.	***2,124***	***2,266***	***2,361***	***2,389***	***2,418***	***-237***	***-142***
locomotives owned (also under a finance lease)	2,319	2,462	2,556	2,579	2,451	-237	-143
of which in PKP CARGO S.A.	*2,124*	*2,266*	*2,360*	*2,380*	*2,409*	*-236*	*-142*
locomotives in operational lease or rented	15	10	15	23	11	0	5
of which in PKP CARGO S.A.	*0*	*0*	*1*	*9*	*9*	*-1*	*0*
Total	**2,334**	**2,472**	**2,571**	**2,602**	**2,462**	**-237**	**-138**
of which in PKP CARGO S.A.	***2,124***	***2,266***	***2,361***	***2,389***	***2,418***	***-237***	***-142***

Source: Proprietary material

Table 49 Structure of the wagons used by the PKP CARGO Group and PKP CARGO S.A., by ownership

Item	31/12/2017	30/09/2017	31/12/2016	31/12/2015	31/12/2014	Change 2017-2016	Change in Q4 2017
wagons owned (also under a finance lease)	63,737	64,166	64,519	64,907	62,086	-782	-429
of which in PKP CARGO S.A.	*60,268*	*60,672*	*60,954*	*61,324*	*61,593*	*-686*	*-404*
wagons in operational lease or rented	1,023	962	1,167	1,868	0	-144	61
of which in PKP CARGO S.A.	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Total	**64,760**	**65,128**	**65,686**	**66,775**	**62,086**	**-926**	**-368**
of which in PKP CARGO S.A.	***60,268***	***60,672***	***60,954***	***61,324***	***61,593***	***-686***	***-404***

Source: Proprietary material

On 23 September 2015, an agreement was signed with the Consortium composed of Siemens Sp. z o.o. and Siemens A.G. for the delivery of 15 multi-system locomotives on delivery dates from 31 January 2016 to 30 June 2017 (basic order) with an option to purchase 5 additional locomotives at basic order prices, where PKP CARGO S.A. was obligated to take the decision to exercise this option no later than on 31 December 2017 (optional order). All the locomotives (15) were delivered.

PKP CARGO S.A. plans to sell 2,391 freight wagons of the types G, T and U. The wagons slated for sale, regardless of their technical condition, are no longer used by the Company because of their construction, intended use or type of applied loading/unloading technologies.

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

5.3.2 Real estate

In the transport process, due to the necessity to guarantee appropriate maintenance and repair support, real estate plays an important role. Most real estate used by the Group is used on the basis of lease and rental agreements. The table below presents the change of the balance of real estate owned and used by the PKP CARGO Group and PKP CARGO S.A. in 2014-2017.

Table 50 Real estate owned and used by the PKP CARGO Group and PKP CARGO S.A. as at 31 December 2017 compared to 31 December 2016, 31 December 2015 and 31 December 2014.

Item	31/12/2017	31/12/2016	31/12/2015	31/12/2014	Change 2017-2016
Land - owned, in perpetual usufruct and leased from other entities [ha]	1,573	1,584	1,560	1,006	-11
of which in PKP CARGO S.A.	*566*	*578*	*585*	*583*	*-11*
Buildings - owned, leased and rented from other entities [sqm]	749,492	781,998	794,303	684,945	-32,506
of which in PKP CARGO S.A.	*564,091*	*585,690*	*592,893*	*601,269*	*-21,600*

Source: Proprietary material

The decrease in the size of the surface areas of the land and buildings owned, leased and rented results from the on-going verification of the size of the assets used by the Parent Company and its Subsidiaries and adjusting it to the scale and profile of conducted activity.

5.4 Key information about the financial standing of the Company and the PKP CARGO Group

5.4.1 Information on loan and borrowing agreements executed and terminated

In 2017, no loan agreement in the Group was terminated.

From 20 February to 14 March 2017, four PKP CARGO Group companies entered into an investment loan agreement with Bank Polska Kasa Opieki S.A. for the maximum total amount of PLN 50,500,000.00 (WIBOR 3M + margin). The loans were granted for financing and/or refinancing of the investment plan. The loans were available until 19 March 2017. The final repayment date for the loans is 20 December 2021.

On 26 May 2017, PKP CARGO S.A. entered into an agreement with Bank Polska Kasa Opieki S.A. for current account overdraft up to the amount of PLN 100,000,000.00 (WIBOR O/N + margin). The loan is available for the term of 12 months.

31 May 2017 marked the elapse of the deadline for repayment of the current account overdraft which PKP CARGO S.A. used on the basis of the loan agreement concluded on 2 June 2014 with mBank S.A.

On 10 August 2017, Advanced World Transport B.V. entered into a loan agreement with its subsidiary for the amount of EUR 1,000,000.00 (fixed interest rate). The final repayment date for the loans is 31 December 2018.

Details of the bank loans and borrowings are presented in **Note 23** to the SFS and in **Note 21** to the CFS for 2017.

5.4.2 Information about granted loans

In 2017, the Parent Company did not grant any loans to any affiliates of PKP CARGO.

On 8 February 2017, PKP CARGO CONNECT sp. z o.o. granted a loan of EUR 60,000.00 to its subsidiary. The loan will be repaid within 364 days of the disbursement of the last tranche of the loan, but no later than by 30 June 2018. The loan bears interest at the reference rate of EURIBOR 1M, plus margin. The loan is secured with a blank promissory note with a relevant declaration.

On 11 September 2017, PKP CARGO CONNECT sp. z o.o. executed an annex to the loan agreement of 13 September 2016 granted to its subsidiary to extend the repayment period until 31 March 2018.

5.4.3 Information about granted and received sureties and guarantees

In connection with the signed freight transport contracts, the Parent Company has ordered bank guarantees to be issued for the total amount of PLN 14.3 million.

In 2017, the Parent Company did not grant any sureties to subsidiaries.

As at 31 December 2017, the PKP CARGO Group had off-balance sheet liabilities on account of granted guarantees and sureties for the total amount of PLN 133.3 million.

In 2017, the amount comprised:

- guarantees and sureties granted to subsidiaries for third party entities in the amount of PLN 1.5 million,
- guarantees for liabilities towards third parties issued in the course of on-going operations (pertaining primarily to: contract performance bonds, customs guarantees, bid security guarantees, payment guarantees) in the amount of PLN 131.8 million.

Additional information about contingent liabilities is presented in **Note 35** to the SFS and in **Note 33** to the CFS for 2017.

5.4.4 Issues, redemptions and repayments of debt securities and equity securities

In the analyzed period, in the PKP CARGO Group there were no issues, redemptions and repayments of debt securities and equity securities.

5.4.5 Assessment of management of financial resources

PKP CARGO S.A. and the Group have been efficiently managing the cash management cycle by matching the maturity of its receivables and payables. To secure the possible risk associated with a shortage of cash in the short run, in 2017, PKP CARGO S.A. had current account overdraft agreements with limits amounting to PLN 100 million.

Internal financial risk management policy, allowing for optimization of the maturities and types of investment instruments and the liquidity reserve level, is an element supporting efficient management of the Company's and the Group's finances. Excess cash generated by the Company and the Group was invested in fixed rate bank deposits with maturities of up to approx. 3 months. Decisions made with regard to bank deposits are based on maximizing the rate of return and current assessment of the financial standing of the banks. The structure of assets, including cash and short-term investments, secured the Company's and the Group's ability to settle their liabilities in a timely manner.

The finance management system in PKP CARGO Group companies is efficiently supplemented by the cash pooling mechanism, which makes it possible to reduce the costs incurred in connection with the use of short-term external financing sources and maximize the financial revenues in connection with available cash surpluses.

In Q3 2017, the Company entered into a bank guarantee limit agreement on the basis of which it is possible to issue guarantees on the order of any company from the PKP CARGO Group, which made it possible to reduce the costs incurred in connection with obtained guarantees.

In 2017, the Group companies had the capacity to settle their liabilities at maturity.

5.4.6 Description of the structure of key equity investments or key investments made within the Company and the PKP CARGO Group

Most financial investments made by the Company and the Group in 2017 were bank deposits, which were executed for a period from a few days up to 3 months, depending on the liquidity needs.

5.4.7 Current and forecasted financial standing of the Company and the PKP CARGO Group

The financial standing of the Company and the Group is stable. There were no negative events that could endanger its status as an ongoing concern or cause a significant deterioration of their financial standing.

5.5 Key risk factors and threats

5.5.1 Description of the key threats and risks

Risks related to the economic and market environment

The risk resulting from macroeconomic conditions – One of the basic sectors of each economy is transport, which on land includes road and railway transports. In is estimated that in Poland, the transport sector is responsible for creating nearly 6% of the country's GDP[93]. Hence it is not surprising then that the growth rate of freight turnover is strongly connected with the general economic standing of the entire economy and each of its sectors. A faster economic growth usually contributes to a progressive recovery of the transport industry, while a slowdown of the economic activity often corresponds to a decrese in the growth rate of transports. This is true about both road and railway freight transports.

Freight transportation activity involving rail freight transport in Poland and internationally is the main source of the PKP CARGO Group's revenues.

Because of the present transport structure of the PKP CARGO Group, the macroeconomic factors that are key to changes in transported volumes include the situation in the industrial sector, both with regard to industrial processing, mining industry and construction production.

In addition, considering the progressing globalization of the world economy and the important role of Poland and the Czech Republic
in the international chain of supplies, a favorable economic situation in the macroeconomic environment (especially in the Euro zone, which is the major commercial partner in the region) is also a significant factor affecting transport volumes in international traffic and, by the same token, the results of the service activity conducted by the PKP CARGO Group.

The medium term prospects for the economies of Poland, the Czech Republic and the Euro zone remain positive, although according to forecasts of Polish and international forecasting centers, in the next quarters, a slight slowdown of economic activity should be expected as compared to 2017. For Poland, factors that may threaten the strong GDP growth rate include: a faster than expected growth of inflation rate (resulting in a decrease in actual disposable household incomes and, consequently, consumption), more radical than currently assumed growth rate of interest rates and uncertain prospects regarding the growth rate of private investments. In addition, both in the case of both the Polish and Czech economy, an increasingly higher risk for the medium term economic growth is posed by the rising workforce shortages, which contribute to decrease in the level of future production and are now perceived by companies as one of the main barriers to investments. Another risk factor for sustainable and stable economic growth in the macroeconomic surrounding during the nearest quarters seem to threats of political nature (further course of Brexit negotiations, unstable government coalition in Germany, approaching parliamentary election in Italy after dissolution of the parliament in December 2017 or continued independence movement in Catalonia) as well as geopolitical factors (escalation of tensions in the Korean Peninsula).[94]

The outcomes of the negotiations between the UK and the authorities of the European Union at the last EU summit in December 2017 (closing Phase I of the negotiations on Mutual Financial Settlement, regulating border issues between Ireland and Northern Ireland and the rights of EU citizens) reduce, in the market's opinion, the likelihood of a "hard Brexit". However, given the relatively short time needed to reach the final agreement (the UK should leave the EU in March 2019) and the complexity of the commercial policies area, which will be discussed in the near future, it is possible that concerns about a failure of the negotiations may increase in 2018. As a result, this may exert an adverse impact on the behavior of the financial markets, and indirectly also on the economic situation in Europe (in particular the UK and its key trading partners).

Industrial commodity prices on world markets, the overall state of the global economy and Poland's domestic economic policy are, in turn, the main factors contributing to China's economic recovery or deterioration, which in turn strongly influences the fluctuations in the growth rate and structure of trade and transport in Central and Eastern Europe. According to the preliminary GDP estimate for 2017, the Chinese economy grew by an average of 6.9% yoy, which is not only a result of a significantly better-than-expected market in the beginning of 2017, but also higher-than-expected 6.7% yoy economic growth in 2016.[95] In addition, GDP growth has accelerated for the first time yoy since 2010. The conducted structural reforms aimed at reducing

[93] in terms of gross added value, category *"Transport and warehouse management"*; data from the Central Statistical Office (GUS) for 2016
[94] National Bank of Poland, *Inflation Report*, November 2017
[95] https://businessinsider.com.pl/

the scale of indebtedness of economic entities and the "balancing" of the economy did not have a lasting negative impact on the condition of the Chinese economy, at a time when slower growth of investments and adjustment processes in the real estate market were to some extent compensated by stronger consumer demand and exports (as a result of better global economic situation). At present, foresight indicators and economic situation indices point to stable short-term prospects for the activity of the Chinese economy. However, the continuation of the above mentioned reforms should contribute to a further slight slowdown in the country's GDP growth rate in the coming quarters.[96] As a result, this may contribute to a slightly smaller scale of transports within the so-called New Silk Road, carried out, among others, by the PKP CARGO Group from the eastern border of Poland to the countries of Western Europe (and back). For the same reason, it is not out of the question that there may be a slight decrease in freight transports from or to China by sea with the use of currently developing Polish seaports.

Risks associated with the situation on the rail transport market in the main cargo categories

The rail transport market is strongly linked to the economic situation prevailing in the markets for solid fuels (mainly coal), aggregates and other construction materials, iron ore and metals, petroleum refining products and chemical products. The situation on each market directly affects the total volume of goods available for transport, and by this translates into the growth rate of achieved results of the PKP CARGO Group in terms of freight volume and freight turnover.

Due to the structure of conducted transport activity, solid fuels, including hard coal, remain the most important cargo category for the PKP CARGO Group, with the average share of 43.4% in transports carried out by the PKP CARGO Group by freight volume in 2017. The volume of coal transport and the structure of freight routes of this raw material are affected by such factors as:

- volume of produced electricity and the share of steam coal in its manufacturing, or the so called energy mix. This pertains both to the Polish and Czech economies as well as the economies of the major trading partners purchasing Polish and Czech coal (e.g. Germany). The demand for electricity in the economy with a large portion used up by the industry is strongly correlated with the level of industrial production and the growth of GDP. According to the National Electrical Energy System and the Balancing Market, 165,852 GWh of electricity were generated in Poland in 2017, i.e. an increase by 2.0% yoy as compared to 2016 (162,626 Gwh). At the same time, the energy mix in 2017 proved to be less favorable to hard coal (the generation of energy using this raw material receded by 1.8% yoy to 79,868 GWh) coupled with a strong growth in the generation of electricity from renewable sources: hydro-electricity plants (15.4% growth yoy) and wind power plants (increase by 19.2% yoy)[97].
- output of the steel production industry where coking coal is used in production of steel products. In 2017, 10.5 million tons of steel were produced in Poland as compared to 9.2 million tons in 2016 (growth by 15.1% yoy)[98].
- prices of steam and coking coal in the international markets which have a significant impact on the Polish and Czech mining industry in the mid- and long-term, as they affect the profitability of extraction, and consequently also the volume of domestic production of hard coal, as well as imports and exports of this raw material. In 2017, the ARA average price of steam coal increased by +42.1% yoy on average to USD 84.3/ton, and has been growing - with only short breaks - since the first half of 2016.[99]

Risk factors which may adversely affect the size of hard coal rail freight in Poland and in the Czech Republic, and thus represent the business risk for the PKP CARGO Group:

- A likely decrease in steam coal prices in the global markets within the next several years. As follows from the projections of the International Energy Agency (IEA) and of the BP concern, the global demand for coal is expected to increase in the upcoming years by 0.2% yoy[100], i.e. on a much slower rate than in the last years. The analysts believe that this will be connected, to some extent, with a slower economic growth, as well as with substitution of coal with gas and RES in the power sector, and a general improvement of energy conversion efficiency due to technological progress. In OECD countries, in turn, the demand for coal is expected to decrease by approx. 40%[101] by 2035 in view of a reduction of prices of energy from RES and stricter environment protection standards. In spite of a slight increase in the global demand, the share of coal in the global energy mix is to decrease to approx. 25% by 2035[102], i.e. to the lowest level since the times of the industrial revolution. In connection with the poor demand prospects, relatively significant inventory levels and the global oversupply of the raw material, analysts are of the opinion that steam coal prices may drop within

[96] www.reuters.com
[97] Polskie Sieci Elektroenergetyczne
[98] Central Statistical Office of Poland
[99] http://gornictwo.wnp.pl/notowania/ceny_wegla
[100] BP Energy Outlook 2017
[101] BP Energy Outlook 2017
[102] BP Energy Outlook 2017

the next several years, and then remain at the level of approx. USD 70-80/ton[103] (which is compliant with the current valuation of forward contracts until 2022).

- Decrease in the share of hard coal in Poland's energy mix. In accordance with the assumptions of the "Program for the hard coal mining industry in Poland" adopted by the Council of Ministers in January 2018, the share of production of electricity using hard coal should decrease from the current level of over 48% to 40% by 2030. This should be achieved through, inter alia, investments into RES and a potential construction of a nuclear power plant (the final decision is expected in the first half of 2018).
- Ongoing works on the so-called "winter package", i.e. a package of the EU regulations prepared by the European Commission with the objective to comprehensively modify the functioning of the energy market in the member states (e.g. expected increase of energy efficiency and of the RES share in the total energy production). The issue of public aid to be granted to coal-fired power plants for repairs and modernization works as part of the capacity market (i.e. the market designed to ensure continuity of supplies of electricity thanks, among others, to subsidies or guarantees provided by the state) is the most important issue for Poland in the mid-term. According to the first version of the package, such aid would not be available to power plants emitting over 550 g CO2/kWh, i.e. practically all coal-fired power plants in Poland, as of 2025. However, in December 2017 the energy ministers of individual member states and the EC executed an agreement pursuant to which the state aid would be available on the terms and conditions currently in effect until end of 2031. This means that the transitional period necessary to perform the adjustment processes will be lengthened.
- Growing importance of RES in electricity production. According to data presented by Eurostat in January 2018, the share of RES in the EU energy consumption was 17.0% in 2016, as compared to the mid-term objective of 20% set for the year 2020. In Poland, energy produced from RES represented 11.3% of the total energy consumption, i.e. decreased by 0.4 p.p. in relation to 2015. As a result, the share of RES-energy still remains below the level expected to be reached in 2020, i.e. 15%. The Czech Republic exceeded the objective already in 2013 (13.0%), and in 2016 the share of RES-energy was 14.9% (decrease by 0.1 p.p. yoy)[104].
- Target results of the restructuring processes carried out in the hard coal mining industry in Poland and in the Czech Republic. In the Czech Republic, the restructuring program of the hard coal mining sector consists mostly in a gradual decommissioning of the OKD Nastupnicka mines (new name of the Ostrava-Karvina Mines). According to the restructuring plan of the Czech coal mining company, the following mines will be successively decommissioned: Darkow and Lazy (by the end of 2018), CSA (in 2021) and CSM (in 2023). In accordance with the "Program for the hard coal mining industry in Poland" adopted in January 2018, starting from 2020 the mining sector should operate on the basis of three Groups of Steam Coal Producers (Górnośląska, Małopolska and Wschodnia), and one Coal and Coking Coal Group, in order to trigger vertical integration of the mining and energy industries, and to generate positive synergies.

Aside from solid fuels, aggregates and other construction materials are the second most important cargo category for the PKP CARGO Group, with a 18.6%-share in the Group's total freight volume in 2017. Transports of aggregates and construction materials are closely correlated with the GDP growth rate and the rate of growth of the domestic construction and assembly output.

In 2017, the PKP CARGO Group's transports of aggregates, cement and other construction materials increased by 21.9% yoy on average. The positive situation in the construction materials market is expected to continue in the coming quarters in connection with the large infrastructure investment projects already underway or planned as part of the "National Roads Construction Program" and the "National Railway Program", with a significant support in the form of the EU structural funds. According to Aleksander Kabziński, President of the Polish Association of Aggregate Manufacturers, the market will probably continue to grow dynamically until 2020, with the average yearly rate of growth of 5-10%[105].

The risk factor which may cause uncertainty within the industry and constitute a business risk for the PKP CARGO Group is the accumulation of transport of aggregates in the upcoming years and difficulties with the service of the required freight volume. Previous delays in resolution of tenders and delays in launch of construction phase of the completed tenders in the construction industry still pose one of the greatest risks to conducting rail freight activities in Poland. All ventures supported with the EU funds must be completed and settled by 2022 at the latest which means that a strong reduction of transport services in this cargo category in the years 2014-2016 will have a significant impact on the accumulation of transports in the upcoming years. In view of the market's reduced rolling stock capacity and difficulties connected with the rail line modernization, this may result in the impossibility to satisfy the demand in full.

[103] Ministry of Energy: "Program for the hard coal mining industry in Poland"
[104] Eurostat
[105] http://budownictwo.wnp.pl

Due to the anticipated growth in the Polish rail freight market in the coming years, it will be necessary to adapt accordingly the rolling stock used in the business. In light of the aging nature of the available rolling stock and the limited capacities of repair plants, the future may bring a temporary misalignment between the quantities and types of the available rolling stock to the actual needs of the transportation market.

Risk associated with the rail freight sector

The Polish rail transport market is a regulated market, and simultaneously it is characterized by strong competition among the operators. The number of competitors of PKP CARGO S.A. and PKP CARGO SERVICE Sp. z o.o. is not stable which is connected with quite a significant liberalization of the provisions regulating the operations of the transport market businesses in the recent years. According to the Office of Rail Transport, in 2017, rail freight services in Poland were provided by 71 licensed operators as compared to 69 in 2016, and 67 in 2015[106]. Since the barriers of entry have become even lower than in the previous years, the number of competitors may continue to grow in the coming years.

The PKP CARGO Group continues to be the largest Polish freight carrier, with a market share of 44.8% in terms of freight volume and 51.6% in terms of freight turnover in 2017.[107] DB Cargo Polska, Lotos Kolej, PHP LHS, CTL Logistics, Freightliner PL are the Group's largest competitors in terms of freight volume and freight turnover. The activity of competing rail operators entails among others whole train transport of coal, aggregate and other dry bulk commodities, liquid fuels, and chemical articles. The volume of intermodal services provided also continues to grow significantly.

In the Czech market, the key competitors of the subsidiary AWT a.s. are as follows: CD CARGO (market leader), Metrans Rail, Unipetrol Doprava, and IDS Cargo. PKP CARGO S.A. also provides freight services in the territory of the Czech Republic, being the seventh largest market player in terms of freight turnover and the eighth in terms of freight volume[108]. Similarly to Poland, competitive freight services include: rail transport services for coal and other dry bulk commodities, liquid fuels, chemical materials and intermodal transport.

Risks in the operations conducted

The risk connected with the rail infrastructure – At present, PLK S.A. is implementing the National Rail Program with a view among others to improving competitiveness of rail freight transport. New investments will make it possible to increase speed and throughput on the routes, to improve access to seaports and to develop cargo transport. One of the key assumptions of the new financing program is the intention to improve rail access to major seaports in Gdynia, Gdańsk, Szczecin and Świnoujście. The works will consist of modernization, construction and development of rail infrastructure as well as of investments into services related with the growing marine transport connected with rail transport. The works currently performed by PLK in the Lower Silesia will also improve the freight transport services. Handling of transport on the route from Wrocław to Wałbrzych and Jelenia Góry has been significantly improving year on year. The works on the route from Wałbrzych to Kłodzko are also in progress. The modernization of a border bridge connecting Bielawa Dolna with Horka is to make the international cargo transport, from Poland to Germany, more effective. These works may entail temporary delays in cargo deliveries to the counterparts of PKP CARGO.

Risk of changes to legal regulations

'Noise' Technical Specifications for Interoperability (NOI TSI)

Works are currently underway to amend the 'Noise' Technical Specifications for Interoperability relating to the subsystem 'rolling stock - noise' ('NOI TSI') which presently concerns new rail cars, including the new or modernized freight wagons. The purpose of the present amendment is to cover the entire fleet of freight wagons with the requirements of these specifications, also those put into operation before the Technical Specifications for Interoperability entered into effect. The definitive provisions of the regulation and its effective date are not yet known. The draft amendment to NOI TSI defines:

- "less noisy lines" which will be specified by the member states and published on the maps delivered to the European Union Agency for Railways (ERA), on the basis of the criteria defined in the amended NOI TSI (in Poland, most rail lines important from the point of view of cargo freight do not meet the "less noisy line" criteria);
- "less noisy brake blocks" as specified in the amended NOI TSI;
- freight wagons that may be used in the "less noisy lines" - these include: wagons meeting the requirements of the NOI TSI, cars equipped with "less noisy brake blocks", wagons equipped with "historical composite brake blocks", as specified in the amended NOI TSI (only in the area set out therein);

[106] Office of Rail Transport
[107] Office of Rail Transport
[108] http://www.szdc.cz

- specific cases regarding the existing freight wagons equipped with cast iron brake blocks to be permitted for exploitation in the "less noisy lines";
- freight wagons released from the NOI TSI requirements.

In accordance with the draft amendment to NOI TSI, only the a/m freight wagons will be allowed for exploitation in the "less noisy lines". It is assumed that in the case of the obligation to prove compliance with the noise levels admitted by the NOI TSI, a freight wagon equipped with the "less noisy brake blocks" with no other sources of noise added will meet the noise requirements.

At the current stage of work it has been determined that the European Commission is favourable to the concept pf the so-called quiet lines. In accordance with this concept, only freight wagons equipped with composite brake blocks meeting the NOI TSI requirements (the so-called silent brakes) will be admitted for use in the less noisy lines (i.e. sections with the specific traffic intensity). The Office of Rail Transport in agreement with the technical experts of PKP CARGO S.A. submitted to the European Union Agency for Railways a motion for application of the specific case principle with respect to Poland, with regard to freight wagons equipped with tyred wheels used in the domestic traffic. In accordance with the motion, the NOI TSI would not be applied to freight wagons equipped with tyred wheels used in the domestic traffic by 2037 (the date will probably be further negotiated by the European Union Agency for Railways or the EU with the Polish State).

The suggested effective date of the NOI TSI and the final version of the draft should be known in the second quarter of 2018 and subject to vote in the third quarter of 2018. The estimate costs of adjusting the PKP CARGO's freight wagons to the amended regulations are difficult to assess as the effective date is yet unknown. Also, it is still uncertain to what extent the motion of the Office of Rail Transport for the application of the specific case will be approved.

Service Infrastructure Facilities

The act of 16 November 2016 on amendment to the act on rail transport and certain other acts entered into effect as of 30 December 2016. The purpose of the act is to adjust the national legal order in the field of rail transport to the changes resulting from the Directive 2012/34/EU of the European Parliament and of the Council of 21 November 2012 establishing a single European railway area and the Directive 2008/57/EC of the European Parliament and of the Council of 17 June 2008 on the interoperability of the rail system within the Community (EU L 191 of 18 July 2008, p. 1, as amended). The act specifies among others a new group of facilities, the so-called service facilities designated for the provision of services necessary to perform the transport process.

In connection with the amendment, in 2017 the Company introduced a number of organizational changes in order to appoint the service facility operators.

Another legal act regulating the operations of the service facilities in detail, i.e. the Commission Implementing Regulation (EU) 2017/2177 of 22 November 2017 on access to service facilities and rail-related services (regarding art. 13 "Conditions of access to services" of the directive 2012/34/EU) entered into effect on 13 December 2017. In 2016 and 2017, the Company participated in the works of the legal group of CER (Community of European Railway and Infrastructure Companies) which presented to the European Commission a number of the Company's postulates. They are to some extent taken into account in the Regulation.

Since the Regulation will enter into effect as of 1 May 2019, the Company expects to introduce further changes to its operations so as to adjust to the a/m document.

EU Emissions Trading Scheme (EU ETS)

One should also consider the planned changes in the EU Emissions Trading Scheme (EU ETS) – the related uncertainty was the reason why the Company's client, ArcelorMittal Poland (AMP), suspended its decision to overhaul the blast furnace no. 2 in Dąbrowa Górnicza. Early in 2018, the Company announced the phasing out of the furnace in mid-year for over a month and performing a partial repair which is likely to lengthen the furnace useful life by ca 4–5 years. This will make it possible to assess the financial impact on AMT of the amendments to the EU ETS to become effective in 2021. Only then will it be known whether a general overhaul of the blast furnace is economically viable.

The announced overhaul and the resulting phasing out may influence transportation services provided by PKP CARGO S.A. to AMP.

Road transport constitutes increasing competition for the Group

Road freight transport in Poland poses the most serious competition to rail transport. Its predominant share in the total freight volume has been growing in the recent years, from 75.9% in 2005 to 84.2% in 2016.[109] This has been connected to a material extent with a program of extensive modernization of the national road network, with a significant support in the form the EU structural funds. This has translated among others into improvement of quality of surface course as well as a general increasing of the road network density, mainly motorways and express roads. As follows from the General Directorate for National Roads and Motorways' data, at the end of 2017 there were 1627 km of motorways, and 1689 km of express roads which represented ca 17% of the total length of roads in Poland[110].

As follows from the last version (updated in July 2017) of the "Regulation on motorways and express roads" adopted in 2016 by the Council of Ministers, ultimately the total length of the expressway network in Poland is to reach ca. 7650 km (2000 km of motorways and 5650 km of express roads), as 368.93 km of expressways, including 19.9 km of motorways are to be commissioned for use in 2018, and 242.87 km of expressways, including 40.47 km of motorways in 2019. The road investments currently in progress and planned are financed mainly with the EU funds retained for that purpose in the financial perspective for the years 2014-2020. The modernization of the national road network and development of expressways translate indirectly into a reduction of the times of truck cargo delivery, and thus into a reduction of expenses, increasing in consequence the competitive advantage of the road transport as compared to other branches, including rail transport.

Yet another advantage of the road transport consists in the possibility to deliver goods directly to the location specified by the client, with no need for transshipment at a terminal and change of the means of transport, as required in the case of rail transport. The above reasons, together with still relatively accessible (as compared to historical data) prices of fuels and delays in the performance of railway investment projects (line modernization works) promote the road transport and may continue to contribute to further decreasing of significance of the rail transport.

Also in the Czech Republic the motorway and express road network is constantly growing. By the end of 2017, a total of 1267 km of motorways (as a separate category of express roads was cancelled as of 1 January 2016, and most of these roads are now classified as motorways) were commissioned for use, and construction of the next 59 remains in progress[111]. The ultimate length of the expressway network is to reach 2115 km, i.e. an increase by nearly 70% as compared to the current situation.

The risk of high dependence of the client base on the limited number of industries and business entities operating therein as well as structural changes in the operations of the key clients.

A predominant share of the agreements executed by the PKP CARGO Group with its customers is on a long-term basis. Hence, it is possible contract transportation of large volumes of goods such as coal, aggregates and other construction materials, metals or ores, in advance. In spite of the specification of the declared freight volume in the agreements, the customers are permitted to reduce the volumes at a later date, which may have a negative impact on the actual value of transport services provided by the PKP CARGO Group. At the same time, due to a limited number of industries serviced by the PKP CARGO Group and the number of business entities operating within such segments, as well as the increasing competition in the rail freight market, it is increasingly more difficult to find new clients that might help close the gap resulting from the transport services agreed upon, and then lost.

The operational and financial performance of the PKP CARGO Group is related with the business structure of its key customers. Transformations of the structure of entities using the PKP CARGO Group's services may manifest themselves for example in the establishment of subsidiaries focusing on the transport of goods manufactured by the company. Currently, there are several such enterprises operating on the rail freight market. At present, they service only a portion of cargo volumes ordered by their parent companies, however one may not exclude that their respective shares in the freight services provided for the benefit of the parents will gradually grow. This may, in consequence, decrease the volumes of goods available for acquisition by the PKP CARGO Group. Simultaneously, these entities may expand their activities to include transportation services provided to other companies, and thus start activities competitive in relation to the PKP CARGO Group.

In addition, structural transformations in the operations of the key customers may include temporary or permanent changes to production cycles, company relocations or changes of location of the place of business. In consequence, this may has a significant impact on the level of transportation services provided by the PKP CARGO Group.

[109] Central Statistical Office of Poland
[110] General Directorate for National Roads and Motorways
[111] http://www.ceskedalnice.cz/

Risk associated with shortage of trained personnel

The rail transport industry and in particular the positions connected with the rail transport safety require ongoing updates of knowledge and skill training. Personnel's rights and qualifications are updated thanks to the obligatory character of training activities, such as periodic updates, tutorials, and examinations. Moreover, training in the form of e-learning is provided.

The Group has been properly managing the risk associated with shortage of trained personnel. Actions are taken with a view to ensuring appropriate number of employees with required skills so as to secure proper performance of the business processes.

The Group has diagnosed the risk of generation gap and conducts constant activities to minimize it.

Risk connected with impossibility to hire appropriate staff

As a result of identification of the risk of difficulties in hiring appropriate personnel to perform the operating tasks, the works on implementation of systemic solutions supporting employment of new staff begun in 2017. These activities are included in the scope of the three main programs:

- Internship program: a program dedicated to graduates of secondary schools and universities as well as extramural students. Its purpose is to hire staff with no or only a limited professional experience (up to 1 year) who, following a completion of a 3-month internship, will be able to start work on the basis of an employment contract. They will ultimately take over the tasks performed by the retiring employees.
- Scholarship program: this program provides for the future relationships with secondary technical schools and vocational schools of the 2nd degree specialized in railway professions. Last years' students who meet the required criteria will receive scholarships financed by PKP CARGO, and will be employed by the Company following completion of their education and acquisition of appropriate qualifications.
- Cooperation with the local employment offices: thanks to this program the candidates will acquire the basic qualifications required in connection with the work in the field of railway traffic management and safety, as well as in the maintenance-related positions.

The first two programs will be implemented in 2018.

Also, cooperation with the Polish Ministry of Education was started in 2017 in the area of reactivation of vocational education thanks to drafting new core curricula for the purposes of railway profession teaching.

Risk of collective disputes and strike

In 2017, the Company increased the employees' wages which made it possible to perform the expected tasks in a spirit of social peace. On the delivery date of this report, there was no risk of protest and strike activities.

Risk of increase of salaries

In 2018, the risk of increase of salaries will be affected among others by the undertaking of the parties to the Employee Guarantee Package of 2 September 2013 as regards annual negotiation of wage increases and its implementation no later than by 1 July, depending on the Parent Company's performance and financial standing (permanent, predictable risk),

At present the impact of the expectations regarding the possible increase in wages on the Parent Company's performance in 2018 is difficult to quantify.

Financial risks

Liquidity risk

PKP CARGO S.A. and other Group companies are exposed to liquidity risk following from the ratio of current assets to net current liabilities (current liabilities without short-term provisions).

In 2016 and 2017, the Group's liquidity remained at the level that ensured timely payment of all due and payable liabilities. To ensure an additional source of funds required to secure its financial liquidity, the Group used external financing sources, such as a current account overdraft facility, investment loans and leasing.

As at 31 December 2017, the Company had in aggregate unused credit facilities in the amount of PLN 168.5 million, while for the entire Group the unused credit facilities were PLN 169.5 million.

Additionally, in order to optimize financial expenses in the PKP CARGO Group, a cash pooling system is in place which omprises, as at 31 December 2017, 7 Group companies.

Market risk

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

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

FX risk

In 2017, the Group was exposed to FX risk resulting from the receivables, payables and cash denominated in foreign currencies. The Group's receivables expressed in foreign currencies are short-term receivables with the maturity up to 1 month and payables expressed in foreign currencies are mostly short- and long-term liabilities on account of investment loan agreements with maturities until the year 2031.

The balance sheet valuation of receivables and some current and non-current liabilities long-term liabilities expressed in foreign currencies, settlements in foreign currencies both on the side of receivables and liabilities, lead to financial revenues (positive FX differences) and financial expenses (negative FX differences). The level of financial revenues and financial expenses fluctuates during the year, which is caused by changes in the exchange rates.

Cash in foreign currencies deposited on bank accounts follow from timing mismatch of receipts and expenditures and the surplus of receipts over expenditures. In the long run, the valuation risk matches the risk of change of cash flows, therefore it is the cash flows, not balance sheet items, that are subject to hedging transactions.

For the EUR/PLN exchange rate, there is partial natural hedging due to the fact that proceeds in EUR are partly balanced out by expenditures in the same currency. The FX risk management transactions used by the Group are aimed at hedging the net free position (understood as the difference between FX proceeds and expenditures) exposed to change of the value in PLN.

According to the Financial Risk Management Policy prevailing in the Company, in 2017, FX risk management transactions were used for the EUR/PLN currency pair.

Forward transactions were used to hedge FX risk in 2017.

The Parent Company used hedge accounting for all EUR loans and Forward transactions. These transactions were effected by the Parent Company and PKP CARGO CONNECT sp. z o.o. Details are presented in **Note 31** to the SFS and **Note 29** to the CFS.

Interest rate risk

Most financial investments made by PKP CARGO S.A. and other Group companies as at the end of 2017 were bank deposits, which are concluded for the period from a few days up to 3 months, depending on the Company's liquidity needs.

In addition, the Group is exposed to the risk of volatility of interest rate cash flows following from bank loans, leasing based on variable interest rates. Interest on leasing agreements was accrued according to the reference rates increased by the financing party's margin. The reference rate for agreements denominated in EUR is EURIBOR 3M and 6M and for agreements signed in PLN – WIBOR 1M and 3M. The interest rate risk in leasing agreements is executed through revaluation of leasing installments in the periods of 1 month, 3 months, 6 months, depending on the agreement.

Interest on loan agreements were accrued according to the WIBOR 1M, WIBOR 3M, WIBOR 6M, EURIBOR 3M and PRIBOR 3M reference rates plus the banks' margins. The interest rate risk in loan agreements were executed through revaluation of loan installments in monthly, quarterly and semi-annual periods.

At the same time, in accordance with the financial risk management policy prevailing in the Group, one of the Group companies applied interest rate hedging transactions, the so-called IRS.

Credit risk

PKP CARGO Group companies, while conducting their trading activity, sell services to business entities for a deferred payment, which may lead to the risk of business partners defaulting on the payments for the services. To minimize the credit risk, the Group manages the risk through a prevailing client creditworthiness assessment procedure. This assessment is carried out for all clients who use a deferred payment date. As part of its internal policy, the Company makes application of the deferred term of payment conditional on acceptability of the business partner's condition and positive history of cooperation.

Receivables from business partners are monitored on a regular basis. In the case of overdue receivables, in accordance with prevailing procedures, the delivery of services is suspended and recovery procedures are triggered.

Concentration of risk associated with trade receivables is limited due to the large number of business partners with commercial credit dispersed among different sectors of economy. In addition, to reduce the risk of problems with recovery of trade receivables, the Company accepts security interests from their customers in the form of, among others: bank/insurance guarantees, assignment of contracts, security deposits and promissory notes.

The credit risk associated with cash and bank deposits is perceived as low. All entities in which the Group invests free cash operate in the financial sector.

The maximum exposure to credit risk is presented by balance sheet balances of trade and other receivables, cash and other financial assets. This exposure is limited through securities established in favor of the Group (in the form of, inter alia, bank/insurance guarantees, guarantee deposits).

5.5.2 Information on financial instruments with respect to the risk and financial risk management objectives and methods adopted by the Company and the PKP CARGO Group

In 2017 both PKP CARGO S.A. and the Group did not record any significant cash flow disruptions and loss of financial liquidity.

The financial standing is stable and there were no negative events that could endanger its status as an ongoing concern or cause a significant deterioration of their financial standing.

The principles of market risk management are implemented through assigned organizational units under the supervision of the Parent Company's Management Board.

Financial risk in the PKP CARGO Group is managed using strategies, with partial use of derivative instruments (SPOT FX transactions, FORWARD FX transactions and IRS transactions), which are used only to limit the risk of change of the balance sheet values and the risk of cash flow changes.

In 2017, the Parent Company applied cash flow hedge accounting using financial instruments such as forward currency sales transactions and an investment loan. The purpose of the hedging activity is to mitigate the impact of the FX risk within the EUR/PLN currency pair on the future cash flows. The hedged item is a highly probable cash flow denominated in EUR.

Hedge accounting was used by a PKP CARGO Group company: PKP CARGO CONNECT Sp. z o.o. To manage FX risk this company used financial instruments, primarily forward sales transactions and variable interest rate hedges to hedge interest rate fluctuations for its investment loans in PLN. To this end it concluded IRS transactions.

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

6. Key events and information about the activity of the Company and the PKP CARGO Group

6.1 Key information and events

Table 51 Key information and events which occurred in 2017 and after the balance sheet date

Period	Event
January	PKP CARGO S.A. signed an annex to the Investment Loan Agreement with Bank Polska Kasa Opieki S.A., extending the term of availability of funds to PKP CARGO Group companies.
March	Mr. Mirosław Pawłowski stepped down from his function of the PKP CARGO S.A. Supervisory Board Chairman.
	Mr. Krzysztof Mamiński was appointed to the PKP CARGO S.A. Supervisory Board as of 6 March 2017.
	Mr. Jerzy Kleniewski stepped down from his function of PKP CARGO S.A. Supervisory Board Member.
	On 14 March 2017, the Parent Company entered into an annex to the Investment Loan Agreement of 16 November 2015 with Bank Gospodarstwa Krajowego. According to the Annex, the loan will be available until 27 December 2017 in the amount of EUR 67,850,591.20.
	Mr. Władysław Szczepkowski was appointed to the PKP CARGO S.A. Supervisory Board as of 14 March 2017.
	Early repayment of a loan obtained from the European Bank for Reconstruction and Development.
	PKP CARGO Group companies entered into an investment loan agreement with Bank Polska Kasa Opieki S.A. for the maximum amount of PLN 50,500,000.00 (WIBOR 3M + margin). The loans were granted for financing and/or refinancing of the investment plan. The loans were available until 19 March 2017. The final repayment date for the loans is 20 December 2021.
	Receipt of a notification that, following the settlement on 21 March 2017 of the purchase of PKP CARGO S.A. shares effected on 17 March 2017, the stake held by TFI PZU Funds in the overall number of votes at the Company's Shareholder Meeting exceeded the 5% threshold. Before acquisition of the shares, the Funds held 2,231,450 shares in the Company representing 4.98% of its share capital and were entitled to 2,231,450 votes at the Shareholder Meeting representing 4.98% of the total number of votes. Following the transaction, the TFI PZU Funds hold 2,302,843 shares in the Company representing 5.14% of its share capital and are entitled to 2,302,843 votes at the Shareholder Meeting representing 5.14% of the total number of votes
April	The Regional Court in Ostrava published a draft OKD a.s. restructuring plan. In accordance with the published plan, OKD, through an increase in the share capital of its subsidiary, will contribute its enterprise (without claims specified as excluded) to OKD's Subsidiary; subsequently, OKD will sell a 100% stake in OKD's Subsidiary to PRISKO a.s., a company wholly owned by the State Treasury of the Czech Republic, for approx. CZK 79 million (approx. EUR 2.6 million). The closing of the transaction is contingent on the following conditions precedent: approval of the restructuring plan by the court, approval of the transaction by the Czech anti-monopoly authority, increase in the share capital of OKD's Subsidiary and deposit of the purchase price for a 100% stake in OKD's Subsidiary. In addition, OKD will use the proceeds from the transaction to satisfy priority creditors in accordance with Czech law and to partly satisfy the remaining creditors. The closing is expected to take place in Q3 or Q4 2017. The current freight contract between AWT and OKD is not included in the list of Excluded Claims, hence OKD's rights and obligations arising therefrom will be contributed to OKD's Subsidiary acquired by PRISKO a.s.
	PKP CARGO S.A. was awarded with the prestigious title "Transparent Company of the Year 2016" for high quality of market communication and fulfillment of information and reporting duties.
May	Minezit SE ("MSE") has exercised its right to demand that the Company repurchase of all the shares in AWT owned by MSE ("Put Option"). MSE is entitled to the above right under the Shareholder Agreement concluded between PKP CARGO, MSE and AWT on 30 December 2014. In accordance with the Shareholder Agreement, the total purchase price for the 15,000 shares, constituting 20% of all shares in AWT's share capital, is EUR 27,000,000.
	Concluding an agreement for transportation of coal for Enea Wytwarzanie from Lubelski Węgiel "Bogdanka" coal mine to Kozienice Power Plant. Under the new contract, PKP CARGO S.A. will transport more than 5.3 million tons of coal over a period of 14 months.

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

	On 26 May 2017, PKP CARGO S.A. entered into an agreement with Bank Polska Kasa Opieki S.A. for current account overdraft up to the amount of PLN 100,000,000.00 (WIBOR O/N + margin). The loan is available for the term of 12 months.
	Mr. Andrzej Wach stepped down from his function of Supervisory Board Member.
	31 May 2017 marked the elapse of the deadline for repayment of the current account overdraft which PKP CARGO S.A. used on the basis of the loan agreement concluded on 2 June 2014 with mBank S.A. The agreement was not renewed.
June	Mr. Mirosław Antonowicz was appointed to the PKP CARGO S.A. Supervisory Board as of 1 June 2017.
	13 June 2017 marked the execution of the letter of intent (“Letter of Intent”) with Minezit SE (“MSE”). The subject matter of the Letter of Intent is to define the rules of cooperation between PKP CARGO and MSE on their joint venture project related to the rental and lease of rolling stock (“Project”). Execution of the project will be a way to settle the put option relating to the shares held by MSE, which constitute 20% of the share capital of AWT B.V.
	Execution on 20 June 2017 with MSE of a binding memorandum of agreement (“Agreement”) under the Dutch law between PKP CARGO and MSE concerning the execution of a joint project, which will be a way to settle the put option relating to the shares held by MSE, which constitute 20% of the share capital of Advanced World Transport B.V. According to the Agreement: 1. The Parties confirm that they are interested in establishing a joint venture together, which will conduct the business of renting and leasing rolling stock (“Project”); 2. MSE agrees to defer the settlement of the put option for the sale of 20% of AWT shares held by MSE on the following conditions: a) by 30 September 2017, the Parties will: (i) have completed the negotiation of the conditional shareholder agreement, (ii) have agreed on the non-cash contribution (contribution-in-kind) to the joint venture to be made by PKP CARGO, and (iii) have completed the negotiation of the conditional sale and leaseback agreement, to be executed between the joint venture company and PKP CARGO (all of the above referred to as “Project Execution”). b) by 31 December 2017, the Parties will: (i) have established the joint venture company (ii) have signed the shareholder agreement, (iii) PKP CARGO will have made the contribution-in-kind to the joint venture and (iv) procure the execution of the sale and leaseback agreement between the joint venture and PKP CARGO (all of the above referred to as: “Project Closing”). 3. Either Party may withdraw from Project Execution if Project Execution is not completed by 30 September 2017 or if Project Closing is not effected by 31 December 2017. The withdrawal will be possible on or after 1 October 2017. In the event of a withdrawal from Project Execution, the price of the put option of EUR 27,000,000 (twenty seven million Euro) will be payable by PKP CARGO to MSE within 20 business days of the date of withdrawal by any of the parties. 4. The Parties additionally agreed that if a decision is made by AWT B.V. or PKP CARGO to sell AWT Rekultivace a.s. with its registered office in Havířov, Czech Republic, MSE would have the right to purchase the shares or the enterprise of that company, for the price negotiated with a third party interested in buying AWT Rekultivace a.s.
	Granting the co-financing to PKP CARGO S.A. in the amount of EUR 1,775,723 as part of CEF Transport 2016 competition. The CEF financial aid was recommended by the European Commission for project entitled “Acoustic upgrade of cargo wagons to make them compliant with functional and system requirements”.
	Entering into the memorandum of agreement on 26 June 2017 between the Parties to the Company Collective Bargaining Agreement for Employees Hired by the PKP CARGO S.A. Units (“Memorandum of Agreement”). Pursuant to the Memorandum of Agreement, the Parties have decided that a salary increase will be implemented as of 1 September 2017. The Company has estimated that the cost of the increase till the end of 2017 will amount to approx. PLN 26.7 million.
	Adoption of the consolidated text of the Company’s Articles of Association by the Supervisory Board.
	Signing on 30 June 2017 of annexes to agreements concluded on 20 April 2011 between PKP CARGO and the ArcelorMittal Group companies (ArcelorMittal Poland S.A., ArcelorMittal Warszawa Sp. z o.o. and ArcelorMittal Ostrava a.s). The aforementioned agreements pertain to provision of freight rail transport services by the Company to the business partners and the signed annexes extend their term till 30 June 2020. The Company estimates the value of the cooperation in the period from 1 July 2017 to 30 June 2020 at PLN 1,268,569.30 thousand. The agreement with the highest value is the contract with ArcelorMittal Poland S.A.; its value in the period from 1 July 2017 to 30 June 2020 is estimated at PLN 1,061,467.39 thousand.
July	PKP CARGO S.A. and the Management Board of Morski Port Gdańsk S.A. signed the Memorandum of Cooperation with CFR Marfa, Romanian state-owned cargo carrier and the Management Board of Romanian Port of Constantza.

	The document opens another stage in development of current collaboration between the parties in the area of logistics services in the rail corridor between the Port of Gdańsk and the Port of Constantza.
	In the Rolling Stock Repair Plant PKP CARGOTABOR in Zduńska Wola-Karsznice a modern line of rolling stock production and repairs was put into operation. The manufactured wheel sets were granted with a certificate admitting them for usage in the EU, and they will be used in the rolling stock of the PKP CARGO Group not only throughout the country but also in the entire Europe.
	At the meeting held on 31 July 2017, the Company Supervisory Board adopted a resolution to dismiss Mr. Jarosław Klasa from the function of PKP CARGO S.A. Management Board Member responsible for Operations effective as of 31 July 2017.
August	Meeting with delegation of Chinese Henan province devoted to the Group's collaboration with that province's key container terminal – Zhengzhou International Hub Development and Construction Co., Ltd. The talks covered further expansion of rail transport over the New Silk Road by the PKP CARGO's Logistics Center in Małaszewicze on Polish-Belorussian border, in response to increased trade between China and the European Union.
	On 24 August 2017, the Meeting of Creditors of OKD a.s. ("OKD"), a company established under Czech law, a business partner of the Issuer's subsidiaries AWT and AWT Rekultivace a.s. ("AWTR") adopted the restructuring plan for OKD ("Plan"). During the Meeting of Creditors, the representatives of AWT and AWTR voted for adopting the Plan. The adoption of the Plan opens up the possibility of further cooperation between the AWT Group and OKD, including in the provision of transport services and reclamation work. The restructuring process will prevent OKD's bankruptcy, provided that OKD's existing business is phased out gradually. The Plan will be subject to approval by the Regional Court in Ostrava.
	The Regional Court in Warsaw – Court for the Protection of Competition and Consumers (SOKIK) – in is judgment of 23 November 2015 changed the challenged decision no. RWR 44/2012 issued by the President of the Office of Competition and Consumer Protection in the part imposing a fine on PKP CARGO S.A. by reducing its original amount of PLN 16,575,676.95 to PLN 2,231,719.95. PKP CARGO S.A. filed an appeal against part of the judgment. As a result of an appeal filed by both parties, on 24 August 2017 the Court of Appeals amended the challenged judgment by increasing the fine imposed therein from PLN 2,231,719.95 to PLN 3,188,169.95.
September	On 7 September 2017, the Management Board of PKP CARGO S.A. received a notice from Aegon Powszechne Towarzystwo Emerytalne S.A. stating that it exceeded 5% of the total number of votes in the Company. On 1 September 2017, Aegon Powszechne Towarzystwo Emerytalne S.A. assumed the management of the Nordea Open-End Pension Fund, as a result of which the total share of the funds managed by the Company, that is Aegon OFE and Nordea OFE, in the total number of votes at the shareholder meeting of PKP Cargo S.A. (hereinafter "Companies") exceeded 5% of votes. Before this assumption of management, Aegon OFE held 1,631,258 Company shares, which represented a 3.64% stake in its share capital, and 1,631,258 votes, that is 3.64% of the total number of votes, and Nordea OFE held 868,721 shares in the Company, which represented 1.94% of its share capital and 868,721 votes, that is 1.94% of the total number of votes. After the assumption of management of Nordea OFE as at 1 September 2017, both funds managed by the Company hold a total of 2,499,979 shares in the Company, which represents 5.58% of the share capital and 2,499,979 votes, or 5.58% of the total number of votes.
	PKP CARGO CONNECT received a refund of the paid overdue tax liability from the Tax Office. Following the analysis of risk that the tax authorities challenge the VAT settlements of PKP CARGO CONNECT again, the Parent Company's Management Board decided to recognize a provision in the amount of the refund received. Recognition of the transaction did not affect the Group's financial result.
October	Minezit SE withdraws from the signed agreement to establish a joint-venture. At the same time, MSE summoned PKP CARGO S.A. to pay the price for the option to put 15,000 shares representing 20% of all the shares in the share capital of AWT B.V. totaling EUR 27,000,000 within 20 business days from the date of receipt of the withdrawal notification.
	The Company signed a guarantee facility agreement with Credit Agricole Bank Polska S.A. with a limit of PLN 60 million. The agreement will be in effect until 8 October 2018. The limit may be used by the subsidiaries that sign a trilateral agreement.
	CARGOTOR signed an agreement with SYSTRA S.A., which will prepare the feasibility study for the Modernization of rail infrastructure at the Małaszewicze Transshipment Zone of the corridor of 8 cargo lines at the border of EU and Belarus". The contractor has 670 days to carry out the task.
	On 11 October 2017, the Regional Court in Ostrava accepted a restructuring plan for OKD a.s.

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

	PKP CARGO S.A. received a summons from Minezit SE to participate in the execution of a notary deed before a Dutch notary on 2 November 2017 in Amsterdam in order to pay the put option price for 15,000 shares representing the remaining 20% of all shares in the share capital of Advanced World Transport B.V. with its registered office in Amsterdam, in the amount of EUR 27,000,000. The original date of payment resulted from the parties' mutual arrangement.
	On 26 October 2017, the following stepped down from their positions on the Company's Management Board: - Mr. Maciej Libiszewski – President of the Management Board, - Mr. Arkadiusz Olewnik – Management Board Member in charge of Finance
	On 26 October 2017 the Company's Supervisory Board, following a recruitment procedure, adopted a resolution to appoint Mr. Witold Bawor to the PKP CARGO Management Board as of 26 October 2017 and entrust him with the function of Management Board Member in charge of Operations.
	The Company's Supervisory Board adopted a resolution by which it decided to second Mr. Krzysztof Mamiński, PKP CARGO Supervisory Board Member, to temporarily, i.e. until 26 January 2018, perform the duties of President of the Company's Management Board and to entrust him with the function of President of the PKP CARGO Management Board.
November	By decision of the President of the Office of Rail Transport, a fine of PLN 101 thousand was imposed on PKP CARGO S.A. for conducting operations in the years 2007-2013 without a required document, i.e. "Safety authorization". Currently, the Company is considering filing an appeal to the Regional Court in Warsaw.
	On 2 November 2017, a notary deed was signed and the put option price was paid for 15,000 shares representing the remaining 20% of all shares in the share capital of Advanced World Transport B.V. in the amount of EUR 27,000,000. Thus, PKP CARGO S.A. became the owner of all the shares in the company's share capital.
	Execution of the agreement to use throughput capacity for cargo transport in accordance with the 2017/2018 timetable between PKP CARGO S.A. and PKP Polskie Linie Kolejowe S.A. The agreement is in effect from 10 December 2017 to 8 December 2018. The expected aggregated net value of the Agreement during its term is PLN 631.9 million (gross value of PLN 777.3 million).
	On 23 November 2017, the Management Board of PKP CARGO S.A. received a notice from Aegon OFE stating that it exceeded 5% of the total number of votes in the Company in connection with completion, on 17 November 2017, of the liquidation of Nordea OFE and transfer of all Nordea OFE assets to Aegon OFE.
December	Launch of a recruitment procedure for the position of PKP CARGO S.A. Management Board President and Management Board Member in charge of Finance
	Distinction for PKP CARGO S.A. in the Second edition of the "Safety Culture in Rail Transport" contest organized by the Office of Rail Transport for "promoting the Post-Accident Psychological Support program as part of which comprehensive psychological support is provided to employees directly associated with conducting the rail traffic and rail traffic safety".
	Signing a contract with Tauron Wydobycie for the transportation of 11 million tons of coal in 2018-2019 for a total gross amount of PLN 227 million.
	Signing a contract with Knorr-Bremse Systemy Kolejowe Polska Sp. z o.o. for deliveries of LL composite brake blocks (low friction) for installation in the freight wagons used. This way PKP CARGO S.A. gradually adapts its rolling stock to future EU requirements regarding interoperability and reduces the impact of noise on the environment.
January 2018	Application by two companies from the PKP CARGO Group for subsidizing intermodal projects from EU funds. The projects pertain to purchases of specialized rolling stock and modernization and expansion of the container terminal as well as purchase of equipment.
February 2018	Due to the increase in scrap prices as at 31 December 2017, compared to the prices adopted by the Company for valuation of the residual value of rolling stock in previous periods, the Company's Management Board decided to revaluate the residual value of rolling stock and reverse part of the impairment loss of the rolling stock in the amount of PLN 27,414 thousand. Reversal of the loss have improved the Company's financial result for 2017 in the amount of PLN 22,205 thousand, which includes the effect of tax. The revaluation of the loss was a non-cash item and had no effect on PKP CARGO's liquidity position.

Source: Proprietary material

6.2 Evaluation of factors and unusual events affecting the result recorded by the Company and the PKP CARGO Group

Memorandum of Agreement between the parties to the Company Collective Bargaining Agreement

On 26 June 2017, the Parties to the Company Collective Bargaining Agreement for Employees Hired by the PKP CARGO S.A. Units entered into a memorandum of agreement. Pursuant to the memorandum of agreement, the Parties have decided that a salary increase will be implemented as of 1 September 2017. The Company has estimated that the cost of the increase till the end of 2017 will amount to approx. PLN 26.7 million.

Situation on the rail transport market in the main cargo categories

The rail freight market is closely dependent on the business conditions on the market for coal, aggregates, coke, iron ore, metals, petroleum oil refinery products, chemical products and situation in the container transport market. The growth rate of the freight volumes transported by cargo carrier companies in the PKP CARGO Group is strongly linked to changes in the transport in the aforementioned cargo categories.

In 2017 there was a noticeable strong increase in rail cargo transport volume in the market. It resulted primarily from the increase in hard coal transport, in particular in imports to Poland. An improvement of the situation in transport of aggregates and construction materials was also observed. The increased transport volumes in this cargo category are attributable mainly to intensification of the work on already started and launch of new infrastructural investment projects. Additionally, due to better economic situation in Poland and macroceconomic environment (and hence increased demand from buyers) also transport of iron ore, metals and metal products strongly increased.

Situation in the Czech coal sector – situation of OKD a.s.

On 24 August 2017, the Meeting of Creditors of OKD a.s. adopted a restructuring plan for OKD. The adoption of the Plan opened up the possibility of further cooperation between the AWT Group and OKD, including in the provision of transport services and reclamation work. The restructuring process will prevent OKD's bankruptcy, provided that OKD's existing business is phased out gradually. On 11 October 2017, the Plan was approved by the Regional Court in Ostrava.

In the face of reduced volumes of transported hard coal, AWT made efforts to diversify its transport activity. As a consequence, the decreases in hard coal transport have been partly offset by increased transport of liquid fuels, metals and ores, timber and agricultural produce and chemicals, or intermodal transport.

Infrastructure access costs

The performance of both PKP CARGO S.A. and the PKP CARGO Group largely depend on the amount of rail infrastructure access charges. The cost of access to infrastructure in 2017 accounted for approx. 20.8% of PKP CARGO S.A.'s operating expenses and about 15.7% of PKP CARGO Group's operating expenses.

Additionally, the activities of the PKP CARGO Group depend on the condition of the rail infrastructure, and the railway network is of low quality. An intense railway network modernization program, although expected to ultimately result in improved operating conditions, during the course of the construction and renovation work will cause hindrances and the need to route railway traffic through detours.

Technical regulations related to rolling stock

The rolling stock used in rail transport must satisfy appropriate technical standards and requirements, determining the scale of the Group's modernization and repair activity. The investments in this area depend directly on the current technical condition of the rolling stock owned and the resulting mandatory periodic repairs. They may also depend on the requirements imposed by EU regulations.

6.3 Information on contracts of significance for the Company and the PKP CARGO Group

Contracts with vendors

Execution of a significant agreement with PKP PLK S.A.

On 16 November 2017, PKP CARGO S.A. signed with PKP Polskie Linie Kolejowe S.A. an agreement to use throughput capacity for cargo transport in accordance with the 2017/2018 timetable. The agreement is in effect from 10 December 2017 to 8 December 2018. The expected net value of the Agreement during its term will total PLN 631.9 million (PLN 777.3 million gross).

Under the Agreement, PKP PLK ("Manager") provides the Company with access to rail infrastructure to utilize the throughput capacity for cargo transport in accordance with the 2017/2018 timetable.

The Agreement enables PKP CARGO to use the requested train routes in the annual timetable and routes requested on an individual request (individual timetable), while the Company may a cancel an allotted train route or part thereof. It
is also possible to change the route parameters, following a change in the type of the traction vehicle or an increase or decrease of the gross train weight (to 500 t).

Under the Agreement, the Administrator provides basic services of minimum access to rail infrastructure that comprise, among others, the possibility to use the rail infrastructure in accordance with the allotted train routes, the provision of access to traction network devices, the directing and carrying of traffic, including the use of the rail radio communication by the Carrier and delivery of information regarding train passage, if so requested by the Company.

Under the Agreement, the Administrator also renders services involving access to service infrastructure facilities, comprising the provision of assistance in connection with non-standard loads and the preparation and commissioning of trains.

The fee for the use of rail infrastructure includes principally:

- A basic fee for the minimum access to rail infrastructure, including completed services;
- A reservation fee collected for any train route ordered and allotted which has not been used by the Carrier;
- Fees for using the service infrastructure facilities.

The Manager calculates the fees on the basis of the "Price list for the use of rail infrastructure with the railway track gauge of 1,435 mm..." (for the basic fee), "Rules for providing access to rail infrastructure with the railway track gauge of 1,520 mm …", price list for "Fees for access to service infrastructure facilities (OIU)…" and the "Network regulations 2017/2018"

The expected total value of the Agreement during its term is PLN 631.9 million net (PLN 777.3 million gross).

Contracts with buyers

Signing of annexes to the agreements concluded with companies from the ArcelorMittal Group

Signing on 30 June 2017 of annexes to the agreements concluded in 20 April 2011 between PKP CARGO and companies from the ArcelorMittal Group.

The object of the agreements is the provision by the Company to the contractors of services of railway transport of goods, and the signed annexes extend the term of the validity of the agreements until 30 June 2020. The value of cooperation in the period from 1 July 2017 to 30 June 2020 is estimated by the Company at PLN 1 268 569.30 thousand. The agreement with the highest value is the agreement with ArcelorMittal Poland S.A., with the value in the period from 1 July 2017 to 30 June 2020 is estimated PLN 1 061 467.39 thousand.

Concluding of an agreement with Tauron Wydobycie

Signing on 19 December 2017 with Tauron Wydobycie of an agreement on transport in 2018-2019 of 11 million tons of coal for the total amount of PLN 227 million gross.

The object of the agreement is the provision of the service of railway coal transport for the purposes of TAURON Wydobycie in the period from 1 January 2018 to 31 December 2019. The weight of coal planned to be transported from TAURON Wydobycie mines during the agreement term will be approx. 10.99 million tons. The estimated value of the agreement is PLN 227.0m gross (PLN 184.6m net).

Concluding of an agreement with z Enea Wytwarzanie

Concluding an agreement for transportation of coal for Enea Wytwarzanie from Lubelski Węgiel "Bogdanka" coal mine to Kozienice Power Plant. Under the new contract, PKP CARGO S.A. will transport more than 5.3 million tons of coal over a period of 14 months.

The new agreement is a continuation of the long-standing cooperation between PKP CARGO and Enea Wytwarzanie. PKP CARGO S.A. transported and currently transports coal for the Enea Group to Kozienice Power Plant, both from Lubelski Węgiel „Bogdanka" and from a few Silesian mines.

Loan agreements

Concluding of an annex to the loan agreement with Bank Gospodarstwa Krajowego

On 14 March 2017 the Company concluded an annex to the loan agreement of 16 November 2015 with Bank Gospodarstwa Krajowego.

In accordance with the Annex, the loan in the amount of EUR 67,850,591.20 is available until 27 December 2017. Thanks to the annex, the Company secured the funds to finance and/or refinance the purchase of multi-system locomotives, investments resulting from the investment plans and/or finance and/or refinance other activities in the area of acquisitions or mergers.

6.4 The Management Board position regarding the possibility to achieve the previously published forecasts for the year

The Parent Company did not publish financial forecasts on the basis of § 5.1.25 of the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and on conditions of considering as equivalent the information required under legal regulations of a state which is not a member state, of 27 June 2013 (Journal of Laws of 2014, item 133 as amended) concerning the results of the Company and PKP CARGO Group in 2017.

7. Development policy of the Company and PKP CARGO Group

7.1 Characteristics of external and internal factors relevant for the development of the Company and PKP CARGO Group

Economic situation in Europe

The economic situation of the countries and of the entire macroeconomic environment in which the PKP CARGO Group provides transport services is reflected directly in the conducted business activity. Freigth turnover is strongly correlated not only with GDP dynamics but also with periods of business cycle peaks and troughs and long-term fluctuations in individual branches of industry.

At present, the entire industry of transport of goods (including transport of goods by railway) is also influenced by the attitude of buisness partners to openness in trade exchange. In the European Union trade exchange so far has been witohut major problems, however, after the decision by Great Britain to leave the Union changes can be expected in the functioning of both the common EU market and British market.

Situation in the marekt of energy raw materials

Due to the greatest share of coal in railway transport the fuel and energy industry will continue to be the most important sector of the economy. Business cycle in the sector will continue to influence the volume of transport and of the good transport market.

Coal transport will continue to be the basic cargo categories in transport carried by the PKP CARGO Group and the situation in this market will have an effect on the results and market shares obtained by the Company and Group. Restructuring activities conducted in the Polish mining sector may have a major impact on decreased demand for coal or on diversification of carriers by recipients from the energy sector.

Situation in the aggregate market

In 2017, transport by railway increased significantly, allow with regard to transport of aggregates and construction materials. This resulted mainly from the intensification of the already commenced works and start of new infrastructural investments (road building and railway modernization), with considerably support from the EU structural funds under the EU 2014-2020 financial perspective.

In the upcoming quarters the maintenance of favourable business cycle can be expected in construction material markets, which follows from the continuation of ongoing investments as well as planned major public investments under the “National Road Building Program and the “National Railway Program”. In accordance with current schedules, accumulation of infrastructural expenditures is to occur in 2018-2020. Transport of aggregates and construction materials will remain the same significant market of the activity of the PKP Cargo Group, strongly affecting the achieved transport results and market shares.

Situation in the market of intermodal transport

Particularly dynamic development is expected in the upcoming years for the intermodal transport market. The Group remains actively engaged in transport along the New Silk Road. The overriding goal of the project is to increase the volumes of land intermodal transport from China to Western Europe via Małaszewicze and on the way back to Asia. The development of trade exchange between Poland the People’s Republic of China is to be facilitated thanks to signing of trade agreements and bilateral treaties, which constitutes a vital factor for the development of intermodal transport provided by the Group.

Market of track building and maintenance

The Group, through the companies of the AWT Group, specializes in the construction and maintenance of railway tracks, therefore it has at its disposal qualified and professional work force and the required machinery. The resources and expertise, in the context of closing down of OKD coal mine whose bankruptcy has been announced, allow the Group to diversify its revenues by selling this kind of services in the Czech and Polish markets with the possibility of expansion to other countries.

Condition of rail infrastructure

The operations of the PKP CARGO Group depend on the condition of rail infrastructure, and the railway network used in Poland is characterized by low quality. The intense program of railway network modernization, although eventually it will improve the conditions of usage, during the construction and renovation works causes obstacles and requires diversions in railway traffic. In 2017 there was a large number of closing of tracks, which had and will have in the upcoming years direct impact on the reduction of throughput capacity of the utilized lines and stations as well as on the rejection of applications for individual train timetable (IRJ), longer time of transport, longer route covered by trains and longer stay of trains at the stations, which required involvement in the transport process of increased human, rolling stock and traction resources.

Rail infrastructure access charges

The performance of both PKP CARGO S.A. and the PKP CARGO Group largely depend on the amount of rail infrastructure access charges. Cost of access to railway infrastructure in 2017 accounted for approx. 20.8% of PKP CARGO S.A. operating costs and approx. 15.7% of operating costs in the PKP CARGO Group.

On 16 November 2017 an Agreement on the use of throughput capacity to transport objects in the train timetable 2017/2018 was concluded between PKP CARGO S.A. and PKP Polskie Linie Kolejowe S.A. The Agreement is in force from 10 December 2017 to 8 December 2018. The expected value of the Agreement in its validity term in total amounts to PLN 631.9 million net (PLN 777.3m gross).

Technical regulations related to rolling stock

The rolling stock used in rail transport must satisfy appropriate technical standards and requirements, determining the scale of the Group's modernization and repair activity. The investments in this area depend directly on the current technical condition of the rolling stock owned and the resulting mandatory periodic repairs. The number of periodical repairs and periodical overhauls performer in individual periods results from the cycles defined in DSU for the rolling stock approved by the Office of Rail Transport.

Due to the anticipated growth in the Polish rail freight market in the coming years, it will be necessary to adapt accordingly the rolling stock used in the business. In light of the aging nature of the available rolling stock and the limited capacities of repair plants, the future may bring a temporary misalignment between the quantities and types of the available rolling stock to the actual needs of the transportation market.

Change of legal regulations

On 13 December 2017 another legislative act came into force, regulating in greater detail the activity of service facilities – Commission Implementing Regulation (EU) 2017/2177 of 22 November 2017 on access to service facilities and rail-related services (re. art. 13 "Conditions of access to services" of the directive 2012/34/EU). in 2016 and 2017 the Company participated in the work of legal group of CER (the Community of European RailWay and Rail Infrastructure Companies), which presented to the European Commission numerous postulates of the Company that are partially incorporated in the regulation. The provisions of the regulation will apply from 1 May 2019, therefore, further changes in the Company are expected in order to comply with the above mentioned act.

In the European Commission work is still in progress on revision of the Noise TSI. At the current stage of work it has been determined that the European Commission is favourable to the concept pf the so-called quiet lines. In accordance with this concept, only freight wagons equipped with composite brake blocks meeting the NOI TSI requirements (the so-called silent brakes) will be admitted for use in the less noisy lines (i.e. sections with the specific traffic intensity).

The Office of Rail Transport, in consultation with technical experts from PKP CARGO S.A., submitted to the European Railway Agency of the European Union an application requesting that specific case be applied to Poland concerning ringed wheels in the Polish domestic traffic. In accordance with the application, NOI TSI would not apply to wagons with ringed wheels used in domestic traffic until 2037 (the date will be probably negotiated with Poland by the EU Railway Agency or by the European Commission). The proposed date of coming into force of the Noise NOI TSI and the final draft should be known in the 2Q 2018 and subject to a vote in Q3 2018. Estimated cost of adjustment by PKP CARGO of the existing park of freight wagons to meet the requirements of the amended regulations is hard to determine since the date of coming into force is not known yet and it is not known to what extent the application of the Office of Rail Transport requesting that specific case be applied to Poland will be taken into account.

One should also consider the planned changes in the EU Emissions Trading Scheme (EU ETS) – the related uncertainty was the reason why the Company's client, ArcelorMittal Poland (AMP), suspended its decision to overhaul the blast furnace no. 2 in Dąbrowa Górnicza. Early in 2018, the Company announced the phasing out of the furnace in mid-year for over a month and performing a partial repair which is likely to lengthen the furnace useful life by ca 4-5 years. This will make it possible to assess the financial impact on AMT of the amendments to the EU ETS to become effective in 2021. Only then will it be known whether a general overhaul of the blast furnace is economically viable.

The announced overhaul and the resulting phasing out may influence transportation services provided by PKP CARGO S.A. to AMP.

Financing of capital expenditures

The Group will finance its capital expenditures with investment loans, its own funds, as well as other sources. An increase in loan liabilities will result in an increased level of liabilities (short- and long-term) and of financial expenses.

Conducting of social dialogue

Social dialogue in PKP CARGO S.A. is based on the rules resulting from generally applicable legal regulations, Company-Level Collective Bargaining Agreement and agreements determining the mutual obligations of the parties to the social dialogue. The Company respects and improves the rules of cooperation of social partners, which is conducive to the implementation of modern, pro-development solutions to improve the Company's competitiveness and efficiency.

7.2 Description of development prospects and policy concerning development directions of the Company and PKP CARGO Group at least in the following financial year

CARGO'20 Strategy

The development of the PKP CARGO Group in the following reporting periods will remain consistent with the valid strategy of the Group for 2016-2020, whose main goal is to shape and improve the activity of the leading logistic operator in Central and eastern Europe based on four pillars:

Pillar I. Leader in the domestic transport market – The activity of the Group in the Polish rail freight market is oriented at consolidating the position of leader in servicing all cargo categories transported by railway. Forecasted and observed characteristics of the market (incl. planned numerous infrastructural investments, trends in mining, metallurgical and chemical industries) are the priority for the Group in shaping and securing the assets and appropriate offer. The expected effect of the actions is both the satisfaction of service recipients and the growth in freigth turnover and in margins obtained on services. Regardless of the actions aimed at competitiveness and high quality of services of the PKP CARGO Group in the current market environment. The Group conducts a series of actions aimed at promotion of railway transport, whose expected effect is an increased share of railway in the transport industry, thereby shaping the foundations and additional space for further development.

Pillar II. Significant position in international market – the ambition of the Group is further dynamic development and building a significant position in Central and Eastern Europe. Activity in servicing international transport is based on part B safety certificates authorizing PKP CARGO S.A. to provide on its own transport on the territory of 7 EU countries. The Group's transport activity is supported by subsidiaries specialized in international shipping. An important element of strategic development of the PKP CARGO Group in foreign markets is the servicing of transport from/to the North Sea and Adriatic Sea ports. The key and promising project dynamically developed by the Group is transport from/to China. It should be noted that the established strategic alliances with foreign partners are an asset for the Group. The Group consistently pursues the strategy of developing international transport along the main transport corridors in north-south and east-west directions. The effect of synergies with entities of the AWT Group will be used to increase the presence in servicing the markets in the so-called Three-Sea among the Baltic Sea, Adriatic Sea and the Black Sea.

Pillar III. Leader of the intermodal market in CEE – In view of the observed dynamic development of intermodal transport and the prospect for further growth of containerization of goods transported in international traffic, the key pillar of development of the PKP CARGO Group is its activity and building a strong international position in servicing the transport of the analyzed cargo category. The Group's development in the intermodal market is based on improving product logistics, implementing modern technologies of transport process management, shaping new service distribution channels, building competences in the operations as intermodal operator, and offering clients the place on constantly and regularly launched services. An important element in the development of intermodal products is the activity of PKP CARGO S.A. in servicing transport along the New Silk Road. The servicing of goods transported from China by railway, apart from the planned increased transshipment for Polish ports, is also the basis of growth in the Company's transport of intermodal loads.

Pillar IV. The development in adjacent elements of the value chain – Within the pillar the Group constantly expands its offer with services complementary to railway transport, including railway shipping and road transport, and optimizes its terminal activity. Thanks to actions in this area, the offer of the PKP CARGO Group will be able to secure efficient service of complicated and demanding logistic chains.

The adopted CARGO'20 strategy also envisages acquisitions, however, these will depend on market situation and attractiveness of potential acquisition targets. The activities conducted within the four pillars, along with further improvement of service quality, efficient utilization of strategic assets, modernization of the rolling stock and cooperation with other carriers will translate into further dynamic development of comprehensive services provided by the PKP CARGO Group and into the consolidation of market position in the following years.

As part of the Strategy implementation, in 2018 and in the following years the PKP CARGO Group intends to:

- gradually increase quality standards of the provided services and of flexibility in meeting clients' needs with the full utilization of the potential of companies in the PKP CARGO Group,
- continue to build its position in foreign markets, including its position in the region of Central and Eastern Europe and develop transport from/to China,
- improve the efficiency of wagon and locomotive utilization by increasing their availability as a result of improved standards and maintenance and repair quality as well as optimization of the transport process,
- continue to optimize IT activities to improve the Company operations,
- continue to optimize transport organization,
- adjust resources, costs and processes to actual needs,
- optimize the operations of business units of the PKP CARGO Group.

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

8. Other material information and events

8.1 Information on PKP CARGO S.A. shares

8.1.1 Issue of securities and utilization of proceeds from the issue

In the reported period in PKP CARGO S.A. there was no issue, buy-out or repayment of debt and capital securities.

8.1.2 Information on agreements which might in the future affect a change in the proportions of shares held by the existing shareholders

PKP CARGO S.A. is not aware of any agreements entered into by the existing shareholders that might in the future lead to changes in the proportions of shares held.

8.1.3 Acquisition of own shares

In 2017, PKP CARGO S.A. did not buy / sell its own shares.

8.1.4 Information on the system of control over employee share programs

Shares taken up by entitled employees in connection with the right granted under the Employee Guarantee Package („EGP"), were subject to contractual limitation of their disposal. Each entitled employee while subscribing for shares was obliged to sign an agreement on limitation of share disposal for a period of 2 years from the Company's IPO at the WSE, i.e. until 30 October 2015. A subscription submitted without the above mentioned agreement would have been considered as invalid and the entitled employee would have lost the right to privatization bonus and thereby also to the shares. A sale of or encumbrance on any shares or rights to shares prior to 30 October 2015 was ineffective against the Company and may have exposed the employee to liability for damages.

On the date of expiration of the above lock-up period, i.e. on 30 October 2015, series C shares were converted into bearer shares.

8.1.5 Shares held by persons with managerial and supervisory roles

The holding of the Company's shares or rights to them by persons managing the Company in the period from 17 March 2017, i.e. the date of delivery of the 2016 report, to the date of delivery of this report was as follows:

Table 52 PKP CARGO S.A. shares held by persons managing the Company

Name and surname	Number of shares in PKP CARGO S.A. held by the manager	Share nominal value [PLN]
	as on the report delivery date	
Krzysztof Mamiński	0	0
Grzegorz Fingas	0	0
Witold Bawor	46	2 300
Zenon Kozendra	46	2 300
	as on 17.03.2017	
Maciej Libiszewski	0	0
Arkadiusz Olewnik	0	0
Grzegorz Fingas	0	0
Jarosław Klasa	46	2 300
Zenon Kozendra	46	2 300

Source: Proprietary material

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

The holding of the Company's shares or rights to them by persons supervising the Company in the period from 17 March 2017, i.e. the date of delivery of the 2016 report, to the date of delivery of this report was as follows:

Table 53 PKP CARGO S.A. shares held by persons supervising the Company

Name and surname	Number of shares in PKP CARGO S.A. held by the person supervising the Company	Share nominal value [PLN]
as on the report delivery date		
Krzysztof Mamiński*	0	0
Mirosław Antonowicz	0	0
Krzysztof Czarnota	70	3 500
Zofia Dzik	0	0
Raimondo Eggink	0	0
Małgorzata Kryszkiewicz	0	0
Tadeusz Stachaczyński	0	0
Władysław Szczepkowski	0	0
Czesław Warsewicz	0	0
as on 17.03.2017		
Krzysztof Mamiński*	0	0
Krzysztof Czarnota	70	3 500
Zofia Dzik	0	0
Raimondo Eggink	0	0
Małgorzata Kryszkiewicz	0	0
Marek Podskalny	70	3 500
Tadeusz Stachaczyński	0	0
Władysław Szczepkowski	0	0
Andrzej Wach	0	0
Czesław Warsewicz	0	0

Source: Proprietary material
**since 26.10.2017 acting President of the Management Board*

The holding of the Company's shares or rights to them by persons managing and supervising the Company as of 31 December 2017 is the same as the shareholding as of the report delivery date.

The persons managing and supervising the issuer, as of 31 December 2017 and as of the report delivery date, do not hold shares in related units of PKP CARGO S.A.

8.1.6 Paid or declared dividends

On 16 March 2017 the Management Board of PKP CARGO S.A. passed a Resolution on the covering of the net loss incurred in 2016, resulting from the stand-alone statement of comprehensive income for the period from 1 January 2016 to 31 December 2016, with the undistributed profits carried over from previous years.

8.2 Information on transactions with related parties

In 2017, none of the entities of the PKP CARGO Group entered into transactions with related parties on conditions other than arm's-length conditions. Nor were any such transactions entered into after the balance sheet date.

Detailed information on transactions with related parties is presented in **Note 32** to the SFS and **Note 30** to the CFS.

8.3 Proceedings pending in court, competent arbitration body or public administration body

PKP CARGO S.A and its subsidiaries are not party to any proceedings pending in court, competent arbitration body or public administration body and concerning liabilities or debts whose value constitutes at least 10% of the Parent Company equity.

PKP CARGO S.A and its subsidiaries are party to proceedings concerning liabilities or debts of the issuer or of a given subsidiary of the issuer, where the total value of debts and liabilities does not constitute at least 10% of the Parent Company equity.

8.4 Major achievements in research and development

Drones

PKP CARGO S.A. uses drones to protect its trains from theft. Actions taken by the Company bring positive effects – limitation of the number of thefts, increased security, as well as possibility to inspect trains remotely – all the above are the arguments for the Company to further invest in this technology.

Until now the feet of drones of PKP CARGO S.A. consisted of two types of machines „DJI Phantom 3" and „Eagle". At present the Company also uses modern, super light, drone „Bielik" equipped with even better cameras than the ones used so far. Drones transmit registered images live to the Threat Prevention Team. Thanks to that, employees of the Team may respond quickly to theft.

Railway traffic safety

To ensure railway traffic safety, PKP CARGO S.A. gradually implements new solutions. They comprise above all two areas: professional preparation and training of employees and the development of IT systems to support transport process management. The Company also develops EKL (Electronic Logistics Book) IT system, introducing new functionalities based on modern IT solutions and on GPS technology.

Production of wheel sets

In the Rolling Stock Repair Plant PKP CARGOTABOR in Zduńska Wola-Karsznice a modern line of wheel set production and repairs was put into operation. Thanks to the new investment the Palnt will eventually increase the number of repaired units by as much as 150 per cent. The Rolling Stock Repair Plant PKP CARGOTABOR in Karsznice is one of the few in Poland to perform comprehensive repairs of wheel sets for wagons and locomotives. In 2013 the plant started the process of equipping car wheel sets with discs and in 2016 the Company's engineers started work on their own construction. The project was completed successfully.

In connection with major demand for wheel sets the project assumed the production of a railway car set with the parameters most sought after in the market. Thanks to obtaining of appropriate certificates, the sets will be able to be marketed in the entire European Union. Also the plant in Zduńska Wola is to extend the catalogues of products on offer. The Management Board of PKP CARGOTABOR decided to continue the construction process in the Plant. Currently intense work is in progress on certification of the next three types of wheel sets. There are also plans to extend the wheel set repair line for locomotives.

Composite Brake inserts

PKP CARGO S.A., in the performance of the program of acoustic modernization of the operated freight wagons, increasingly during periodical repairs replaces cast iron inserts of brake blocks with LL type composite inserts. The program under which approx. 1400 wagons have already been modernized is the response to the requirements of the currently amended technical interoperability specification pertaining to noise emitted by rolling stock (Noise TSI), not only for newly built freight wagons but also for the existing wagons.

On 20 December PKP CARGO S.A. signed a contract with Knorr-Bremse Systemy Kolejowe Polska Sp. z o.o. for deliveries of LL composite brake blocks (low friction) for installation in the freight wagons used.

„Forest Coal Farms” Project

PKP CARGO has joined the international efforts associated with climate protection. The letter of intent signed by the Company is aimed to support the State Forest Administration in execution of a project limiting the carbon dioxide volumes in the atmosphere.

The project foresees the establishment of the carbon dioxide equivalent (“CDE”) trading system. Each CDE is equivalent to the reduction of the quantity of carbon dioxide in the atmosphere by one ton as a result of additional activities undertaken in forestry. Revenues from the sales of CDEs will be earmarked for pro-environmental and pro-social activities such as e.g. active protection of the environment, support for non-production social and environmental functions of the forest, environmental and forestry education, projects related to construction of forestry infrastructure.

Post-Accident Psychological Support Program

The Program provides the interested PKP CARGO employees with an opportunity to use the special hotline staffed by specialized psychologists, or a direct conversation with a psychologist, aid with health problems and private life issues, as well as participation in training devoted to coping with stress situations.

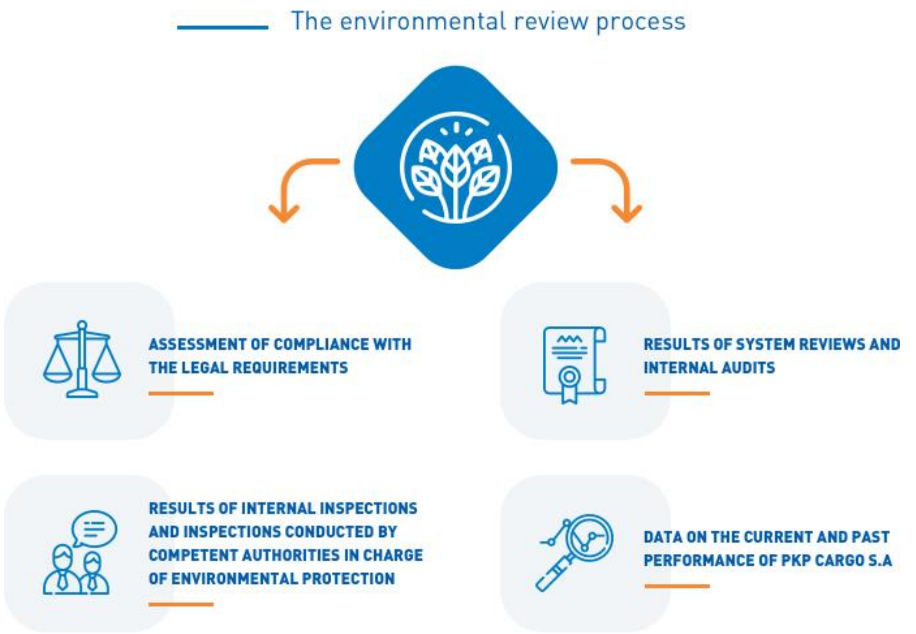
PKP CARGO S.A. received a distinction in the Second edition of the “Safety Culture in Rail Transport” contest organized by the Office of Rail Transport for “promoting the Post-Accident Psychological Support program as part of which comprehensive psychological support is provided to employees directly associated with conducting the rail traffic and rail traffic safety”.

8.5 Information on natural environment issues

Implementation of the Company’s strategy is based on adapting its resources and organization to the requirements of the contemporary transportation market, taking into account the principles of sustainable development, in accordance with the adopted policy of the Integrated Management System (IMS): quality, occupational health and safety, environmental protection.

The Company’s environmental policy forms an integral part of its overall corporate management system. The strategic objective for responsible actions taken by PKP CARGO S.A. in the field of environmental protection is to ensure a safe carriage of merchandise using rolling stock that meets the applicable environmental requirements. The Company invests both in the purchases of new rolling stock and in the modernization of its existing rolling stock as well as in maintenance and repair facilities and devices for diagnostics of the Company’s rolling stock. These efforts are aimed at achieving high standards of rolling stock maintenance and protecting the natural environment against the possible consequences of breakdowns and accidents involving the Company’s rolling stock.

In the process of environmental review (conducted on an annual basis), the effects of the Company’s environmental initiatives are evaluated and specific environmental targets and tasks are formulated for subsequent years according to criteria selected based on:



The Company diligently monitors all environmental aspects considered to be significant. The following is the list of such significant aspects in 2017:

1. Potential risk of a release of hazardous substances into the environment during the carriage of hazardous cargo and waste;
2. Failures of installations and equipment resulting in a potential risk of a release of hazardous substances into the environment;
3. Emissions from burning solid fuels in boiler plants that use such fuels;
4. Consumption of diesel fuel for traction purposes and fugitive emissions from fuel combustion by locomotives;
5. Fugitive emissions of volatile organic compounds (technological processes) from the installations that are subject to emissions standards;
6. Traction electricity consumption and emissions from the consumption of traction electricity;
7. Discharges of sewage into the sewer system;
8. Discharges of rainwater and snowmelt into waters and soil;
9. Discharges of sewage into waters and soil;
10. Management of hazardous waste;
11. Potential spills during the storage and transshipment of hazardous waste;
12. Historical contaminations;
13. Emissions of noise from traction rolling stock and rail cars.

The objective of the monitoring of significant aspects is not only to gain knowledge of the magnitude of impacts on the natural environment by tracking certain assumed indicators but also to implement the environmental protection program in order to improve the emission indicators (energy intensity).

Year by year, through the introduction of objectives and tasks in significant areas in relation to the adopted classification criteria, the Company keeps reducing its environmental impact.

The significant aspects are related to the Company's core business of the carriage of cargo and the maintenance and repairs of rolling stock. Accordingly, the risk of sanctions in the following areas was evaluated:

1) Carriage of hazardous cargo

First of all, the Company is a rail freight carrier, hence the carriage of hazardous materials is subject to monitoring. In 2017, PKP CARGO S.A. did not record any events resulting in environmental damage, and because the Company is aware of the costs involved in restoring the environment to the required standards, it continuously monitors the quality of the safety of our transport. This process is supported by improvements in diagnostics and inspections of the rolling stock through earmarking considerable funds for that purpose, including purchases of diagnostic equipment, repair equipment, garage equipment for diagnostics and repairs of locomotives and rail cars and on purchases of new rolling stock and modernizations of the rail cars.

2) Emissions into the air

The Company consumes large amounts of traction electricity and traction fuel, hence this consumption is subject to monitoring. In recent years, as a result of a gradual replacement of engines, the traction fuel consumption ratio has been significantly reduced; despite an insufficient throughput of the lines and an insufficient commercial speed, the electricity consumption ratio has also been reduced. This translates directly into emission volumes and environmental fees. As at the end of 2017, the Company had 16 modern multi-system electric locomotives (15 EU46 SIEMENS locomotives and 1 EU45) as well as 138 modernized diesel locomotives with engines satisfying the requirements of stage IIIA in terms of gas and dust emissions. Capital expenditures aimed at reducing emissions from traction vehicles will be continued in the form of engine replacements, modernization of rolling stock, purchases of new locomotives and metering of electricity consumption.

3) Emissions into waters

PKP CARGO S.A. is taking actions aimed at renovation and reconstruction of the existing sewage and rainwater discharge system in its Rolling Stock Maintenance Centers in Rybnik and Żurawica, which will have a direct impact on a reduction in fees charged for the discharge of wastewater without treatment.

4) Protection of the earth's surface

The Company's operations exert an impact on the ground water environment. This fact prompted the implementation of the Company's program of the construction of container fuel stations which has led to the decommissioning of all fuel stations with single-shell tanks leased from PKP S.A.

In 2017, 2 more new container fuel stations were accepted for operation (Toruń, Ostrów Wielkopolski). At the same time, the Company is implementing a plan to decommission old tanks for used oil and build in the Rolling Stock Maintenance Centers of all the Company's Units forced-drain installations for used oil (to tighten the process). In 2016, technical documentation was developed for new tanks in 17 locations along with administrative decisions permitting development. In 2017, construction of 9 tanks was launched (Kamieniec Ząbkowicki, Wrocław Brochów, Jaworzno Sz., Czechowice Dz., Bydgoszcz, Tarnowskie Góry, Rybnik, Poznań Franowo, Szczecin). According to plan, the works launched in 2017 will be completed at the beginning of the Q2 2018. The construction of the remaining 8 tanks is scheduled for 2018.

The provision of rail transport services requires subjecting the rolling stock to regular inspections, repairs, modernizations and withdrawals from service, which involves generation of waste (including hazardous waste). Due to its volume (thousands of tons per year) and diversity (potentially, over 100 various types of waste may be generated), the conduct of waste management without appropriate legal regulations and monitoring the situation on the ground would significantly increase the Company's exposure to the risk of sanctions.

Accordingly, on an ongoing basis, in accordance with existing needs, updated or obtained are decisions concerning generation, collection and recycling of waste and internal regulations. The creation of an internal waste management system resulted in assigning responsibility to each of the main employee groups at successive stages of the waste management process, thus effectively minimizing the risk of waste disposal in a place not intended for this purpose.

As a significant environmental aspect, asbestos storage places are subject to strict documentation and inspection. In accordance with the applicable legal requirements, the Company assesses the situation and the possibility of a safe use of products containing both construction asbestos and asbestos used in its assets (electric locomotives), and submits the required reports to the competent environmental protection authorities. Asbestos is being gradually withdrawn to comply with the statutory deadline for its disposal (by 2032).

No sanctions are envisaged due to any irregularities in the management of asbestos.

5) Organizational actions

In response to changes in legislation in the area of environmental protection management, the Company runs annual inspections and updates of the following:

- Instructions for handling installations and equipment causing emissions and for handling waste at PKP CARGO S.A.
- Company's internal regulations related to generation of municipal and industrial waste
- transmission of data, drafting of information on the extent of use of the environment and its protection.

Internal control over the proper use of the environment in all aspects is exercised by the environmental protection division.

The PKP CARGO Group runs its business throughout the country and beyond its borders. The consumption of materials, fuels and electricity during the conduct of business operations causes an extensive impact on the environment. In order to avoid any breaches of environmental protection laws and minimize the risk of sanctions against the Group's member companies, continuous monitoring and inspection of the conduct of their operations are required. Aware of their impact on the environment, the companies take actions aimed at preventing environmental pollutions. Moreover, they make efforts aimed at ensuring the constant raising of environmental awareness among their personnel by training all staff responsible for performing tasks associated with the transport of cargo, supervision and maintenance of installations causing emissions into the environment and waste management.

The Group is involved in achieving compliance of its actions with the applicable laws and regulations, has in place a program of environmental measures and achieves measurable results of these activities, has qualified personnel conducting environmental matters with the use of instruments in the form of software for calculating environmental fees, which constitutes an up-to-date database on the extent of the use of the environment. The employees have access to up-to-date regulations and instructions, and their environmental awareness is growing every year due to training and information processes conducted.

All this means that serious sanctions for the use of the environment are rather unlikely to be imposed against members of the PKP CARGO Group.

8.6 Description of the Company's and the PKP CARGO Group's sponsoring, charitable or other similar activities

Among the areas of the Company's sponsorship activities, in accordance with the Brand Strategy, are innovative initiatives in the TSL industry, science and education, including cooperation with institutions of higher education and scientific centers, culture and art, safety and sports, with particular emphasis placed on the development of youth through sports and care for healthy lifestyle.

Charitable support activities are focused on environmental protection and ecology (including supporting the initiatives related to ecology of transport), science and education, culture and art, safety and equalization of social differences.

Performance of sponsorship-related activities

Science, culture and art

The activities in that area included, among other things, the projects that aimed at popularizing the topic of rail transport and served as a panel for exchange of information and experience on the logistics market. PKP CARGO S.A. was a partner to an important event in the TSL industry which was the Fracht Intermodal Transport Forum.

One of the undertakings that aimed at popularizing the topic of rail transport, and, at the same time, helping the efforts related to protection of rail technology historic artifacts, was the logistical help of PKP CARGO S.A. in the process of acquisition of historic rolling stock by one of the train enthusiasts' associations in Lower Silesia, and also providing support in organizing the meeting to popularize the topic of railways among children and youth.

PKP CARGO S.A. and PKP CARGO CONNECT Sp. z o.o. supported, among other things, the organization of the Polish Art Circles (Polskie Kręgi Sztuki) Festival, which was an excellent promotion of the Polish culture as well as PKP CARGO in China (50 cities, more than 200 million recipients).

PKP CARGO S.A. was also a partner of the "Kino z duszą" Documentary Films Festival, which was an excellent promotion for the Company as a patron of ambitious film art; it co-funded the renovation of, among others, the tomb of one of the famous rail employees at the Powązki cemetery and the restoration of a rare steam locomotive; and it also supported the organization of theater plays in two children hospitals.

On the other hand, PKP CARGOTABOR co-funded the organization, in Poland and in other countries, of the anniversary festivities to commemorate the overthrow of the communist regime in Poland.

Safety

PKP CARGO S.A. was a partner to the training program entitled "I want to live safely" ("Bezpiecznie - chce się żyć") organized in Warsaw by the Traffic Division of the Warsaw Police Headquarters, and the seminar devoted to fire prevention and protection entitled "Phone Numbers to Your Friends 998-112", organized by the Polish Voluntary Fire Departments Association.

PKP CARGO S.A. was also the sponsor of the Third European Cybersecurity Forum CYBERSEC 2017, which emphasizes the importance of the company's activities related to development of the domestic and European cybersecurity system.

Sports and physical education

PKP CARGO S.A. supported, among others, the Marine Education Program in terms of training of youth on sailing techniques and popularization of the knowledge of sailing during the one-week sails at the sea, thus joining the State Treasury companies which promote this type of sport and active leisure.

PKP CARGO S.A. also co-funded another edition of "Solidarność" and Olympians' Bicycle Race.

In addition, PKP CARGO S.A. and subsidiaries supported the activities of many railway sports clubs, which places the Group among significant patrons of Polish sport.

Performance of charitable activities

In 2017, PKP CARGO S.A. undertook charitable activities to support the foundations' and associations' operations contemplated in their articles of association, as well as for the benefit of private individuals, in particular employees and pensioners of PKP CARGO S.A. and their family members. At this point, emphasis should be placed on good cooperation between PKP CARGO S.A. and the PKP Group Foundation in the performance of activities for the benefit of children from impoverished railway employee families and as well as other social initiatives.

8.7 Information about existing Compensation Policy

8.7.1 General information about the compensation system accepted in the Parent Company

In PKP CARGO S.A., the compensation rules are established in accordance with the generally applicable laws and internal regulations in force in the Company.

The compensation system is comprised of the following:

- The Company Collective Bargaining Agreement for Employees Hired by the Establishments of PKP CARGO S.A.,
- Resolutions of corporate bodies of PKP CARGO S.A. to establish and introduce the rules for compensating key staff at PKP CARGO S.A., the employees of the Company's Headquarters and the employees on management and independent positions in the Company's work establishments,
- Regulations for paying bonuses to employees in place in the work establishments.

Pursuant to the provisions of the Company Collective Bargaining Agreement, the Company employees who in 2017 represented 84.09% of total number of employees, were eligible for compensation elements, benefits and perks as well as other rights which are not contemplated in the commonly prevailing regulations or are regulated in a less favorable manner.

These employees' compensation consists of fixed and variable elements, depending on their position.

Fixed compensation components include basic compensation, special duty allowance and seniority allowance. Variable compensation components include allowances for work in conditions that are detrimental to health, burdensome and hazardous, for overtime work, for work on Sundays and holidays, for work during night, allowance for kilometers and allowance for one-person traction service.

In addition, the employees who receive compensation under the Company Collective Bargaining Agreement are eligible for monthly bonus paid according to the company bonus payment rules. The bonus fund includes the pool of funds earmarked for payment of bonuses for ongoing performance of tasks and for payment of bonuses to the employees for individual achievements.

Pursuant to the delegation contained in the Company Collective Bargaining Agreement, the employees of the Company's Headquarters and the employees on management and independent positions in the Company's work establishments, who in 2017 represented 15.91% of total number of employees, receive the compensation on the principles defined in the Resolution adopted by the PKP CARGO S.A. Management Board.

A fixed compensation element of this employee group is the monthly compensation determined on the basis of individual compensation ratio adequate to the work position as well as the average monthly compensation in the enterprise sector published by the Central Statistical Office of Poland (GUS).

The employees receiving compensation under the Resolution adopted by the PKP CARGO S.A. Management Board may be paid, depending on their position, the quarterly discretionary bonus, which is disbursed if the Company's business goals are achieved to a specified degree, or annual bonus based on the Management Through Objectives Program in place in PKP CARGO S.A. if the Program is launched in the given year.

In addition, the compensation system includes, among others, the following benefits and perks: jubilee award, disability severance pay, retirement severance pay, coal allowance in the form of cash equivalent, benefits in the form of passenger train tickets, a benefit paid on the occasion of the Railway Employee Day, additional holidays for which employees on certain positions are eligible.

In connection with floating of PKP CARGO's shares on the Warsaw Stock Exchange, on 2 September 2013 the Employee Guarantee Package was adopted by the signatories of the Company Collective Bargaining Agreement, which has a significant impact on the performance of the Company's HR policy. The Package introduced several solutions that were beneficial to PKP CARGO S.A. employees, including, among others, the following:

- guaranteed employment, compensation and place of work on the conditions stipulated in the Package, excluding management positions,
- one-off benefit in the form of employee shares,
- participation of crew representatives in the Supervisory Board and the Management Board of the Company,
- participation of crew representatives in negotiations of annual compensation increase depending on the Company's result and financial standing.

Possible reconstruction of the compensation system towards its modernization and adjustment to current market needs is determined by the willingness to achieve the consensus and unanimity by all the signatories of the Company Collective Bargaining Agreement, i.e. the employer and 12 trade union organizations.

The compensation system also contains the key management personnel compensation policy, which is an internal element of the corporate governance principles in effect in PKP CARGO S.A. established in accordance with the generally applicable laws and internal regulations in force in the Company, including in particular the provisions of the Articles of Association, the Bylaws of the Shareholder Meeting, the Bylaws of the Supervisory Board and the Bylaws of the Management Board.

The policy contains the summary of general rules for compensating the key management personnel, i.e. the Supervisory Board Members, the Members of the Management Board of PKP CARGO S.A., the department directors at the Company's Headquarters and directors of the Company's Work Establishments, and it constitutes an important element of the development and safety of PKP CARGO S.A., and its main objective is to support the strategies aimed at achieving the Company's assumed business goals.

8.7.2 Terms and value of compensation and fringe benefits of Management Board and Supervisory Board members

Management Board

In accordance with the provisions of the "Compensation policy for key management personnel of PKP CARGO S.A.", by the end of 2017, the Company applied the following rules to the hiring and compensating its Management Board Members:

1. Possible forms of employment for Management Board Members are: employment contract or other type of contract (e.g. contract for the provision of management services, management contract).
2. Management Board Members hired under an employment contract are subject to all regulations arising from the provisions of labor law, i.e. the Labor Code, other statutes and executive regulations specifying the rights and obligations of employees and employers, as well as from internal company regulations.
3. The type of contract with a Management Board Member and the amount of compensation consisting of fixed and variable components are determined by the Supervisory Board.
4. A Management Board member is entitled to a monthly base salary calculated on the basis of an objective and measurable indicator, corresponding to the size of the enterprise and remaining in a reasonable relation to the Company's economic performance.
5. Management Board Members are entitled to a variable compensation (bonus) for the achievement of objectives of special importance to the Company, as specified by the Supervisory Board. Objectives of special importance to the Company should be specified no later than by the end of February of each year and should include short- and long-term targets corresponding with the Company's long-term strategy. Such targets are defined on an individual and company-wide basis and contain information about the indicators, weights and expected level of achievement.
6. Management Board Members may be granted the right to use, in accordance with the rules in force in the Company, any tools and technical equipment necessary to discharge the duties of a Management Board Member, a company car, a company payment card, a medical care package and an apartment.
7. The Company's Management Board Members are bound by a non-compete clause during their employment and after the termination or expiration of their contract ("extended non-compete clause"). On account of the extended non-compete clause, they are entitled to compensation as determined by the Supervisory Board. During the term of validity of the non-compete clause, Management Board Members may not conduct any business competitive to that of the Company or of any member of the PKP CARGO Group.
8. The discharge of a function in a governing body is the main area of professional activity of a Management Board Member. It may be permitted for a Management Board Member to be additionally involved in the activities of the management or supervisory bodies of other members of the PKP CARGO Group.
9. The amount of compensation for such additional activities and the conditions under which a function may be discharged in a corporate body of a subsidiary are defined by the competent corporate body of that subsidiary.

The table below presents total compensation and fringe benefits for PKP CARGO S.A. Management Board members in 2017.

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Table 54 Salaries and fringe benefits for PKP CARGO S.A. Management Board members in 2017 (PLN)*

Name	Compensation, holiday equivalent	Bonuses, sporadic awards, jubilee awards	Severance pays indemnities, non-competition	Other revenue taxed and subject to social security contributions	Subsidiaries	Total
Current Management Board members						
Krzysztof Mamiński	0	0	0	0	0	**0**
Grzegorz Fingas	602,843	0	0	12,141	75,769	**690,753**
Witold Bawor	116,358	0	0	0	36,331	**152,689**
Zenon Kozendra	578,687	0	0	4,041	53,717	**636,444**
Former Management Board members						
Maciej Libiszewski	609,447	0	118,080	4,041	97,448	**829,016**
Arkadiusz Olewnik	531,457	0	0	4,463	308,085	**844,005**
Jarosław Klasa	342,159	0	301,000	7,447	105,411	**756,016**
Adam Purwin	0	0	162,502	0	0	**162,502**
Jacek Neska	0	0	285,713	0	0	**285,713**
Łukasz Hadyś	0	0	285,713	0	0	**285,713**
Wojciech Derda	0	0	232,287	0	0	**232,287**

Source: Proprietary material
*taxed nad paid employee contribution

Supervisory Board

In accordance with the provisions of the “Compensation policy for key management personnel of PKP CARGO S.A.”, by the end of 2017, the Company applied the following rules to the hiring and compensating its Supervisory Board Members:

1. Supervisory Board Members are not employed by the Company (this applies to the form of appointing a Supervisory Board member; Supervisory Board members – employee representatives may be Company employees, and they suspend their employment relationship for the duration of their service on the Supervisory Board).
2. The amounts of compensation of the Supervisory Board Members are set by the Company’s Shareholder Meeting.
3. Compensations of the Supervisory Board Members are not related to the Company’s financial performance, options or other financial instruments or with any variable component.
4. Compensations of the Supervisory Board Members do not constitute a significant item in the costs of the Company’s operations and do not significantly affect its financial performance.
5. Compensations of the Supervisory Board Members should be commensurate with the entrusted scope of activities and discharged functions, e.g. work in Supervisory Board’s committees.
6. Supervisory Board Members may be granted the right to use, in accordance with the rules in force in the Company, any tools and technical equipment necessary to discharge the duties of a Supervisory Board Member.

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

The table below presents total compensation and fringe benefits of the Company's Supervisory Board members in 2017.

Table 55 Salaries and fringe benefits for PKP CARGO S.A. Supervisory Board members in 2017 (PLN)

Name	Position	Compensation for discharging a function in the SB PKP CARGO S.A.	Other compensation (PKP CARGO S.A.)	Subsidiaries
Krzysztof Mamiński	Supervisory Board Chairman	0	0	0
Mirosław Antonowicz	Supervisory Board Deputy Chairman	0	0	0
Krzysztof Czarnota	Supervisory Board Member	125,244	164,996	0
Zofia Dzik	Supervisory Board Member	125,244	0	0
Raimondo Eggink	Supervisory Board Member	125,244	0	0
Jerzy Kleniewski	Supervisory Board Member	25,587	0	0
Małgorzata Kryszkiewicz	Supervisory Board Member	125,244	0	0
Mirosław Pawłowski	Supervisory Board Member	27,724	0	157,509
Marek Podskalny	Supervisory Board Member	112,719	171,693	0
Tadeusz Stachaczyński	Supervisory Board Member	125,244	85,368	0
Władysław Szczepkowski	Supervisory Board Member	99,993	0	0
Andrzej Wach	Supervisory Board Member	51,848	0	0
Czesław Warsewicz	Supervisory Board Member	125,244	0	0

Source: Proprietary material

Terms of non-financial components of compensation for other key managers

Department Directors and Unit Directors

In accordance with the provisions of the "Compensation policy for key management personnel of PKP CARGO S.A.", by the end of 2017, the Company applied the following rules to non-financial components of compensation:

1. In addition to the fixed and variable components of their compensation, the Company's key managers may be granted, in accordance with the rules in force in the Company, the right to obtain co-financing of the rent for an apartment, a company car, a company payment card, tools and technical equipment necessary to discharge the duties of a given position, and the right to medical care.
2. The Company's key managers may subject to a ban on conducting any business competitive to that of PKP CARGO S.A. after the termination of their employment relationship, in accordance with the terms defined by a Management Board Resolution, and on this account are entitled to receive compensation for observing the ban on conducting any business competitive to that of PKP CARGO S.A. and other members of the PKP CARGO Group.

At the beginning of 2018, new remuneration principles for the key management personnel of PKP CARGO S.A. were implemented.

8.7.3 Indication of material changes introduced in the compensation policy in the last financial year or information on absence of such changes

No material changes in the Company's compensation policies were introduced in 2017.

8.7.4 Evaluation of the practical application of the compensation policy in the context of its goals, in particular the long-term increase of the company's value for shareholders and stability of its operations

The "Compensation policy for key management personnel", which was in effect in 2017, enabled the Company to generate value for its shareholders in the following aspects:

- The implementation of an official document describing the rules for compensating the Company's key management personnel ensures compliance with the standards generally applicable to companies listed on the Warsaw Stock Exchange.
- The adoption of the Compensation Policy means that the compensation rules defined therein are not set on an ad hoc basis under the influence of any current events or in response to the current financial performance but are a set of permanent, transparent and independent compensation rules contributing to the stability of the enterprise.
- The Policy enables the selection of groups of employees who, through the functions they discharge, exert a significant impact on the efficient management of the organization and on the implementation of the Company's strategic objectives.
- In particular, the Compensation Policy adopted by the Company defines a transparent form, structure and manner for determining the compensations of key managers in terms of their fixed and variable components and fringe benefits, which helps reduce the risks that would arise from unstable compensation rules applicable to the Company's key personnel.

8.7.5 Agreements entered into between PKP CARGO S.A. and managers which provide for compensation in specific cases

On 19 January 2016, pursuant to Resolution No. 1512/V/2016, the Supervisory Board appointed Maciej Libiszewski as President of the PKP CARGO S.A. Management Board. The employment contract with the President of the PKP CARGO S.A. Management Board was entered into pursuant to Resolution No. 1516/V/2016 adopted by the Supervisory Board on 9 February 2016.

On 31 May 2016, the Supervisory Board, pursuant to Resolutions nos. 1571/V/2016, 1573/V/2016, 1575/V/2016 appointed Arkadiusz Olewnik as Management Board Member in charge of Finance of PKP CARGO S.A., Jarosław Klasa as Management Board Member in charge of Operations of PKP CARGO S.A. and Grzegorz Fingas as Management Board Member in charge of Commerce of PKP CARGO S.A. On 14 July 2016, the PKP CARGO S.A. Supervisory Board adopted Resolution No. 1599/VI/2016 to appoint as of 14 July 2016 Mr. Zenon Kozendra to the position of Management Board Member – Employee Representative.

Employment contracts were concluded with the Management Board members. The basic provisions of the said employment contracts are as follows:

1. Management Board members perform the tasks specified in the employment contract on a full-time basis;
2. the contract is entered into for the period of discharge of the position of President/Member of the Management Board of the current term of office of the Company's Management Board within the meaning of § 27 section 5 of the Articles of Association and the term of office following the current term of office within the meaning of § 27 section 5 of the Articles of Association. The contract will be terminated upon expiration of the said term. The contract may be terminated at any time by mutual agreement of the Parties;
3. Management Board members are entitled to a monthly base compensation and a variable compensation (bonus) for the achievement of objectives of special importance to the Company, as specified by the Supervisory Board;
4. Management Board members undertake that during the term of validity of their contract they will not conduct any business competitive to that of the Company or of any member of the PKP CARGO Group;
5. the non-compete clause will continue to be binding for a period of 12 months after the termination or expiration of the contract and the expiration of the term of office of the Management Board member. Due to the obligation to adhere to the extended non-compete clause by Management Board members, the Company will pay them a base compensation for each month of validity of the extended non-compete clause applicable to the pertinent Management Board member;
6. at the written request of a Management Board member, the Supervisory Board may, by way of a resolution, waive the non-compete clause in respect of that Management Board member. In any such case, the Supervisory Board will specify in its resolution the scope of the waiver, indicating the applicable activities, entities or functions.

In connection with the Act of 9 June 2016 on the rules for setting the remuneration of persons managing certain companies (Journal of Laws of 2016, item 1202), on 27 April 2017, the Supervisory Board adopted Resolution no. 1669/VI/2017 to determine the rules for setting the remuneration of Management Board Members of PKP CARGO S.A. and Resolution no. 1670/VI/2017 to set the remuneration of Management Board Members of PKP CARGO S.A.

The basic conditions of the newly adopted agreements to provide management services and non-competition:

1. Management Board Members provide management services consisting in personal management of the entrusted areas of the Company's operations;
2. the agreement is concluded for the duration of discharging the function in the company's Management Board; the agreement is terminated upon the elapse of that period;
3. Management Board members are vested with the right to receive the remuneration consisting of a fixed part, constituting the monthly basic remuneration, and the variable part ("Bonus"), constituting the supplementary remuneration for the financial year in connection with the Manager's achievement of the management objectives of particular importance to the Company and the Group;
4. Management Board members undertake that during the term of validity of their contract they will not conduct any business competitive to that of the Company or of any member of the PKP CARGO Group;
5. the non-compete clause will continue to be binding for a period of six months after the termination of the contract and the expiration of the term of office of the Management Board member. Due to the obligation to adhere to the extended non-compete clause by Management Board members, the Company will pay them a base compensation for each month of validity of the extended non-compete clause applicable to the pertinent Management Board member;
6. at the written request of a Management Board member, the Supervisory Board may, by way of a resolution, release the Manager from, respectively, the Non-Compete Clause or Extended Non-Compete Clause. The Supervisory Board will specify in its resolution the scope of the waiver, indicating the applicable activities, entities or functions.

On 26 October 2017, the Supervisory Board adopted Resolution No. 1698/VI/2017 appointing Witold Bawor to the position of the PKP CARGO S.A. Management Board Member in charge of Operations.

The Supervisory Board concluded with Management Board members the aforementioned agreements to provide management services and non-competition.

8.8 Information about the financial statements

8.8.1 Information about the agreement entered into with an entity authorized to audit financial statements

By Resolution No. 1597/VI/2016 of the PKP CARGO S.A. Supervisory Board adopted on 30 June 2016, BDO Spółka z ograniczoną odpowiedzialnością ("BDO") with its registered office in Warsaw at ul. Postępu 12, entered in the register of entities authorized to audit financial statements under the file number 3355, was selected as the auditor.

The agreement with BDO was entered into on 27 July 2016 to perform the following activities:

- audit of the standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group for 2016-2018,
- review of the semi-annual standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group for 2016-2018,
- verification of the reporting package prepared for the purposes of consolidation with PKP S.A.
- conduct of agreed procedures aimed at confirming the correct calculation of the annual ratios defined in the loan agreements,
- translation of quarterly, semi-annual and annual standalone and consolidated financial statements into English.

On 16 October 2017, an annex was signed to the aforementioned agreement, pursuant to which the auditor shall additionally prepare the report for the audit committee and it shall cease, as of 1 January 2018, to translate the quarterly, semi-annual and annual standalone and consolidated financial statements into English.

In addition, BDO Sp. z o.o. made a research audits of financial statements of the Group companies, i.e. PKP CARGOTABOR Sp. z o.o., PKP CARGO CONNECT Sp. z o.o. and PKP CARGO SERVICE Sp. z o.o.

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Table 56 Fee of auditor (PLN net)

Item	Year ended 31 Dec 2017	Year ended 31 Dec 2016
Audit of the standalone and consolidated financial statements	120,427	120,427
Audit of the financial statements of the subsidiaries	86,408	86,408
Other attestation services, including a review of the financial statements	105,520	105,520
Other services (including training)	2,500	5,000
Total	**314,855**	**317,355**

Source: Proprietary material

8.8.2 Rules for preparing the annual financial statements

The Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2017 and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2017 have been prepared in accordance with International Financial Reporting Standards and related interpretations adopted by the European Union ("EU IFRS"), published and in effect at the time of preparation of the standalone and consolidated financial statements and in accordance with the Finance Minister's Regulation of 19 February 2009 on the current and periodic information transmitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent (Journal of Laws of 2014 Item 133, as amended) ("Regulation").

The Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2017 and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2017 have been prepared based on the assumption that both PKP CARGO S.A. and the Group will continue to be a going concern in the foreseeable future. As at the preparation date of these financial statements, there are no circumstances indicating any substantial threat to PKP CARGO S.A.'s and the Group's ability to continue to run their business as a going concern for a period of at least 12 months from the date of these financial statements.

The Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2017 and the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2017 have been prepared in accordance with the historic cost principle except for derivative financial instruments carried at fair value.

8.8.3 Description of unusual items in the standalone financial statements of PKP CARGO S.A. and the consolidated financial statements of the PKP CARGO Group

As at 31 December 2017, due to the recorded increase in the market prices of scrap metal compared to the prices adopted by the Company for valuation of the residual value of rolling stock in previous periods, the Company's Management Board, having analyzed the impact of this change on the 2017 standalone and consolidated financial statements, decided to revaluate the residual value of rolling stock and reverse part of the impairment loss ("loss") of the rolling stock in the amount of PLN 27,414 thousand. Reversal of the aforementioned loss have improved the Company's financial result for 2017 in the amount of PLN 22,205 thousand, which includes the effect of tax. The revaluation of the loss is a non-cash item and has no effect on PKP CARGO's liquidity position.

8.8.4 Description of significant off-balance sheet items

Material off-balance sheet items are described in the following Notes to the SFS and CFS:

- Operational lease agreement in **Note 33** to the SFS and **Note 31** to the CFS,
- Operational lease Liabilities to incur expenditures for non-financial non-current assets in **Note 34** to the SFS and **Note 32** to the CFS,
- Contingent liabilities in **Note 35** to the SFS and **Note 33** to the CFS
- Collateral for the repayment of liabilities in **Note 36** to the SFS and **Note 34** to the CFS

9. Representation on the application of corporate governance

9.1 Indication of a set of corporate governance rules applicable to PKP CARGO S.A. and of the place where the wording of such rules is publicly available

In the period from the date of admission of the Company's shares to public trading, i.e. from 28 October 2013 to 31 December 2016, the Company was subject to the corporate governance rules described in the Code of Best Practice for WSE-Listed Companies ("Code of Best Practice") forming an attachment to Resolution No. 12/1170/2007 of 4 July 2007 adopted by the Supervisory Board of the Warsaw Stock Exchange, as amended by the following resolutions adopted by the Supervisory Board of the Warsaw Stock Exchange: Resolution No. 17/1249/2010 of 19 May 2010 (effective from 1 July 2010), Resolution No. 15/1282/2011 of 31 August 2011 (effective from 1 January 2012), Resolution No. 20/1287/2011 of 19 October 2011 (effective from 1 January 2012) and Resolution No. 19/1307/2012 of 21 November 2012 (effective from 1 January 2013).

The wording of the Code of Best Practice to which the Company was subject in 2017 is available on the website of the Warsaw Stock Exchange at http://static.gpw.pl/pub/files/PDF/dobre_praktyki/dobre_praktyki_16_11_2012.pdf.

On 13 October 2015, the Supervisory Board of the Warsaw Stock Exchange adopted a resolution on the adoption of a new set of corporate governance rules entitled the "Code of Best Practice for WSE-Listed Companies 2016" (hereinafter referred to as the "Code of Best Practice 2016") which entered into force on 1 January 2016 and replaced the previous set of corporate governance rules adopted by Resolution of the Warsaw Stock Exchange of 4 July 2007, as amended. The wording of the "Code of Best Practice 2016" to which the Company has been subject since 1 January 2016 is available on the website of the Warsaw Stock Exchange at http://static.gpw.pl/pub/files/PDF/RG/DPSN2016__GPW.pdf.

In connection with the entry into force on 1 January 2016 of the "Code of Best Practice 2016", on 4 January 2016 the Management Board published a current report in Electronic Information Base format containing "Information on the progress of the Company's application of recommendations and rules laid down in the Code of Best Practice for WSE-Listed Companies 2016, the wording of which is available on the Company's website in the section Investor Relations/Corporate Governance/Good Practices.

9.2 Extent to which PKP CARGO S.A. failed to observe the provisions of the set of corporate governance rules, indication of such provisions and explanation of the reasons for the failure

In 2017, the Company complied with the recommendations and rules laid down in the Code of Best Practice for WSE-Listed Companies, except for the following ones:

Chapter II Recommendation 2 of the Code of Best Practice concerning the appointment of management board members or supervisory board members

The Company expresses its support for this recommendation concerning the pursuit of versatility and diversity in the process of selection of members of the management board and the supervisory board, in terms of such criteria as gender, field of education, age and professional experience. However, the Company has a policy in place under which the Company employs competent, creative individuals with appropriate professional experience and education, without considering the gender and age criterion.

Chapter IV Recommendation 2 of the Code of Best Practice concerning the enabling of shareholders to participate in a Shareholder Meeting using electronic means of communication

The Company decides not to apply this principle because of the legal, organizational and technical risks, which may pose a threat to the correct course of the general shareholder meeting if means of remote communication are provided to the shareholders. Additionally, none of the shareholders has notified the Company about being interested in such a manner of participating in the general shareholder meeting. We must assert that the principles governing the participation in general shareholder meetings currently allow the shareholders to exercise all the rights arising from their shares efficiently and protect interests of all the shareholders.

Chapter VI Recommendation 3 of the Code of Best Practice concerning the functioning of the compensation committee

The Company decides not to apply this corporate governance principle on a temporary basis, until appropriate amendments are made to its corporate documents.

Chapter VI Recommendation 4 of the Code of Best Practice concerning the levels of compensation for members of the management board and the supervisory board and key managers

Remuneration of the Supervisory Board members is currently differentiated only in respect to the Chairperson of the Company's Supervisory Board who, pursuant to Resolution 5/2014 adopted by the Extraordinary Shareholder Meeting on 30 July 2014, receives remuneration higher than other Supervisory Board Members. However, the remuneration does not take into account additional functions of the Company's Supervisory Board members, such as activity in Supervisory Board committees. Accordingly, this corporate governance principle is complied with only partially. The Company's Management Board will recommend amendments in this respect to the General Shareholder Meeting to ensure that it is possible to fully comply with this corporate governance principle.

Chapter I Rule 1.15 concerning the diversity policy applied by the company to its authorities and key managers

The Company has a policy in place under which the Company employs competent, creative individuals with appropriate professional experience and education, without considering the sex and age criterion.

Chapter I Rule 1.16 concerning the planned broadcasting of shareholder meetings

Non-application of this corporate governance principle is a consequence of the Company's decision not to apply principle IV.R.2., which requires the Company to enable shareholders to participate in the General Shareholder Meeting using means of electronic communication, in particular by real-time broadcast of the general shareholder meeting.

Chapter I Rule 1.20 concerning the recording of the course of shareholder meetings in audio or video form

The Company believes that non-application of this principle does not affect the reliability of the Company's information policy or the completeness of the material information provided by the Company to its shareholders.

Chapter II Rule 2 concerning the consent of the supervisory board for members of the management board to sit on the management boards or supervisory boards of companies other than members of the company's group

The Company decides not to apply this corporate governance principle on a temporary basis, until appropriate amendments are made to its corporate documents.

Chapter II Rule 5 concerning the submission, by a member of the supervisory board to the other members of the company's supervisory board and management board, of a statement on his/her meeting of the independence criteria

The Company decides not to apply this corporate governance principle on a temporary basis, until appropriate amendments are made to its corporate documents.

Chapter II Rule 6 concerning the assessment of fulfillment of the independence criteria by members of the supervisory board

The Company decides not to apply this corporate governance principle on a temporary basis, until appropriate amendments are made to its corporate documents.

Chapter II Rule 7 concerning the tasks and functioning of the supervisory board committees

The Company decides not to apply this corporate governance principle on a temporary basis, until appropriate amendments are made to its corporate documents.

Chapter II Rule 8 concerning the fulfillment of the independence criteria by the chairperson of the audit committee

The Company decides not to apply this corporate governance principle on a temporary basis, until appropriate amendments are made to its corporate documents.

Chapter II Rule 10.1 concerning the assessment of the company's standing, taking into account the assessment of the internal control, risk management and compliance systems and the internal audit function

The Company decides not to apply this corporate governance principle on a temporary basis, until appropriate amendments are made to its corporate documents.

Chapter II Rule 10.2 concerning the supervisory board's activity reports

The Company decides not to apply this corporate governance principle on a temporary basis, until appropriate amendments are made to its corporate documents.

Chapter II Rule 10.3 concerning the assessment of the manner of the company's fulfillment of reporting duties concerning the application of corporate governance principles

The Company decides not to apply this corporate governance principle on a temporary basis, until appropriate amendments are made to its corporate documents.

Chapter II Rule 10.4 concerning the assessment of reasonability of the company's policy related to sponsorship activities, charitable activities or other activities of a similar nature

The Company decides not to apply this corporate governance principle on a temporary basis, until appropriate amendments are made to its corporate documents.

Chapter III Rule 2 concerning persons responsible for risk management, internal audit and compliance – their reporting directly to the president or another member of the management board, and ensuring the possibility of reporting directly to the supervisory board or the audit committee

The Company decides not to apply this corporate governance principle until it completes the process to analyze the rationale and the possible method to be used to implement this corporate governance principle in the Company and until the Company's Management Board decides whether or not to apply this principle.

Chapter III Rule 4 concerning presentation to the supervisory board by the person in charge of internal audit (in case such a separate function exists in the company) and by the management board of own assessment of the effectiveness of operation of the internal control, risk management and compliance systems and the internal audit function

The Company decides not to apply this corporate governance principle on a temporary basis, until appropriate amendments are made to its corporate documents.

Chapter III Rule 5 concerning the supervisory board's monitoring of the effectiveness of operation of the internal control, risk management and compliance systems and the internal audit function and annual assessments of this effectiveness

The Company decides not to apply this corporate governance principle on a temporary basis, until appropriate amendments are made to its corporate documents.

Chapter IV Rule 2 concerning the provision of publicly available broadcasts of shareholder meetings in real time.

The Company is of the opinion that non-application of this principle does not affect the reliability of the Company's information policy or the completeness of the material information provided by the Company to its shareholders.

Chapter V Rule 5 concerning the company's execution of a significant agreement with a shareholder holding at least 5% of the total number of votes in the company or with a related party

The Company decides not to apply this corporate governance principle on a temporary basis, until appropriate amendments are made to its corporate documents.

Chapter V Rule 6 concerning the specification, in the company's internal regulations, of the criteria and circumstances in which a conflict of interest may emerge in the company and the rules of conduct in an actual or threatened conflict of interest situation

Currently, this corporate governance principle is complied with only partially. Although the Management Board Bylaws contain provisions about the conduct if a conflict of interest arises between the Company's interests and the personal interests of a Company's Management Board member, they do not include all the requirements of this corporate governance practice, i.e. they do not identify for example the criteria and circumstances under which a conflict of interest may arise in the company. The Company's Management Board will take steps to fully comply with this corporate governance principle and will recommend such steps to the Company's Supervisory Board.

9.3 Description of the primary attributes of the internal control and risk management systems used in PKP CARGO S.A. in respect of the process of preparing standalone and consolidated financial statements

Uniform accounting policy

PKP CARGO S.A.'s parent company has developed and implemented the Accounting Policy designed in accordance with EU IFRS. The document is updated on an ongoing basis as statutory amendments are introduced. The principles contained in the document are applied to standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group. Companies subject to consolidation are required to apply the Accounting Policy of PKP CARGO S.A. in their preparation of reporting consolidation packages which form the basis for preparation of the PKP CARGO Group's consolidated financial statements.

Uniform consolidation packages of subsidiaries

For the purposes of preparation of the consolidated financial statements of the PKP CARGO Group, a uniform pattern of reporting packages based on EU IFRS to be prepared by the subsidiaries has been adopted. The subsidiaries prepare their reporting packages in accordance with EU IFRS taking into account the differences between Polish Accounting Standards and EU IFRS.

Bookkeeping

The reliability of financial statements is ensured by using data derived directly from the accounting ledgers. The Parent Company keeps a set of accounting ledgers forming the basis for preparation of financial statements in its computerized financial and accounting system SAP. The Company updates its financial and accounting system on an ongoing basis in line with the changing legislation and reporting requirements, both internal and external. Access to the IT systems is restricted by appropriate permissions granted to authorized employees. The IT and organizational solutions used by the Company secure control of access to the financial and accounting system and ensure appropriate protection and archiving of accounting ledgers.

Procedures for the closing of ledgers and authorization of financial statements

PKP CARGO S.A. and the subsidiaries have implemented internal procedures for closing the reporting periods, setting the dates and defining the responsibilities of internal departments for each reporting area; financial statements are subjected to internal procedures aimed at verifying their completeness and compliance; EU IFRS-compliant reporting packages are signed by the

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Management Boards of the subsidiaries and EU IFRS-compliant consolidated financial statements are properly authorized and signed by the Company's Management Board.

Supervision by the Audit Committee

Within the structure of the PKP CARGO S.A. Supervisory Board, the Audit Committee has been established which, in accordance with the applicable regulations, exercises supervision over the process of preparation of consolidated financial statements and the process of financial audit and which analyzes and monitors interim and annual financial data of both the Company and the Group.

Audit and review of financial statements

Annual standalone and consolidated financial statements are audited by a statutory auditor, semi-annual standalone and consolidated financial statements are reviewed by a statutory auditor; reports on the auditor's activities are appended to all approved and published financial statements.

9.4 Shareholders holding directly or indirectly significant blocks of shares

As at the delivery date of this report, the total number of the Company's outstanding shares is 44,786,917. According to notices received by the Company, the structure of shareholders holding directly or indirectly significant blocks of shares in the Company was as follows:

Table 57 Shareholder structure of PKP CARGO S.A. as at 1 January 2017

Shareholder	Number of shares	% in share capital	Number of votes	% in the total number of votes at the Shareholder Meeting
PKP S.A. (1)	14,784,194	33.01%	14,784,194	33.01%
Nationale-Nederlanden OFE (2)	6,854,195	15.30%	6,854,195	15.30%
MetLife OFE (3)	2,494,938	5.57%	2,494,938	5.57%
AVIVA OFE (4)	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	18,315,219	40.89%	18,315,219	40.89%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

Source: Proprietary material
(1) According to a notice sent by the shareholder on 24 June 2014.
(2) According to a notice sent by the shareholder on 18 October 2016.
(3) According to a notice sent by the shareholder on 18 August 2016.
(4) According to a notice sent by the shareholder on 13 August 2014.

On 27 March 2017, the Company's Management Board received from Towarzystwo Funduszy Inwestycyjnych PZU S.A. (TFI PZU SA) the notification of increase above the 5% threshold of the share in total number of votes at the shareholder meeting of the Company by the following funds managed by TFI PZU SA ("TFI PZU Funds"):

- PZU Fundusz Inwestycyjny Otwarty Parasolowy [PZU Umbrella Open-End Investment Fund],
- PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Globalnych Inwestycji [PZU Global Investment Specialized Open-End Investment Fund],
- PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Universum [PZU Universum Specialized Open-End Investment Fund],
- PZU Fundusz Inwestycyjny Zamknięty Akcji Focus [PZU Focus Closed-End Equity Investment Fund],
- PZU Fundusz Inwestycyjny Zamknięty Dynamiczny [PZU Dynamic Closed-End Investment Fund].

This threshold was crossed as a result of the 21 March 2017 settlement of the purchase of 71,393 shares in PKP CARGO S.A. performed on 17 March 2017 in regular transactions on the Warsaw Stock Exchange. The notification stated that prior to the change in shareholding, the TFI PZU Funds held a total of 2,231,450 shares in the Company representing 4.9824% of the Company's share capital and entitling to 2,231,450 votes at the Shareholder Meeting of the Company ("SM"), which constituted 4.9824% of total number of votes. After the change in shareholding, the TFI PZU Funds held a total of 2,302,843 shares in the Company representing 5.1418% of the Company's share capital and entitling to 2,302,843 votes at the SM, which constituted 5.1418% of total number of votes.

On 16 June 2017, the Company's Management Board received from Towarzystwo Funduszy Inwestycyjnych PZU S.A. (TFI PZU SA) the notification of decrease below the 5% threshold of the share in total number of votes at the shareholder meeting of the Company by the following funds managed by TFI PZU SA ("TFI PZU Funds"):

- PZU Fundusz Inwestycyjny Otwarty Parasolowy [PZU Umbrella Open-End Investment Fund],
- PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Globalnych Inwestycji [PZU Global Investment Specialized Open-End Investment Fund],
- PZU Specjalistyczny Fundusz Inwestycyjny Otwarty Universum [PZU Universum Specialized Open-End Investment Fund],
- PZU Fundusz Inwestycyjny Zamknięty Akcji Focus [PZU Focus Closed-End Equity Investment Fund],
- PZU Fundusz Inwestycyjny Zamknięty Dynamiczny [PZU Dynamic Closed-End Investment Fund].

This threshold was crossed as a result of the 13 June 2017 settlement of the sale of 52,473 shares in PKP CARGO S.A. performed on 9 June 2017 in regular transactions on the Warsaw Stock Exchange. The notification stated that prior to the change in shareholding, the TFI PZU Funds held a total of 2,247,244 shares in the Company representing 5.0176% of the Company's share capital and entitling to 2,247,244 votes at the SM, which constituted 5.0176% of total number of votes. After the change in shareholding, the TFI PZU Funds held a total of 2,194,771 shares in the Company representing 4.9005% of the Company's share capital and entitling to 2,194,771 votes at the SM, which constituted 4.9005% of total number of votes.

On 7 September 2017, the Company's Management Board received from Aegon Powszechne Towarzystwo Emerytalne S.A. ("Aegon PTE"), which previously managed only the Aegon Open-End Pension Fund ("Aegon OFE"), the notification of increase above the 5% threshold of the share in total number of votes at the shareholder meeting of the Company, jointly with Aegon OFE and Nordea Open-End Pension Fund ("Nordea OFE"), in connection with the 1 September 2017 assumption by Aegon PTE of the management of Nordea OFE.

Before the aforementioned assumption of management:

- Aegon OFE held 1,631,258 shares in the Company, which represented 3.64% of its share capital and 1,631,258 votes, that is 3.64% of the total number of votes,
- Nordea OFE held 868,721 shares in the Company, which represented 1.94% of its share capital and 868,721 votes, that is 1.94% of the total number of votes,

After the assumption of management of Nordea OFE as at 1 September 2017, both funds managed by the Company hold a total of 2,499,979 shares in the Company, which represents 5.58% of the share capital and 2,499,979 votes, or 5.58% of the total number of votes.

On 23 November 2017, the Company's Management Board received from Aegon PTE, which manages Aegon OFE, the notification of Aegon OFE's increase above the 5% threshold of the share in total number of votes at the shareholder meeting of the Company, in connection with the completion on 17 November 2017 of the liquidation process of Nordea OFE, as a result of which on that date all the assets of Nordea OFE were transferred to Aegon OFE and Aegon OFE assumed all the rights and duties of Nordea OFE.

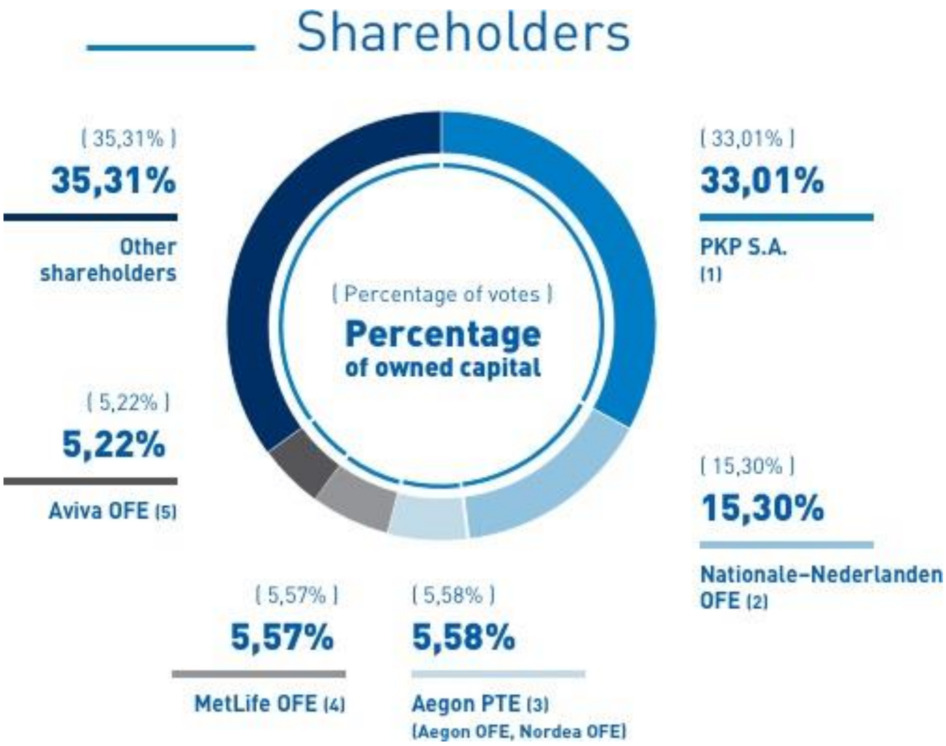
Directly before the completion date of the Nordea OFE liquidation process:

- Aegon OFE held 1,631,258 shares in the Company, which represented 3.64% of its share capital and 1,631,258 votes, that is 3.64% of the total number of votes,
- Nordea OFE held 868,721 shares in the Company, which represented 1.94% of its share capital and 868,721 votes, which is 1.94% of the total number of votes.

On the date of liquidation completion, i.e. as at 17 November 2017, AEGON OPF holds 2,499,979 shares in PKP CARGO S.A., which represents 5.58% of the share capital and 2,499,979 votes, or 5.58% of the total number of votes.

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Figure 33 Shareholder structure of PKP CARGO S.A. as at 31 December 2017 and as at the date of submission of this report



(1) According to a notice sent by the shareholder on 24 June 2014.
(2) According to a notice sent by the shareholder on 18 October 2016.
(3) According to a notice sent by the shareholder on 23 November 2017.
(4) According to a notice sent by the shareholder on 18 August 2016.
(5) According to a notice sent by the shareholder on 13 August 2014.

Source: Proprietary material

The structure of PKP CARGO S.A.'s share capital as at the delivery date of this report is presented in the table below:

Table 58 Structure of PKP CARGO S.A.'s share capital

Shares	Issue date	Issue registration date	Number of shares
Series A	8 July 2013	2 October 2013	43,338,000
Series B	8 July 2013	2 October 2013	15
Series C	2 October 2013	25 April 2014	1,448,902
Total			**44,786,917**

Source: Proprietary material

PKP CARGO S.A. is unaware of any agreements entered into by its existing shareholders which may result in future changes to the proportions of their shareholdings.

9.5 Holders of securities giving special controlling rights and a description of such rights

No PKP CARGO S.A. securities give any of the shareholders of any special control rights.

9.6 Restrictions regarding the exercise of voting rights

Right to participate in the Shareholder Meeting and voting rights

Shareholders exercise their right to vote at Shareholder Meetings. Pursuant to the Commercial Company Code, the Company's shareholders may participate in the Shareholder Meeting and exercise their voting right in person or by proxy. A shareholder wishing to participate in a Shareholder Meeting by proxy must grant the proxy powers in writing or in electronic form. The Company provides a form of proxy document in the notice on convening the Shareholder Meeting. Moreover, the Company should be notified about granting proxy powers in electronic form using the means of electronic communication specified in the announcement on convening the Shareholder Meeting. The Company takes proper action to identify the shareholder and his/her/its proxy to verify the validity of the proxy powers granted in electronic form. A detailed description of the manner of verification of the validity of proxy powers granted in electronic form must be included in the contents of the notice on convening the Shareholder Meeting.

A shareholder holding shares registered in more than one securities account may appoint separate proxies to exercise the rights attached to shares registered in each of his/her/its accounts.

If a Management Board member, a Supervisory Board member, the liquidator, an employee of the Company, or a member of a corporate body or an employee of a subsidiary of PKP CARGO S.A. acts as a proxy, then the proxy document may authorize such a person to represent the shareholder at a single Shareholder Meeting only. The proxy is obligated to disclose to the shareholder any circumstances indicating the existence or possibility of a conflict of interest. In such a situation, it is not permitted for the proxy to grant the proxy powers to others. The proxy will vote in accordance with the instructions given by the Company's shareholder.

Pursuant to § 11 Section 2 of the Articles of Association, each share entitles its holder to one vote at the Shareholder Meeting. Pursuant to § 13 Section 1 of the Company's Articles of Association, voting rights of the shareholders holding more than 10% of all the votes in the Company are restricted in such a manner that no such shareholder may exercise more than 10% of all the votes in the Company existing on the date of the Shareholder Meeting. This restriction does not apply for the purposes of determining the obligations of buyers of significant blocks of shares, which are prescribed by the Act on Public Offering. The above restriction of the voting rights does not apply to shareholders who, on the date of adoption of the Shareholder Meeting resolution introducing the restriction, were entitled to exercise voting rights, also as users, attached to shares representing more than 10% of the total number of votes existing in the Company or any other entity that acquires the Company's shares held by the shareholders referred to above in connection with their liquidation.

In accordance with the provisions of the Articles of Association, the limitation of voting rights of shareholders representing more than 10% of the total number of votes in the Company will not cease after a sale of all shares held by PKP S.A. to which the said limitation does not apply. As a consequence, the limitation of voting rights makes it potentially difficult for a single investor to gain control of the Company even if the stake held by PKP S.A. in the Company's share capital drops to zero.

Moreover, pursuant to § 13 Section 1 of the Company's Articles of Association, for the purposes of restricting the voting rights, the votes of the shareholders connected by a parent or subsidiary relationship are added up according to the principles described below.

The shareholders whose votes are accumulated and reduced are jointly referred to as a "Grouping". Vote accumulation involves adding up the votes held by individual shareholders from a Grouping. Reduction of votes involves reduction of the total number of votes in the Company at the Shareholder Meeting vested in the shareholders from a Grouping. Reduction of votes is effected according to the following principles:

1. for each shareholder associated with a Grouping, a percentage of votes vested in the shareholder in the cumulative number of votes vested in the entire Grouping is calculated;
2. the number of votes corresponding to 10% of all the votes in the Company is calculated on the date of holding the Shareholder Meeting;
3. for each shareholder, the product of the percentage mentioned in item 1) above and the number of votes mentioned in item 2) above is calculated;
4. the number of votes vested in each shareholder forming part of the Grouping after the reduction is the number obtained in item 3) rounded up to a full vote;
5. the reduction of the voting rights pertains also to shareholders who are not present at the Shareholder Meeting.

Pursuant to § 13 Section 7 of the Company's Articles of Association, in order to determine the basis for vote accumulation and reduction, each Company shareholder, the Management Board, Supervisory Board and individual members of these bodies, as well as the Chairperson of the Shareholder Meeting may demand that a Company shareholder whose votes are reduced provide information as to whether he/she/it is a person having the status of a controlling entity or subsidiary of another shareholder.

9.7 Restrictions on the transfer of ownership title to PKP CARGO S.A. securities

Statutory restrictions on the transferability of shares

The Public Offering Act, the Market Abuse Regulation (MAR) and the Commercial Company Code provide, among others, for the following restrictions on the unconstrained transferability of shares:

1. the obligation to notify the Polish Financial Supervision Authority and the Company applies to anyone who: (i) has reached or exceeded 5%, 10%, 15%, 20%, 25%, 33%, $33^1/_3$%, 50%, 75% or 90% of the total number of votes in a public company; (ii) holds at least 5%, 10%, 15%, 20%, 25%, 33%, $33^1/_3$%, 50%, 75% or 90% of the total number of votes in a company and, as a result of a reduction in this shareholding, reached 5%, 10%, 15%, 20%, 25%, 33%, $33^1/_3$%, 50%, 75% or 90%, respectively, or less of the total number of votes; (iii) has changed his/her/its previously held share greater than 10% of the total number of votes by at least 2% of the total number of votes in a public company whose shares are admitted to trading on an official stock market; (iv) has changed his/her/its previously held share greater than 33% of the total number of votes in a public company by at least 1% of the total number of votes;
2. the obligation to announce a call to subscribe for the sale or conversion of shares in the event of: (i) exceeding the threshold of 33% of the total number of votes at the Shareholder Meeting, (ii) exceeding the threshold of 66% of the total number of votes at the Shareholder Meeting;
3. the prohibition of the acquisition or sale, for one's own account or for a third party, of any financial instruments, based on
   confidential information;
4. the prohibition of the acquisition or sale of financial instruments during the lock-up period by the persons discharging managerial duties
5. the parent company, within the meaning of Article 4 Section 1 Item 4 of the Commercial Company Code, is required, pursuant to Article 6 Section 1 of the CCC, to inform a subsidiary capital company of the establishment or termination of a relationship of dominance within two weeks of the date of establishment of such a relationship, otherwise its voting rights attached to the shares held by the parent company representing more than 33% of the share capital of the subsidiary will be suspended.

Apart from the foregoing, there are no other statutory restrictions on the transferability of shares in the Company.

Contractual restrictions on the transferability of shares

Contractual restrictions of the transferability of shares applied to shares subscribed for by eligible employees in connection with the right granted to them as part of the Employee Guarantee Package. Each eligible employee submitting a subscription for shares was required to sign an agreement providing for restrictions on the transferability of shares for a period of 2 years from the Company's first day of trading on the Warsaw Stock Exchange, i.e. until 30 October 2015. Any submitted subscription without signing the said agreement would have been considered invalid and the eligible employee would have lost his/her right to the privatization bonus, hence also to the shares. A sale of or encumbrance on any shares or rights to shares prior to 30 October 2015 was ineffective against the Company and may have exposed the employee to liability for damages.

On the date of expiration of the above lock-up period, i.e. on 30 October 2015, series C shares were converted into bearer shares.

Pursuant to the Conditional Agreement for Underwriting the Subscriptions of Institutional Investors on the Principles of Underwriting the Initial Public Offering of PKP CARGO S.A. Shares (hereinafter referred to as the Underwriting Agreement) entered into on 8 October 2013 by and between PKP S.A. and PKP CARGO S.A. on the one side and the following entities:

1. Goldman Sachs International,
2. Morgan Stanley & Co. International plc,
3. Powszechna Kasa Oszczędności Bank Polski S.A. (also acting through its branch: Powszechna Kasa Oszczędności Bank Polski S.A. Oddział – Dom Maklerski PKO Banku Polskiego w Warszawie),
4. Dom Inwestycyjny Investors S.A.,
5. IPOPEMA Securities S.A.,
6. Mercurius Dom Maklerski Sp. z o.o.,
7. Raiffeisen Centrobank AG,

8. UniCredit Bank AG, London Branch,
9. UniCredit Bank Austria AG,
10. UniCredit CAIB Poland S.A.,

on the other side, collectively referred to as the "IPO Managers", the Company and PKP S.A. were subject to the following contractual restriction on the transferability of shares and the issue of shares:

- PKP S.A. made a commitment to the IPO Managers that from the date of execution of the Underwriting Agreement to the end of the period of 180 days from the first listing of the Company's shares on the Warsaw Stock Exchange it will not execute, without the written consent of the Global Coordinators (which consent will not be unreasonably withheld or delayed), any other transaction that might result in the issue, offer of a sale or issue, sale or disposal of Company securities similar to securities forming the subject matter of the IPO. The restriction referred to above does not apply to the disposal of shares by PKP S.A. in response to a call to subscribe for a conversion or sale of Company shares to a strategic investor for a price not lower than that provided for in the IPO.

The Company made a commitment to the IPO Managers that from the date of execution of the Underwriting Agreement to the end of the period of 180 days from the first listing of the Company's shares on the Warsaw Stock Exchange it will not execute, without the written consent of the Global Coordinators (which consent will not be unreasonably withheld or delayed), any other transaction that might result in the issue, offer of a sale or issue, sale or disposal of Company securities similar to securities forming the subject matter of the IPO.

9.8 Rules for appointment and dismissal of managers and their rights

The PKP CARGO S.A. Management Board consists of between one and five members, including the President of the Management Board. Management Board members are appointed for a joint 3-year term of office. The President and other Members of the Management Board are appointed by the Supervisory Board pursuant to the Articles of Association and the Bylaws for Appointment of Management Board Members. The Supervisory Board sets the number of Management Board members.

Management Board Members are appointed following the conduct of a recruitment procedure only from among candidates participating in the qualification procedure who received a favorable opinion from the recruitment consultant. The recruitment procedure for a Management Board Member is prepared and organized by a professional personnel consulting company selected by a resolution of the PKP CARGO S.A. Supervisory Board. A participant in the procedure for appointment of Management Board Members is the Nomination Committee which exercises ongoing supervision over the process of selection of a Management Board Member and the process of evaluation and appointment of Management Board Members.

The Supervisory Board also selects one Management Board Member from among candidates nominated by the Company's employees. Such a candidate should have higher education, at least 5 years of professional experience in the PKP Group and have no criminal record. A Management Board member may not discharge an elected function or sit in the bodies of a company, inter-company or national trade union organization, a federation of trade unions or a confederation of trade unions. The bylaws for electing candidates for a representative of employees in the Management Board shall be adopted by the Supervisory Board. A failure to appoint an employee representative to the Management Board does not prevent the Management Board from being appointed or from adopting effective resolutions. The power referred to in the first sentence above was granted to the Company's employees in connection with Article 4 Section 4 of the Act on Commercialization and Restructuring of PKP and the provisions of the Employee Guarantee Package.

As long as the State Treasury, PKP S.A. or other state legal persons hold less than 100% of the Company's shares, the President of the Management Board and other Management Board members are appointed and dismissed by the Supervisory Board.

In the event that PKP S.A.'s share in the Company's share capital is 50% or less, PKP S.A. will have the personal power to select candidates for the President of the Management Board on its own. The personal rights referred to in the preceding sentence are exercised by way of delivering a written statement to the Supervisory Board Chairperson.

Pursuant to § 18 and § 25 Section 3 Item 2 of the Articles of Association, the PKP CARGO S.A. Management Board is authorized, with the consent of the Supervisory Board, in accordance with the rules laid down in the provisions of the Commercial Company Code, to pay shareholders an interim dividend towards the dividend expected at the end of the financial year.

The Company's executives are not authorized to make any decisions on the issue or redemption of shares.

9.9 Rules for amending the Articles of Association of PKP CARGO S.A.

The rules for amending the Company's Articles of Association are based on Article 430 and Article 402 § 2 of the Commercial Company Code.

Any amendment to the Articles of Association requires a resolution of the Shareholder Meeting. Moreover, pursuant to § 27 Section 7 of the Articles of Association, the adoption of a resolution on amendments to § 14 Section 6, § 26 Section 3 or 4 or § 27 Section 7 of the Articles of Association requires a resolution of the Shareholder Meeting adopted by a majority of four-fifths of the votes in the presence of shareholders representing three-fourths of the Company's share capital.

Any amendments to the Articles of Association are subject to approval by the Shareholder Meeting and their registration by the appropriate court. Pursuant to § 25 Section 3 Item 11 of the Articles of Association, the Supervisory Board is entitled, after the court's decision on the registration of amendments to the Company's Articles of Association becomes final non-appealable, to adopt the consolidated version of the Company's Articles of Association.

An amendment to the Company's Articles of Association which involves a material change in the Company's line of business (Article 416 § 1 of the CCC) does not require a buyout of the shares held by the shareholders objecting to such an amendment if the relevant resolution of the Shareholder Meeting in this matter is adopted by a majority of two thirds of the votes in the presence of shareholders representing at least one half of the share capital.

9.10 Manner of operation and key powers of the Shareholder Meeting, description of shareholders' rights and the manner of their exercise

The Company's Shareholder Meeting operates pursuant to the provisions of the Commercial Company Code, the Company's Articles of Association (in particular, §10-§13) and the Bylaws of the Shareholder Meeting. Shareholders are entitled to participate in and exercise their voting rights at the Shareholder Meeting in person or by proxy.

The Shareholder Meeting is valid irrespective of the number of shares represented thereat.

Resolutions of the Shareholder Meeting are adopted by an absolute majority of votes except for resolutions the adoption of which is subject to more stringent requirements provided for by the Commercial Companies Code or the Articles of Association. Moreover, the adoption of a resolution on amendments to § 14 Section 6, § 26 Section 3 or 4 or § 27 Section 7 of the Articles of Association requires a resolution of the Shareholder Meeting adopted by a majority of four-fifths of the votes in the presence of shareholders representing three-fourths of the Company's share capital. The 75% majority is required for the Shareholder Meeting to adopt a resolution to dismiss or suspend the Management Board or a Management Board member if any of the shareholders or any Grouping within the meaning of § 13 section 6 of the Company's Articles of Association (except for PKP S.A. or any Grouping in which PKP S.A. is a member) reaches or exceeds a 33% stake in the Company's share capital.

Votes at the Shareholder Meeting are cast in an open ballot. A secret ballot is ordered for elections and motions for the dismissal of members of the Company's corporate bodies or the Company's liquidators, or for holding them accountable, or in other personal matters. Moreover, a secret ballot must be ordered at the request of at least one shareholder attending or represented at the Shareholder Meeting.

In accordance with the Bylaws of the Shareholder Meeting, open and secret ballots may be held using means of electronic communication with the consent of the Shareholder Meeting. The Shareholder Meeting may adopt a resolution on waiving the secrecy of voting in matters concerning the selection of a committee appointed by the Shareholder Meeting.

The Shareholder Meeting is presided over by its Chairman who oversees its efficient conduct in accordance with the adopted agenda. The Chairman may make decisions concerning procedural matters. Without the consent of the Shareholder Meeting, the Chairman may not remove or change the order of business entered in the adopted agenda.

The Shareholder Meeting of PKP CARGO S.A. is opened by the Chairman of the Shareholder Meeting appointed by the Management Board. If the President of the Management Board fails to appoint the Chairman of the Shareholder Meeting prior to the designated start time of the meeting, the provisions of Article 409 § 1 of the Commercial Company Code are applied and then the Chairman of the Shareholder Meeting is elected from among the persons entitled to participate in the Shareholder Meeting. The Chairman of the Shareholder Meeting is elected by an absolute majority of votes cast in a secret ballot.

If an Extraordinary Shareholder Meeting is convened by a shareholder whose stake in the total number of votes in the Company is greater than 33%, the Chairperson of the Shareholder Meeting is appointed by the shareholder who convenes the Shareholder Meeting.

The Shareholder Meeting adopts the Bylaws of the Shareholder Meeting laying down a detailed procedure of conduct for its meetings. Draft Bylaws of the Shareholder Meeting are presented by the Management Board. It is permitted to participate in the Shareholder Meeting by means of electronic communication, provided that the notice of convocation of the Shareholder Meeting contains information about such a possibility.

Pursuant to provisions of the Company's Articles of Association, powers of the Shareholder Meeting include, except for the matters reserved by the provisions of the Commercial Company Code and other legislative acts:

1. appointing and dismissing the President of the Management Board and other Management Board members when PKP S.A. holds all the votes at the Shareholder Meeting and as long as it is required by the mandatory provisions of law (§ 12 Section 2 Item 1 of the Company's Articles of Association);
2. appointing and dismissing Supervisory Board members, subject to the personal rights of PKP S.A. and rights of the Company's employees (§ 12 Section 2 Item 2 of the Company's Articles of Association);
3. setting the compensation of Management Board members as long as the stake in the Company held by PKP S.A. is greater than 50% of the Company's share capital and as long as required by the mandatory provisions of law (§ 12 Section 2 Item 3 of the Company's Articles of Association);
4. adopting the bylaws of the Shareholder Meeting (§ 12 Section 2 Item 4 of the Company's Articles of Association);
5. giving consent to the disposal of non-current assets within the meaning of the Accounting Act, included in intangible assets, property, plant and equipment or long-term investments, including contribution made to a company or cooperative, if the market value of such assets exceeds 5% of the total assets within the meaning of the Accounting Act, determined on the basis of the most recent approved financial statements, and delivery of such assets for use to another entity, for a period longer than 180 days in the calendar year, on the basis of a legal transaction, if the market value of the subject matter of the legal transaction exceeds 5% of total assets (§ 12 Section 2 Item 5 of the Company's Articles of Association);
6. giving consent to purchase of non-current assets within the meaning of the Accounting Act, with the value exceeding: (i) PLN 100,000,000 or (ii) 5% of total assets within the meaning of the Accounting Act, determined on the basis of the most recent approved financial statements (§ 12 Section 2 Item 6 of the Company's Articles of Association);
7. giving consent to subscription, purchase, disposal of shares or ownership interests with the value exceeding: (i) PLN 100,000,000 or (ii) 10% of total assets within the meaning of the Accounting Act, determined on the basis of the most recent approved financial statements (§ 12 Section 2 Item 7 of the Company's Articles of Association).

9.11 Personnel composition and changes to it during the most recent financial year, description of the activity of PKP CARGO S.A.'s managing, supervising or administering authorities and their committees

MANAGEMENT BOARD

The Management Board of PKP CARGO S.A. with its registered office in Warsaw operates on the basis of the applicable provisions of law, in particular:

1. Act of 15 September 2000 entitled Commercial Company Code (Journal of Laws No. 94 Item 1037, as amended);
2. Act of 8 September 2000 on the Commercialization and Restructuring of the State-Owned Enterprise "Polskie Koleje Państwowe" (Journal of Laws No. 84 Item 948, as amended);
3. Articles of Association of PKP CARGO S.A. (consolidated text adopted by Resolution No. 1682/VI/2017 of the PKP CARGO S.A. Supervisory Board dated 27 June 2017);
4. Bylaws of the PKP CARGO S.A. Management Board adopted by Resolution No. 47/2018 of the PKP CARGO S.A. Management Board dated 7 February 2018;
5. other internal regulations.

Powers of the Management Board

The Management Board manages the Company's day-to-day business, manages its assets and represents the Company in relations with third parties. The responsibilities of the Management Board include any activities that are not reserved for the Shareholder Meeting or the Supervisory Board. Management Board resolutions are adopted by an absolute majority of votes present at the meeting, provided that at least half of the Management Board members are in attendance. The President of the Management Board acting individually or two Management Board Members acting jointly or a Management Board Member acting jointly with a commercial proxy are authorized to make declarations of will.

Operation of the Management Board

The procedure of the Management Board's operation is described in detail in the Management Board Bylaws. The Bylaws are adopted by the Management Board and approved by the Company's Supervisory Board. According to the Management Board Bylaws, the Management Board makes decisions in the form of resolutions. Management Board resolutions are adopted by an absolute majority of votes, with at least half of the Management Board members attending the meeting; they may only be adopted if all the Management Board Members have been duly notified about the Management Board meeting. According to the Bylaws, if an equal number of votes is cast "for" and "against" together with abstentions, the President of the Management Board will have the casting vote. Management Board meetings are held at least once a week. In particularly justified cases, Management Board meetings may be held on a later date but no later than within 14 days of the date of the preceding meeting.

According to the Management Board Bylaws, if a conflict of interests arises between the Company and a Management Board member, a spouse, kin or relative (up to the second degree of affinity) or another person with whom the Management Board member has personal relations, the Management Board member should immediately inform the remaining Management Board Members about the conflict and in the case of the President of the Management Board, also the Company's Supervisory Board, and refrain from discussing and from voting on a resolution in the matter in which the conflict of interests has arisen and may demand this to be recorded in the minutes of the Management Board meeting.

Diversity policy

In the Company, no formal diversity policy has been prepared with regard to the Company's corporate bodies; nevertheless, the policy carried out by the Company in all the processes, especially recruitment, takes into consideration such diversity aspects as sex, education, age and professional experience, accepting diversity and equal opportunities as significant competitive advantages, which make it possible to win and retain talented employees and benefit from their professional capacity, especially with regard to the Company's corporate bodies.

The Company applies clear rules for employing Management Board and Supervisory Board members.

The Company's Articles of Association define the rules of appointing the Management Board and electing Management Board members by employees. Pursuant to § 14 Section 10 of the Company's Articles of Association, a Management Board member is obligated to satisfy the requirements specified in Article 22 of the Act on the Rules for Managing State Property (Journal of Laws 2016 Item 2259).

A recruitment procedure for the position of Management Board member is conducted on the basis of the Bylaws for Appointing Management Board Members of PKP CARGO S.A., adopted by the Supervisory Board with Resolution No. 1530/V/2016 of 30 March 2016, subject to provisions of the Regulation issued by the Council of Ministers on 18 March 2003 on the Conduct of the Recruitment Procedure for the Position of Management Board Member in Certain Commercial Companies (Journal of Laws of 2003 No. 55 Item 476, as amended). The Bylaws for Appointing Management Board Members define in particular the qualifications that will be evaluated when selecting candidates for respective positions in the Management Board. Amendments to the Bylaws for Appointing Management Board Members require consent of all Supervisory Board members who meet the independence criteria and are appointed following the rules set forth in § 20 and 21 of the Articles of Association of PKP CARGO S.A.

The procedure is organized by a professional personnel consultancy company. Each Supervisory Board member may propose a personnel consultancy company to appointed as recruitment consultant. Responsibilities of a recruitment consultant include organization and handling of the recruitment procedure for the position of a Management Board member, in compliance with law and the highest standards following from the professional character of its activity, including in particular preparations, organization and active participation in interviews with candidates to the position of a Management Board member.

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Table 59 Composition of the PKP CARGO S.A. Management Board from 1 January 2017 to the date of submission of this report

Name	Position	Period in office	
		from	to
Krzysztof Mamiński	temporary discharge of duties of President of the Management Board	26 October 2017	26 January 2018 (in accordance with Article 383 of the Commercial Company Code)
		27 January 2018	26 March 2018
Witold Bawor	Management Board Member in charge of Operations	26 October 2017	to date
Grzegorz Fingas	Management Board Member in charge of Commerce	1 April 2016	to date
Zenon Kozendra	Management Board Member – Employee Representative	14 July 2016	to date
Jarosław Klasa	Management Board Member in charge of Operations	1 April 2016	31 July 2017
Maciej Libiszewski	President of the Management Board	19 January 2016	26 October 2017
Arkadiusz Olewnik	Management Board Member in charge of Finance	1 April 2016	26 October 2017

Source: Proprietary material

On 31 July 2017, the Supervisory Board adopted Resolution No. 1685/VI/2017 to dismiss Jarosław Klasa from the position of the PKP CARGO S.A. Management Board member in charge of Operations.

On 11 September 2017, Supervisory Board adopted Resolution No. 1692/VI/2017 on initiating the recruitment procedure for Management Board Member in charge of Operations.

The recruitment procedure was carried out in accordance with § 14 Section 6 of the Articles of Association of PKP CARGO S.A. and the Bylaws for Appointing Management Board Members in PKP CARGO S.A.

On 26 October 2017, the Supervisory Board adopted Resolution No. 1698/VI/2017 appointing Witold Bawor to the position of the PKP CARGO S.A. Management Board Member in charge of Operations for the joint term of office of the Management Board within the meaning of § 27 sec. 5, in connection with § 14 Section 1 of the Articles of Association of PKP CARGO S.A.

On 26 October 2017, Maciej Libiszewski resigned from the position of President of the Management Board of PKP CARGO S.A. and Arkadiusz Olewnik resigned from the function of PKP CARGO S.A. Management Board Member in charge of Finance.

On 26 October 2017, the Supervisory Board adopted resolution 1699/VI/2017 to second Supervisory Board Member Krzysztof Mamiński to temporarily, i.e. until 26 January 2018, perform the duties of President of the PKP CARGO S.A. Management Board.

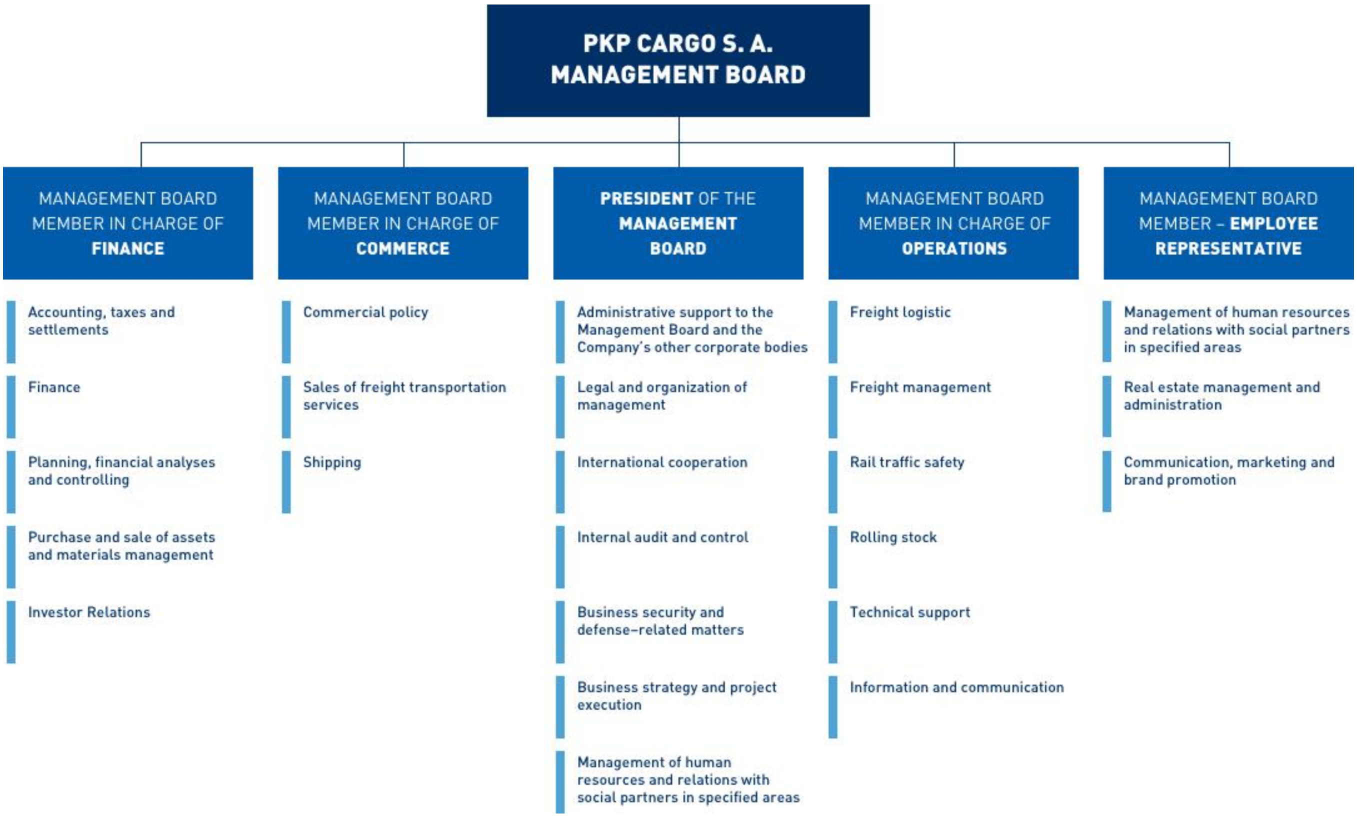
On 5 December 2017, the Supervisory Board adopted Resolution No. 1712/VI/2017 to initiate the recruitment procedure for the position of President of the PKP CARGO S.A. Management Board and PKP CARGO S.A. Management Board Member in charge of Finance.

The recruitment procedure was carried out in accordance with § 14 Section 6 of the Articles of Association of PKP CARGO S.A. and the Bylaws for Appointing Management Board Members in PKP CARGO Spółka Akcyjna.

On 25 October 2018, the Supervisory Board adopted resolution 1719/VI/2018 to second Supervisory Board Member Krzysztof Mamiński to temporarily, i.e. from 27 January 2018 to 26 March 2018, perform the duties of President of the PKP CARGO S.A. Management Board.

The internal allocation of tasks and functions discharged by Management Board members is as follows:

Figure 34 Duties and responsibilities of the Parent Company's Management Board Members as at 31 December 2017



Source: Proprietary material

Krzysztof Mamiński – Acting President of the Management Board

Mr. Krzysztof Mamiński has been associated with railways for over 40 years. He is a graduate of the University of Szczecin, where he obtained the degree of Master of Economics. He also completed post-graduate studies in the field of European Management Model in the Kozminski University in Warsaw.

He started working on the railways in 1980, in the IT Center at the Central Regional Directorate of the State Railways (CDOKP) in Warsaw. From 1990, he was a member of the National Committee of the "Solidarity" Trade Union, discharging, among others, the functions of the head of the National Section of Railway Employees of the "Solidarity" Trade Union and the head of the Office of Transport Employees in the union. In 1998-2002 he sat on the Management Board of Polskie Koleje Państwowe, in charge of restructuring and employee relations. From 2001 to 2012, he was President of the Union of Railway Employers, and from 2002 to 2012, he was President of the Management Board of Natura Tour Sp. z o.o., PKP's subsidiary. From 2012 to 2013 he acted as the PKP S.A. Management Board Representative for Social Dialog in the PKP Group and for the following three years, he was the President of the Management Board of "CS Szkolenie i Doradztwo" Sp. z o.o., a company from the PKP Group. Then, from April 2016, he was President of the Management Board of Przewozy Regionalne Sp. z o.o., and from March 2017, President of the Management Board of PKP S.A. He has been President of the PKP CARGO S.A. Management Board since 26 October 2017.

Grzegorz Fingas – Management Board Member in charge of Commerce

Mr. Grzegorz Fingas is a manager with many years of experience in building trade strategy and managing sales teams, associated with the PKP CARGO Group since 2008.

From May 2008, he discharged the function of Director of the PKP CARGO S.A. Trade Department and in the period 2010–2013, he was a Member of the Management Board of PKP CARGO International a.s. with its registered office in Bratislava. From the beginning of his professional career in 1988, Mr. Grzegorz Fingas discharged, among others, the following functions: Director of the Marketing Department of BOT Górnictwo i Energetyka S.A. in Łódź (2005-2008) and sub-department manager in the Statistical Office in Katowice (2002-2006). In 2003, Mr. Grzegorz Fingas graduated from MA studies at the Economics and Philology Faculty of the School of Marketing Management and Foreign Languages in Katowice, specializing in Marketing Management and, in 2012, MBA studies at the Gdańsk Foundation for Management Development. In 2010–2014, he discharged the function of Member of the Supervisory Board of Zakład Przewozu i Spedycji "Spedkoks" Sp. z o.o. with its registered office in Dąbrowa Górnicza.

Mr. Witold Bawor – Management Board Member in charge of Operations

Mr. Witold Bawor is a graduate of the Częstochowa University of Technology, having majored in electrical engineering.

He has been associated with the railway sector, including the PKP CARGO Group, for many years. In 2006-2012, he was the PKP CARGO Management Board Member in charge of Maintenance. In 2012-2014, he was the Managing Director – Management Board Representative for Maintenance. Since 2015, Mr. Witold Bawor has been a PKP CARGOTABOR Sp. z o.o. Management Board Member and then the President of the PKP CARGOTABOR Sp. z o.o. Management Board.

Zenon Kozendra – Management Board Member – Employee Representative

Mr. Zenon Kozendra is a graduate of the Higher School of Public Administration in Kielce. He completed postgraduate studies in the organization of management at the Kozminski Academy. He has been associated with PKP since 1985.

From 2005 to 2008, Zenon Kozendra was the Management Board Member responsible for Employee and Administrative Affairs and from 2008 he was the Management Board's Plenipotentiary responsible for Personnel Strategy. Zenon Kozendra was a member of the PKP CARGO Supervisory Board from 2001 to 2005 and a Management Board Member of the Trade Union of Rail Employers from 2006 to 2008. Moreover, Zenon Kozendra sat on the supervisory boards of the following companies: - PKP CARGO SERVICE – as Chairman of the Supervisory Board in 2006-2007, - PKP CARGO WAGON Kraków – as Chairman of the Supervisory Board in 2007-2008, - PKP CARGO TABOR Karsznice – as Member of the Supervisory Board in 2010-2014, - PKP S.A. – as Member of the Supervisory Board in 2014-2016.

SUPERVISORY BOARD

In accordance with the adopted consolidated version of PKP CARGO S.A.'s Articles of Association (Resolution No. 1682/VI/2017 of the PKP CARGO S.A. Supervisory Board dated 27 June 2017), the Supervisory Board consists of 11 to 13 members (including the Supervisory Board Chairperson and Deputy Chairperson) appointed for a joint term of office. The Supervisory Board is appointed and dismissed by the Shareholder Meeting, subject to the provisions of § 19 Sections 2 and 3 of the Articles of Association of PKP CARGO S.A.

Powers of the Supervisory Board

The Supervisory Board exercises permanent supervision over the Company's operations in all areas of its activity. Moreover, its powers, in addition to matters reserved by the Commercial Company Code or other statutes, include selecting and changing the entity authorized to audit the Company's financial statements and to review the Company's accounting records, granting consent for the payment of an interim dividend by the Management Board towards the anticipated end-of-the-year dividend, appointing and dismissing the President and other Members of the Management Board, setting the number of Management Board Members, granting consent for the establishment or liquidation of the Company's branch, issuing opinions on proposals submitted by the Management Board to the Shareholder Meeting.

Operation of the Supervisory Board

The procedure of the Supervisory Board's operation is described in detail in the Supervisory Board Bylaws adopted by the Supervisory Board. In accordance with the provisions of these Bylaws, the Supervisory Board makes decisions in the form of resolutions. For Supervisory Board resolutions to be valid, all the Supervisory Board members must have been invited and at least half of them must be present, including the Supervisory Board Chairperson. Resolutions of the Supervisory Board are adopted by an absolute majority of votes. If an equal number of votes is cast "for" and "against", the latter including abstentions, the Supervisory Board Chairperson has the casting vote. Supervisory Board resolutions in the matter of suspension of Management Board members or Management Board require the consent of the Supervisory Board Chairperson. Supervisory Board resolutions may also be adopted without holding a meeting, except for resolutions pertaining to the election of the Supervisory Board Chairperson or Deputy Chairperson, the appointment of a Management Board member and the dismissal or suspension of these persons in their duties. The Supervisory Board holds its meetings no less frequently than once every two months.

In accordance with the Bylaws of the Supervisory Board, in the event of conflicting interests of the Company and personal interests of a Supervisory Board member, his/her spouse, family or relatives (to the second degree next of kin) and personal relations, the Supervisory Board member should refrain from participating in the discussion and voting on the resolution of such matters and request that this fact be recorded in the minutes of the Supervisory Board meeting.

Diversity policy

PKP S.A. is authorized to appoint and dismiss Supervisory Board Members in a number equal to half the composition of the Supervisory Board. At least one of the Supervisory Board members appointed by PKP S.A. satisfies the conditions of independence within the meaning of Article 86 Section 5 of the Act of 7 May 2009 on statutory auditors and their self-government authority, entities authorized to audit financial statements and public supervision (Journal of Laws No. 77, Item 649, as amended) and has qualifications in the field of accounting or financial auditing.

The Company's employees are entitled to appoint and dismiss three employee representatives to the Supervisory Board. The rules and regulations for running elections for candidates to become an employee representative in the PKP CARGO S.A. Management Board and to appoint employee representatives to the PKP CARGO S.A. Supervisory Board and the procedure for their removal were adopted by the Supervisory Board with Resolution No. 1530/V/2016 on 30 March 2016. A failure to elect the Supervisory Board members representing the employees does not prevent the Supervisory Board from being appointed or from adopting effective resolutions.

Independent PKP CARGO S.A. Supervisory Board Members satisfy the independence criteria for Supervisory Board Members defined by the European Commission in Annex II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (EU OJ L 05.52.51) and additional requirements specified in the "Good Practices of Companies Listed on the WSE" constituting an attachment to Resolution No. 26/1413/2015 of the WSE Supervisory Board of 13 October 2015.

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

The table below presents the composition of the Supervisory Board as at the delivery date of this report.

Table 60 Composition of the PKP CARGO S.A. Supervisory Board from 1 January 2017 to the date of submission of this report

Name	Position	Period in office	
		from	to
Krzysztof Mamiński	Supervisory Board Member Supervisory Board Chairman (seconded to temporarily perform the duties of President of the Management Board)	6 March 2017 20 March 2017 26 October 2017	26 March 2018
Mirosław Antonowicz	Supervisory Board Member Supervisory Board Deputy Chairman	1 June 2017 27 June 2017	to date to date
Krzysztof Czarnota	Supervisory Board Member	20 May 2016	to date
Zofia Dzik	Supervisory Board Member	11 May 2016	to date
Raimondo Eggink	Supervisory Board Member	13 April 2015*	to date
Małgorzata Kryszkiewicz	Supervisory Board Member	17 December 2015*	to date
Tadeusz Stachaczyński	Supervisory Board Member	20 May 2016	to date
Władysław Szczepkowski	Supervisory Board Member	14 March 2017	to date
Czesław Warsewicz	Supervisory Board Member	17 December 2015*	to date
Mirosław Pawłowski	Supervisory Board Member Supervisory Board Chairman	17 December 2015 18 December 2015*	6 March 2017 6 March 2017
Jerzy Kleniewski	Supervisory Board Member	17 December 2015*	14 March 2017
Andrzej Wach	Supervisory Board Member Supervisory Board Deputy Chairman Supervisory Board Member Supervisory Board Deputy Chairman	17 December 2015* 27 April 2016 11 May 2016 20 May 2016	11 May 2016 11 May 2016 29 May 2017 29 May 2017
Marek Podskalny	Supervisory Board Member	20 May 2016	24 November 2017

* the 6th term of office of the PKP CARGO S.A. Supervisory Board began on 11 May 2016, the date of holding the Ordinary Shareholder Meeting ("OSM") of PKP CARGO S.A.

** In connection with the death of Mr. Marek Podskalny, on 24 November 2017, the term of the PKP CARGO S.A. Supervisory Board member expired. Considering that Mr. Marek Podskalny was a PKP CARGO S.A. Supervisory Board member elected on behalf of the employees, the Supervisory Board took measures to supplement the composition of the Supervisory Board. The Company's Supervisory Board plans to complete the procedure initiated to handle the matter in the first half of this year.

Source: Proprietary material

Mirosław Antonowicz

Mr. Mirosław Antonowicz has a PhD in economics, specializing in management; he has been associated with the railway sector, including the PKP Group, for many years. Among others, he was a member of the PKP CARGO S.A. Management Board. He also sat on the supervisory boards of several railway companies. From 2006 to 2010, he was the Vice-President of the Office of Rail Transport responsible for market regulation. He is also an academic staff member of the Kozminski University. He was also a Presidium member and expert of the Transport Process and Logistics Team of the Committee on Transport of the Polish

Academy of Sciences. He has also completed many post-graduate courses, including Management of Transport Companies at the Warsaw University of Technology and the Post-Graduate Course of European Financial, Economic and Legal Relations at the Warsaw School of Economics. He is an author of numerous publications and papers on management, transport and logistics.

Krzysztof Czarnota – Supervisory Board Member

Mr. Krzysztof Czarnota completed the Railway Technical School in Skarżysko-Kamienna as a Transportation Technician. Since 1977, he has worked for PKP, including in the Locomotive Depot in Skarżysko-Kamienna, in the Unclassified Station in Skarżysko, in the District Station in Skarżysko, in the Freight Transport Unit in Skarżysko and currently in the Company's Eastern Unit in Lublin as a dispatcher in charge of the shift.

Since 1992, Mr. Krzysztof Czarnota has served as Chairman of the Independent Trade Union of Railway Workers of PKP Cargo S.A. in Skarżysko-Kamienna. Since the establishment of the Freight and Transshipment Industry Board at the Federation of Trade Unions of Railway Workers, he had served as its Chairman and currently is Vice Chairman of the Cargo Industry Board at the Federation of Trade Unions of Railway Workers. He is a member of the Bureau, the Board and the National Council of the Federation of Trade Unions of Railway Workers.

From the incorporation of the Company, i.e. from 2001 until 29 September 2015, he was a member of the PKP Cargo S.A. Supervisory Board and a representative of all employees of PKP Cargo S.A. as a delegate of the Federation of Trade Unions of Railway Workers.

Zofia Dzik – Supervisory Board Member – independent member

Ms. Zofia Dzik is a graduate of the Kraków University of Economics, University of Illinois in Chicago, University of Social Sciences and Humanities in Warsaw and of the Executive Programs at INSEAD Business School. She holds an MBA title from Manchester Business School and is a certified member of the Association for Project Management (APMP) and a certified member of The John Maxwell Team, a top international organization associating eminent leadership coaches, trainers and speakers.

In the years 1995-2003, she worked for Andersen Business Consulting as a consultant responsible for the insurance sector (Insurance Division Director). From 2003 she was associated with Intouch Insurance Group (RSA Group), where in the years 2004–2007 she performed the function of the President of Towarzystwo Ubezpieczeń LINK4 S.A., whereas in the years 2007–2009 a function of a management board member of Intouch Insurance B.V. in the Netherlands and the CEO for East-Central Europe of Intouch Insurance Group. In that capacity, she was responsible for developing new markets; she was also the chairwoman of the supervisory boards of: TU Link4 S.A. and Direct Insurance Shared Services Center in Poland, Intouch Strachowanie in Russia (a start-up) and Direct Pojistovna in the Czech Republic (a start-up), as well as the deputy chairwoman of the supervisory board of TU na Życie Link4 Life S.A.

In 2006-2008, she served as a management board member of the Polish Insurance Association. In the years 2007–2010 a supervisory board member of the Insurance Guarantee Fund. She also sat on the supervisory boards of: KOPEX S.A. and Polish Energy Partners S.A (PEP S.A.)

Currently, she is the President of the Humanites - Art of Upbringing Foundation, which has the goal of supporting social transformation in Poland and qualitative growth of the young generation, mentor, author of the "Consistent Leadership" model, an 8-stage growth programme for leaders building engaging organizations, director of the Academy for Leaders in Education as well as member of supervisory boards of private and public companies such as: BRW S.A., ERBUD S.A., Benefit Systems S.A. and in the past such as: PKO BP S.A., AmRest SE, PEP S.A.

Raimondo Eggink – Supervisory Board Member – independent member

Since 2002, Mr. Raimondo Eggink has been running an independent business as a consultant and trainer for entities operating in the financial market. At the same time, he has been a member of the Supervisory Boards of the following public and private companies: Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. (since 2009), AmRest Holding SE (since 2010), PERŁA – Browary Lubelskie S.A. (2004-2005 and since 2008), Prime Car Management (since 2015), PKP Cargo S.A. (since 2015), Górnośląskie Przedsiębiorstwo Wodociągów S.A. (since 2015) and Suwary S.A. (since 2015).

Prior to that, he was a member of the Supervisory Boards in the following companies: Stomil-Olsztyn S.A. (2002-2003), Giełda Papierów Wartościowych w Warszawie S.A. (2002-2008), Wilbo S.A. (2003-2005), Mostostal Płock S.A. (2003-2006), Swarzędz Meble S.A. (2004-2005), PKN Orlen S.A. (2004-2008), KOFOLA S.A. (2004-2012, previously HOOP S.A.), Zachodni Fundusz Inwestycyjny NFI S.A. (2006), Firma Oponiarska Dębica S.A. (2008-2012), Netia S.A. (2006-2014) and Lubelski Węgiel "Bogdanka" S.A. (2012-2015).

Earlier, he served as Management Board Member, Investment Director, President of the Management Board and, most recently, liquidator of ABN AMRO Asset Management (Polska) S.A., a firm managing the assets of Polish institutional investors and high-net-worth individuals which terminated its business in 2001. He began his professional career in 1995 in the Warsaw branch of ING Bank N.V. where he played a major role in the establishment of Poland's first asset management firm. In 1995-1997, he served as Vice-President of the Council of Brokers and Advisers, and in 2004-2013, he was a member of the Management Board of the CFA Society of Poland. He is the author of a number of articles on the development of the Polish capital market, especially on the protection of minority shareholders.

Mr. Eggink is a graduate of the Jagiellonian University majoring in theoretical mathematics where in 2010 he obtained his Ph.D. degree. He also holds an investment advisor's license and is a CFA (Chartered Financial Analyst) Charterholder.

Małgorzata Kryszkiewicz – Supervisory Board Member

Ms. Małgorzata Kryszkiewicz is a graduate of the Finance and Banking Faculty of the Warsaw School of Economics (SGH). She started her professional career in 1995. In subsequent years, she worked in various positions associated with accounting, tax and financial management. From 2002 to 2014, she headed the Accounting Department and the Finance and Accounting Department at PKP S.A. Currently she runs a statutory auditor's office providing financial revision, advisory and consulting services. Statutory auditor since 2009.

Tadeusz Stachaczyński – Supervisory Board Member

In 1980, Mr. Tadeusz Stachaczyński completed a Railway Technical School specializing in the operation and repair of traction vehicles. In 2010, he graduated in engineering from the Subcarpathian School of Higher Education in Jasło, majoring in transportation and freight forwarding. In 2011, Mr. Stachaczyński completed postgraduate studies in marketing and market research.

Since 1974, Mr. Tadeusz Stachaczyński has been employed by PKP CARGO S.A.'s Southern Division (formerly, PKP's Locomotive Depot in Jasło). In 1995-2014, Mr. Stachaczyński was a councilor of the Town Council of Jasło where he served in the budget, development and audit committees.

Since 2009, Mr. Tadeusz Stachaczyński has served as Chairman of the Company Council of the Trade Union of Train Drivers at PKP CARGO S.A.'s Southern Division, and since 2013 has been Chairman of the Freight Sector of the Trade Union of Train Drivers.

Mr. Tadeusz Stachaczyński was a member of the Supervisory Board of PKP CARGO S.A. Centrum Logistyczne Medyka-Żurawica Sp. z o.o. in 2011-2013.

Władysław Szczepkowski - Supervisory Board Member

Mr. Władysław Szczepkowski graduated in law from the Faculty of Law and Administration in the Department of Theory of the State and Law of the Nicolaus Copernicus University in Toruń in 1992. From 1992 to 2005, he pursued his career in banking where he was involved in financial analysis and corporate restructuring projects; he also worked for legal departments. From 2005 to 2007, he was the President of the PKP CARGO S.A. Management Board. From 2010 to 2016, he worked for companies of the PGNiG Group. From September 2016 to March 2017, he was employed by Przewozy Regionalne sp. z o.o. Since the beginning of March 2017, he has been working for PKP S.A. as the Director – PKP S.A. Management Board Representative for the Strategy and Organization of the PKP Group. Since 2000, he has been entered in the list of legal counsels.

Czesław Warsewicz – Supervisory Board Member

Mr. Czesław Warsewicz is an economist by education. He graduated from the Management and Marketing Faculty of the Warsaw School of Economics (SGH) and subsequently conducted research at the Postgraduate Doctoral Course of the SGH Strategic Management Faculty. He participated in the first Polish edition of AMP – Advanced Management Program organized by the IESE Business School in Barcelona. A specialist in transportation and management. He has capital market experience gathered in the consulting firms EVIP and CAL where he prepared issue prospectuses for ZML "Kęty", Cersanit and Hydrobudowa 7.

From 1993 to 1999, he worked for the private sector, including the following companies: Company Assistance Sp. z o.o., Raab Karcher Energieservice Sp. z o.o, EVIP International Sp. z o.o. In 1997, he joined the stock-exchange listed Provimi-Rolimpex S.A. group where he worked for 9 years. In 2006-2009, the President of the Management Board of PKP Intercity S.A. Currently, the President of the Management Board of "Blue Ocean" Business Consulting Sp. z o.o., a strategic consultancy firm specializing in the development of transportation plans for local government units. A member of the Program Committee of the Law and Justice party (PiS) responsible for the preparation of its transportation program, in particular in the area of railway transportation.

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

SUPERVISORY BOARD AUDIT COMMITTEE

The PKP CARGO S.A. Audit Committee is appointed by the PKP CARGO S.A. Supervisory Board. It consists of at least three Supervisory Board members, provided that the majority of the Committee members meet the independence criteria and are appointed in the manner specified in § 20 and 21 of the Company's Articles of Association. At least one member of the Audit Committee must have qualifications in the area of accounting or audit of financial statements and at least one member of the Audit Committee must have knowledge and skills in the specific industry in which the Company operates.Committee members are appointed for a term corresponding to the Supervisory Board's term of office. Tasks of the Audit Committee include in particular: oversight of the organizational unit responsible for internal audit, monitoring the financial reporting process, monitoring the performance of internal control systems, risk management and internal audit systems, including the area of financial reporting, monitoring financial review activities, monitoring the independence of the statutory auditor and the entity authorized to audit financial statements, also when it provides to the Company other services than financial review, assessing the independence of a statutory auditor and giving consent for it to provide permitted auditing services, recommending an entity authorized to audit financial statements to the Supervisory Board to perform financial review activities for the Company, in compliance with the policies in force in the Company.

Table 61 Composition of the Audit Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2017 to the date of submission of this report

Name	Position	Period in office	
		from	to
Raimondo Eggink	Committee Member	30 April 2015	11 May 2016*
	Committee Chairman	18 December 2015	11 May 2016*
	Committee Member	20 May 2016	to date
	Committee Chairman	31 May 2016	to date
Małgorzata Kryszkiewicz	Committee Member	18 December 2015	11 May 2016*
		20 May 2016	to date
Zofia Dzik	Committee Member	20 May 2016	to date

* expiration date of the 5th term of office of the PKP CARGO S.A. Supervisory Board
Source: Proprietary material

NOMINATION COMMITTEE

The PKP CARGO S.A. Supervisory Board appoints Nomination Committee. It consists of three Supervisory Board Members, of whom at least one Supervisory Board Member must satisfy the independence criteria and be appointed in the manner provided for in § 20 and 21 of the Company's Articles of Association, to discharge the function of Committee Chairman. Committee members are appointed for a term corresponding to the Supervisory Board's term of office. The Nomination Committee organizes and exercises ongoing oversight of the recruitment procedure for the positions of the Company's Management Board members and of the process of assessment and appointment of the Company's Management Board members, and supports the attainment of the Company's strategic objectives by presenting opinions and suggestions to the Supervisory Board pertaining to the employment structure and compensation for the Company's employees, including in particular the Company's Management Board Members and upper level management.

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Table 62 Composition of the Nomination Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2017 to the date of submission of this report

Name	Position	Period in office	
		from	to
Zofia Dzik	Committee Chairwoman	20 May 2016	to date
Mirosław Antonowicz	Committee Member	27 June 2017	to date
Władysław Szczepkowski	Committee Member	27 November 2017	to date
Mirosław Pawłowski	Committee Member	18 December 2015 20 May 2016 – 6th term of office	11 May 2016* 6 March 2017
Andrzej Wach	Committee Member	18 December 2015 20 May 2016 – 6th term of office	11 May 2016* 29 May 2017
Krzysztof Mamiński	Committee Member	20 March 2017	26 October 2017
Czesław Warsewicz	Committee Member	26 October 2017	27 November 2017

* expiration date of the 5th term of office of the PKP CARGO S.A. Supervisory Board
Source: Proprietary material

STRATEGIC COMMITTEE

The Strategic Committee is appointed by the PKP CARGO S.A. Supervisory Board. It consists of at least three Supervisory Board members, of whom at least one Supervisory Board Member must satisfy the independence criteria and be appointed in the manner provided for in § 20 and 21 of the Company's Articles of Association. Committee members are appointed for a term corresponding to the Supervisory Board's term of office. The Strategic Committee supports the Supervisory Board in the oversight over the definition of the strategy as well as the appropriate implementation of the strategy and annual and long-term activity plans for the Company and its Group.

Table 63 Composition of the Strategic Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2017 to the delivery date of this report

Name	Position	Period in office	
		from	to
Czesław Warsewicz	Committee Chairman	23 June 2016	to date
Raimondo Eggink	Committee Member	23 June 2016	to date
Mirosław Antonowicz	Committee Member	27 June 2017	to date
Andrzej Wach	Committee Member	23 June 2016	29 May 2017

Source: Proprietary material

10. Representation of the PKP CARGO Group and PKP CARGO S.A. on non-financial information

10.1 Representation of the PKP CARGO Group

Please find below **the Representation of the PKP CARGO Group[112] on non-financial information for 2017** (hereinafter referred to as the Representation), forming a separate part of the Activity Report of the PKP CARGO Group (hereinafter referred to as the Group, the PKP CARGO Group) and including non-financial information and concerning the Group for the period from 1 January 2017 to 31 December 2017. The Representation is based on the guidelines recommended by the IIRC (International Integrated Reporting Council), guidelines of the GRI (Global Reporting Initiative) and takes into consideration provisions of the Accounting Act of 29 September 1994.

The Representation includes non-financial data which have been prepared as a result of a dialog conducted with the Group stakeholders and are significant for the Group itself, showing mutual relations and dependencies between financial and non-financial aspects of its activity.

10.1.1 Description of the business model

The PKP CARGO Group is Poland's largest and the EU's leading rail freight carrier. It owns the biggest fleet of rolling stock in Poland.

The Group's activity covers a wide range of services connected with rail freight transport. The Group's revenue from rail transportation and freight forwarding services makes up 83 % of the Group's total operating revenue. The PKP CARGO Group offers services supplementing rail transport, such as comprehensive intermodal services, freight forwarding services, transshipment services on terminals, rail siding service and rolling stock repair and maintenance services.

The Group's core business is rail freight transport. In 2017, transport activities were conducted by five members of the Group, namely PKP CARGO S.A. (hereinafter referred to as the PKP CARGO), PKP CARGO SERVICE Sp. z o.o., Advanced World Transport a.s., AWT Rail HU Zrt. and AWT Rail SK a.s. The PKP CARGO Group is authorized to perform rail transports and provide rail transport services in the following countries: Poland, Germany, the Czech Republic, Slovakia, Hungary, Austria, the Netherlands and Lithuania. The major groups of commodities handled by the rail operators of the PKP CARGO Group include in particular: solid fuels, including hard coal, aggregates and construction materials, metals and ore, chemicals, liquid fuels, timber and agricultural produce as well as intermodal transport. To supplement rail freight, the Group offers additional services such as: freight forwarding services, comprehensive service of rail sidings, transshipment and terminal services, intermodal logistics services, rolling stock repairs and land reclamation services.

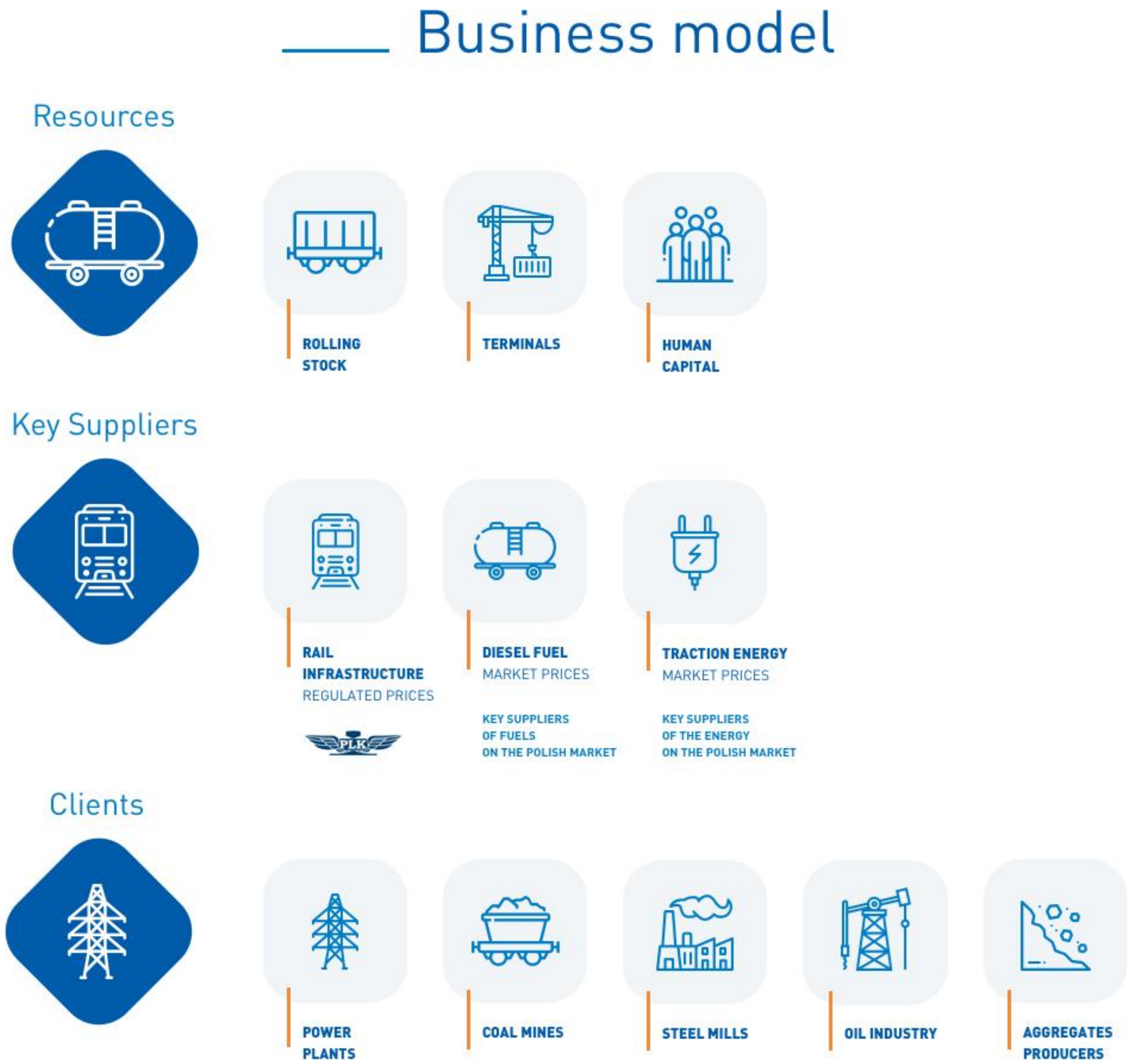
Freight forwarding services include comprehensive logistics services using vehicle, marine and inland water transportation incorporating service on transshipment terminals and customs handling. Freight forwarding services are provided in particular by PKP CARGO CONNECT Sp. z o.o. and AWT Čechofracht a.s.

Comprehensive siding services, entailing in particular maneuvering services, rail traffic management on sidings, loading and unloading, and maintenance of point infrastructure. PKP CARGO SERVICE Sp. z o.o. and Advanced World Transport a.s. are the main entities providing these services.

Terminal services are provided with the use of conventional and intermodal terminals and include in particular commodity transshipment services as well as storage, warehousing and packaging services. The Group's transshipment terminals are managed by PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o., PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o., PKP CARGO CONNECT Sp. z o. o., CARGOSPED Terminal Braniewo Sp. z o.o. and Advanced World Transport a.s.

Intermodal services comprise comprehensive logistics of the intermodal transport, i.e. all the elements of the logistics chain, including: handling rail transport, road transport, transshipment and storing intermodal units. The intermodal services are provided based on a network of the Group's intermodal terminals located in major industrial hubs and key railroad border crossings. The company specializing in comprehensive intermodal transport service is PKP CARGO CONNECT Sp. z o.o.

[112]The data included in the lists cover also the subsidiaries PKP CARGO CONNECT and AWT



Rolling stock repair and maintenance services are provided by a specialized company PKP CARGOTABOR Sp. z o.o. Additionally, selected repair and maintenance works are also done within the structures of PKP CARGO S.A. and by Advanced World Transport a.s.

Land reclamation services comprise in particular managing and revitalizing post-industrial premises, including mining areas, demolition works, management of waste disposal facilities, and engineering construction services. The land reclamation activity is carried out by AWT Rekultivace a.s. and AWT Rekultivace PL sp. z o.o.

The Group’s key customers include steel mills, coking plants, power plants, mines, steel works and shipping companies. The PKP CARGO Group collaborates with the largest Polish and global groups, including ArcelorMittal, PKN Orlen, PGNiG, Lafarge Group, Azoty Group, Jastrzębska Spółka Węglowa, Węglokoks, Enea Group, PGE Group, Tauron Group, Polska Grupa Górnicza and International Paper. The contracts with these business partners are regularly renewed, which confirms the high quality of the transportation services provided by the PKP CARGO Group.

Services provided by the Group allow for participation in the entire logistic value chain, including railway shipping, siding services, freight transport, transshipment and storage services and using the Group's terminals. The above services offer a natural competitive advantage in terms of customer acquisition and service.

PKP CARGO Group employs competent employees with extensive experience, who ensure the highest quality of services and form the foundation of the Group's operations. As at 31 December 2017, the Group employed 23 thousand employees.

The Group's operations are also based on relations with key suppliers, in particular contracts for access to rail infrastructure, traction power supply, property leasing, diesel oil sales and rolling stock repair and modernization.

10.1.2 Key non-financial performance indicators related to PKP CARGO Group

The survey of the PKP CARGO Group customers was carried out in 2017. It was carried out using the CATI method via telephone contact with the customers from the database. Only data from complete questionnaires were analyzed. Before the analysis, the data was carefully checked for correctness and logical consistency. The materiality level for the difference tests is 95%.

The main findings of the survey are, among others:

1. Among the surveyed companies, PKP CARGO Group is the most recognizable carrier. For 83%, it is a company with which the highest value of services was realized. 65% of the companies surveyed were served by PKP CARGO Group.
2. PKP CARGO Group is chosen mainly due to the good price, good offer, wagon availability and a large volume of rolling stock as well as trust resulting from long-term cooperation. However a good price and a good offer are a stronger driver for other companies. PKP CARGO Group is relatively the strongest in comparison with its competition in terms of availability as well as trust and credibility.
3. PKP CARGO Group is most often spontaneously perceived as the largest carrier in Poland. It is also relatively often described as a reliable and trusted carrier, with a large volume of rolling stock and good service.
4. The most characteristic features of PKP CARGO Group are the availability of the largest rolling stock potential, maintaining the market leader position for rail transport and the reputation of being a trustworthy company.
5. Except for DB Schenker and Freightliner PL, other companies do not have a clear image. DB Schenker is perceived as having an important position in international freight forwarding, appreciated abroad and offering a European standard of services. Freightliner is seen as a modern company, with the best service on a European level.
6. The vast majority of survey participants agree that PKP CARGO Group is the leader of the railway transport market and has the largest rolling stock potential. Most companies plan to use the services of PKP CARGO Group in the near future.
7. Generally, satisfaction with cooperation with the PKP CARGO Group is at a moderate level – one of ten companies is completely satisfied, and the satisfaction of half of the companies ranks in the TOP 3 BOXES of all ratings (on a 10-point scale). Companies that are generally satisfied with cooperation with PKP CARGO Group point to the following reasons for their satisfactory cooperation: good service, commitment and flexibility as well as high quality of services. Most indications are for general satisfaction, which suggests the lack of clear, distinct advantages. In the context of emergence of a clear competitor, this could be a serious threat. Areas most frequently highlighted as calling for improvement are keeping track of deadlines, improving the flow of information about contract status, increasing wagon availability, simplifying procedures and increasing flexibility. However, compared to 2014, when the previous customer survey took place, PKP CARGO Group noted an improvement in the ratings, especially in the field of quality of service provision, complaints handling and quality of service delivered by account managers. In general, the respondents are the most satisfied with the quality of service offered by account managers; they also relatively highly evaluate the quality of service offered by sales offices and logistics managers. The least satisfactory is, among other areas, that of complaints handling.
8. In the context of the quality of services provided, the safety of shipments and goods gets by far the highest rating, with the variety of the wagon offer raking second. On the other hand, the technical condition of the wagons, along with delivery timeliness and wagons delivery for pick-up are clearly the weakest points; and so is the time of transport.
9. The stability and predictability of prices as well as the terms of payment are rated the highest in PKP CARGO Group's pricing policy. The lowest satisfaction can be seen in the area of pricing flexibility, the possibility of obtaining a comprehensive price offer and the discounts and rebates system.
10. As regards complaints handling quality, employee culture is by far the highest rated. The flexibility of the proposed solutions, information on the status of the case and the time of complaint processing were by far the lowest rated.
11. Personal manners is the strongest point of account managers. In general, account managers were rated very highly in almost all categories. Employees' decision-making was rated the lowest.

12. In the area of logistics service quality, the security of entrusted shipments is by far rated the highest. There are also elements that obtained low results: timely delivery of wagons, transport time, changes in delivery dates, but above all, the technical condition of the wagons.
13. The main service quality area calling for improvement as most often highlighted by the companies surveyed is keeping the deadlines in accordance with the contract. Another one is the flow of information and increase in the volume of rolling stock.
14. Logistic managers, like account managers, are highly rated for their personal manners, and they score high also in other categories. They were assessed relatively poorly in the context of providing information on available solutions and contact frequency. As regards logistic service, keeping the deadlines was indicated most frequently as the main area for improvement. The need to increase the volume of rolling stock and the availability of wagons, as well as to improve the flow of information was also highlighted relatively often.

Two areas are indicated as requiring improvement:

1. The rolling stock potential and its availability – improvement of the technical condition of the rolling stock, increase in the availability of wagons and locomotives, and thus – the improvement on the time of service (wagons delivery and freight completion).

2. The quality of service provision and customer service: mainly timeliness (delivery and wagons delivery as agreed), information (order status, but also availability and ease of contact, as well as the ability to make decisions by contact persons), speed of decision making and handling complaints.

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

NATURAL ENVIRONMENT
Key environmental indicators

Table 64 Electricity Consumption by the Group in 2016-2017

Electricity	Quantity of consumed energy [MWh]	
	2017	2016
Traction energy	645,438	631,019
Non-traction energy	44,512	44,627

Source: Proprietary material

Table 65 Air emissions by the Group in 2016-2017

Electricity	Total emissions [Mg]	
	2017	2016
Sulfur dioxide	1,159	1,151
Nitrogen dioxide	3,418	3,172
Carbon oxide	758	807
Carbon dioxide	527,792	518,347
Benzo[a]pyrene	0	0
Dust and soot	262	259
Total hydrocarbons	455	356
HFC	0	0
Other	35	16

Source: Proprietary material

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Table 66 Waste produced by the Group, by type and volume, in 2016-2017

Name of waste	Waste code	Waste amount [Mg] in 2017		Waste amount [Mg] in 2016	
		inventory at the end of			
		Preceding period	Reporting period	Preceding period	Reporting period
Sawdust, shavings, cuttings, wood, chipboard and veneer containing dangerous substances	03 01 04*	0.100	0.050	0.000	0.100
Sawdust, shavings, cuttings, wood, chipboard and veneer, other than those mentioned in 03 01 04	03 01 05	1.370	3.920	6.607	1.370
Other organic solvents, washing solutions and mother liquors	07 01 04*	0.060	0.520	0.007	0.060
Pulverized lime not containing hazardous substances (other than those mentioned in 07 01 08)	07 01 80	0.000	0.000	13.800	0.000
Waste from paint and varnish removal containing organic solvents or other hazardous substances	08 01 17*	0.000	0.300	0.190	0.000
Waste printing toner containing hazardous substances	08 03 17*	0.000	0.000	0.051	0.000
Waste printing toner other than that mentioned in 08 03 17	08 03 18	0.193	0.003	0.193	0.193
Slag, bottom ash and boiler dust (excluding boiler dust mentioned in 100104)	10 01 01	364.674	195.308	318.846	364.674
Waste from degreasing containing hazardous substances	11 01 13*	0.195	0.000	0.000	0.195
Other waste containing hazardous substances	11 01 98*	0.000	0.000	0.105	0.000
Wastes from turning and sawing of ferrous metals and their alloys	12 01 01	133.430	115.800	204.139	133.430
Welding waste	12 01 13	0.000	0.019	0.018	0.000
Waste grinding materials containing hazardous substances	12 01 20*	13.610	13.270	113.180	13.610
Other waste, not mentioned elsewhere	12 01 99	0.100	0.100	0.100	0.100
Mineral hydraulic oils	13 01 10	0.000	0.000	0.000	0.000
Mineral hydraulic oils	13 01 10*	2.200	4.450	0.000	2.200
Mineral engine and transmission oils	13 02 05*	27.379	8.050	32.308	27.379
Other engine, transmission and lubricating oils (lubricants)	13 02 08*	28.216	24.820	32.948	28.216
Sludge from oil dewatering in separators (sludge from washers)	13 05 02*	0.400	1.250	0.767	0.400
Oil from oil dewatering in separators	13 05 06*	2.500	0.000	0.070	2.500
Mixture of waste from grit chambers and oil dewatering in separators	13 05 08*	2.300	0.000	0.000	2.300
Fuel oil and diesel oil	13 07 01	0.000	0.450	0.000	0.000
Other waste, not mentioned elsewhere (lubricants)	13 08 99*	0.000	0.000	0.600	0.000
Other solvents	14 06 03*	0.000	0.000	0.321	0.000
Paper and cardboard packaging	15 01 01	0.194	0.895	0.194	0.194
Plastic packaging	15 01 02	0.040	0.000	0.092	0.040
Metal packaging	15 01 04	0.003	2.403	0.000	0.003
Packaging containing residues of hazardous substances or contaminated with them	15 01 10*	2.944	1.183	4.468	2.944
Metal packaging containing hazardous porous elements of structural reinforcement (e.g. asbestos), including empty pressure containers	15 01 11	0.000	0.020	0.000	0.000
Worn-out clothes and cleaning cloth	15 02 02*	24.136	13.037	14.750	24.136

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Name of waste	Waste code	Waste amount [Mg] in 2017		Waste amount [Mg] in 2016	
		inventory at the end of			
		Preceding period	Reporting period	Preceding period	Reporting period
Sorbents, filter materials, wiping cloths (e.g. rags, cloths) and protective clothing, other than those mentioned in 15 02 02	15 02 03	3.776	1.643	2.614	3.776
Worn-out tires	16 01 03	13.824	5.639	13.422	13.824
Worn-out or unusable vehicles	16 01 04*	81.040	0.000	0.000	81.040
Worn-out or unusable vehicles, not containing liquids or other hazardous elements	16 01 06	5,184.900	0.000	6,896.050	5,184.900
Worn-out filters and waste oil	16 01 07*	2.377	0.561	1.384	2.377
Brake linings, other than those mentioned in 16 01 11	16 01 12	0.000	0.000	1.729	0.000
Liquefied gas tanks	16 01 16	0.034	0.034	0.140	0.034
Ferrous metals (scrap)	16 01 17	3,194.594	4,244.658	5,521.862	3,194.594
Non-ferrous metals	16 01 18	16.758	15.840	140.251	16.758
Plastics	16 01 19	1.816	0.575	1.270	1.816
Glass	16 01 20	0.386	0.000	0.350	0.386
Hazardous components, other than those mentioned in 160107 to 160111, 160113 and 160114	16 01 21*	1.160	1.455	5.646	1.160
Other components, not mentioned elsewhere	16 01 22	4.892	2.368	2.314	4.892
Other waste, not mentioned elsewhere	16 01 99	117.711	127.887	34.248	117.711
Worn-out devices containing CFC, HCFC, HFC	16 02 11*	0.085	0.000	0.163	0.085
Worn-out devices containing free asbestos	16 02 12*	0.000	0.493	0.000	0.000
Worn-out devices containing hazardous elements, other than those mentioned in 160209 to 160212	16 02 13*	0.863	2.470	1.628	0.863
Worn-out devices, other than those mentioned in 16 02 09 to 16 02 13	16 02 14	4.043	10.336	8.121	4.043
Hazardous components or components removed from worn-out devices	16 02 15*	0.336	0.336	0.340	0.336
Items removed from worn-out devices (toners)	16 02 16	3.489	0.550	2.957	3.489
Inorganic waste, other than that mentioned in 16 03 03, 16 03 80	16 03 04	1.010	1.043	0.269	1.010
Gases in containers (including halons) containing hazardous substances	16 05 04*	0.116	0.048	0.002	0.116
Gases in containers, other than those mentioned in 16 05 04	16 05 05	1.030	0.338	0.102	1.030
Laboratory and analytical chemicals (e.g. chemical reagents) containing hazardous substances, including mixtures of laboratory and analytical chemicals	16 05 06*	0.150	0.120	0.105	0.150
Lead batteries	16 06 01*	19.902	8.840	4.395	19.902
Nickel-cadmium batteries and rechargeable batteries	16 06 02*	4.760	4.713	4.309	4.760
Other batteries and rechargeable batteries	16 06 05	0.400	0.434	0.613	0.400
Magnetic and optical information media	16 80 01	0.000	0.001	0.001	0.000
Waste showing hazardous properties	16 81 01*	0.000	0.612	0.000	0.000
Mixed waste from concrete, brick rubble, waste ceramic materials and equipment, other than those mentioned in 17 01 06	17 01 07	0.000	0.048	0.868	0.000
Wood	17 02 01	10.860	7.590	6.145	10.860
Plastics	17 02 03	0.726	0.218	0.604	0.726

PKPCARGO CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Name of waste	Waste code	Waste amount [Mg] in 2017		Waste amount [Mg] in 2016	
		inventory at the end of			
		Preceding period	Reporting period	Preceding period	Reporting period
Wood, glass and plastic waste containing or contaminated with hazardous substances (e.g. wooden railway sleepers)	17 02 04*	8.000	8.000	12.150	8.000
Waste bituminous waterproofing	17 03 80	0.344	0.000	0.021	0.344
Copper, bronze, brass	17 04 01	0.060	0.000	0.375	0.060
Aluminum	17 04 02	4.819	0.430	2.349	4.819
Iron and steel	17 04 05	21.696	15.951	52.549	21.696
Cables other than those mentioned in 170410	17 04 11	4.739	0.241	0.835	4.739
Track rubble (aggregate) containing hazardous substances1)	17 05 07*	5.000	0.000	0.000	5.000
Mixed construction, renovation and disassembly waste, other than that mentioned in 17 09 01, 17 09 02 and 17 09 03	17 09 04	0.000	0.010	0.612	0.000
Sludge from non-biological treatment of industrial wastewater, other than that mentioned in 19 08 13	19 08 14	0.000	0.000	10.000	0.000
Wood	19 12 07	13.355	23.392	39.281	13.355
Liquid and concentrated hydrated liquid waste (e.g. concentrates) from groundwater treatment, containing hazardous substances	19 13 07*	0.066	0.000	0.000	0.066

Source: Proprietary material

Table 67 Expenditure on environment protection incurred by the Group in 2016-2017

Expenditures incurred for: [PLN thousand]	2017	2016
Air protection, including:	**8,627**	**13,024**
Boiler plants	1,027	855
Technological processes	248	206
Vehicles and machinery	6,537	11,309
Locomotives	795	621
Steam engines	7	13
Other	14	19
Water protection, including:	**5,588**	**5,900**
Water intake	392	435
Transport of sewage	112	296
Conveyance of rainwater and snowmelt	4,980	4,978
Other	105	192
Cutting trees and bushes	**197**	**167**
Protection of the earth's surface	**0**	**108**
Waste management	**4,769**	**13,950**
Other costs of environmental protection	**138,910**	**249,415**

Source: Proprietary material

EMPLOYEE AREA
Key employment indicators

EDUCATION OF MEN

HIGHER
1 502

SECONDARY
5 876

BASIC
5 233

EDUCATION OF WOMEN

HIGHER
1 039

SECONDARY
2 660

BASIC
733

NUMBER OF EMPLOYEES

WOMEN
4 432

MEN
12 611

NEW EMPLOYEES
502

TRAININGS, WORKSHOPS AND INTERNSHIPS

TRAINING/WORKSHOPS HOURS
53 888

HOURS PER EMPLOYEE
3

INTERNSHIPS
15

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Table 68 Number of employees in the Group in 2016-2017

Number of employees [persons], including:	As at 31/12/2017	As at 31/12/2016
Women	**5,418**	**5,391**
Higher education	1,416	1,397
Secondary education	3,146	3,155
Elementary and vocational education	856	839
Men	**17,897**	**17,824**
Higher education	2,085	2,063
Secondary education	8,555	8,507
Elementary and vocational education	7,257	7,254
Total	**23,315**	**23,215**

Source: Proprietary material

Table 69 Number of employees by FTEs in the Group in 2016-2017

Number of employees [FTEs], including:	2017	2016
Women	**5,398**	**5,431**
Higher education	1,386	1,397
Secondary education	3,143	3,178
Elementary and vocational education	869	856
Men	**17,897**	**17,824**
Higher education	2,085	2,063
Secondary education	8,555	8,507
Elementary and vocational education	7,257	7,254
Total	**23,295**	**23,255**

Source: Proprietary material

Table 70 Number of commenced internships and interns accepted in the Group in 2016-2017

Item	2017	2016
Number of started internships [units]	31	10
Number of accepted interns [persons]	6	4

Source: Proprietary material

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Table 71 Number of new employees in the Group in 2016-2017

Item	2017	2016
Number of new employees [persons]	1,597	641
Number of new employees [FTEs]	1,563	616

Source: Proprietary material

Table 72 Training courses carried out in the Group in 2016-2017

Item	2017	2016
Number of conducted training courses [hours], including:	**101,152**	**103,159**
those regarding a post-accident psychological support program	7,486	7,639
Number of conducted training courses per employee [hour/person], including:	**102**	**71**

Source: Proprietary material

SOCIAL AREA

In 2016, the Parent Company adopted the "Corporate Social Responsibility Policy". The document is a roadmap for responsible activities for everyone involved in execution of business processes. The CSR policy promotes the idea of a socially responsible business, both among the Group's employees and outside.

A respectful and professional attitude towards stakeholders is part of the process of strengthening the position of PKP CARGO Group as a modern and independent logistics operator. For PKP CARGO the corporate social responsibility means the concept of running a business that supports the creation of positive and lasting relationships with the society and the business environment and a sustainable impact on the environment, while supporting the achievement of business goals.

Responsible business (CSR) combines a responsible attitude towards employees, business partners and the natural environment with professional realization of business goals.

Corporate Social Responsibility (CSR) management concerns areas specified in standards that create guidelines for responsible business and sustainable development. With reference to ISO 26000, the relevant areas include:

- **CORPORATE GOVERNANCE**
- **HUMAN RIGHTS**
- **EMPLOYMENT**
- **ENVIRONMENT PROTECTION**
- **FAIR MARKET PRACTICES**
- **CONSUMER RELATIONS**
- **SOCIAL COMMITMENT**

The benefits of CSR activities can be seen in the following three areas:

- Organizational, including raising the level of the company's organizational culture and increasing work efficiency and transport security;
- Customer relations, including increasing competitiveness and customer loyalty;
- Employee relations, including building a positive image of the employer; reduction of employee turnover;

The basic assumptions for the development of corporate social responsibility issues are based on two pillars. The first one of them concerns identification and usage of the held resources and the continuation of good CSR practices, and the second one involves new CSR initiatives.

Responsible and sustainable operations involve permanently searching for the best business solutions that take into account the environmental, social and economic aspects and aim at creating sustainable value, i.e. value that will benefit the stakeholders as well as the shareholders.

The resources used for conducting business activities in a responsible manner as well as sustainable best practices that clearly communicate responsible attitudes towards stakeholders, implemented processes, rules and adopted documents, will be monitored.

Their description will be updated on an ongoing basis in the reports containing non-financial data.

In 2017, PKP CARGO S.A. executed corporate social responsibility projects intended for company employees and their families, carried out activities related to environmental protection, and executed initiatives aiming at increasing transport security.

Among the CSR projects carried out in 2017, particular emphasis should be placed on the following three projects:

1. "POST-ACCIDENT PSYCHOLOGICAL SUPPORT for employees of train crews, other employees directly associated with conducting the rail traffic and rail traffic safety, and members of permanent rail commissions".

Area according to Standard ISO 26000: social involvement and local community development

The purpose of the project is to increase rail traffic safety through psychological support of the human factor.

The project is carried out in all organizational units and covers more than 7000 employees. It is dedicated to members of train crews and other employees directly associated with conducting the rail traffic and rail traffic safety, and members of permanent rail commissions.

The project's main deliverables include:

- Psychological Support Hotline staffed by specialist psychologists. It is accessible to the key employees who are directly responsible for regulating rail traffic intensity. The hotline is free of charge for callers (toll free number) and offers a conversation with an experienced psychologist, help in occupational issues and daily life problems, confidentiality and security of conversation and, most importantly, no professional consequences for the caller.
- Meeting with a psychologist – in justified cases, during a telephone conversation with a Psychological Support Hotline specialist, one may make an appointment with a psychologist in the psychologist's office.
- Cascade training on psychological aspects of rail accidents – the area of psychological aspects of rail accidents, including Acute Stress Disorder (ASD) and Post-Traumatic Stress Disorder (PTSD). Training sessions on occupational stress were carried out during the periodic instructions in the period from July to December 2017. Training is conducted by internal trainers, i.e. the employees whose duties include conducting training for the employees working on the positions related directly to conducting rail traffic and rail traffic security, and coordinators of the teams of permanent rail commissions. The participants gave very high marks to the training for internal trainers. The average grade was 4.7 on the one-to-five scale. 99% of respondents would recommend the Post-Accident Psychological Support project to other persons and encourage to take advantage of such initiatives.

Positive feedback and recommendations of the employees who participated in the project were an important voice in supporting the decision to carry out the project in the long run.

Through performance of the Post-Accident Psychological Support project, PKP CARGO increases rail traffic safety. PKP CARGO received a distinction from the Office of Rail Transport in the second edition of the Safety Culture in Rail Transport Contest.

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Table 73 Number of training hours for employees of train crews, other employees directly associated with conducting the rail traffic and rail traffic safety, and members of permanent rail commissions

Position	Number of training hours during the year	Number of training participants during the year	
		2017	2016
Operator of rail vehicles on rail sidings, Traction vehicle operator, Traction vehicle operator assistant	24	4,135	4,112
Operator of special rail vehicles which are not intended to move using their own propelling mechanism on actively used rail tracks	8	18	14
Rail traffic controller	16	77	92
Control room employee	16	23	36
Train conductor	16	151	198
Rolling stock auditor	16	1,072	1,115
Shunting master	16	1,227	1,251
Switchman	16	706	752
Track supervisor	16	9	10
Points operator	16	68	59
Total	**160**	**7,486**	**7,639**

Source: Proprietary material

2. PKP CARGO is the patron of rail technology history

Area according to Standard ISO 26000: social involvement and local community development

For 14 years, PKP CARGO, as the largest Polish cargo rail carrier and main patron of rail technology history, has been maintaining historic rolling stock in Chabówka in Małopolskie Voivodship, and it has been co-funding, jointly with the local governments of Wielkopolskie Voivodship, the operations of more than 100-years old Wolsztyn Railway Roundhouse which has had the status of the Cultural Institution since 1 January 2017.

PKP CARGO also promotes the rail traditions by organizing the following events in Chabówka:

- "Parowozjada" – the annual event featuring working steam locomotives, which attracts thousands of railway fans from Poland and abroad,
- "Summer with Steam Locomotives" – an educational program addressed to children and entire families, which popularizes historic and modern trains through education and fun activities. Besides Chabówka, the program is also carried out in the Museum Stationand in Wolsztyn, Jarocin and Skierniewice Roundhouses.
- "Tourist Trails of Małopolskie Voivodship" – a very popular tourist program which is carried out jointly with the Office of the Marshal of Małopolskie Voivodship. It taps to cultural and natural resources of the southern region of Małopolskie Voivodship as well as historic qualities of the Galicia Transversal Railway of which the main axis is the Chabówka – Nowy Sącz rail line with the Open-Air Museum of Rolling Stock in Chabówka. In 2017, more than 11 thousand people travelled by retro trains as part of the trips organized under that program.
- Open-Air Museum of Rolling Stock in Chabówka – it contains the largest collection in Poland of historic rail vehicles, including, among others, steam locomotives, diesel and electric engines, passenger and freight wagons, snow plows and service vehicles. Some of the steam locomotives are maintained in operating condition. They are used to operate tourist trains on the most picturesque lines of Małopolskie Voivodship. During the year, approx. 22 thousand people travelled by retro trains operated by the Open-Air Museum, and the Open-Air Museum itself was visited by 30 thousand people.

PKP CARGO also collaborates with non-profit social organizations which are actively involved in protecting the historic rolling stock artifacts, development of tourist rail traffic and promotion of tourism, and provides financial as well as technical support to such organizations.

PKP CARGO wants to serve as an integrator of activities in the area of historic heritage in Poland. For this purpose, it organized a Poland-wide conference in the Senate of the Republic of Poland dedicated to protection of Polish historic rail sites and possibilities of their adaptation for new functions, and it postulated the establishment of the National Railway Museum. PKP CARGO actively participated in meetings of the Senate's task force on historic rail artifacts, whose purpose was to devise adequate legislative solutions to stimulate the development of museum and tourist railways.

PKP CARGO's many years of activities in the area of historic heritage, and especially the organization of events with steam locomotives, are very beneficial to the company's image.
The most spectacular events such as "Parowozjada", "Summer with Steam Locomotives" or the "Tourist Trails of Małopolskie Voivodship" program were attended by a total of approx. 19 thousand people.

Another figure indicating popularity of the Open-Air Museum in Chabówka is a large number of visitors, i.e. approx. 30 thousand people.

Historic rolling stock from Chabówka was loaned for movie sets such as "Schindler's List", "Edges of the Lord", "The Spring to Come" ("Przedwiośnie"), "Fame and Glory" ("Sława i Chwała"), "The Good Soldier Švejk" or "Katyń", and the Wolsztyn Roundhouse loaned the steam locomotive for shooting of the movie "The Pianist".

3. "WE RUN AND WE HELP"

Area according to Standard ISO 26000: social involvement and local community development

For a few years, PKP CARGO has been carrying out a project entitled A Running-Friendly Company, which is supported on two pillars.

The first one is the sports pillar which promotes physical activities. It is pursued through participation of our teams in marathons, also international ones. The second one is the aid pillar. Through participation in running events, PKP CARGO employees helped the beneficiaries of the foundation which organized the run.

Similar event also took place in 2017. In that case, the project was carried out jointly with the Poland Business Run Foundation. Its objective was to promote healthy lifestyle among the employees and help the disabled – the beneficiaries of the Poland Business Run Foundation.

The project was attended by approx. 80 employees and their family members from the organizational entities located throughout Poland, who ran in six cities: Warsaw, Poznań, Katowice, Wrocław, Kraków.

PKP CARGO Group's sizable running team participated in a large undertaking which was attended by more than 20 thousand runners.

The employees' involvement and the Management Board's decision on additional partnership involvement in the running project all contributed to raising more than PLN 1.6 million.

The raised amount was earmarked for providing aid to the foundation's specific beneficiaries, most frequently persons after limb amputations.

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

HUMAN RIGHTS

In 2017, no risks related to exploitation of child labor or risks of exploitation of forced labor were identified in the PKP CARGO Group. Moreover, in 2017, no cases of discrimination, mobbing or sexual harassment were recorded in the Group.

Freedom of association

Table 74 Trade unions in the Group in 2016-2017

Item	2017	2016
Number of trade unions in the Group [items]	174	172
Number of employees who are members of trade unions	17,637	16,937
trade union membership percentage ratio	75.6%	73.0%

Source: Proprietary material

Right to safe labor environment

Table 75 Number of accidents and accident ratio in the Group in 2016-2017

Item	2017	2016
Number of accidents at work [cases]	236	205
Accident ratio [‰]	10.1	8.7

Source: Proprietary material

The PKP CARGO Group makes every effort to continuously increase the level of safety, with regard to the labor environment as well as the shipped cargo. Usage of the fleet of unmanned aerial vehicles (drones) resulted in increasing the safety level as well as significant reduction of cases of theft of the shipped cargo (by almost one-half).

In its day-to-day activities, the Operating Group uses the Unmanned Aerial Vehicles (hereinafter referred to as UAVs) to increase the range of its observations in the field. This also allows observation of places where theft may occur outside of the Operating Group's region. UAVs make it possible to catch the thieves because the perpetrators' escape routes can be followed with the drones.

- Security audit of the areas belonging to PKP CARGO or used by PKP CARGO pursuant to an agreement with other Group companies. Analysis of processed materials obtained with the help of UAVs and safety audit from the point of view of the infrastructure located in the audited areas;
- Prevention activities conducted in the sites of PKP CARGO units
  - flyovers aiming at indicating frequent presence of UAVs in the places at risk of theft;
  - articles in local and national press aimed at the segment of recipients which may include criminal groups that organize stealing activities in PKP CARGO trains.
- Enlarging the UAV fleet due to increased demand for utilization of technology on various areas managed by PKP CARGO;

Utilization for monitoring of train routes the UAVs fitted with a RGB camera (which allows observation during the day) or a thermal vision camera (which allows observation during the night).

PREVENTING CORRUPTION AND BRIBERY

In 2017, PKP CARGO S.A., a PKP CARGO Group company, entered into an agreement pursuant to which the PKP CARGO S.A. employees who would like to report abuse/irregularity were guaranteed with access to anonymous reporting channels. The aforementioned channels include: dedicated hotline, e-mail address and traditional mail address. Several training sessions were conducted, and selected PKP CARGO S.A. employees were prepared to serve as Value Leaders and the Ethics Ombudsman.

In the future, we are planning to implement the code of ethics in the full scope in PKP CARGO S.A. and the Group companies, and also to expand the activities of Whistleblowers.

10.1.3 Applied policies and the results of their application

The operational objective of the PKP CARGO Group as a rail carrier is to ensure the highest level of safety. The Safety Management System, which was implemented pursuant to the Regulation of 17 March 2007 in the matter of the safety management system in rail transport, guarantees not only high quality of provided services and highly qualified staff but also, above all other things, the acceptable level of safety of the provided services.

Continuous improvement of the Safety Management System guarantees safe operations today and in the future, and will benefit the Group, its clients and the participants of the rail system.

Every employee, regardless of type and nature of work and the workplace, is obligated to have full knowledge and understanding of safety priorities.

Through implementing the Safety Management System, we wish to ensure:

- the highest level of safety of provided services without compromising quality,
- safety of rail system participants (other carriers, infrastructure administrators, subcontractors),
- collaboration with other carriers and rail infrastructure administrators to jointly achieve the shared safety goals,
- satisfactory level of safety ratios,
- safe working conditions for the employees and subcontractors;
- compliance with rail safety standards and regulations,
- preventing accidents at work and occupational illnesses,
- continuous improvement of occupational safety and health and activities carried out in that area,
- ongoing identification and minimization of technical and occupational risk.

The Safety Policy in place in the PKP CARGO Group reflects the company's commitment and strategic vision related to rail traffic safety. The policy contains, among other things, the declaration of intentions, and it also outlines the overall goals and objectives of the Safety Management System (SMS) as well as various principles and core values pursued by the Group. It contributes to the organization's commitment to creating and improving the work ethics, and it also provides the employees with clear guidelines on how to solidify the culture of safety.

The SMS System operates on the basis of national and EU legal regulations concerning rail traffic safety, and it is a requirement which, if not complied with, will make it impossible for a rail company to conduct its operations. The SMS System entails systemic approach to the Company's organizing and supervising of its activities to ensure rail traffic safety. The SMS System consists in particular of procedures and processes which include the activities directly and indirectly affecting the safety of the shipment processes.

The implementation and operation of the SMS System is confirmed by the Safety Certificate issued by the Office of Rail Transport. On the basis of this Certificate, after ensuring compliance with other requirements, the Company may also conduct independent shipment operations in the following 7 EU countries: Czech Republic, Slovakia, Germany, The Netherlands, Austria, Hungary and Lithuania.

The purpose of the SMS System is also to ensure supervision over all types of risk associated with the rail carrier's activities, together with the provided maintenance services, the supply of materials and hiring subcontractors.

PKP CARGO's freight wagon Maintenance Management System (MMS) entails systemic approach to organizing and supervising the activities to ensure rail traffic safety through maintaining good technical condition of the freight wagons for which PKP

CARGO is responsible. The MMS System consists in particular of procedures and processes which include the activities directly and indirectly affecting the freight wagon maintenance processes.

The System is developed and prevails in the given company which conducts its operations as part of the rail system. Possession and proper implementation of the MMS System is mandatory for all the enterprises responsible for maintenance of freight wagons, and it is the condition necessary for conducting the operations in that area. The System is subject to oversight by the Office of Rail Transport.

The MMS System was implemented in PKP CARGO in 2013. The basic scope of the System includes the area of maintaining the good technical condition of freight wagons as part of the main process as well as auxiliary processes that ensure correct operations, such as risk analysis, management of staff competences or collaboration with other enterprises (in that regard, it is similar to the SMS System).

On the basis of the approved MMS System, in 2013, PKP CARGO received the Certificate of the entity in charge of maintenance (the ECM Certificate) confirming its approval in the European Union pursuant to Directive 2004/49/EC on safety on the Community's railways, Commission Regulation (EU) No 445/2011 on a system of certification of entities in charge of maintenance for freight wagons, as well as proper national regulations (this regulation outlines the requirements for the MMS System and its basic elements).

The certificate is maintained on the condition of full implementation of the principles and conditions for maintaining the freight wagons outlined in national and EU laws.

Thanks to implementation of the MMS system and obtaining the ECM Certificate, at the present moment PKP CARGO may conduct maintenance of freight wagons or its own or through commissioning their maintenance to other companies, including its subsidiary PKP CARGOTABOR Sp. z o.o.

Without the MMS System and the ECM Certificate, the Company would not be able to conduct activities in that area, and the maintenance of freight wagons would have to be commissioned to a third party (PKP CARGO holds the aforementioned certificate).

The ECM Certificate is valid for 5 years after which it is subject to renewal. The current certificate expires in May 2021.

PKP CARGO Group's policy related to social issues

In connection with the PKP CARGO Group Companies' pursuit of the highest corporate governance standards and in order to ensure the consistency of financing the social undertaking in the form of donations and sponsorship, we have implemented the RULES AND REGULATIONS FOR FINANCING THE SOCIAL UNDERTAKINGS IN THE FORM OF DONATIONS AND SPONSORSHIP IN THE SUBSIDIARY COMPANIES COMPRISING THE PKP CARGO GROUP.

The purpose of the foregoing regulation is to standardize the procedures for examining requests for donations and offers to provide sponsorship in the PKP CARGO Group as well as to ensure a seamless flow of information in this area. The Rules and Regulations define the main areas of sponsorship activities and the sectors which could benefit from charitable aid, including, among others, supporting the innovation in development of the TSL industry, collaboration with universities, and activities related to culture, safety and sport. The Rules and Regulations define the internal procedures for filing applications for subsidies or for replying to sponsorship offers.

PKP CARGO S.A.

The social dialog in PKP CARGO S.A. is based on the principles contemplated in the commonly prevailing laws, the Company Collective Bargaining Agreement and the memoranda defining the mutual obligations of the parties to the social dialog in the Company.

The significance and role of trade unions in PKP CARGO S.A. is determined primarily by:

- the entitlements stipulated in the commonly prevailing laws as well as internal regulations,
- participation in managing the Company through delegating own representatives to the corporate bodies (there are three union representatives in the Supervisory Board and one in the Management Board),
- high level of union membership among the crews (over 85%).

The scope of cooperation with the trade unions in the Company includes in particular the following:

- monitoring the functioning and determining the direction for changes in the Company Collective Bargaining Agreement,
- agreeing upon the labor bylaws, the bylaws for paying bonuses, the company social benefits fund, and participation in distribution of benefits from that fund,
- participation in distribution of funds earmarked for salaries,

- issuing opinions on the headcount,
- consulting changes to organizational structures and framework organizational rules and regulations,
- exerting influence on determination of the conditions of occupational safety and health through participation in OSH commissions and oversight over SIP,
- supervision over the aid and loan funds,
- consulting the intent to terminate or amend the content of the employment contract, and agreeing upon the changes to employment contracts of the persons subject to special protection,
- participation in the procedure of imposing penalties for breach of order.

In PKP CARGO, which is comprised of several employers, social dialog is conducted on two layers:

- on the company unit level – between the director of the Company's unit and the company and inter-company trade union organizations,
- on the Company level – between the Management Board and the inter-company trade union organizations and company trade union organizations which are a party to the Company Collective Bargaining Agreement.

The basic form of dialog are the regular meetings aimed at discussing current issues of material importance to the employer and the employees, which are held, in principle, once a month on the unit level and once a quarter on the Company level.

The Management Board supports the efforts aimed at having the dialog that is based on the principles of compliance with the law, equality of the parties, mutual trust and pursuit of compromise. At the same time, the Management Board promotes the idea of partnership, and considers it the natural evolution of social dialog in the world of free market economy, globalization and increased competition.

It appreciates the benefits of conducting business activity where the social party is involved in efforts to increase the company's efficiency and achieve the set goals.

The Company respects and improves the principles of cooperation between the social partners, which contributes to implementation of modern, pro-development solutions aiming at increasing the company's competitiveness and efficiency while maintaining social peace. The efforts aiming at improving the social dialog are exemplified by the Partnership Dialog Workshops conducted in 2017 on the employer's initiative in cooperation with representatives of other companies from the rail sector, and which contributed to increasing the participants' awareness in building the culture of dialog and co-participatory leadership in execution of business processes.

PKP CARGO SERVICE Sp. z o.o.

To fulfil PKP CARGO S.A.'s recommendations, since September 2017 PKP CARGO SERVICE sp. z o.o. has been working on adopting and implementing the "Corporate Social Responsibility (CSR) Policy in PKP CARGO SERVICE sp. z o.o.". According to the plan, the works will be completed by the end of the first quarter of 2018.

Although the CSR procedures are not included in any of the management systems, the Company is already acting pro-socially when conducting its operations, through e.g. supporting the Stróże Foundation, the Railroad Honor Blood Donors Club and the "Aid to the Transport Sector Employees" ("Pomoc Transportowcom") Foundation. It also sponsors youth sports clubs located in the areas of its operations (Wola, Zabrze, Miedźna) and it is a patron of the Student Scientific Session of the Faculty of Transport at the Silesian University of Technology.

In its pursuit of providing the best quality of services, PKP CARGO SERVICE sp. z o.o. supports its activities on the prevailing law, and it constantly improves its management systems.

The Company has in place seven certified management systems:

- Integrated Management System, encompassing: Quality Management System, Environmental Management System, Occupational Safety and Health Management System, Information Security Management System,
- Energy Management System,
- Safety Management System (SMS),
- Maintenance Management System (MMS).

In addition to management systems, PKP CARGO SERVICE sp. z o.o. also has in place the rules and regulations (including Labor Bylaws and Organizational Bylaws) which must be complied with by all the employees of PKP CARGO SERVICE sp. z o.o. The management systems and the individual rules and regulations are comprised of several issues and procedures related to social topics, employee matters, environmental protection, respect of human rights and corruption prevention.

PKP CARGO SERVICE sp. z o.o. undertakes several initiatives whose outcomes are visible in the social area as well as in the area related to employee matters. These include:

"Recommend an Employee" program – a program for recommending new people for work in PKP CARGO SERVICE sp. z o.o. It is intended for existing employees and involves recommending such employees' friends holding appropriate qualifications to work in the Company. The Program is open to all Company employees except for those who are responsible for recruitment as part of their professional duties. If the recommended person is hired and works for at least three months on the basis of an employment contract, the employee who recommended such person is eligible to receive a cash bonus.

This employee will receive another bonus if the employee recommended by him/her works in the Company for one year. The positions for which the recruitment is conducted and the amounts of bonuses are determined in the Program rules and regulations. As at the end of December 2017, the "Recommend an Employee" program had been functioning only for less than two months, therefore it is too early to make an assessment as to if and whether it had any impact on the number of persons recommended for work in the Company by the employees. However, PKP CARGO SERVICE sp. z o.o. hopes that in the coming years the program will not only have a positive impact on the employment on the positions with most vacancies but will also boost the Company's image in the eyes of employees, reinforce its connection to the local community on the regions where the Company conducts its operations, and built the Company's image as a socially responsible entity.

The collaboration between the Company and the County Employment Centers, which was launched in 2011, spans the area of social policy as well as the employee-related matters. There are three forms of such collaboration. The first one of them involves training of employees on the basis of trilateral agreements signed by and between PKP CARGO SERVICE sp. z o.o. (PKPCS), the County Employment Center (PUP) and the Training Center. The second one involves acquisition of employees for the so-called intervention work. The unemployed persons, who are referred by PUP to PKPCS, begin work in the Company and undergo training for railroad jobs, and PUP refunds to PKPCS part of the costs of their hiring. The third one involves placing traditional classified ads for work in the employment centers located in the areas near the railway sidings which are hiring at the given moment. However, the Company does not keep statistics as regards the number of persons hired through such activities. The collaboration between PKP CARGO SERVICE sp. z o.o. and the employment centers is proportional to the Company's current demand for new employees, and it is beneficial not only to the Company in terms of newly hired persons to fill vacancies but it also stimulates activation of the unemployed and reduces the unemployment rates in the areas where the Company is conducting its operations.

CARGOTOR Sp. z o.o.

In 2017, CARGOTOR Sp. z o.o. adopted the rules and regulations for donations and aid, which are at the same as the principles for providing aid and assistance to social organizations in effect in PKP CARGO S.A. The Company provides donations to social organizations and participates in sponsoring activities.

PKP CARGO CONNECT Sp. z o.o.

2017 witnessed continuation of work related to providing assistance to working parents. The "Working parent" guide was published, which discusses the topics related to parents' rights.

PKP CARGO CONNECT Sp. z o.o. provides its employees with social benefits encompassing subsidizing holiday, subsidizing stays in treatment, SPA and rehabilitation centers for old age and disability pensioners, and subsidizing organized holidays for children and youth. Subsidies to school aid and material assistance are also available. The employees may also receive hardship assistance, living expenses aid and a loan for housing needs.

AWT

The AWT Group's approach to social issues is explained in the company's principles referred to as the "Social Responsibility Code". That document discusses the following issues:

- corporate governance,
- natural environment,
- energy and water consumption,
- waste management, prevention,
- sustainable development,
- ways of treating people,
- collaboration with schools,

- occupational safety and health,
- support and aid,
- supporting non-profit activities,
- communication
- external relations

PKP CARGOTABOR Sp. z o.o.

The Company pursues dialog with the trade unions which operate in the Company and represent the social side. It holds regular meetings with them to analyze potential problems that may occur in individual areas and response strategies. The Company supports the activities of social labor inspectors.

In addition, the Company has in place the Company Social Benefits Fund whose purpose is to provide material support to the employees in need, and also to ensure the integration of the crew.

As a result of such policies, the Company's authorities have good relations with the employees and the trade unions operating in the Company.

PKP CARGO Group's policy related to employee issues.

PKP CARGO S.A.

Employee recruitment

As in 2016, in 2017 PKP CARGO S.A. implemented internal and external recruitment processes. In addition to standard recruitment activities aimed at acquiring experts and specialists with theoretical knowledge supported by experience, it intensified activities aimed at recruiting candidates without experience or with a relatively short employment history.

In 2017, 633 recruitments were launched, of which over 10% were internal recruitments. The share of recruitment ended with employment vs. total recruitments is over 72%.

To calculate the indicators, the following was taken into account:

- the number of internal recruitments – 67,
- the number of external recruitments – 566.

Focusing its recruitment processes around people with a short employment history, PKP CARGO provided the opportunity for realistic development of competences and building a career path by gaining initial professional experience and shaping attitudes and behaviors consistent with the expectations that PKP CARGO S.A. lays down for its employees.

In 2017, as part of the activities promoting employment with the Company, PKP CARGO S.A. participated in the Career Day organized during the International TRAKO Fair. This meant a return to employer's promotion within the school and academic environment. Those activities will be continued.

Adaptation program

In 2017, works related to creating friendly and optimal conditions for each new employee of our company were continued.

Adaptation programs for new employees are adapted to the uniqueness of the work, different in the Head Office and different in the Company's Units.

In the Head Office, the "CARGO WITA" ['WELCOME TO CARGO'] adaptation program is implemented, aiming to organize the process of hiring and adapting new employees. Thanks to the program, new employees get to know the organization, its strategy, mission and vision, structure and principles of operation.

In addition to adaptation training and a welcome letter, new employees are invited for training courses focused on the rules of conduct. In addition, under the program employees participated in e-learning training on "Environmental protection".

In 2017, the "CARGO WITA" adaptation program was extended to include support for employees. An Intranet site dedicated in particular to new employees contains all necessary contacts to competent people from different areas.

The Units implement vocational preparation programs based on the qualifications required from the candidates. A vocational training program covering practical and theoretical training is developed for this group of new employees. The above-mentioned training courses end with a practical and theoretical exam. In order to systematically improve professional knowledge, periodic and *ad hoc* trainings are also carried out.

Training and Development

PKP CARGO S.A. aims to obtain the status of a learning organization, knowledge- and experience-based management and the use of various forms of professional development appropriate for the accomplishment of business goals.

In 2017, the Company continued activities aimed at professional development of employees by enabling their participation in post-graduate studies, organized in cooperation with the Association of Railway Employers (ZPK), embedded in the area of railway company operations. In addition, the management personnel participated in post-graduate MBA studies organized for employees employed with railway companies. This form of supporting the employees in developing their skills enjoys high recognition and interest among them, which is why we will continue cooperation with ZPK in this area next year.

Furthermore, seeing the large interest of employees and the organizational need, in 2017 a foreign language course in the form of individual and group classes was launched. As part of the course, the participants took classes with a teacher and were given access to a dedicated e-learning platform, thanks to which they could consolidate the acquired skills. In 2017, the course was carried out in the form of a pilot program which was positively evaluated upon completion. Therefore, next year we will continue development activities involving learning foreign languages, expanding the course to include more groups. In previous years, support for foreign language learning consisted in subsidizing the costs of the course incurred by the employees, according to individual applications submitted with the Employers.

In 2017, to ensure occupational safety and health, work safety and first aid training was provided.

Knowledge sharing in the form of e-learning courses, developed entirely by the employees of the Company, was also continued.

The Company's employees participated in specialist trainings, in accordance with the reported needs. In 2017, the total number of training hours was 53,888 – 6,736 training courses per person were completed, i.e. the average number of hours per employee was over 3 hours, including:

- 142 – number of training courses per manager (the average number of training hours per employee was over 2 hours),
- 6,954 – number of training courses for non-managerial staff (the average number of training hours per employee was 3.91 hours), including 6,173 for blue-collar workers (the average number of training hours per employee was 3.73 hours),
- 848 – number of training courses for women (the average number of training hours per employee was 1.53 hours),
- 5,888 – number of training courses for men (the average number of training hours per employee was 3,74 hours),

To calculate the indicators, the following was taken into account:

- the average number of training hours per employee – number of training hours in which employees participated / total number of employees,
- the average number of training hours per employee employed on a non-managerial position – number of training hours in which employees employed in non-managerial positions participated / total number of employees employed in non-managerial positions,
- the average number of training hours per blue-collar worker – number of training hours in which workers participated / total number of blue-collar workers,
- the average number of training hours per woman – number of training hours in which women participated / total number of women,
- the average number of training hours per man – number of training hours in which men participated / total number of men,
- duration of one training course – 8 hours,
- number of managers – 560,
- number of employees employed in non-managerial positions – 16,483, including blue-collar workers – 13,238,
- number of women – 4,432,
- number of men – 12,611,

Furthermore, PKP CARGO S.A. enabled its employees to develop their education by participating in costs related to tuition fees, of which:

- 81% related to higher education, 19% to post-graduate studies
- 90% of employees using the support financing are employees employed in non-managerial positions, including 19% blue-collar workers
- 54% of employees using the support financing are men, and 46% are women.

Annual employee appraisal system

At the PKP CARGO S.A. Head Office, an annual employee appraisal system is in force, aiming to support business processes by shaping optimal personnel skills allowing for adaptation to the changing economic situation.

The appraisal system is based on precisely defined skills of key importance for the entire company, which an employee should possess. The foundation for the appraisal system was to be able to assess those skills, and – consequently – for the participants to be able to learn about their strengths and weaknesses and to build development plans taking into account the expectations of employees and the company.

In 2018, PKP CARGO S.A. plans to update the appraisal system. The new system will focus on building and shaping optimal skills, and the appraisal results will be the basis for planning employee development, training and other personnel decisions.

Social activity and travel benefits

The Company Social Benefits Fund (ZFŚS) has been created at PKP CARGO S.A., based on the rules following from generally applicable regulations and the Company's Collective Bargaining Agreement. The social activity is conducted separately by employers forming the Company on the basis of a given company's ZFŚS Regulations, taking into account the local needs and preferences of the staff. The Fund, depending on its capabilities, satisfies the living, social and cultural needs of the Company's employees and former employees. In particular, employees, old age and disability pensioners and members of their families are entitled to use the Company Social Benefits Fund.

Decisions on granting aid and its amount are taken by social committees consisting of the representatives of employers and company trade union organizations, guided by statutory criteria, i.e. the life, family and material situation of persons entitled to receive fund benefits.

The funds from the Company Social Benefits Fund are intended mainly for subsidizing holidays, self-arranged countryside holidays, trips, camps, winter camps, 'green schools', school trips, short-term rest, trekking trips, sports competitions, cultural and educational events, children's stay in a nursery, children's club or kindergarten, as well as sports club cards, thanks to which employees can use various sports and recreational activities. Aid is also provided in the form of in-kind and hardship benefits, which can be obtained by persons in a particularly difficult life situation. Eligible persons may also use loans for housing purposes.

In 2017, the Company has made a ZFŚS charge for 42,466 eligible persons, including 17,233 employees and 25,245 old age and disability pensioners, and the amount of benefits was similar to the previous year.

Employees and members of their families, as well as old age and disability pensioners are eligible for reduced travel services in the form of reduced tariffs in trains operated throughout the country. The cost of employees purchasing a reduced travel service for the second class is entirely covered by the employer. The benefits are offered pursuant to the Agreement on Reduced Travel Benefits between ZPK and carriers operating passenger railway transport of 27 November 2013 and the Company's internal regulations.

In 2017, a total of 28,507 of the aforementioned benefits were purchased, including:

- for employees – 13,429 (78%),
- for members of employees' families – 2,283,
- for old age and disability pensioners from the railway sector – 12,795.

Every year several hundred people (322 applications in 2016, 265 applications in 2017) decide to purchase an international ticket, which for a token fee allows them to travel around Europe and selected countries in Asia.

PKP CARGO CONNECT Sp. z o.o.

At PKP CARGO CONNECT Sp. z o.o. the rules for improving the employees' qualifications apply which define the procedures and eligibility of employees in terms of raising their professional qualifications. As part of the employees' development policy, the following forms of qualifications improvement are implemented:

- bachelor, master and post-graduate studies,
- training courses,
- foreign language learning,
- other forms of qualifications improvement.

Activities aimed at strengthening employee skills have been defined in the 'Rules for Employee Periodic Appraisals'. Their purpose is also to provide the employee with information on the assessment of his/her work effectiveness from the point of view of the Company's current needs and requirements and his/her participation in the implementation of the strategy, to define areas for further development and goals for the next appraisal period, to allow him/her plan his/her career development and to provide him/her with training opportunities and to create succession plans (reserve staff) and groups of internal trends.

PKP CARGO SERVICE Sp. z o.o.

Since the beginning of its activity, PKP CARGO SERVICE sp. z o.o. has been pursuing a very transparent employee affairs policy.

The company is committed to make sure that employees are treated in accordance with applicable laws, which is evidenced by the positive results of inspections carried out by the National Labor Inspectorate, the Office of Rail Transport and the Social Insurance Institution.

In addition to the compliance with detailed provisions of the Labor Code, Civil Code and occupational health and safety rules, the Company, after consultations with PKP CARGO S.A., also implements its own policies and regulations, based on those in force at the Group. They are known to all employees of PKP CARGO SERVICE sp. z o.o. and everyone accepted for work needs to get acquainted with them. Such documents include:

- Labor Bylaws of PKP CARGO SERVICE sp. z o.o.
- Integrated Management System procedures applying to human resources management (e.g. to the recruitment and training of employees, professional development), personal data privacy and occupational health and safety rules (e.g. work accidents investigation procedures, supervision of events bearing the risk of accident and professional diseases, work stations threat identification),
- Organizational Bylaws of PKP CARGO SERVICE sp. z o.o.
- Employee Remuneration Bylaws of PKP CARGO SERVICE sp. z o.o.
- Employee Bonus Bylaws of PKP CARGO SERVICE sp. z o.o.
- Employees' Occupational Health and Safety Bylaws of PKP CARGO SERVICE sp. z o.o.
- Personal Data Privacy Policy
- CSBF Bylaws of PKP CARGO SERVICE sp. z o.o.
- Labor Bylaws of individual organizational units

With regard to employee issues, the Labor Bylaws of PKP CARGO SERVICE sp. z o.o. is of particular importance, as it defines the organization and order of work in the Company as an Employer, and the related rights and obligations of the Employer and Employees (regardless of their position and the basis for employment).

The Bylaws also include the rules of social coexistence in the Company. In matters not regulated by the regulations, the applicable law, in particular the Labor Code and relevant secondary legislation regulations apply. The Labor Bylaws detail the Employer's and the Employees' duties and provide for disciplinary penalties for breaching the basic employee duties as well as prizes and awards for exemplary performance. It broadly covers the subject of working time, holidays and dismissals, protection of women's and juveniles' work, as well as issues of occupational health and safety and fire protection. Employees are informed about changes in the bylaws by their supervisors, and all applicable documents are available for inspection and published on the Company's Intranet.

In addition to issues related to labor bylaws, the transparency of remuneration, training, professional development and occupational health and safety, PKP CARGO SERVICE sp. z o.o. also undertakes a number of additional initiatives in order to be perceived by its employees as a friendly and open workplace. The company works to develop its employees' passion for sports. By organizing training trips, buying sports outfits and co-financing the participation in industry competitions, it supports its ski team, which for many years has taken high positions in the Open Polish Railway Alpine Ski Championships. The skiers from PKP

CARGO SERVICE sp. z o.o. have won cups in both individual, team and family categories. In 2016, the Company's representation won three gold, two silver and two bronze statuettes and came second in the teams. In 2017, the team returned from the championships with two gold, two silver and two bronze medals, and high positions in many categories allowed the team to come 1st in teams. The organizer of the Open Polish Railway Alpine Ski Championships is the Association for the Promotion of Sport, Tourism and Culture "Kolejarz" ['*Railwayman*'], an organization acting for employees and families of employees of companies associated in the Association of Railway Employers, and for the railway pensioners and retired employees, whose goal is to promote physical culture, sport, tourism and other forms of active rest and cultural activities, including by organizing or co-organizing sport events.

Apart from supporting the ski team, the Company has also purchased sports equipment for the employee who, representing the Silesia Skating club, achieves successes in long-distance rapid roller skating.

The Company's goal is to employ qualified staff, so it co-finances training courses for employees who want to improve professionally and expand their qualifications, it organizes and finances employee training from budgets of individual offices and teams, designated for this purpose.

PKP CARGO SERVICE sp. z o.o. also organizes traditional end-of-year Management Board meetings with employees and educates and inspires employees through training and training-integration trips, sports activities and picnics for the employees' families.

The clients of PKP CARGO SERVICE sp. z o.o. are mainly companies from the energy and mining industry, operating in particularly dangerous conditions, often threatening their employees' health and lives.

Those companies run foundations dealing with the injured at work or their families. While implementing the comprehensive service of railway sidings, at business meetings, including at energy and mining sector workers' day celebrations, to which the Company's representatives have been invited on numerous occasions, the foundations frequently asked the Company for support in the form of donations. Seeing the difficult situation of the foundations and their wards, and striving to develop a systemic approach to charity support, the Company participates in talks on the adoption of 'Bylaws for financing social undertakings by donations and sponsorship in subsidiaries of the PKP CARGO Group'.

CARGOTOR Sp. z o.o.

At CARGOTOR Sp. z o.o., the subject of social relations is also regulated by documents and bylaws relating to labor order and discipline, which define the principles, duties and rights resulting from employment and the position held in the Company. Those documents include: Labor Bylaws, Anti-mobbing policy. Organization Bylaws.

AWT

Employee affairs are mainly described in the Collective Bargaining Agreement. Employees also have access, via the Intranet and the legal department, to publicly available documents in force in the Czech Republic, i.e. the Employment Act, the Personal Data Protection Act and the Labor Code.

Some of the rules in force at AWT are set out in the Code of Ethics, which contains rules for the conduct of the company employees.

These rules follow from the company's values and the commonly accepted ethical standards. All AWT employees must comply with the laws of the state in which they work and the company's internal regulations. They are required to act in a manner consistent with the AWT values. The employees must carry out their duties respecting the ethical and moral values and cultural differences and traditions of the countries and regions in which they work.

Other rules, regarding dress codes, are set out in the Dress Code.

The Dress Code applies to all AWT office employees who have not received guidelines regarding their work clothes.

A broader description of the company's employee policy is included in the document entitled 'AWT Rules of Behavior and Conduct'. That document is one of the foundations of the organization. It defines the rules of employees' conduct, also outside the organization and among employees. It sets out the essential principles of the employees' professional and appropriate approach to various non-standard situations. It defines standards that strengthen employees' responsibility for their actions and their consequences.

The purpose of that document is to provide employees with tips on how they can behave appropriately in specific, ethically difficult or complicated situations.

Therefore, that document cannot be confused with other documents adopted by the company, e.g. with its values, vision, mission or the organization's labor bylaws.

AWT guarantees the perfect quality of its products and services. It strives to achieve the highest standards of personal and professional conduct, which allows it to win clients' trust and to meet their requirements.

AWT's success and reputation depend on the company's employees, their conduct and the manner in which they solve problems. Therefore, their conduct in all situations related to the business of AWT is extremely important. The purpose of that document is to explain how AWT perceives moral conduct, what behavior it expects from its employees and – in turn – what they can expect of their employer.

The rules of ethical conduct apply to all employees, regardless of their status. They apply to all, and compliance with them is monitored by line supervisors, regularly assessing the conduct of individual employees. In many issues, this document is based on statutory provisions.

The employer reacts to all possible violations of those provisions, taking into account the nature and gravity of the violation, labor law regulations and internal regulations. AWT encourages its employees to take initiatives and report possible violations of the provisions to their supervisors if they come across them while performing their duties.

In such situations, employees should not remain passive or indifferent. AWT undertakes to maintain full discretion and guarantees the anonymity of the employee reporting the violation. Other ways of handling complaints, reports and suggestions are described in Regulation 22/2002 Q 'Supervision'.

Ungrounded complaints are not welcome and will not be considered. The booklet is divided into 15 topics, which are then discussed in detail. The first seven topics concern the rules of AWT's approach to stakeholders, i.e. employees, clients, owners (shareholders, investors etc.), suppliers and the social environment (corporate responsibility). Other topics concern moral standards in the area of human resources management, mainly in the field of honest and fair approach to employees. Employees learn and get acquainted with those guidelines during regular meetings in operational areas, sections, divisions, departments etc.

PKP CARGOTABOR Sp. z o.o.

The policy applied in the area of employees' affairs is basically reflected is the adoption of the Collective Bargaining Agreement as the basic act regulating the issue of remunerating employees. The agreement comprehensively regulates issues related to setting the remuneration, jubilee bonuses, retirement benefits and any other employee benefits. In addition, the company has Labor Bylaws in force, as well as detailed regulations related to bonuses.

A noteworthy issue is also the Company establishing an Anti-mobbing Committee , which is an expression of the employer's proactive attitude in combating mobbing as a pathology in employee relations.

As a result of such policies, all conflicts related to legal and employee relations are minimized.

PKP CARGO Group's policy related to natural environment

The environmental policy adopted by the Group is a coherent element of the PKP CARGO S.A. Policy regarding the Integrated Management System (IMS) and includes:

- protection of the natural environment through the promotion and implementation of eco-friendly forms of transport and prevention of pollution,
- reasonable use of raw materials, other materials and energy and water in accordance with the legal requirements of environmental protection and sustainable development,
- raising employees' awareness of their responsibility for the quality of the natural environment

The application of those policies results in:

- safe transport of goods using rolling stock that meets environmental requirements;
- investments in the procurement of new rolling stock and modernization of used stock, in the maintenance and repair facilities, and in rolling stock diagnostics equipment, which helps maintain high standards of rolling stock maintenance and protect of the environment against possible consequences of rolling stock breakdowns and accidents;
- compliance of the performed activities with applicable legal provisions – if necessary, decisions on industrial use of the environment are updated or obtained, and the compliance with external regulations and internal guidelines is verified during audits as well as internal and external inspections;
- minimizing the impact on the natural environment, reduction of the amount of substances and pollutants emitted to the environment – every year an environmental action program is created, the implementation of which results in the reduction of indicators of traction fuel consumption and electricity and water consumption; we also act to increase the energy efficiency of our installations, we successively eliminate old coal-fired boiler rooms and replace them with ones using oil and gas fuels or with modern solid fuel boilers;
- environmental awareness of our employees is growing every year – employees are regularly trained within the scope adequate to environmental hazards which they face in their work places (elements of environmental protection by employees responsible for performing tasks related to the transport of goods, supervision and maintenance of installations causing emissions, and waste management; personnel dealing with environmental issues participate in specialist training in environmental law)

PKP CARGO CONNECT Sp. z o.o.

PKP CARGO CONNECT Sp. z o.o. introduced the Environmental Policy, as well as procedures and instructions in the field of environmental protection, including:

- P01_Ś 'Waste Management'
- P02_Ś 'Identification and access to legal and other requirements regarding environmental protection and conformity assessment'
- P03_Ś 'Identification and assessment of environmental issues'
- P04_Ś 'Environmental monitoring and measurements'
- P05_Ś 'Target setting and action planning'
- P06_Ś 'Environmental risk assessment'
- P07_Ś 'Alertness and response to environmental threats and failures'
- P08_Ś 'Operational control associated with significant environmental aspects'
- INS01_Ś 'Instructions in case of breakdowns of vehicles and machines/devices'
- INS02_Ś 'Instructions for the settlement of fuel consumption by equipment units operating at the Terminals'
- INS03_Ś 'Installations and equipment operated by the company'
- INS04_Ś 'Environmental rules for subcontractors/service providers'

The PKP CARGO CONNECT Sp. z o.o. environmental policy forms an integral part of its overall corporate management system. The main assumptions of the environmental policy include:

- compliance with all legal requirements regarding the environment,
- systematic identification of threats and significant environmental aspects,
- eliminating or minimizing the occurrence of threats to the natural environment,
- reasonable use of and saving water, energy and fuels,
- reduction of pollutants emission into the atmosphere,
- eco-friendly waste management in accordance with the requirements of environmental law,
- raising the employees' environmental awareness through appropriate information and training.

Responding to changes in legal regulations in the field of environmental protection, PKP CARGO CONNECT Sp. z o.o. reviews and updates legal and other requirements.

PKP CARGO CONNECT Sp. z o.o. drafts statutory information, statements and reports to competent authorities required due to the use of the natural environment, including

- Reports to the National Database on greenhouse gas emissions and other substances (KOBiZE – *National Centre for Emissions Management*),
- Information on the types and volumes of waste and on the manner of their disposal, and on installations and equipment used for waste recovery and disposal,
- Information on products containing asbestos,
- Submission of the results of tests of quantity and quality of sewage introduced into waters or into the ground and other tests,
- A summary of information on the use of the environment and the amount of fees due.

Other Group companies do not have specific internal rules regarding environmental protection. The companies apply generally applicable rules, including annual reporting of used materials, solid and liquid fuels.

AWT

The rules regarding natural environment are set out in the 'Environmental and energy issues' regulation. It specifies the procedure for identifying, registering, assessing the significance and updating environmental and energy issues and maintaining continuity in setting environmental targets and programs (in the environmental management system, EMS), and for setting energy targets and action plans (as part of managing energy issues).

PKP CARGOTABOR Sp. z o.o.

The company applies policies aimed at intensifying its activities for the implementation of procedures regulating the broadly understood environmental protection issues. In addition to the appointment of the Chief Specialist for Environmental Protection, the Company has implemented a number of regulations in the area, including: the procedure for scrap management, the waste disposal procedure, conditions for the sale of slag, conditions for the sale of waste wood.

The effectiveness of applying the above-mentioned policies is confirmed by absence of any sanctions or complaints regarding violation of environmental protection regulations.

PKP CARGO Group's policy related to respecting human rights

Human rights in Poland are protected by the Polish constitution and additionally by ratified international treaties. Such human rights as equality regardless of sex, prohibition of discrimination, freedom and personal inviolability, the right to privacy and protection of personal data and freedom of association and freedom of opinion are a reference point for Polish law, including labor law, and form the grounds for the activities relating to the employees' affairs also in the PKP CARGO Group.

PKP CARGO S.A.

Given the statutory duty to counteract mobbing, resulting from the Labor Code, as well as in recognition of the need to combat all discriminatory practices and to ensure every employee's compliance with ethical principles, and to shape appropriate interpersonal relations in the work environment, PKP CARGO S.A. has implemented anti-mobbing policies.

Based on internal regulations, a number of organizational, legal, informational and cultural activities have been implemented, creating the basis for the Company's internal anti-mobbing policy.

The duty to counteract mobbing has been included in the labor bylaws in force at employers being members of PKP CARGO S.A. In all plants and at the Head Office, the Anti-mobbing Committees and Trustees have been appointed, thus creating conditions for the free and confidential lodging of complaints by any employees who believe they are being mobbed, or who have noticed signs of mobbing, and for subsequent efficient and objective examination of each of the notified cases and formulation of appropriate conclusions.

Further to continuous improvement of the Company's anti-mobbing procedures, special emphasis in the implementation of anti-mobbing policy is placed on preventive actions, especially in the sphere of education and information, consisting in raising mobbing awareness and increasing the personnel's awareness in broader perspective, including ethical attitudes, organizational culture and conflict resolution skills preferred in the company.

This goal is achieved by, among other things:

- employee training, with special focus on managerial positions,
- providing employees with Intranet access to information on mobbing,
- highlighting the issue of mobbing-protection by the employer during occupational health and safety training,
- providing an e-mail address for reporting mobbing cases.

Depending on the assessment of the effectiveness of the solutions applied by the Company and current needs, the methods of counteracting the symptoms of mobbing and the preventive measures applied in this respect are constantly being developed.

PKP CARGO CONNECT Sp. z o.o.

As part of building a long-term subcontractors' management policy, PKP CARGO CONNECT SP. z o.o. has adopted the Code of Conduct with Suppliers.

The Code sets minimum standards of conduct for suppliers and subcontractors providing business and services for PKP CARGO CONNECT Sp. z o.o. This Code specifies the key values that the Company is guided by in cooperation with its subcontractors. This is aimed at:

- consolidating the positive image of PKP CARGO CONNECT Sp. z o.o as a company from the TSL sector,
- building the perception of the Company as one that cares about standards in relations with its clients and subcontractors,
- verifying and assessing the carriers in accordance with the IMS procedures,
- identifying and managing the risks related to social, environmental and ethical factors;

PKP CARGO SERVICE Sp. z o.o.

Social human rights, which include the social protection right and employment rights, including the prohibition of discrimination in employment, the right to decent working conditions and fair and equal remuneration for work of equal value, as well as the right to organize and strike, are the foundation for the aforementioned regulations and procedures applicable at PKP CARGO SERVICE sp. z o.o. The Integrated Management System at PKP CARGO SERVICE sp. z o.o. guarantees strict compliance with occupational health and safety rules and the privacy of employees' personal data, and the bylaws and procedures clearly define the employees' rights and obligations. It also protects their interests by ensuring equality and prohibiting discrimination.

The Labor Bylaws adopted by PKP CARGO SERVICE sp. z o.o., as described above, vests the employer with responsibility for, among others:

- providing the employees with work in line with the concluded employment contracts,
- timely payment of remuneration,
- ensuring safe and hygienic working conditions,
- organizing work in a way that reduces its nuisance,
- facilitating employees' improvement of their professional qualifications,
- satisfying the employees' life, social and cultural needs – as far as the available resources permit,
- counteracting discrimination in employment, especially on the grounds of sex, age, race, religion, nationality, political convictions, sexual orientation, trade union membership, type of employment (i.e. fixed or indefinite employment period, no. of working hours), counteracting mobbing,
- applying objective and fair criteria for the assessment of employees and the results of their work,
- ensuring the privacy of the employees' personal files,
- influencing the shape of the workplace rules of social coexistence.

In addition to the Labor Bylaws, the Employee Remuneration Bylaws, Bonus Bylaws, Social Benefit Fund Bylaws and the Occupational Health and Safety Bylaws, the Company has also adopted other regulations and documents protecting the employees' interests, such as:

- "Rules for conducting clarification proceedings pertaining to breach of duties by employees of PKP CARGO SERVICE Sp. z o.o."
- Rules for improving professional qualifications for employees of PKP CARGO SERVICE Sp. z o.o.
- "Anti-mobbing and Antidiscrimination Procedure", a standing Conflict Resolution Commission has been appointed according to the "Anti-mobbing and Antidiscrimination Procedure".

The question of open dialog with employees and enabling them to speak about the company's matters is particularly important from the human rights perspective. The employees of PKP CARGO SERVICE sp. z o.o. take an active part in building the Company's culture and strengthening its position in the market, and are its driving force. As one of the most important stakeholder groups in the Company, they are motivated to take initiative, propose new, better solutions and improve their qualifications. For exemplary performance of obligations, taking initiative at work and improving its quality, in accordance with the Labor Bylaws they may obtain awards and distinctions.

Open dialog and positive relations between the Company and its employees are among the pillars of the Corporate Social Responsibility Policy which PKP CARGO SERVICE sp. z o.o. plans to implement by the end of Q1 2018.

The employees of PKP CARGO SERVICE Sp. z o.o. are often elected for management positions in their trade unions. In accordance with prevailing laws, for the duration of performance of statutory works, they are exempted from the obligation to perform work while retaining the right to remuneration. The Company actively cooperates with the trade unions, negotiating the questions related to implementation of employee bylaws, e.g. Remuneration Bylaws or Company Social Benefit Fund.

Considering how important social dialog is for the Company, PKP CARGO SERVICE sp. z o.o., by virtue of a Management Board Resolution, has acceded to the Railway Employers' Union (ZPK). This organization, affiliating currently 30 railway companies, aims to protect the rights and represent the interests of affiliated members vis-a-vis trade unions, state and administration bodies and local government bodies. Membership in the Union makes it possible for the Company to take advantage of the organization's support during negotiations with the trade unions or mediation proceedings. ZPK also supports employers through organizing legal, economic and organizational advisory service and cares for development of employee competences. This can be confirmed by, among others, selected representatives of the PKP CARGO SERVICE sp. z o.o. executive staff, who attended post-graduate MBA studies subsidized by ZPK.

As regards the procedures in place in the PKP CARGO Group and the on-going managerial control, there is no material risk regarding the human rights policy in the Group companies.

AWT

Questions associated with respecting human rights are described in the document entitled "Rules of conduct in AWT" referred to in the section discussing the policies applied by the PKP CARGO Group with regard to employee issues.

PKP CARGOTABOR Sp. z o.o.

The Company's operations are conduced respecting all human rights. The company exercises on-going supervision over ensuring compliance of the prevailing regulations and procedures with the whole catalo of human rights laid down in the Constitution and pertinent international regulations. The Compliance Commission carries out detailed analyses of internal procedures to eliminate the risk of human rights violations in the Company's current operations.

As a result of the aforementioned policies applied in the Company, the risk of occurrence of human rights violations has been effectively prevented.

PKP CARGO Group's policy related to preventing corruption and bribery

PKP CARGO S.A.

As of 1 January 2018 the Decision of President of the PKP CARGO S.A. Management Board dated 31 October 2017 entitled "Procedure of Dealing with Corruption Risks in PKP CARGO S.A." entered into effect.

This procedure regulates:

- manner of reporting cases of corruption or suspected corruption;
- registration of corruption events;
- dealing with identified cases of corruption;
- dealing with persons reporting cases of corruption;
- informing the Management Board about cases of corruption;
- reporting cases of corruption to law enforcement agencies and cooperation with such agencies;
- analyzing cases of corruption;
- preventing the recurrence of cases of corruption;
- cooperation with the stakeholders, partners, business partners and administration institutions;
- cooperation with PKP CARGO S.A.'s internal units.

The procedure applies to all PKP CARGO S.A. employees and persons sitting on the Management Board. In addition, the procedure regulates the status of the Whistleblower, as well as the gift acceptance and offering policy.

The anticorruption policy is implemented through the Procedure for Dealing with Corruption Risks at PKP CARGO S.A.

PKP CARGO S.A. can appreciate the positive effects of whistleblowers. Consequently, the Company's governing bodies have decided

to introduce organizational solutions for the needs of whistleblowing, giving employees the possibility to decide how to report a corruptive incident. It is the employee that makes the decision as to whether such report should be anonymous or not, and before making this decision they should learn about the benefits of both forms. For the employer, each report is important as it draws attention to the possibility of occurrence of irregularities which should be corrected as soon as practicable using appropriate tools.

PKP CARGO CONNECT Sp. z o.o.

PKP CARGO CONNECT Sp. z o.o. is committed to conduct its operations honestly and in compliance with the law and prevailing regulations. The adopted code of ethics is aimed at maintaining the trust of the customers, employees and state administration bodies and the public opinion.

The code consists of two parts:

- defining the rules of conducting business activity
- defining human rights and social justice rules

PKP CARGO CONNECT Sp. z o.o. respects the law and prevailing regulations when performing services, and shows and implements its commitment to social corporate responsibility in the rules, decisions and activities, and implements the rules of the code in the key processes.

PKP CARGO SERVICE Sp. z o.o.

PKP CARGO SERVICE Sp. z o.o. does not have a single document which could be called an "anticorruption procedure". PKP CARGO SERVICE sp. z o.o.'s compliance with prevailing laws is confirmed by the certificates and licenses held, results of carried out inspections (including procurement audits) and results of the reporting activities conducted by the company Controlling Department for the needs of the parent company, i.e. PKP CARGO S.A.

However the Company has in place numerous bylaws, policies, procedures and adopted rules of conduct, which aim at prevention of dishonest practices.

These include, among others:

In the area of organization and supervision:

- The Company's Articles of Incorporation and Organizational Bylaws
- PKP CARGO SERVICE Sp. z o.o. Supervisory Board Bylaws
- PKP CARGO SERVICE Sp. z o.o. Management Board Bylaws

In the area of procurement:

- "PKP CARGO SERVICE Sp. z o.o. procurement bylaws"
- "Rules for organizing procurement procedures in PKP CARGO SERVICE Sp. z o.o."
- PKP CARGO SERVICE Sp. z o.o. Procurement Instruction
- All actions aimed at verification of existing and potential customers

In the area of investments and finance:

- Audit of the Company's financial statements by an independent auditor
- "Liquidity management policy in the PKP CARGO Group", "Financial risk management policy", "Receivables management policy" and "Company payment card usage bylaws"
- "Procedure used to prepare documentation of transactions between related parties in the PKP CARGO Group" and "Transfer Pricing Policy in the PKP Group"
- "Rules for acceptance and monitoring of Investment Plans and Cost Projects in the PKP CARGO Group"
- Internal regulations pertaining to performance of reporting duties by PKP CARGO SERVICE sp. z o.o. following from PKP CARGO S.A.'s status of a public company.
- "Project management policy in the PKP CARGO Group"

In the employee area:

- Employee Remuneration Bylaws and Bonus Bylaws
- Regulation on the conditions and method of testing employees for alcohol and drug presence
- e-kolej-CS system

In the area of the car fleet and rolling stock:

- "Fleet policy" and "Company car usage bylaws in PKP CARGO SERVICE sp. z o.o."
- Launch of a pilot fuel consumption control system

In the remaining PKP CARGO Group companies, due to the multiple-stage decision-making process, the risk of corruption is significantly limited.

AWT

Corruption issues are explained in the "Rules for conducting negotiations with external entities". The rules cover such issues as: compliance with the prevailing provisions of law (competition and anti-monopoly policy, bribes for state officials), conflicts of interests (employee's personal interest, acceptance of gift and benefits) and honesty of relations (relations with customers, offering gifts and entertainment, relations with suppliers).

PKP CARGOTABOR SP. Z O.O.

The internal control position has been established to detect and prevent potential and existing risks in this area. In addition the Company pays a lot of attention to cooperation with all competent state authorities appointed to prosecute this phenomenon. As a consequence there are no signals pointing to occurrence of corruption in the Company.

10.1.4 Due diligence procedures

The Group exercises due diligence to strengthen its image in the market as a competent and reliable company and at the same time it shows its efficient adaptation to the changing requirements, legal changes and new trends as regards business tools. The implemented procedures serve the purpose of identification of threats, and make it possible to take appropriate actions in the event of occurrence of potential irregularities. Together with our customers and business partners we want to build lasting relations based on honesty, transparency and professionalism in activity.

The Group companies do not have in place a document entitled "due diligence procedures" but most PKP CARGO Group companies take numerous actions aimed at verification of their existing and prospective customers:

- Verification of registry data (KRS, NIP, REGON, CEIDG) combined with archiving registry documents for evidence purposes
- Verification of the status of an active VAT payer on the Finance Ministry's Tax Portal
- Verification of reliability of the business partners in the National Debt Register (KRD)
- Assessment of financial credibility on the basis of the data in the PKP CARGO S.A. databases
- Verification of the credibility of the business partners in accordance with the tender procedures – "PKP CARGO SERVICE Sp. z o.o. procurement bylaws" and "Rules for organizing procurement procedures in PKP CARGO SERVICE Sp. z o.o." (obtaining a certificate of no arrears in taxes ZUS contributions and no criminal record of management board members of the entity with which cooperation may be established)
- Verification of the authorizations and powers-of-attorney of the persons representing the business partner (if the nature of the empowerment does not follow from the National Court Register).
- Verification of pertinent authorizations, permits and certificates (if required)
- Verification of references
- In accordance with the regulations and procurement instruction, after execution of the order, a contractor's final assessment chart is prepared

The PKP CARGO Group pursues a responsible environmental protection policy and exercises due diligence to ensure its activity is compliant with the legal requirements and internal regulations.

Environmental protection risk is assessed and its mitigants have been defined. The group has established methods of preventing adverse impact on the environment, rules of correct operation of environmental protection facilities and effective emergency procedures.

Environmental protection matters have been entrusted to employees with competence gained thanks to education, training and experience. The employees of the environmental protection division have been equipped with a specialized program (Central Environment Information System; ATMOTERM S.A.) to collect data on the use of the environment, accrual of fees for business use of the environment and reporting in accordance with prevailing legal requirements and in the internet service constituting a collection of up-to-date information on environmental protection laws. Thanks to the skills and tools held by the employees, it is possible to regularly analyze environmental data from the perspective of correctness of operation of the system and responding in situations that require taking actions.

Employees not involved in the environmental protection division receive clear guidelines and procedures of conduct protecting the environment (training, instructions, bylaws etc.) and have access to information on prevailing regulations and environmental impact. Correctness of application of the rules established in environmental protection and execution of the guidelines of decisions and permits is verified in the course of inspections and audits carried out in the areas of operation of individual units.

As for social, employee and human rights issues, the PKP CARGO Group has not adopted a formalized policy document, but follows practices and regulations described in the section devoted to the policies applied by the PKP CARGO Group.

10.1.5 Risks related to the activity of the Group and management of these risks

As regards social policy, in light of the financial support policy effective as of 2017 (tantamount to the rules prevailing in PKP CARGO S.A.), the risk is verified in multiple stages, which significantly reduces the possibility of irregularities.

As regards the procedures in place in the Group and the on-going managerial control, there is no material risk regarding the employee or human rights policy. With regard to the corruption prevention policy, due to the multiple-stage decision-making process, the risk of corruption is significantly limited.

In 2017 the PKP CARGO S.A. Management Board adopted a Resolution on introducing the Risk Management Policy in PKP CARGO S.A. Pursuant to the resolution, two risk management systems, so far separate: business risk management system and information security system, have been combined following from the ISO 27001 norm. The Internal Control and Audit Department together with the Security Department have been obligated to exercise supervision over the implementation and execution of the provisions of the Policy.

The risk management process permeates through the whole organization and everybody, to the extent of their capabilities, manages the risk. However individual roles do not change together with the hierarchy in the Group.

The basic task of the PKP CARGO S.A. Supervisory Board Audit Committee is to verify the correctness and effectiveness of carrying out internal financial audits in the Company and the Group, and monitoring the effective operation of internal control, internal audit and risk management systems. The Supervisory Board Audit Committee assesses the risk management system.

The PKP CARGO S.A. Management Board is responsible for risk management on the basis of the adopted strategy of the PKP CARGO Group; it primarily defines the directions of the Group's development and makes decisions regarding risk handling plans.

The Unit or Department Director is responsible for risk management in the reporting area. He/she is responsible for identifying the risks occurring in their activities, analyzing and assessing them and then comparing them with the expected results. Depending on the obtained results of the comparison, different actions are taken to retain the status quo or reduce the risk level. PKP CARGO Group employees are obligated to comply with the provisions of the Policy within the scope of their powers.

The Policy designates a Risk Leader – a person whose task is to coordinate all matters associated with risk management, gathering and analyzing information, and subsequent reporting to the Management Board and Supervisory Board Audit Committee.

The risks which, from the Group's perspective, are particularly important, have been subjected to special monitoring. With regard to the risks indicated by the Management Board Members, ratios illustrating the risk level have been designed. Once a month the PKP CARGO Management Board receives a report which presents the ratio levels (neutral, alert and catastrophic), the trend in the given ratio and information about the causes of deviations and actions taken by the risk owners in connection with the deviations.

The ratios in most cases are of quantitative nature and present information which is verifiable and without incurring excessive costs, generated from PKP CARGO's IT systems. The PKP CARGO Management Board has the possibility of changing the monitored ratios depending on their information needs.

The policy has been developed on the basis of the provisions of the ISO 31000 standard "Risk management".

The risk assessment process takes place at least once a year, as part of self-assessment. During the assessment the risk owners identify the risks in their area and the information assets, with regard to the risks associated with information security and plan actions aimed at reducing the risk level if it is unacceptable. If there are important circumstances affecting the risk level, the risk owner should carry out a self-assessment before elapse of one year.

The assessment process takes place in 3 stages: it starts with risk identification, then the risk is analyzed and the results obtained are compared with the expectations, which determines the next steps regarding the risk handling. The risk may be accepted or the risk owner prepares a Risk Handling Plan.

With regard to the risks associated with information security with regard to assets which have been found critical by their owners, Business Continuity Plans are developed. The asset owner is responsible for maintaining, updating and testing the Plan. Cyclicity of the process assumes its continuous changes aimed at improvement.

Among the material risks associated with the entity's operations (social issues, employee issues, human rights) one should list:

Social dialog

Formalizing the rules of cooperation with the trade unions through implementation of internal regulations, among which the key one is the Agreement on mutual undertakings of the parties to the Company Collective Bargaining Agreement for the employees employed by PKP CARGO units, concluded on 14 February 2005, has made it possible to sort out and improving the social dialog area. The systematic meetings following from the arrangements of the parties to the dialog, held separately on the Company and unit level, and mutual information of social partners about matters important for the employer and the crew, prevent conflicting situations and disputes, ensuring execution of business processes in a social peace environment. The functioning of the social dialog procedures is monitored and, depending on the assessment, modification of the joint provisions is proposed to the social side.

The employee representatives sitting on PKP CARGO corporate bodies, on the one hand creates a risk in the area of information security, but on the other hand has positive impact on the functioning of the Group. Being an important form of employee participation in the management process, it transfers some of the responsibility for the fate of the company to the social side, increases the level of the economic awareness of the staff and assessment of the possibility to satisfy trade union demands, if any.

Due to large number of trade unions, representing the social side, active in the company it may problematic to reach a compromise between individual trade unions, due to the divergent interests they represent.

Social policy and discounted transport services

Establishing a Company Social Benefit Fund and managing its assets independently by the Group company employers, in cooperation with the crew representatives, creates optimum conditions for satisfying the social and welfare needs of the employee and former employees and their family members, guaranteeing that the support will be routed in accordance with the prevailing regulations and local needs and uniqueness of the unit.

The entitlements to discounted transport services are one of the basic, historically established non-salary stimuli for the Company's employees, that continues to play an important role in the process of recruitment and integration of employees with the company.

Anti-mobbing policy

The anti-mobbing regulations introduced create a foundation for the whole package of efforts aimed at minimizing the phenomenon of mobbing. Creating institutional grounds for fighting mobbing in the form of an employee-elected Trustee and Anti-mobbing Commission appointed by the decision of the President of the Management Board, combined with the activity of these bodies and oversight exercised by the Director of the HR Management Department, allows for efficient functioning of the complaint procedure and conducting effective prevention actions.

Natural environment

Key risks in the area of environmental protection:

- the risk of failure to comply with the legal requirements as regards environmental protection – the legal and financial consequences (fines, land reclamation costs, increased environmental fees) in the case of identification of incompliance by environmental protection inspection authorities) – negative impact on the image of the organization, in the case of identification of irregularities, environmental contamination, use of the environment without the required decisions, permits, authorizations and filings and without the required waste records and reporting;
- risk of failure to comply with the requirements of the PN-EN ISO14001:2015 norm - identification of critical incompliance during the audit 3 parties and loss of the IMS certificate as regards the PN-EN ISO 14001 standard

These risks have been defined in the "Risk management policy in PKP CARGO S.A." According to the risk probability criterion the occurrence of the risk is not very likely, but according to the consequences of the risk criterion it has been assessed as serious. Taking action is the right response to risk

As part of risk management, information is collected annually on the use of the environment and risks are identified for each area. Methods have been defined on how do handle risk, aimed at eliminating the risk or reducing it to an acceptable level. Updates are made to the IMS internal procedures and internal guidelines regarding environmental protection (Instructions for handling installations and equipment causing emissions and for handling waste at PKP CARGO S.A.). There are in place registers of permits required in connection with the use of the environment. The Company organizes period specialist training for the environmental protection division.

Employees are granted on-going access to legal regulations.

Preventing corruption and bribery

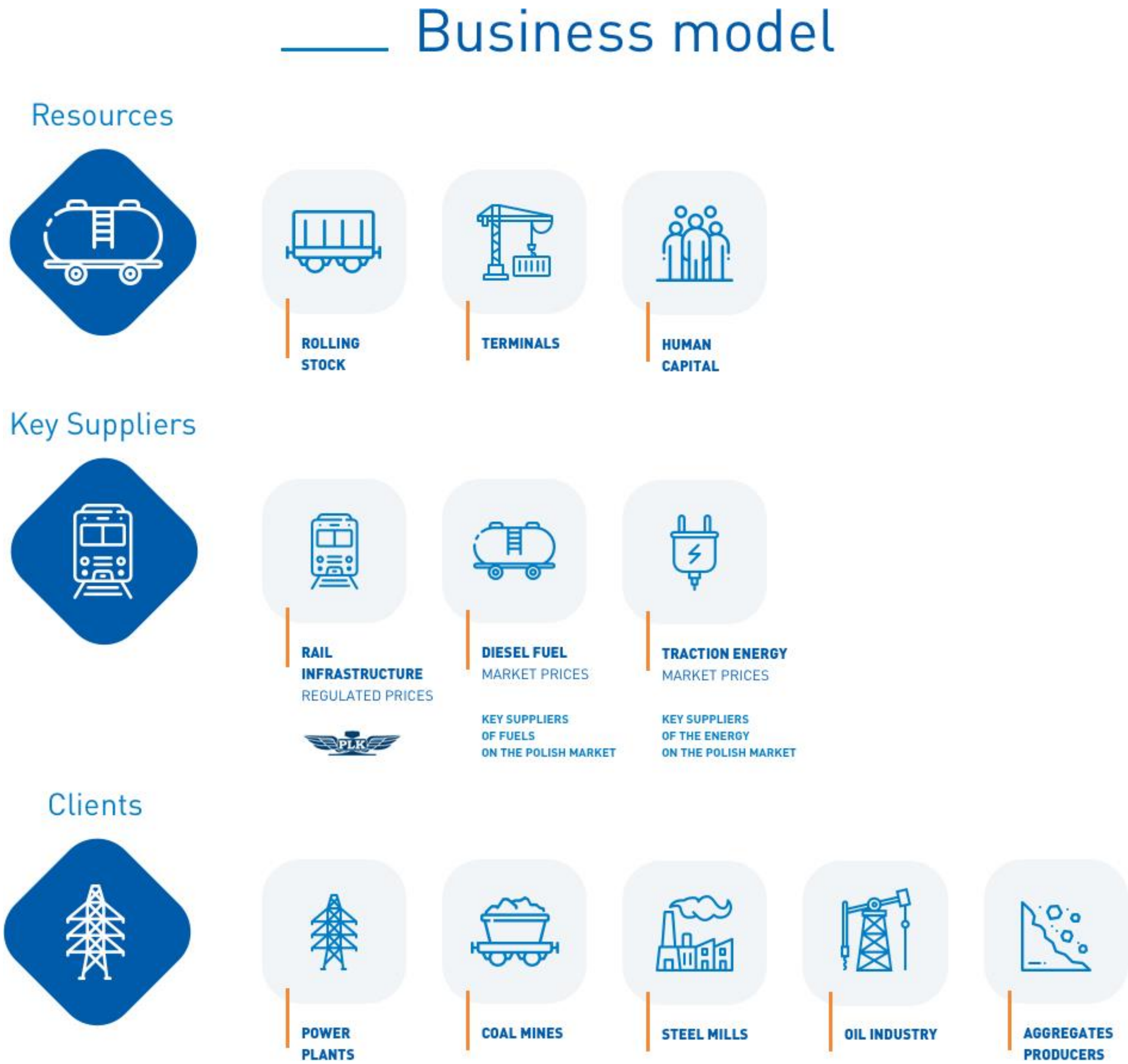
To guarantee economic security it is recommended to conduct business interviews aimed at protecting PKP CARGO against loss of image and financial losses. Minimizing the risk through introduction of a Procedure for handling corruption risks and through introduction of the whistleblower status and appointment of a Compliance Officer responsible for clarifying irregularities. Whistleblowers may be both employees of PKP CARGO and persons/entities outside the Company which cooperate with it (customers, business partners, suppliers etc.).

10.2 Representation of PKP CARGO S.A.

Please find below **the Representation of the PKP Cargo S.A. on non-financial information for 2017** (hereinafter referred to as the Representation), forming a separate part of the Activity Report of the PKP CARGO Group (hereinafter: the Group, the PKP CARGO Group) and including non-financial information and concerning PKP CARGO S.A. (hereinafter: PKP CARGO, Company) for the period from 1 January 2017 to 31 December 2017. The Representation is based on the guidelines recommended by the IIRC (International Integrated Reporting Council), guidelines of the GRI (Global Reporting Initiative) and takes into consideration provisions of the Accounting Act of 29 September 1994.

The Representation includes non-financial data which have been prepared as a result of a dialog conducted with the Company's stakeholders, showing mutual relations and interdependencies between financial and non-financial aspects of its activity.

10.2.1 Description of the business model



PKP CARGO is Poland's largest and the EU's leading rail freight carrier.

It owns the biggest fleet of rolling stock in Poland. The Company's activity covers a wide range of services connected with rail freight transport. PKP CARGO's revenue from rail transportation and freight forwarding services makes up 96% of the Company's total operating revenue. PKP CARGO offers services supplementing rail transport, such as comprehensive intermodal services, freight forwarding services, transshipment services on terminals, rail siding service and rolling stock repair and maintenance services.

The Company and the Group's core business is rail transport of cargo. In 2017, transport activities were conducted by five members of the Group, i.e. PKP CARGO, PKP CARGO SERVICE Sp. z o.o., Advanced World Transport a.s., AWT Rail HU Zrt. and AWT Rail SK a.s. The PKP CARGO Group is authorized to perform rail transports and provide rail transport services in the following countries: Poland, Germany, the Czech Republic, Slovakia, Hungary, Austria, the Netherlands and Lithuania. The major groups of commodities handled by PKP CARGO include in particular: solid fuels, including hard coal, aggregates and construction materials, metals and ore, chemicals, liquid fuels, timber and agricultural produce as well as intermodal transport. To supplement rail freight, the PKP CARGO offers additional services such as: freight forwarding services, comprehensive service of rail sidings, transshipment and terminal services, intermodal logistics services, rolling stock repairs and land reclamation services, which are provided also by Group companies.

PKP CARGO's key customers include steel mills, coking plants, power plants, mines, steel works and shipping companies. PKP CARGO collaborates with the largest Polish and global groups, including ArcelorMittal, PKN Orlen, PGNiG, Lafarge Group, Azoty Group, Jastrzębska Spółka Węglowa, Węglokoks, Enea Group, PGE Group, Tauron Group, Polska Grupa Górnicza and International Paper. The contracts with these business partners are regularly renewed, which confirms the high quality of the transportation services provided by PKP CARGO.

Services provided by PKP CARGO itself and by Group companies allow for participation in the entire logistic value chain, including railway shipping, siding services, freight transport, transshipment and storage services and using terminals. The above services offer a natural competitive advantage in terms of customer acquisition and service.

PKP CARGO employs competent employees with extensive experience, who ensure the highest quality of services and form the foundation of the Company's operations. As at 31 December 2017, PKP CARGO employed 17 thousand employees.

The Group's operations are also based on relations with key suppliers, in particular contracts for access to rail infrastructure, traction power supply, property leasing, diesel oil sales and rolling stock repair and modernization.

10.2.2 Key non-financial effectiveness indicators connected with the operations of PKP CARGO S.A.

The survey of PKP CARGO customers was carried out in 2017. It was carried out using the CATI method via telephone contact with the customers from the database. Only data from complete questionnaires were analyzed. Before the analysis, the data was carefully checked for correctness and logical consistency. The materiality level for the difference tests is 95%.

The main findings of the survey are, among others:

1. Among the surveyed companies, PKP CARGO is the most recognizable carrier. For 83%, it is a company with which the highest value of services was realized. 65% of the companies surveyed were served by PKP CARGO.
2. PKP CARGO is chosen mainly due to the good price, good offer, wagon availability and a large volume of rolling stock as well as trust resulting from long-term cooperation. However a good price and a good offer are a stronger driver for other companies. PKP CARGO is relatively the strongest in comparison with its competition in terms of availability as well as trust and credibility.
3. PKP CARGO is most often spontaneously perceived as the largest carrier in Poland. It is also relatively often described as a reliable and trusted carrier, with a large volume of rolling stock and good service.
4. The most characteristic features of PKP CARGO are the availability of the largest rolling stock potential, maintaining the market leader position for rail transport and the reputation of being a trustworthy company.
5. Except for DB Schenker and Freightliner PL, other companies do not have a clear image. DB Schenker is perceived as having an important position in international freight forwarding, appreciated abroad and offering a European standard of services. Freightliner is seen as a modern company, with the best service on a European level.

6. The vast majority of survey participants agree that PKP CARGO is the leader of the railway transport market and has the largest rolling stock potential. Most companies plan to use the services of PKP CARGO in the near future.
7. Generally, satisfaction with cooperation with PKP CARGO is at a moderate level – one of ten companies is completely satisfied, and the satisfaction of half of the companies ranks in the TOP 3 BOXES of all ratings (on a 10-point scale). Companies that are generally satisfied with cooperation with PKP CARGO point to the following reasons for their satisfactory cooperation: good service, commitment and flexibility as well as high quality of services. Most indications are for general satisfaction, which suggests the lack of clear, distinct advantages. In the context of emergence of a clear competitor, this could be a serious threat. Areas most frequently highlighted as calling for improvement are keeping track of deadlines, improving the flow of information about contract status, increasing wagon availability, simplifying procedures and increasing flexibility. Nonetheless, compared to 2014, when the previous customer survey took place, PKP CARGO noted an improvement in the ratings, especially in the field of quality of service provision, complaints handling and quality of service delivered by account managers. In general, the respondents are the most satisfied with the quality of service offered by account managers; they also relatively highly evaluate the quality of service offered by sales offices and logistics managers. The least satisfactory is, among other areas, that of complaints handling.
8. In the context of the quality of services provided, the safety of shipments and goods gets by far the highest rating, with the variety of the wagon offer raking second. On the other hand, the technical condition of the wagons, along with delivery timeliness and wagons delivery for pick-up are clearly the weakest points; and so is the time of transport.
9. The stability and predictability of prices as well as the terms of payment are rated the highest in PKP CARGO's pricing policy. The lowest satisfaction can be seen in the area of pricing flexibility, the possibility of obtaining a comprehensive price offer and the discounts and rebates system.
10. As regards complaints handling quality, employee culture is by far the highest rated. The flexibility of the proposed solutions, information on the status of the case and the time of complaint processing were by far the lowest rated.
11. Personal manners is the strongest point of account managers. In general, account managers were rated very highly in almost all categories. Employees' decision-making was rated the lowest.
12. In the area of logistics service quality, the security of entrusted shipments is by far rated the highest. There are also elements that obtained low results: timely delivery of wagons, transport time, changes in delivery dates, but above all, the technical condition of the wagons.
13. The main service quality area calling for improvement as most often highlighted by the companies surveyed is keeping the deadlines in accordance with the contract. Another one is the flow of information and increase in the volume of rolling stock.
14. Logistic managers, like account managers, are highly rated for their personal manners, and they score high also in other categories. They were assessed relatively poorly in the context of providing information on available solutions and contact frequency. As regards logistic service, keeping the deadlines was indicated most frequently as the main area for improvement. The need to increase the volume of rolling stock and the availability of wagons, as well as to improve the flow of information was also highlighted relatively often.

Two areas are indicated as requiring improvement:

1. The rolling stock potential and its availability – improvement of the technical condition of the rolling stock, increase in the availability of wagons and locomotives, and thus – the improvement on the time of service (wagons delivery and freight completion).

2. The quality of service provision and customer service: mainly timeliness (delivery and wagons delivery as agreed), information (order status, but also availability and ease of contact, as well as the ability to make decisions by contact persons), speed of decision making and handling complaints.

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

NATURAL ENVIRONMENT
Key environmental indicators

Table 76 Electricity consumption by PKP CARGO S.A. in 2016-2017

Electricity	Quantity of consumed energy [MWh]	
	2017	2016
Traction energy	616,394	597,922
Non-traction energy	22,436	22,714

Source: Proprietary material

Table 77 Air emissions by PKP CARGO S.A. in 2016-2017

Air emissions - type of substance	Total emissions [Mg]	
	2017	2016
Sulfur dioxide	1,097	1,075
Nitrogen dioxide	2,912	2,641
Carbon oxide	516	484
Carbon dioxide	495,134	482,575
Benzo[a]pyrene	0	0
Dust and soot	190	189
Total hydrocarbons	156	118
HFC	0	0
Other	34	16

Source: Proprietary material

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Table 78 Waste produced by PKP CARGO S.A., by type and volume, in 2016-2017

Name of waste	Waste code	Waste amount [Mg] in 2017		Waste amount [Mg] in 2016	
		inventory at the end of			
		Preceding period	Reporting period	Preceding period	Reporting period
Sawdust, shavings, cuttings, wood, chipboard and veneer, other than those mentioned in 03 01 04	03 01 05	1.170	0.550	6.407	1.170
Other organic solvents, washing solutions and mother liquors	07 01 04*	0.000	0.000	0.007	0.000
Waste printing toner containing hazardous substances	08 03 17*	0.000	0.000	0.051	0.000
Waste printing toner other than that mentioned in 08 03 17	08 03 18	0.176	0.000	0.176	0.176
Slag, bottom ash and boiler dust (excluding boiler dust mentioned in 100104)	10 01 01	162.334	63.003	93.826	162.334
Wastes from turning and sawing of ferrous metals and their alloys	12 01 01	59.440	39.760	121.628	59.440
Welding waste	12 01 13	0.000	0.019	0.018	0.000
Other waste, not mentioned elsewhere	12 01 99	0.100	0.100	0.100	0.100
Mineral engine and transmission oils	13 02 05*	26.149	6.090	30.870	26.149
Other engine, transmission and lubricating oils (lubricants)	13 02 08*	25.594	22.369	22.532	25.594
Sludge from oil dewatering in separators (sludge from washers)	13 05 02*	0.000	0.900	0.467	0.000
Oil from oil dewatering in separators	13 05 06*	2.500	0.000	0.070	2.500
Mixtures of wastes from grit chambers and oil/water separators	13 05 08*	2.300	0.000	0.000	2.300
Fuel oil and diesel oil	13 07 01	0.000	0.450	0.000	0.000
Packaging containing remains of hazardous substances or contaminated with such substances	15 01 10*	0.200	0.328	0.199	0.200
Worn-out clothes and cleaning cloth	15 02 02*	13.725	9.256	9.473	13.725
Sorbents, filter materials, wiping cloths (e.g. rags, cloths) and protective clothing, other than those mentioned in 15 02 02	15 02 03	1.691	1.320	1.999	1.691
Worn-out tires	16 01 03	1.404	2.039	0.962	1.404
Worn-out or unusable vehicles	16 01 04*	81.040	0.000	0.000	81.040
Worn-out filters and waste oil	16 01 07*	1.564	0.293	1.116	1.564
Brake linings, other than those mentioned in 16 01 11	16 01 12	0.000	0.000	1.729	0.000
Liquefied gas tanks	16 01 16	0.000	0.000	0.140	0.000
Ferrous metals (scrap)	16 01 17	1,588.460	3,360.786	4,235.472	1,588.460
Non-ferrous metals	16 01 18	9.547	14.438	21.916	9.547
Plastics	16 01 19	0.529	0.026	0.314	0.529
Glass	16 01 20	0.386	0.000	0.350	0.386
Hazardous components, other than those mentioned in 160107 to 160111, 160113 and 160114	16 01 21*	0.000	0.554	0.282	0.000
Other components, not mentioned elsewhere	16 01 22	3.201	1.631	0.401	3.201
Other waste, not mentioned elsewhere	16 01 99	3.861	32.547	2.618	3.861
Worn-out devices containing CFC, HCFC, HFC	16 02 11*	0.085	0.000	0.163	0.085
Worn-out devices containing free asbestos	16 02 12*	0.000	0.493	0.000	0.000
Worn-out devices containing hazardous elements, other than those mentioned in 160209 to 160212	16 02 13*	0.793	2.377	1.593	0.793

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Name of waste	Waste code	Waste amount [Mg] in 2017		Waste amount [Mg] in 2016	
		inventory at the end of			
		Preceding period	Reporting period	Preceding period	Reporting period
Worn-out devices, other than those mentioned in 16 02 09 to 16 02 13	16 02 14	3.715	10.003	7.764	3.715
Hazardous components or components removed from worn-out devices	16 02 15*	0.336	0.336	0.340	0.336
Items removed from worn-out devices (toners)	16 02 16	3.296	0.515	2.855	3.296
Inorganic waste, other than that mentioned in 16 03 03, 16 03 80	16 03 04	1.010	1.043	0.269	1.010
Gases in containers (including halons) containing hazardous substances	16 05 04*	0.116	0.048	0.002	0.116
Gases in containers, other than those mentioned in 16 05 04	16 05 05	1.030	0.338	0.102	1.030
Laboratory and analytical chemicals (e.g. chemical reagents) containing hazardous substances, including mixtures of laboratory and analytical chemicals	16 05 06*	0.150	0.120	0.105	0.150
Lead batteries	16 06 01*	18.442	7.380	4.395	18.442
Nickel-cadmium batteries and rechargeable batteries	16 06 02*	3.175	4.428	4.309	3.175
Other batteries and rechargeable batteries	16 06 05	0.380	0.414	0.582	0.380
Magnetic and optical information media	16 80 01	0.000	0.001	0.001	0.000
Waste showing hazardous properties	16 81 01*	0.000	0.612	0.000	0.000
Mixed waste from concrete, brick rubble, waste ceramic materials and equipment, other than those mentioned in 17 01 06	17 01 07	0.000	0.048	0.000	0.000
Wood	17 02 01	10.860	7.590	6.145	10.860
Plastics	17 02 03	0.726	0.218	0.588	0.726
Wood, glass and plastic waste containing or contaminated with hazardous substances (e.g. wooden railway sleepers)	17 02 04*	8.000	8.000	12.150	8.000
Copper, bronze, brass	17 04 01	0.060	0.000	0.375	0.060
Aluminum	17 04 02	4.819	0.430	2.349	4.819
Iron and steel	17 04 05	21.696	15.951	52.549	21.696
Cables other than those mentioned in 170410	17 04 11	0.079	0.241	0.835	0.079
Track rubble (aggregate) containing hazardous substances1)	17 05 07*	5.000	0.000	0.000	5.000
Mixed construction, renovation and disassembly waste, other than that mentioned in 17 09 01, 17 09 02 and 17 09 03	17 09 04	0.000	0.010	0.612	0.000
Sludge from non-biological treatment of industrial wastewater, other than that mentioned in 19 08 13	19 08 14	0.000	0.000	10.000	0.000
Wood	19 12 07	10.615	23.392	36.081	10.615
Liquid and concentrated hydrated liquid waste (e.g. concentrates) from groundwater treatment, containing hazardous substances	19 13 07*	0.066	0.000	0.000	0.066

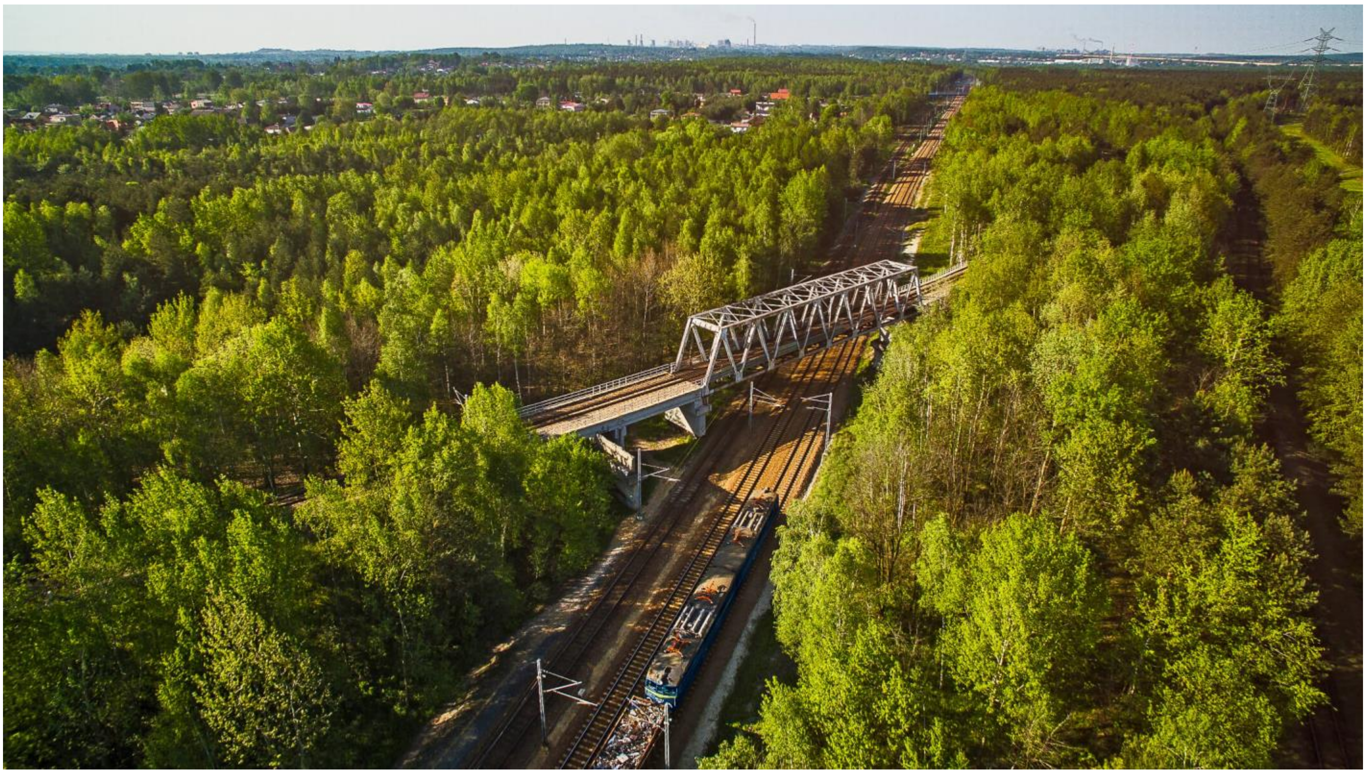
Source: Proprietary material

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Table 79 Expenditure on environment protection incurred by PKP CARGO S.A. in 2016-2017

Expenditures incurred for: [PLN thousand]	2017	2016
Air protection, including:	**898**	**747**
Boiler plants	63	73
Technological processes	66	54
Vehicles and machinery	9	9
Locomotives	753	599
Steam engines	7	13
Other	0	0
Water protection, including:	**52**	**38**
Water intake	0	1
Transport of sewage	10	4
Conveyance of rainwater and snowmelt	5	5
Other	37	29
Cutting trees and bushes	**5**	**0**
Protection of the earth's surface	**0**	**108**
Waste management	**392**	**266**
Other costs of environmental protection	**138,042**	**248,736**

Source: Proprietary material



CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

EMPLOYEE AREA
Key employment indicators

Table 80 Number of employees in PKP CARGO S.A. in 2016-2017

Number of employees [persons], including:	As at 31/12/2017	As at 31/12/2016
Women	**4,432**	**4,420**
Higher education	1,039	1,012
Secondary education	2,660	2,656
Elementary and vocational education	733	752
Men	**12,611**	**13,009**
Higher education	1,502	1,488
Secondary education	5,876	5,922
Elementary and vocational education	5,233	5,599
Total	**17,043**	**17,429**

Source: Proprietary material

Table 81 Number of employees in FTEs in PKP CARGO S.A. in 2016-2017

Number of employees [FTEs], including:	2017	2016
Women	**4,412**	**4,440**
Higher education	1,018	1,005
Secondary education	2,655	2,674
Elementary and vocational education	739	761
Men	**12,765**	**13,259**
Higher education	1,480	1,484
Secondary education	5,870	6,007
Elementary and vocational education	5,415	5,767
Total	**17,177**	**17,698**

Source: Proprietary material

Table 82 Number of started internships and accepted interns in PKP CARGO S.A. in 2016-2017

Item	2017	2016
Number of started internships [units]	15	7
Number of accepted interns [persons]	0	1

Source: Proprietary material

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Table 83 Number of new employees in PKP CARGO S.A. in 2016-2017

Item	2017	2016
Number of new employees [persons]	502	198
Number of new employees [FTEs]	502	198

Source: Proprietary material

Table 84 Training courses carried out in the Group in 2016-2017

Item	2017	2016
Number of conducted training courses [hours], including:	**53,888**	**66,520**
those regarding a post-accident psychological support program	7,486	7,639
Number of conducted training courses per employee [hour/person], including:	**3**	**4**

Source: Proprietary material

SOCIAL AREA

In 2016, PKP CARGO adopted the Corporate Social Responsibility Policy. The document is a roadmap for responsible activities for everyone involved in execution of business processes. The CSR policy promotes the idea of a socially responsible business, both among the Company's employees and outside.

A respectful and professional attitude towards stakeholders is part of the process of strengthening the position of PKP CARGO as a modern and independent logistics operator. For PKP CARGO the corporate social responsibility means the concept of running a business that supports the creation of positive and lasting relationships with the society and the business environment and a sustainable impact on the environment, while supporting the achievement of business goals.

Responsible business (CSR) combines a responsible attitude towards employees, business partners and the natural environment with professional realization of business goals.

Corporate Social Responsibility (CSR) management concerns areas specified in standards that create guidelines for responsible business and sustainable development. With reference to ISO 26000, the relevant areas include:

- **CORPORATE GOVERNANCE**
- **HUMAN RIGHTS**
- **EMPLOYMENT**
- **ENVIRONMENT PROTECTION**
- **FAIR MARKET PRACTICES**
- **CONSUMER RELATIONS**
- **SOCIAL COMMITMENT**

The benefits of CSR activities can be seen in the following three areas:

- Organizational, including raising the level of the company's organizational culture and increasing work efficiency and transport security;
- Customer relations, including increasing competitiveness and customer loyalty;
- Employee relations, including building a positive image of the employer; reduction of employee turnover;

The basic assumptions for the development of corporate social responsibility issues are based on two pillars. The first one of them concerns identification and usage of the held resources and the continuation of good CSR practices, and the second one involves new CSR initiatives.

Responsible and sustainable operations involve permanently searching for the best business solutions that take into account the environmental, social and economic aspects and aim at creating sustainable value, i.e. value that will benefit the stakeholders as well as the shareholders.

The resources used for conducting business activities in a responsible manner as well as sustainable best practices that clearly communicate responsible attitudes towards stakeholders, implemented processes, rules and adopted documents, will be monitored. Their description will be updated on an ongoing basis in the reports containing non-financial data.

In 2017, PKP CARGO executed corporate social responsibility projects intended for company employees and their families, carried out activities related to environmental protection, and executed initiatives aiming at increasing transport security.

Among the CSR projects carried out in 2017, particular emphasis should be placed on the following three projects:

1. **"POST-ACCIDENT PSYCHOLOGICAL SUPPORT for employees of train crews, other employees directly associated with conducting the rail traffic and rail traffic safety, and members of permanent rail commissions".**

The purpose of the project is to increase rail traffic safety through psychological support of the human factor.

The project is carried out in all organizational units and covers more than 7000 employees.

It is dedicated to members of train crews and other employees directly associated with conducting the rail traffic and rail traffic safety, and members of permanent rail commissions.

The project's main deliverables include:

- Psychological Support Hotline staffed by specialist psychologists. It is accessible to the key employees who are directly responsible for regulating rail traffic intensity. The hotline is free of charge for callers (toll free number) and offers a conversation with an experienced psychologist, help in occupational issues and daily life problems, confidentiality and security of conversation and, most importantly, no professional consequences for the caller.
- Meeting with a psychologist – in justified cases, during a telephone conversation with a Psychological Support Hotline specialist, one may make an appointment with a psychologist in the psychologist's office.

Cascade training on psychological aspects of rail accidents – the area of psychological aspects of rail accidents, including Acute Stress Disorder (ASD) and Post-Traumatic Stress Disorder (PTSD). Training sessions on occupational stress were carried out during the periodic instructions in the period from July to December 2017. Training is conducted by internal trainers, i.e. the employees whose duties include conducting training for the employees working on the positions related directly to conducting rail traffic and rail traffic security, and coordinators of the teams of permanent rail commissions. The participants gave very high marks to the training for internal trainers. The average grade was 4.7 on the one-to-five scale. 99% of respondents would recommend the Post-Accident Psychological Support project to other persons and encourage to take advantage of such initiatives.

Positive feedback and recommendations of the employees who participated in the project were an important voice in supporting the decision to carry out the project in the long run.

Through performance of the Post-Accident Psychological Support project, the rail traffic safety is increasing. PKP CARGO received a distinction from the Office of Rail Transport in the second edition of the Safety Culture in Rail Transport Contest.

Post-Accident Psychological Support for employees of train crews, other employees directly associated with conducting the rail traffic and rail traffic safety, and members of permanent rail commissions.

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

Table 85 Number of training hours for employees of train crews, other employees directly associated with conducting the rail traffic and rail traffic safety, and members of permanent rail commissions

Position	Number of training hours during the year	Number of training participants during the year	
		2017	2016
Operator of rail vehicles on rail sidings, Traction vehicle operator, Traction vehicle operator assistant	24	4,135	4,112
Operator of special rail vehicles which are not intended to move using their own propelling mechanism on actively used rail tracks	8	18	14
Rail traffic controller	16	77	92
Control room employee	16	23	36
Train conductor	16	151	198
Rolling stock auditor	16	1,072	1,115
Shunting master	16	1,227	1,251
Switchman	16	706	752
Track supervisor	16	9	10
Points operator	16	68	59
Total	**160**	**7,486**	**7,639**

Source: Proprietary material

2. PKP CARGO is the patron of rail technology history

For 14 years, PKP CARGO, as the largest Polish cargo rail carrier and main patron of rail technology history, has been maintaining historic rolling stock in Chabówka in Małopolskie Voivodship, and it has been co-funding, jointly with the local governments of Wielkopolskie Voivodship, the operations of more than 100-years old Wolsztyn Railway Roundhouse which has had the status of the Cultural Institution since 1 January 2017.

PKP CARGO also promotes the rail traditions by organizing the following events in Chabówka:

- "Parowozjada" – the annual event featuring working steam locomotives, which attracts thousands of railway fans from Poland and abroad,
- "Summer with Steam Locomotives" – an educational program addressed to children and entire families, which popularizes historic and modern trains through education and fun activities. Besides Chabówka, the program is also carried out in the Museum Station and in Wolsztyn, Jarocin and Skierniewice Roundhouses.
- "Tourist Trails of Małopolskie Voivodship" – a very popular tourist program which is carried out jointly with the Office of the Marshal of Małopolskie Voivodship. It taps to cultural and natural resources of the southern region of Małopolskie Voivodship as well as historic qualities of the Galicia Transversal Railway of which the main axis is the Chabówka – Nowy Sącz rail line with the Open-Air Museum of Rolling Stock in Chabówka. In 2017, more than 11 thousand people travelled by retro trains as part of the trips organized under that program.
- Open-Air Museum of Rolling Stock in Chabówka – it contains the largest collection in Poland of historic rail vehicles, including, among others, steam locomotives, diesel and electric engines, passenger and freight wagons, snow plows and service vehicles. Some of the steam locomotives are maintained in operating condition. They are used to operate tourist trains on the most picturesque lines of Małopolskie Voivodship. During the year, approx. 22 thousand people travelled by retro trains operated by the Open-Air Museum, and the Open-Air Museum itself was visited by 30 thousand people.

PKP CARGO also collaborates with non-profit social organizations which are actively involved in protecting the historic rolling stock artifacts, development of tourist rail traffic and promotion of tourism, and provides financial as well as technical support to such organizations.

PKP CARGO wants to serve as an integrator of activities in the area of historic heritage in Poland. For this purpose, it organized a Poland-wide conference in the Senate of the Republic of Poland dedicated to protection of Polish historic rail sites and possibilities of their adaptation for new functions, and it postulated the establishment of the National Railway Museum. PKP CARGO actively participated in meetings of the Senate's task force on historic rail artifacts, whose purpose was to devise adequate legislative solutions to stimulate the development of museum and tourist railways.

PKP CARGO's many years of activities in the area of historic heritage, and especially the organization of events with steam locomotives, are very beneficial to the company's image. The most spectacular events such as "Parowozjada", "Summer with Steam Locomotives" or the "Tourist Trails of Małopolskie Voivodship" program were attended by a total of approx. 19 thousand people. Another figure indicating popularity of the Open-Air Museum in Chabówka is a large number of visitors, i.e. approx. 30 thousand people.

Historic rolling stock from Chabówka was loaned for movie sets such as "Schindler's List", "Edges of the Lord", "The Spring to Come" ("Przedwiośnie"), "Fame and Glory" ("Sława i Chwała"), "The Good Soldier Švejk" or "Katyń", and the Wolsztyn Roundhouse loaned the steam locomotive for shooting of the movie "The Pianist".

3. "WE RUN AND WE HELP"

For a few years, PKP CARGO has been carrying out a project entitled A Running-Friendly Company, which is supported on two pillars. The first one is the sports pillar which promotes physical activities. It is pursued through participation of our teams in marathons, also international ones. The second one is the aid pillar. Through participation in running events, PKP CARGO employees helped the beneficiaries of the foundation which organized the run.

Similar event also took place in 2017. In that case, the project was carried out jointly with the Poland Business Run Foundation. Its objective was to promote healthy lifestyle among the employees and help the disabled – the beneficiaries of the Poland Business Run Foundation.

The project was attended by approx. 80 employees and their family members from the organizational entities located throughout Poland, who ran in six cities: Warsaw, Poznań, Katowice, Wrocław, Kraków.

PKP CARGO's sizable running team participated in a large undertaking which was attended by more than 20 thousand runners.

The employees' involvement and the Management Board's decision on additional partnership involvement in the running project all contributed to raising more than PLN 1.6 million.

The raised amount was earmarked for providing aid to the foundation's specific beneficiaries, most frequently persons after limb amputations.

CONSOLIDATED MANAGEMENT BOARD ACTIVITY REPORT FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2017 ACCORDING TO EU IFRS (IN THOUSANDS OF PLN)

HUMAN RIGHTS

In 2017, no risks related to exploitation of child labor or risks of exploitation of forced labor were identified in PKP CARGO. Moreover, in 2017, no cases of discrimination, mobbing or sexual harassment were recorded.

Freedom of association

Table 86 Trade unions in PKP CARGO S.A. in 2016-2017

Item	2017	2016
Number of trade unions in the company	129	131
Number of employees who are members of trade unions	14,595	14,944
trade union membership percentage ratio	85.6%	85.7%

Source: Proprietary material

Right to safe labor environment

Table 87 Number of accidents and accident ratio in PKP CARGO S.A. in 2016-2017

Item	2017	2016
Number of accidents at work [cases]	119	118
Accident ratio [‰]	6.9	6.7

Source: Proprietary material

PKP CARGO, as Poland's largest rail freight carrier, makes every effort to continuously increase the level of safety, with regard to the labor environment as well as the shipped cargo. Usage of the fleet of unmanned aerial vehicles (drones) resulted in increasing the safety level as well as significant reduction of cases of theft of the shipped cargo (by almost one-half).

In its day-to-day activities, the Operating Group uses the Unmanned Aerial Vehicles (hereinafter referred to as UAVs) to increase the range of its observations in the field. This also allows observation of places where theft may occur outside of the Group's region.

UAVs make it possible to catch the thieves because the perpetrators' escape routes can be followed with the drones.

- Security audit of the areas belonging to PKP CARGO or used by PKP CARGO pursuant to an agreement with other Group companies. Analysis of processed materials obtained with the help of UAVs and safety audit from the point of view of the infrastructure located in the audited areas;
- Prevention activities conducted in the sites of PKP CARGO units

  - flyovers aiming at indicating frequent presence of UAVs in the places at risk of theft;

  - articles in local and national press aimed at the segment of recipients which may include criminal groups that organize stealing activities in PKP CARGO trains.
- Enlarging the UAV fleet due to increased demand for utilization of technology on various areas managed by PKP CARGO;

Utilization for monitoring of train routes the UAVs fitted with a RGB camera (which allows observation during the day) or a thermal vision camera (which allows observation during the night).

PREVENTING CORRUPTION AND BRIBERY

In 2017, PKP CARGO S.A. entered into an agreement pursuant to which the PKP CARGO S.A. employees who would like to report abuse/irregularity were guaranteed with access to anonymous reporting channels.

The aforementioned channels include: dedicated hotline, e-mail address and traditional mail address. Several training sessions were conducted, and selected PKP CARGO S.A. employees were prepared to serve as Value Leaders and the Ethics Ombudsman.

In the future, we are planning to implement the code of ethics in the full scope in PKP CARGO S.A. and the Group companies, and also to expand the activities of Whistleblowers.

10.2.3 Applied policies and the results of their application

The operational objective of PKP CARGO as a rail carrier is to ensure the highest level of safety. The Safety Management System, which was implemented pursuant to the Regulation of 17 March 2007 in the matter of the safety management system in rail transport, guarantees not only high quality of provided services and highly qualified staff but also, above all other things, the acceptable level of safety of the provided services.

Continuous improvement of the Safety Management System guarantees safe operations today and in the future, and will benefit the Group, its clients and the participants of the rail system.

Every employee, regardless of type and nature of work and the workplace, is obligated to have full knowledge and understanding of safety priorities.

Through implementing the Safety Management System, we wish to ensure:

- the highest level of safety of provided services without compromising quality,
- safety of rail system participants (other carriers, infrastructure administrators, subcontractors),
- collaboration with other carriers and rail infrastructure administrators to jointly achieve the shared safety goals,
- satisfactory level of safety ratios,
- safe working conditions for the employees and subcontractors;
- compliance with rail safety standards and regulations,
- preventing accidents at work and occupational illnesses,
- continuous improvement of occupational safety and health and activities carried out in that area,
- ongoing identification and minimization of technical and occupational risk.

The Safety Policy in place in PKP CARGO reflects the company’s commitment and strategic vision related to rail traffic safety. The policy contains, among other things, the declaration of intentions, and it also outlines the overall goals and objectives of the Safety Management System (SMS) as well as various principles and core values pursued by the Company. It contributes to the organization’s commitment to creating and improving the work ethics, and it also provides the employees with clear guidelines on how to solidify the culture of safety.

The SMS System operates on the basis of national and EU legal regulations concerning rail traffic safety, and it is a requirement which, if not complied with, will make it impossible for a rail company to conduct its operations. The SMS System entails systemic approach to the Company’s organizing and supervising of its activities to ensure rail traffic safety. The SMS System consists in particular of procedures and processes which include the activities directly and indirectly affecting the safety of the shipment processes.

The implementation and operation of the SMS System in the Company is confirmed by the Safety Certificate issued by the Office of Rail Transport. On the basis of this Certificate, after ensuring compliance with other requirements, the Company may also conduct independent shipment operations in the following 7 EU countries: Czech Republic, Slovakia, Germany, The Netherlands, Austria, Hungary and Lithuania.

The purpose of the SMS System is also to ensure supervision over all types of risk associated with the rail carrier’s activities, together with the provided maintenance services, the supply of materials and hiring subcontractors.

PKP CARGO's freight wagon Maintenance Management System (MMS) entails systemic approach to organizing and supervising the activities to ensure rail traffic safety through maintaining good technical condition of the freight wagons for which PKP CARGO is responsible. The MMS System consists in particular of procedures and processes which include the activities directly and indirectly affecting the freight wagon maintenance processes.

The System is developed and prevails in the given company which conducts its operations as part of the rail system. Possession and proper implementation of the MMS System is mandatory for all the enterprises responsible for maintenance of freight wagons, and it is the condition necessary for conducting the operations in that area. The System is subject to oversight by the Office of Rail Transport.

The MMS System was implemented in PKP CARGO in 2013. The basic scope of the System includes the area of maintaining the good technical condition of freight wagons as part of the main process as well as auxiliary processes that ensure correct operations, such as risk analysis, management of staff competences or collaboration with other enterprises (in that regard, it is similar to the SMS System).

On the basis of the approved MMS System, in 2013, PKP CARGO received the Certificate of the entity in charge of maintenance (the ECM Certificate) confirming its approval in the European Union pursuant to Directive 2004/49/EC on safety on the Community's railways, Commission Regulation (EU) No 445/2011 on a system of certification of entities in charge of maintenance for freight wagons, as well as proper national regulations (this regulation outlines the requirements for the MMS System and its basic elements).

The certificate is maintained on the condition of full implementation of the principles and conditions for maintaining the freight wagons outlined in national and EU laws.

Thanks to implementation of the MMS system and obtaining the ECM Certificate, at the present moment PKP CARGO may conduct maintenance of freight wagons or its own or through commissioning their maintenance to other companies, including its subsidiary PKP CARGOTABOR Sp. z o.o.

Without the MMS System and the ECM Certificate, the Company would not be able to conduct activities in that area, and the maintenance of freight wagons would have to be commissioned to a third party (PKP CARGO holds the aforementioned certificate).

The ECM Certificate is valid for 5 years after which it is subject to renewal. The current certificate expires in May 2021.

PKP CARGO S.A.'s policy related to social issues – social dialog.

The social dialog in PKP CARGO S.A. is based on the principles contemplated in the commonly prevailing laws, the Company Collective Bargaining Agreement and the memoranda defining the mutual obligations of the parties to the social dialog in the Company.

The significance and role of trade unions in PKP CARGO S.A. is determined primarily by:

- the entitlements stipulated in the commonly prevailing laws as well as internal regulations,
- participation in managing the Company through delegating own representatives to the corporate bodies (there are three union representatives in the Supervisory Board and one in the Management Board),
- high level of union membership among the crews (over 85%).

The scope of cooperation with the trade unions in the Company includes in particular the following:

- monitoring the functioning and determining the direction for changes in the Company Collective Bargaining Agreement,
- agreeing upon the labor bylaws, the bylaws for paying bonuses, the company social benefits fund, and participation in distribution of benefits from that fund,
- participation in distribution of funds earmarked for salaries,
- issuing opinions on the headcount,
- consulting changes to organizational structures and framework organizational rules and regulations,
- exerting influence on determination of the conditions of occupational safety and health through participation in OSH commissions and oversight over SIP,
- supervision over the aid and loan funds,
- consulting the intent to terminate or amend the content of the employment contract, and agreeing upon the changes to employment contracts of the persons subject to special protection,
- participation in the procedure of imposing penalties for breach of order.

In PKP CARGO, which is comprised of several employers, social dialog is conducted on two layers:

- on the company unit level – between the director of the Company's unit and the company and inter-company trade union organizations,
- on the Company level – between the Management Board and the inter-company trade union organizations and company trade union organizations which are a party to the Company Collective Bargaining Agreement.

The basic form of dialog are the regular meetings aimed at discussing current issues of material importance to the employer and the employees, which are held, in principle, once a month on the unit level and once a quarter on the Company level.

The Management Board supports the efforts aimed at having the dialog that is based on the principles of compliance with the law, equality of the parties, mutual trust and pursuit of compromise. At the same time, the Management Board promotes the idea of partnership, and considers it the natural evolution of social dialog in the world of free market economy, globalization and increased competition. It appreciates the benefits of conducting business activity where the social party is involved in efforts to increase the company's efficiency and achieve the set goals.

The Company respects and improves the principles of cooperation between the social partners, which contributes to implementation of modern, pro-development solutions aiming at increasing the company's competitiveness and efficiency while maintaining social peace. The efforts aiming at improving the social dialog are exemplified by the Partnership Dialog Workshops conducted in 2017 on the employer's initiative in cooperation with representatives of other companies from the rail sector, and which contributed to increasing the participants' awareness in building the culture of dialog and co-participatory leadership in execution of business processes.

PKP CARGO S.A.'s policy related to employee issues.

Employee recruitment

As in 2016, in 2017 PKP CARGO S.A. implemented internal and external recruitment processes. In addition to standard recruitment activities aimed at acquiring experts and specialists with theoretical knowledge supported by experience, it intensified activities aimed at recruiting candidates without experience or with a relatively short employment history.

In 2017, 633 recruitments were launched, of which over 10% were internal recruitments. The share of recruitment ended with employment vs. total recruitments is over 72%.

To calculate the indicators, the following was taken into account:

- the number of internal recruitments – 67,
- the number of external recruitments – 566.

Focusing its recruitment processes around people with a short employment history, PKP CARGO provided the opportunity for realistic development of competences and building a career path by gaining initial professional experience and shaping attitudes and behaviors consistent with the expectations that PKP CARGO S.A. lays down for its employees.

In 2017, as part of the activities promoting employment with the Company, PKP CARGO S.A. participated in the Career Day organized during the International TRAKO Fair. This meant a return to employer's promotion within the school and academic environment. Those activities will be continued.

Adaptation program

In 2017, works related to creating friendly and optimal conditions for each new employee of our company were continued.

Adaptation programs for new employees are adapted to the uniqueness of the work, different in the Head Office and different in the Company's Units.

In the Head Office, the "CARGO WITA" ['WELCOME TO CARGO'] adaptation program is implemented, aiming to organize the process of hiring and adapting new employees. Thanks to the program, new employees get to know the organization, its strategy, mission and vision, structure and principles of operation.

In addition to adaptation training and a welcome letter, new employees are invited for training courses focused on the rules of conduct. In addition, under the program employees participated in e-learning training on "Environmental protection".

In 2017, the "CARGO WITA" adaptation program was extended to include support for employees. An Intranet site dedicated in particular to new employees contains all necessary contacts to competent people from different areas.

The Units implement vocational preparation programs based on the qualifications required from the candidates. A vocational training program covering practical and theoretical training is developed for this group of new employees. The above-mentioned training courses end with a practical and theoretical exam. In order to systematically improve professional knowledge, periodic and *ad hoc* trainings are also carried out.

Training and Development

PKP CARGO S.A. aims to obtain the status of a learning organization, knowledge- and experience-based management and the use of various forms of professional development appropriate for the accomplishment of business goals.

In 2017, the Company continued activities aimed at professional development of employees by enabling their participation in post-graduate studies, organized in cooperation with the Association of Railway Employers (ZPK), embedded in the area of railway company operations. In addition, the management personnel participated in post-graduate MBA studies organized for employees employed with railway companies. This form of supporting the employees in developing their skills enjoys high recognition and interest among them, which is why we will continue cooperation with ZPK in this area next year.

Furthermore, seeing the large interest of employees and the organizational need, in 2017 a foreign language course in the form of individual and group classes was launched. As part of the course, the participants took classes with a teacher and were given access to a dedicated e-learning platform, thanks to which they could consolidate the acquired skills. In 2017, the course was carried out in the form of a pilot program which was positively evaluated upon completion. Therefore, next year we will continue development activities involving learning foreign languages, expanding the course to include more groups.
In previous years, support for foreign language learning consisted in subsidizing the costs of the course incurred by the employees, according to individual applications submitted with the Employers.

In 2017, to ensure occupational safety and health, work safety and first aid training was provided.

Knowledge sharing in the form of e-learning courses, developed entirely by the employees of the Company, was also continued.

The Company's employees participated in specialist trainings, in accordance with the reported needs. In 2017, the total number of training hours was 53,888 – 6,736 training courses per person were completed, i.e. the average number of hours per employee was over 3 hours, including:

- 142 – number of training courses per manager (the average number of training hours per employee was over 2 hours),
- 6,954 – number of training courses for non-managerial staff (the average number of training hours per employee was 3.91 hours), including 6,173 for blue-collar workers (the average number of training hours per employee was 3.73 hours),
- 848 – number of training courses for women (the average number of training hours per employee was 1.53 hours),
- 5,888 – number of training courses for men (the average number of training hours per employee was 3,74 hours),

To calculate the indicators, the following was taken into account:

- the average number of training hours per employee – number of training hours in which employees participated / total number of employees,
- the average number of training hours per employee employed on a non-managerial position – number of training hours in which employees employed in non-managerial positions participated / total number of employees employed in non-managerial positions,
- the average number of training hours per blue-collar worker – number of training hours in which workers participated / total number of blue-collar workers,
- the average number of training hours per woman – number of training hours in which women participated / total number of women,
- the average number of training hours per man – number of training hours in which men participated / total number of men,
- duration of one training course – 8 hours,
- number of managers – 560,
- number of employees employed in non-managerial positions – 16,483, including blue-collar workers – 13,238,
- number of women – 4,432,
- number of men – 12,611,

Furthermore, PKP CARGO S.A. enabled its employees to develop their education by participating in costs related to tuition fees, of which:

- 81% related to higher education, 19% to post-graduate studies
- 90% of employees using the support financing are employees employed in non-managerial positions, including 19% blue-collar workers
- 54% of employees using the support financing are men, and 46% are women.

Annual employee appraisal system

At the PKP CARGO S.A. Head Office, an annual employee appraisal system is in force, aiming to support business processes by shaping optimal personnel skills allowing for adaptation to the changing economic situation.

The appraisal system is based on precisely defined skills of key importance for the entire company, which an employee should possess. The foundation for the appraisal system was to be able to assess those skills, and – consequently – for the participants to be able to learn about their strengths and weaknesses and to build development plans taking into account the expectations of employees and the company.

In 2018, PKP CARGO S.A. plans to update the appraisal system. The new system will focus on building and shaping optimal skills, and the appraisal results will be the basis for planning employee development, training and other personnel decisions.

Social activity and travel benefits

The Company Social Benefits Fund (ZFŚS) has been created at PKP CARGO S.A., based on the rules following from generally applicable regulations and the Company's Collective Bargaining Agreement. The social activity is conducted separately by employers forming the Company on the basis of a given company's ZFŚS Regulations, taking into account the local needs and preferences of the staff. The Fund, depending on its capabilities, satisfies the living, social and cultural needs of the Company's employees and former employees.

In particular, employees, old age and disability pensioners and members of their families are entitled to use the Company Social Benefits Fund.

Decisions on granting aid and its amount are taken by social committees consisting of the representatives of employers and company trade union organizations, guided by statutory criteria, i.e. the life, family and material situation of persons entitled to receive fund benefits.

The funds from the Company Social Benefits Fund are intended mainly for subsidizing holidays, self-arranged countryside holidays, trips, camps, winter camps, ‘green schools’, school trips, short-term rest, trekking trips, sports competitions, cultural and educational events, children’s stay in a nursery, children’s club or kindergarten, as well as sports club cards, thanks to which employees can use various sports and recreational activities. Aid is also provided in the form of in-kind and hardship benefits, which can be obtained by persons in a particularly difficult life situation. Eligible persons may also use loans for housing purposes.

In 2017, the Company has made a ZFŚS charge for 42,466 eligible persons, including 17,233 employees and 25,245 old age and disability pensioners, and the amount of benefits was similar to the previous year.

Employees and members of their families, as well as old age and disability pensioners are eligible for reduced travel services in the form of reduced tariffs in trains operated throughout the country. The cost of employees purchasing a reduced travel service for the second class is entirely covered by the employer. The benefits are offered pursuant to the Agreement on Reduced Travel Benefits between ZPK and carriers operating passenger railway transport of 27 November 2013 and the Company’s internal regulations.

In 2017, a total of 28,507 of the aforementioned benefits were purchased, including:

- for employees – 13,429 (78%),
- for members of employees’ families – 2,283,
- for old age and disability pensioners from the railway sector – 12,795.

Every year several hundred people (322 applications in 2016, 265 applications in 2017) decide to purchase an international ticket, which for a token fee allows them to travel around Europe and selected countries in Asia.

PKP CARGO S.A.'s policy related to natural environment

The environmental policy adopted by the Company is a coherent element of the PKP CARGO S.A. Integrated Management System (IMS) Policy and includes:

- protection of the natural environment through the promotion and implementation of eco-friendly forms of transport and prevention of pollution,
- reasonable use of raw materials, other materials and energy and water in accordance with the legal requirements of environmental protection and sustainable development,
- raising employees' awareness of their responsibility for the quality of the natural environment

The application of those policies results in:

- safe transport of goods using rolling stock that meets environmental requirements;
- investments in the procurement of new rolling stock and modernization of used stock, in the maintenance and repair facilities, and in rolling stock diagnostics equipment, which helps maintain high standards of rolling stock maintenance and protect of the environment against possible consequences of rolling stock breakdowns and accidents;
- compliance of the performed activities with applicable legal provisions – if necessary, decisions on industrial use of the environment are updated or obtained, and the compliance with external regulations and internal guidelines is verified during audits as well as internal and external inspections;
- minimizing the impact on the natural environment, reduction of the amount of substances and pollutants emitted to the environment – every year an environmental action program is created, the implementation of which results in the reduction of indicators of traction fuel consumption and electricity and water consumption; we also act to increase the energy efficiency of our installations, we successively eliminate old coal-fired boiler rooms and replace them with ones using oil and gas fuels or with modern solid fuel boilers;
- environmental awareness of our employees is growing every year – employees are regularly trained within the scope adequate to environmental hazards which they face in their work places (elements of environmental protection by employees responsible for performing tasks related to the transport of goods, supervision and maintenance of installations causing emissions, and waste management; personnel dealing with environmental issues participate in specialist training in environmental law)

PKP CARGO S.A.'s policy related to human rights protection – anti-mobbing policy

Given the statutory duty to counteract mobbing, resulting from the Labor Code, as well as in recognition of the need to combat all discriminatory practices and to ensure every employee's compliance with ethical principles, and to shape appropriate interpersonal relations in the work environment, PKP CARGO S.A. has implemented anti-mobbing policies. Based on internal regulations, a number of organizational, legal, informational and cultural activities have been implemented, creating the basis for the Company's internal anti-mobbing policy. The duty to counteract mobbing has been included in the labor bylaws in force at employers being members of PKP CARGO S.A. In all plants and at the Head Office, the Anti-mobbing Committees and Trustees have been appointed, thus creating conditions for the free and confidential lodging of complaints by any employees who believe they are being mobbed, or who have noticed signs of mobbing, and for subsequent efficient and objective examination of each of the notified cases and formulation of appropriate conclusions.

Further to continuous improvement of the Company's anti-mobbing procedures, special emphasis in the implementation of anti-mobbing policy is placed on preventive actions, especially in the sphere of education and information, consisting in raising mobbing awareness and increasing the personnel's awareness in broader perspective, including ethical attitudes, organizational culture and conflict resolution skills preferred in the company.

This goal is achieved by, among other things:

- employee training, with special focus on managerial positions,
- providing employees with Intranet access to information on mobbing,
- highlighting the issue of mobbing-protection by the employer during occupational health and safety training,
- providing an e-mail address for reporting mobbing cases.

Depending on the assessment of the effectiveness of the solutions applied by the Company and current needs, the methods of counteracting the symptoms of mobbing and the preventive measures applied in this respect are constantly being developed.

PKP CARGO S.A.'s policy related to preventing corruption and bribery

As of 1 January 2018 the Decision of President of the PKP CARGO S.A. Management Board dated 31 October 2017 entitled "Procedure of Dealing with Corruption Risks in PKP CARGO S.A." entered into effect. This procedure regulates:

- manner of reporting cases of corruption or suspected corruption;
- registration of corruption events;
- dealing with identified cases of corruption;
- dealing with persons reporting cases of corruption;
- informing the Management Board about cases of corruption;
- reporting cases of corruption to law enforcement agencies and cooperation with such agencies;
- analyzing cases of corruption;
- preventing the recurrence of cases of corruption;
- cooperation with the stakeholders, partners, business partners and administration institutions;
- cooperation with PKP CARGO S.A.'s internal units.

The procedure applies to all PKP CARGO S.A. employees and persons sitting on the Management Board. In addition, the procedure regulates the status of the Whistleblower, as well as the gift acceptance and offering policy.

The anticorruption policy is implemented through the "Procedure for Dealing with Corruption Risks at PKP CARGO S.A."

10.2.4 Due diligence procedures

PKP CARGO pursues responsible environmental protection policy and exercises due diligence so that its activity is compliant with the legal requirements and internal regulations. Environmental protection risk is assessed and its mitigants have been defined.

The company has established methods of preventing adverse impact on the environment, rules of correct operation of environmental protection facilities and effective emergency procedures.

Environmental protection matters have been entrusted to employees with competence gained thanks to education, training and experience. The employees of the environmental protection division have been equipped with a specialized program (Central Environment Information System; ATMOTERM S.A.) to collect data on the use of the environment, accrual of fees for business use of the environment and reporting in accordance with prevailing legal requirements and in the internet service constituting a collection of up-to-date information on environmental protection laws. Thanks to the skills and tools held by the employees, it is possible to regularly analyze environmental data from the perspective of correctness of operation of the system and responding in situations that require taking actions.

Employees not involved in the environmental protection division receive clear guidelines and procedures of conduct protecting the environment (training, instructions, bylaws etc.) and have access to information on prevailing regulations and nvironmental impact.

Correctness of application of the rules established in environmental protection and execution of the guidelines of decisions and permits is verified in the course of inspections and audits carried out in the areas of operation of individual units.

As for social, employee and human rights issues, PKP CARGO has not adopted a formalized policy document, but follows practices and regulations described in the section devoted to the policies used by PKP CARGO.

10.2.5 Risks related to the activity of PKP CARGO S.A. and management of these risks

On 24 January 2017 the PKP CARGO S.A. Management Board adopted a Resolution on introducing the "Risk Management Policy in PKP CARGO S.A." Pursuant to the resolution, two risk management systems, so far separate: business risk management system and information security system, have been combined following from the ISO 27001 norm. The Internal Control and Audit Department together with the Security Department have been obligated to exercise supervision over the implementation and execution of the provisions of the Policy.

The risk management process permeates through the whole organization and everybody, to the extent of their capabilities, manages the risk. However individual roles do not change together with the hierarchy.

The basic task of the PKP CARGO S.A. Supervisory Board Audit Committee is to verify the correctness and effectiveness of carrying out internal financial audits in the Company, and monitoring the effective operation of internal control, internal audit and risk management systems. The Supervisory Board Audit Committee assesses the risk management system.

The PKP CARGO Management Board is responsible for risk management on the basis of the adopted strategy of the PKP CARGO Group; it primarily defines the directions of development and makes decisions regarding risk handling plans.

The Unit or Department Director is responsible for risk management in the reporting area. He/she is responsible for identifying the risks occurring in their activities, analyzing and assessing them and then comparing them with the expected results. Depending on the obtained results of the comparison, different actions are taken to retain the status quo or reduce the risk level. PKP CARGO employees are obligated to comply with the provisions of the Policy within the scope of their powers.

The Policy designates a Risk Leader – a person whose task is to coordinate all matters associated with risk management. Gathering and analysis of information, and subsequent reporting to the Management Board and Supervisory Board Audit Committee.

The risks which are particularly important have been subjected to special monitoring. With regard to the risks indicated by the Management Board Members, ratios illustrating the risk level have been designed. Currently 26 ratios are monitored. Once a month the PKP CARGO Management Board receives a report which presents the ratio levels (neutral, alert and catastrophic), the trend in the given ratio and information about the causes of deviations and actions taken by the risk owners in connection with the deviations.

The ratios in most cases are of quantitative nature and present information which is verifiable and without incurring excessive costs, generated from PKP CARGO's IT systems. The PKP CARGO Management Board has the possibility of changing the monitored ratios depending on their information needs. The policy has been developed on the basis of the provisions of the ISO 31000 standard "Risk management".

The risk assessment process takes place at least once a year, as part of self-assessment. During the assessment the risk owners identify the risks in their area and the information assets, with regard to the risks associated with information security and plan actions aimed at reducing the risk level if it is unacceptable. If there are important circumstances affecting the risk level, the risk owner should carry out a self-assessment before elapse of one year.

The assessment process takes place in 3 stages: it starts with risk identification, then the risk is analyzed and the results obtained are compared with the expectations, which determines the next steps regarding the risk handling. The risk may be accepted or the risk owner prepares a Risk Handling Plan.

With regard to the risks associated with information security with regard to assets which have been found critical by their owners, Business Continuity Plans are developed. The asset owner is responsible for maintaining, updating and testing the Plan. Cyclicity of the process assumes its continuous changes aimed at improvement.

Among the material risks associated with the entity's operations (social issues, employee issues, human rights) one should list:

Social dialog

Formalizing the rules of cooperation with the trade unions in the Company through implementation of internal regulations, among which the key one is the Agreement on mutual undertakings of the parties toe the Company Collective Bargaining Agreement for the employees employed by PKP CARGO units concluded on 14 February 2005, has made it possible to sort out and improve the social dialog area. The systematic meetings following from the arrangements of the parties to the dialog, held separately on the Company and unit level, and mutual information of social partners about matters important for the employer and the crew, prevent conflicting situations and disputes, ensuring execution of business processes in a social peace environment.

The functioning of the social dialog procedures is monitored and, depending on the assessment, modification of the joint provisions is proposed to the social side.

The employee representatives sitting on PKP CARGO corporate bodies, on the one hand creates a risk in the area of information security, but on the other hand has positive impact on the functioning. Being an important form of employee participation in the management process, it transfers some of the responsibility for the fate of the company to the social side, increases the level of the economic awareness of the staff and assessment of the possibility to satisfy trade union demands, if any.

Social policy and discounted transport services

Establishing a Company Social Benefit Fund and managing its assets independently by the employers, in cooperation with the crew representatives, creates optimum conditions for satisfying the social and welfare needs of the employee and former employees and their family members, guaranteeing that the support will be routed in accordance with the prevailing regulations and local needs and uniqueness of the unit.

The entitlements to discounted transport services are one of the basic, historically established non-salary stimuli for the Company's employees, that continues to play an important role in the process of recruitment and integration of employees with the company.

Anti-mobbing policy

The anti-mobbing regulations introduced create a foundation for the whole package of efforts aimed at minimizing the phenomenon of mobbing. Creating institutional grounds for fighting mobbing in the form of an employee-elected Trustee and

Anti-mobbing Commission appointed by the decision of the President of the Management Board, combined with the activity of these bodies and oversight exercised by the Director of the HR Management Department, allows for efficient functioning of the complaint procedure and conducting effective prevention actions.

Natural environment

Key risks in the area of environmental protection:

- the risk of failure to comply with the legal requirements as regards environmental protection – the legal and financial consequences (fines, reclamation costs, increased environmental fees) in the case of identification of incompliance by environmental protection inspection authorities) – negative impact on the image of the organization, in the case of identification of irregularities, environmental contamination, use of the environment without the required decisions, permits, authorizations and filings and without the required waste records and reporting;
- the risk of failure to comply with the requirements of the PN-EN ISO14001:2015 norm - identification of critical incompliance during the audit 3 parties and loss of the IMS certificate as regards the PN-EN ISO 14001 standard.

These risks have been defined in the "Risk management policy in PKP CARGO S.A." According to the risk probability criterion the occurrence of the risk is not very likely, but according to the consequences of the risk criterion it has been assessed as serious. Taking action is the right response to risk.

As part of risk management, information is collected annually on the use of the environment and risks are identified for each area. Methods have been defined on how do handle risk, aimed at eliminating the risk or reducing it to an acceptable level. Updates are made to the IMS internal procedures and internal guidelines regarding environmental protection (Instructions for handling installations and equipment causing emissions and for handling waste at PKP CARGO).

There are in place registers of permits required in connection with the use of the environment. The Company organizes period specialist training for the environmental protection division. Employees are granted on-going access to legal regulations.

Preventing corruption and bribery

To guarantee economic security it is recommended to conduct business interviews aimed at protecting PKP CARGO against loss of image and financial losses. Minimizing the risk takes place through introduction of a Procedure for handling corruption risks and through introduction of the whistleblower status and appointment of a Compliance Officer responsible for clarifying irregularities.

Whistleblowers may be both employees of PKP CARGO and persons/entities outside the Company which cooperate with it (customers, business partners, suppliers etc.).

11. Other information of relevance for evaluation of the employment situation, financial standing, financial performance, assets and their movements as well as information of relevance for assessment of the ability of the issuer and other Group companies to pay their debts.

Other than the information presented in this Report, no other information has been identified that would be of relevance for evaluation of the employment situation, financial standing, financial performance, assets or their movements or information of relevance for assessment of the ability of the issuer to pay its debts.

This Annual Report was approved by the PKP CARGO S.A. Management Board on 15 March 2018.

The Company's Management Board

Krzysztof Mamiński
acting President of the Management Board

Grzegorz Fingas
Management Board Member

Witold Bawor
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 15 March 2018

STATEMENT

of the Management Board of PKP CARGO S.A. on the compliance of the Consolidated Financial Statement of the PKP CARGO Capital Group for the year ended 31 December 2017 and **the Management Board's** report on the operation of the PKP CARGO Capital Group for the year 2017

I, the undersigned, hereby represent that to the best of my knowledge, the Consolidated Financial Statement the PKP CARGO Capital Group for the year ended on 31 December 2017, and the comparable data have been drawn up in observance of the applicable accounting standards and that they truly, reliably and clearly represent the asset-related and financial standing of the PKP CARGO Capital Group, as well as its financial result.

I also represent that the Management Board's report on the operation of the PKP CARGO Capital Group in 2017 presents a true picture of the growth, achievements and standing of the PKP CARGO Capital Group, as well as a description of the key threats and risks.

Management Board Members

....
Krzysztof Mamiński
President of the Board

....
Grzegorz Fingas
Board Member

....
Witold Bawor
Board Member

....
Zenon Kozendra
Board Member

Warszawa, 15 March 2018

STATEMENT

of the Management Board of PKP CARGO S.A. on the choice of the entity
authorized to audit Consolidated Financial Statement
of the PKP CARGO Capital Group for the year ended 31 December 2017

I, the undersigned, hereby represent that the entity authorized to audit annual consolidated financial statements, auditing the Consolidated Financial Statement of the PKP CARGO Capital Group for the year ended on 31 December 2017, has been appointed in observance of the rule of law, and that the said entity, as well as the certified auditors performing the audit, met the requirements that need to be fulfilled in order to issue an impartial and independent opinion on the annual consolidated financial statement audited, in line with the applicable regulations and professional standards.

Management Board Members

....
Krzysztof Mamiński
President of the Board

....
Grzegorz Fingas
Board Member

....
Witold Bawor
Board Member

....
Zenon Kozendra
Board Member

Warszawa, 15 March 2018

For more information on PKP CARGO please contact
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