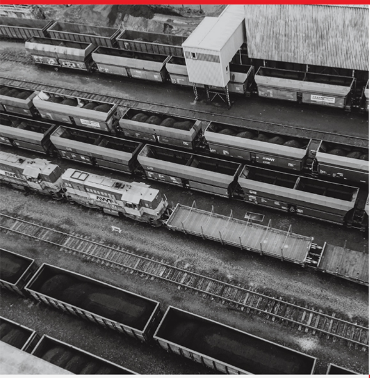


pkpcargo.com

PKP CARGO CAPITAL GROUP CONSOLIDATED ANNUAL REPORT FOR 2015

Dear Investors,

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Maciej Libiszewski

President of the PKP CARGO S.A. Management Board

TRANSLATION

PKP CARGO S.A. Group

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

The opinion contains 2 pages
The supplementary report contains 13 pages
Opinion of the independent auditor
and supplementary report on the audit
of the consolidated financial statements
for the finacial year ended
31 December 2015

OPINION OF THE INDEPENDENT AUDITOR

KPMG Audyt
Spółka z ograniczoną odpowiedzialnością sp.k.
ul. Inflancka 4A
00-189 Warszawa
Poland

Telefon +48 22 528 11 00
Fax +48 22 528 10 09
E-mail kpmg@kpmg.pl
Internet www.kpmg.pl

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

OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting of PKP CARGO S.A.

Opinion on the Consolidated Financial Statements

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

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

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

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with amendments) ("the Accounting Act") and International Standards on Auditing as adopted by the National Council of Certified Auditors as the National Standards on Assurance. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the accompanying consolidated financial statements of PKP CARGO S.A. Group have been prepared and present fairly, in all material respects, the financial position of the Group as at 31 December 2015 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

Specific Comments on Other Legal and Regulatory Requirements

Report on the Group's Activities

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

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

Signed on the Polish original

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

17 March 2016

REPORT OF THE INDEPENDENT AUDITOR

TRANSLATION

PKP CARGO S.A. Group

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

The supplementary report contains 13 pages
The supplementary report on the audit of the consolidated financial statements for the financial year ended 31 December 2015

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

Contents

1. General

1.1 Identification of the Group

1.1.1 Name of the Group

PKP CARGO S.A. ("Group")

1.1.2 Registered office of the Parent Company of the Group

ul. Grójecka 17
02-021 Warsaw

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

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

1.1.4 Management of the Parent Company

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

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

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

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

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

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

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

1.2 Information about companies comprising the Group

1.2.1 Companies included in the consolidated financial statements

As at 31 December 2015, the following companies were consolidated by the Group:

Parent Company:

- PKP CARGO S.A.

Subsidiaries consolidated on the full consolidation basis:

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

* As of 30 October 2015 the National Court Register registered the change in the Company's name from Przedsiębiorstwo Spedycyjne TRADE TRANS Sp. z o.o. to PKP CARGO CONNECT Sp. z o.o. As of 31 December 2015 the merger of PKP CARGO CONNECT Sp. z o.o. (the acquiring Company) and CARGOSPED Sp. z o.o. (the acquired Company) has been registered in the National Court Register.

The following subsidiaries were consolidated for the first time during the year ended 31 December 2015, as a result of the Parent Company acquiring a controlling interest:

- Advanced World Transport B.V. – subject to consolidation for the period from 28 May 2015 to 31 December 2015,
- Advanced World Transport a.s. – subject to consolidation for the period from 28 May 2015 to 31 December 2015,
- AWT Rosco a.s. – subject to consolidation for the period from 28 May 2015 to 31 December 2015,
- AWT Čechofracht a.s. – subject to consolidation for the period from 28 May 2015 to 31 December 2015,
- AWT Rekultivace a.s. – subject to consolidation for the period from 28 May 2015 to 31 December 2015,

- AWT Rail HU Zrt. – subject to consolidation for the period from 28 May 2015 to 31 December 2015,
- AWT Coal Logistics s.r.o. – subject to consolidation for the period from 28 May 2015 to 31 December 2015.

1.2.2 Entities excluded from consolidation

As at 31 December 2015, the following subsidiaries of the Group were not consolidated:

- ONECARGO Sp. z o.o.,
- ONECARGO CONNECT Sp. z o.o.,
- Trade Trans Karya Sp. z o.o.,
- Transgaz S.A.,
- Trade Trans Finance Sp. z o.o.,
- PPHU „Ukpol" Sp. z o.o.,
- AWT Rail SK a.s.,
- AWT Rail PL Sp. z o.o.,
- AWT DLT s.r.o.,
- G.I.B. s.r.o. in liquidation,
- AWT Trading s.r.o.,
- AWT Rekultivace PL Sp. z o.o.,
- Spedrapid Sp. z o.o.,
- RND s.r.o.

1.3 Key Certified Auditor and Audit Firm Information

1.3.1 Key Certified Auditor information

Name and surname:	Monika Bartoszewicz
Registration number:	10268

1.3.2 Audit Firm information

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

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

1.4 Prior period consolidated financial statements

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

The consolidated financial statements were approved at the General Meeting of the Parent Entity on 21 April 2015.

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

1.5 Audit scope and responsibilities

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

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

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

We audited the consolidated financial statements at the Group entities during the period from 7 to 11 December 2015 and from 1 to 29 February 2016 and from 1 to 14 March 2016.

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

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

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

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

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

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

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

1.6.1 Parent Company

The separate financial statements of the Parent Company for the year ended 31 December 2015 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k., certified auditor number 3546, and received an unmodified opinion.

1.6.2 Other consolidated entities

Entity's name	Authorised auditor	Financial year end	Type of auditor's opinion
Cargosped Terminal Braniewo Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	31 December 2015	unmodified opinion
PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o.	Auxilium Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	31 December 2015	unmodified opinion
CARGOTOR Sp. z o.o.	Auxilium Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	31 December 2015	unmodified opinion
PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	Auxilium Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	31 December 2015	unmodified opinion
PKP CARGO SERVICE Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	31 December 2015	unmodified opinion
PKP CARGO CONNECT Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	31 December 2015	audit in progress
PKP CARGOTABOR Sp. z o.o.	Auxilium Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	31 December 2015	unmodified opinion
PKP CARGOTABOR USŁUGI Sp. z o.o.	Auxilium Audyt Spółka z ograniczoną odpowiedzialnością sp.k.	31 December 2015	audit in progress
Advanced World Transport B.V.	KPMG Accountants N.V.	31 December 2015	audit in progress
Advanced World Transport a.s.	KPMG Česká republika Audit, s.r.o.	31 December 2015	unmodified opinion
AWT Rosco a.s.	KPMG Česká republika Audit, s.r.o.	31 December 2015	unmodified opinion
AWT Čechofracht a.s.	KPMG Česká republika Audit, s.r.o.	31 December 2015	unmodified opinion
AWT Rekultivace a.s.	KPMG Česká republika Audit, s.r.o.	31 December 2015	unmodified opinion
AWT Rail HU Zrt.	KPMG Hungária Kft.	31 December 2015	unmodified opinion
AWT Coal Logistics s.r.o.	KPMG Česká republika Audit, s.r.o.	31 December 2015	unmodified opinion

2 Financial analysis of the Group

2.1 Summary analysis of the consolidated financial statements

2.1.1 Consolidated statement of financial position

ASSETS	31.12.2015 PLN '000	% of total	31.12.2014 PLN '000 (*)	% of total
Non-current assets				
Property, plant and equipment	4,719,748	77.2	4,044,606	71.2
Intangible assets	66,437	1.1	58,268	1.0
Goodwill	-	-	2,712	0.0
Investment property	1,309	0.0	1,362	0.0
Investments accounted for under the equity method	39,831	0.7	35,246	0.7
Trade and other receivables	5,074	0.1	-	-
Other long-term financial assets	9,849	0.2	6,051	0.1
Other long-term non-financial assets	32,666	0.5	14,645	0.3
Deferred tax assets	104,587	1.7	91,575	1.6
Total non-current assets	4,979,501	81.5	4,254,465	74.9
Current assets				
Inventories	128,513	2.1	115,298	2.0
Trade and other receivables	664,321	10.9	526,149	9.3
Income tax receivables	2,748	0.0	3,053	0.1
Other short-term financial assets	4,046	0.1	306,383	5.4
Other short-term non-financial assets	13,281	0.2	28,246	0.4
Cash and cash equivalents	276,191	4.5	429,178	7.6
	1,089,100	17.8	1,408,307	24.8
Non-current assets classified as held for sale	44,061	0.7	17,560	0.3
Total current assets	1,133,161	18.5	1,425,867	25.1
TOTAL ASSETS	6,112,662	100.0	5,680,332	100.0

EQUITY AND LIABILITIES	31.12.2015 PLN '000	% of total	31.12.2014 PLN '000 (*)	% of total
Equity				
Share capital	2,239,346	36.6	2,239,346	39.4
Share premium	619,407	10.1	615,343	10.8
Other items of equity	(2,779)	(0.0)	(48,617)	(0.9)
Foreign exchange differences on translation of financial statements of foreign subsidiaries	31,500	0.5	-	-
Retained earnings	466,392	7.7	525,721	9.4
Equity attributable to the shareholders of the Parent Company	3,353,866	54.9	3,331,793	58.7
Non-controlling interest	-	-	63,500	1.1
Total equity	3,353,866	54.9	3,395,293	59.8
Non-current liabilities				
Long-term bank loans and credit facilities	460,577	7.5	208,077	3.7
Long-term finance lease liabilities and leases with purchase option	193,500	3.2	190,836	3.4
Long-term trade and other payables	25,953	0.4	67,982	1.2
Long-term provisions for employee benefits	603,621	9.9	687,775	12.1
Other long-term provisions	28,886	0.5	8,416	0.1
Other long-term financial liabilities	155,198	2.5	-	-
Deferred tax provisions	118,353	1.9	2,328	0.0
Total non-current liabilities	1,586,088	25.9	1,165,414	20.5
Current liabilities				
Short-term bank loans and credit facilities	253,592	4.1	92,123	1.6
Short-term finance lease liabilities and leases with purchase option	65,416	1.1	127,742	2.2
Short-term trade and other payables	729,793	11.9	530,440	9.3
Short-term provisions for employee benefits	100,383	1.6	338,618	6.0
Other short-term provisions	17,856	0.3	24,214	0.4
Other short-term financial liabilities	2,174	0.1	3,934	0.1
Current tax liabilities	3,494	0.1	2,554	0.0
Total current liabilities	1,172,708	19.2	1,119,625	19.7
Total liabilities	2,758,796	45.1	2,285,039	40.2
TOTAL EQUITY AND LIABILITIES	6,112,662	100.0	5,680,332	100.0

* *data restarted*

2.1.2 Consolidated statement of comprehensive income

	1.01.2015 - 31.12.2015 PLN '000	**% of total sales**	**1.01.2014 - 31.12.2014 PLN '000 (*)**	**% of total sales**
Revenue from sales of services	4,330,336	95.1	4,162,171	97.4
Revenue from sales of goods and materials	33,132	0.7	54,902	1.3
Other operating revenue	190,665	4.2	57,262	1.3
Operating revenue	4,554,133	100.0	4,274,335	100.0
Depreciation/Amortization and impairment losses	(648,982)	14.3	(382,791)	9.0
Consumption of raw materials and energy	(696,994)	15.3	(594,010)	13.9
External services	(1,501,160)	33.0	(1,315,778)	30.8
Taxes and charges	(38,597)	0.8	(40,759)	1.0
Employee benefits	(1,484,764)	32.6	(1,698,873)	39.7
Other expenses by kind	(53,854)	1.2	(43,955)	1.0
Cost of merchandise and raw materials sold	(25,654)	0.6	(38,203)	0.9
Other operating expenses	(48,217)	1.1	(39,039)	0.9
Operating expenses	(4,498,222)	98.8	(4,153,408)	(97.2)
Profit on operating activities	*55,911*	*1.2*	*120,927*	*2.8*
Financial revenue	14,723	0.3	33,812	0.8
Financial expenses	(65,067)	1.4	(62,099)	1.5
Share in the profit/(loss) of equity accounted entities	4,416	0.1	881	-
Profit/(Loss) on sales of shares of equity accounted entities	1,865	-	-	-
Profit before tax	11,848	0.3	93,521	2.2
Income tax expense	19,563	0.4	(15,239)	0.4
Net profit	***31,411***	***0.7***	***78,282***	***1.8***
OTHER COMPREHENSIVE INCOME				
Other comprehensive income that will be reclassified to profit or loss in subsequent periods:	**34,232**	**0.8**	**(2,557)**	**0.1**
The effective portion of changes in fair value of cash-flow hedging instruments	3,373	0.1	(3,157)	0.1
Income tax on other comprehensive income	(641)	-	600	-
Foreign exchange differences on translation of financial statements of foreign subsidiaries	31,500	0.7	-	-
Other comprehensive income that will never be reclassified to profit or loss:	**43,106**	**0.9**	**(30,843)**	**0.7**
Actuarial gains/(losses) on employee benefits after employment period	53,217	1.2	(38,078)	0.9
Income tax on other comprehensive income	(10,111)	0.2	7,235	0.2
Other total comprehensive income	***77,338***	***1.7***	***(33,400)***	***0.8***
Total comprehensive income	***108,749***	***2.4***	***44,882***	***1.0***
Net profit attributable to:				
Shareholders of the Parent company	31,554		75,984	
Non-controlling interest	(143)		2,298	
Total comprehensive income attributable to:				
Shareholders of the Parent company	108,892		43,579	
Non-controlling interest	(143)		1,123	
Earnings per share (PLN per share):				
Earnings per share on operations (basic):	0.70		1.70	
Earnings per share on operations (diluted):	0.70		1.70	

* *data restarted*

2.2 Selected financial ratios

	2015	2014 (*)	2013 (*)
1. Return on sales			
profit for the period x 100% / revenue	0.7%	1.9%	1.4%
2. Return on equity			
profit for the period x 100% / equity - profit for the period	0.9%	2.4%	1.9%
3. Debtors' days			
average trade receivables (gross) x 365 days / revenue	54 days	54 days	53 days
4. Debt ratio			
liabilities x 100% / equity and liabilities	45.1%	40.2%	39.4%
5. Current ratio			
current assets / current liabilities	0.9	1.3	1.6

* *data restarted*

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

3 Detailed report

3.1 Accounting principles

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

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

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

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

3.2 Basis of preparation of the consolidated financial statements

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

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

3.3 Method of consolidation

The method of consolidation is described in note 4.7 and 15 of the notes to the consolidated financial statements.

3.4 Goodwill arising on consolidation

The method of calculating goodwill arising on consolidation is described in note 4.6 of the notes to the consolidated financial statements.

3.5 Consolidation of equity and calculation of non-controlling interest

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

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

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

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

3.6 Consolidation eliminations

Intercompany balances within the Group were eliminated on consolidation.

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

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

3.7 Notes to the consolidated financial statements

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

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

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

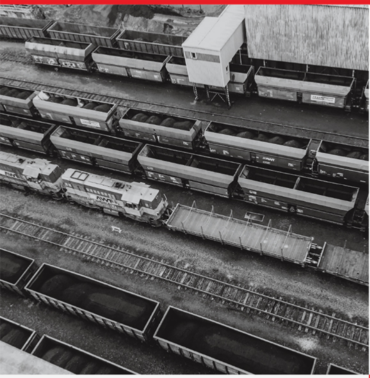
On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
Registration No. 3546
ul. Inflancka 4A
00-189 Warsaw

Signed on the Polish original

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

17 March 2016

PKPCARGO



pkpcargo.com

CONSOLIDATED FINANCIAL STATEMENTS OF **PKP CARGO** CAPITAL GROUP FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2015 PREPARED IN ACCORDANCE WITH IFRS AS EN DORSED BY THE EUROPEAN UNION

TABLE OF CONTENTS

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

	Note	For the year ended 31/12/2015 (audited)	For the year ended 31/12/2014 (restated*)
		PLN thousand	PLN thousand
Revenue from sales of services and finished goods	7	4 330 336	4 162 171
Revenue from sales of goods and materials		33 132	54 902
Other operating revenue	9.1	190 665	57 262
Total operating revenue		**4 554 133**	**4 274 335**
Depreciation / amortization and impairment losses	8.1	648 982	382 791
Consumption of raw materials and energy	8.2	696 994	594 010
External services	8.3	1 501 160	1 315 778
Taxes and charges		38 597	40 759
Employee benefits	8.4	1 484 764	1 698 873
Other expenses by kind	8.5	53 845	43 955
Cost of merchandise and raw materials sold		25 654	38 203
Other operating expenses	9.2	48 217	39 039
Total operating expenses		**4 498 222**	**4 153 408**
Profit on operating activities		**55 911**	**120 927**
Financial revenue	10	14 723	33 812
Financial expenses	11	65 067	62 099
Share in the profit / (loss) of equity accounted entities	16	4 416	881
Profit / (loss) on sales of shares of equity accounted entities		1 865	-
Profit before tax		**11 848**	**93 521**
Income tax expense	12.1	(19 563)	15 239
NET PROFIT		**31 411**	**78 282**

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

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

	Note	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (restated*) PLN thousand
NET PROFIT		**31 411**	**78 282**
Other comprehensive income			
Other comprehensive income that will be reclassified to profit or loss in subsequent periods:		**34 232**	**(2 557)**
The effective portion of changes in fair value of cash-flow hedging instruments:		3 373	(3 157)
Income tax on other comprehensive income	12.2	(641)	600
Exchange differences on translation of financial statements of foreign subsidiaries		31 500	-
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		**43 106**	**(30 843)**
Actuarial gains / (losses) on post-employment benefits	31	53 217	
Income tax on other comprehensive income	12.2	(10 111)	
Total other comprehensive income		**77 338**	**(33 400)**
TOTAL COMPREHENSIVE INCOME		**108 749**	**44 882**
Net profit attributable to:			
Shareholders of the Parent company		31 554	75 984
Non-controlling interest		(143)	2 298
Total comprehensive income attributable to:			
Shareholders of the Parent company		108 892	43 759
Non-controlling interest		(143)	1 123
Earnings per share (PLN per share)			
Earnings per share on operations (basic):	26.1	**0,70**	**1,70**
Earnings per share on operations (diluted):	26.2	**0,70**	**1,70**

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 31 DECEMBER 2015

	Note	As at 31/12/2015 (audited)	As at 31/12/2014 (restated*)	As at 01/01/2014 (restated*)
		PLN thousand	PLN thousand	PLN thousand
ASSETS				
Non-current assets				
Property, plant and equipment	13	4 719 748	4 044 606	3 867 529
Intangible assets	14	66 437	58 268	61 395
Goodwill		-	2 712	2 712
Investment property		1 309	1 362	1 415
Investments accounted for under the equity method	16	39 831	35 246	38 214
Trade and other receivables	20	5 074	-	-
Other long-term financial assets	17	9 849	6 051	6 090
Other long-term non-financial assets	18	32 666	14 645	1 438
Deferred tax assets	12.4	104 587	91 575	87 629
Total non-current assets		**4 979 501**	**4 254 465**	**4 066 422**
Current assets				
Inventories	19	128 513	115 298	76 041
Trade and other receivables	20	664 321	526 149	609 267
Other short-term financial assets	12.3	2 748	3 053	2 394
Other short-term non-financial assets	17	4 046	306 383	691 404
Cash and cash equivalents	18	13 281	28 246	33 355
Current assets	21	276 191	429 178	263 700
		1 089 100	**1 408 307**	**1 676 161**
Non-current assets classified as held for sale	24	44 061	17 560	17 560
Total current assets		**1 133 161**	**1 425 867**	**1 693 721**
Total assets		**6 112 662**	**5 680 332**	**5 760 143**

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

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

	Note	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (restated*) PLN thousand	As at 01/01/2014 (restated*) PLN thousand
EQUITY AND LIABILITIES				
Equity				
Share capital	25.1	2 239 346	2 239 346	2 166 901
Share premium	25.2	619 407	615 343	692 761
Other items of equity		(2 779)	(48 617)	(16 392)
Exchange differences on translation of financial statements of foreign entities		31 500	-	-
Retained earnings		466 392	525 721	584 301
Equity attributable to the owners of the Company		**3 353 866**	**3 331 793**	**3 427 571**
Non-controlling interest		-	63 500	62 377
Total equity		**3 353 866**	**3 395 293**	**3 489 948**
Non-current liabilities				
Long-term bank loans and credit facilities	27	460 577	208 077	121 558
Long-term finance lease liabilities and leases with purchase option	29	193 500	190 836	313 136
Long-term trade and other payables	30	25 953	67 982	113 688
Long-term provisions for employee benefits	31	603 621	687 775	624 379
Other long-term provisions	32	28 886	8 416	22 854
Deferred tax provision	28	155 198	-	-
Other long-term financial liabilities	12.4	118 353	2 328	2 577
Total non-current liabilities		**1 586 088**	**1 165 414**	**1 198 192**
Current liabilities				
Short-term bank loans and credit facilities	27	253 592	92 123	73 217
Short-term finance lease liabilities and leases with purchase option	29	65 416	127 742	115 790
Short-term trade and other payables	30	729 793	530 440	675 841
Short-term provisions for employee benefits	31	100 383	338 618	180 478
Other short-term provisions	32	17 856	24 214	26 127
Other short-term financial liabilities	28	2 174	3 934	306
Current tax liabilities	12.3	3 494	2 554	244
Total current liabilities		**1 172 708**	**1 119 625**	**1 072 003**
Total liabilities		**2 758 796**	**2 285 039**	**2 270 195**
Total equity and liabilities		**6 112 662**	**5 680 332**	**5 760 143**

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

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

		Share capital	Share premium	Other items of equity: Actuarial gains/losses on post-employment benefits	Other items of equity: Changes in fair value of cash flow hedge	Exchange differences on translation of financial statements of foreign entities	Retained earnings	Attributable to shareholders of the Parent company	Attributable to non-controlling interest	
		PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	
As at 1/01/2014 (restated*)		**2 166 901**	**692 761**	**(16 182)**	**(210)**	**-**	**584 301**	3 427 571	**62 377**	3 489 948
Net profit for the financial year		-	-	-	-	-	75 984	75 984	**2 298**	78 282
Other net comprehensive income for the year		-	-	(30 804)	(1 421)	-	**-**	(32 225)	**(1 175)**	(33 400)
Total comprehensive income		**-**	**-**	**(30 804)**	**(1 421)**	**-**	**75 984**	43 759	**1 123**	44 882
Issuance of shares	25.1	72 445	25 529	-	-	-	**-**	97 974	**-**	97 974
Dividend payment		-	-	-	-	-	(137 496)	(137 496)	**-**	(137 496)
Share-based payment provision		-	(100 015)	-	-	-	-	(100 015)	**-**	(100 015)
Other changes in equity		-	(2 932)	-	-	-	2 932	-	**-**	-
As at 31/12/2014 (restated*)		**2 239 346**	**615 343**	**(46 986)**	**(1 631)**	**-**	**525 721**	3 331 793	**63 500**	3 395 293
As at 1/01/2015 (restated*)		**2 239 346**	**615 343**	**(46 986)**	**(1 631)**	**-**	**525 721**	3 331 793	**63 500**	3 395 293
Net result for the period		-	-	-	-	-	31 554	31 554	(143)	31 411
Other net comprehensive income for the period		-	-	43 106	2 732	31 500	-	77 338	-	77 338
Total comprehensive income		**-**	**-**	**43 106**	**2 732**	**31 500**	**31 554**	108 892	(143)	108 749
Dividend payment	25.2	-	-	-	-	-	(110 176)	(110 176)	-	(110 176)
Transactions with non-controlling interests	25.3	-	-	-	-	-	23 357	23 357	(63 357)	(40 000)
Other changes in equity	25.2	-	4 064	-	-	-	(4 064)	-	-	-
As at 31/12/2015 (audited)		**2 239 346**	**619 407**	**(3 880)**	**1 101**	**31 500**	**466 392**	3 353 866	**-**	3 353 866

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FROM 1 JANUARY 2015 TO 31 DECEMBER 2015 [INDIRECT METHOD]

	Note	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (restated*) PLN thousand
Cash flows from operating activities			
Profit before tax		**11 848**	**93 521**
Adjustments:			
Depreciation and amortization	8.1	467 611	382 416
Impairment of assets	8.1	181 371	375
(Gain) / loss on disposal / liquidation of property, plant and equipment and intangible assets		638	(4 062)
(Profit) / loss on investing activities		2 798	-
Foreign exchange (gain) / loss		(2 794)	6 050
(Gains) / losses on interest, dividends		24 389	(7 983)
Share in (profit) / loss of equity accounted entities	16	(4 416)	(881)
Profit on sale of equity accounted entities		(1 865)	-
Bargain purchase gain of acquisition of AWT	6	(137 779)	-
Other adjustments	22	59 453	(41 235)
Changes in working capital:			
(Increase) / decrease in trade and other receivables	22	24 822	76 611
(Increase) / decrease in inventories	22	21 391	(26 241)
(Increase) / decrease in other assets	22	18 200	(5 591)
Increase / (decrease) in trade and other payables (1)	22	67 226	(126 401)
Increase / (decrease) in other financial liabilities	22	6 885	3 628
Increase / (decrease) in provisions (2)	22	(341 697)	205 185
Cash flows from operating activities		**398 081**	**555 392**
Interest received / (paid)		(210)	14 488
Income taxes received / (paid)		(10 369)	(9 948)
Net cash provided by operating activities		**387 502**	**559 932**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FROM 1 JANUARY 2015 TO 31 DECEMBER 2015 [INDIRECT METHOD] (cont'd.)

	Note	For the year ended 31/12/2015 (audited)	For the year ended 31/12/2014 (restated*)
		PLN thousand	PLN thousand
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(508 662)	(662 567)
Proceeds from sale of property, plant and equipment and intangible assets		7 506	17 902
Acquisition of entities accounted for under the equity method		(1 619)	(313)
Proceeds from sale of entities accounted for under the equity method		2 000	-
Acquisition of other financial assets		(10)	-
Acquisition of subsidiary, net of cash acquired	6	(325 956)	-
Interest received		6 663	22 564
Dividends received		2 213	1 060
Proceeds from loans granted		149	183
Inflows from bank deposits over 3 months		299 048	302 814
Inflows related to the Employment Guarantees Program		-	79 614
Other inflows from investing activities		3 469	-
Net cash used in investing activities		**(515 199)**	**(238 743)**
Cash flows from financing activities			
Payments of liabilities under finance lease		(143 111)	(121 581)
Payments of interest under lease agreement		(8 607)	(11 840)
Proceeds from credit facilities / loans received		424 957	179 203
Repayments of credit facilities / loans received		(137 336)	(73 777)
Repayments of interest on credit facilities / loans received		(15 403)	(6 779)
Grants received		6 598	24 790
Dividends paid to shareholders of the Parent company	25.2	(110 176)	(137 496)
Transactions with non-controlling interests	25.3	(40 000)	-
Other outflows from financing activities		(6 369)	(8 231)
Net cash used in investing activities		**(29 447)**	**(155 711)**
Net increase / (decrease) in cash and cash equivalents		(157 144)	165 478
Opening balance of cash and cash equivalents	21	429 178	263 700
Impact of exchange rate changes on foreign currencies cash balances		4 157	-
Closing balance of cash and cash equivalents	21	**276 191**	**429 178**

(1) In the year ended 31 December 2015 an item includes increase in liabilities due to Voluntary Redundancy Program of PLN 48,249 thousand.

(2) In the year ended 31 December 2015 an item includes mainly a decrease in provision for Voluntary Redundancy Program of PLN 265,331 thousand and decrease in other provisions for employee benefits of PLN 57,058 thousand

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

EXPLANATORY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PREPARED AS AT 31 DECEMBER 2015

1. General information

1.1 Information on the Parent company

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

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

The financial year of the Parent company and the companies comprising PKP CARGO Group is the calendar year.

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

Management Board:

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

Supervisory Board:

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

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

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

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

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

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

On 29 September 2015 the Extraordinary General Meeting of Shareholders of the Parent company dismissed Mr. Marek Podskalny and Mr. Krzysztof Czarnota from the Supervisory Board.

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

31 DECEMBER 2015, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN THOUSAND)

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

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

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

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

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

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

On 24 February 2015 the following members submitted resignation from the Management Board of the Parent company with immediate effect:
- Mr. Jacek Neska,
- Mr. Lukasz Hadyś,
- Mr. Wojciech Derda.

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

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

Entity	Registered office	Number of shares	% of share capital held	% of voting rights
PKP S.A.[1]	Warsaw	14 784 194	33,01%	33,01%
Nationale-Nederlanden OFE [2]	Warsaw	5 771 555	12,89%	12,89%
Morgan Stanley [3]	New York	2 380 008	5,31%	5,31%
Aviva OFE [4]	Warsaw	2 338 371	5,22%	5,22%
Other shareholders		19 512 789	43,57%	43,57%
Total		**44 786 917**	**100,00%**	**100,00%**

(1) In accordance with the notice sent by shareholder dated 24 June 2014.
(2) In accordance with the notice sent by shareholder dated 12 November 2015. On 20 July 2015 name of shareholder ING OFE was changed to Nationale-Nederlanden OFE.
(3) In accordance with the notice sent by shareholder dated 18 June 2014.
(4) In accordance with the notice sent by shareholder dated 13 August 2014.

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

1.2 Information on the Group

As at the reporting date the PKP Cargo Group ("the Group") comprised of PKP CARGO S.A. as the Parent company and 29 subsidiaries. Additionally the Group also includes 6 associates and shares in 4 joint ventures. Group prepared Consolidated Financial Statements for the year ended 31 December 2015. These Consolidated Financial Statements include financial data of AWT Group' entities from the date of obtaining control what is described in Note 6.

Additional information about the subsidiaries and shares in associates and co-subsidiaries is presented in Note 15.

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

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

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

1.3 Functional currency and presentation currency

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

Financial data of foreign subsidiaries are translated into PLN for consolidation purposes as follows:

a) assets and liabilities at the exchange rate as at the end of the reporting period,
b) items of the statement of comprehensive income and statement of cash flows according to the average exchange rate during the reporting period, calculated as the arithmetic average of the rates on the last day of each month in the period.

Foreign exchange differences resulting from these translations are recognized in equity as foreign exchange difference on translation of subsidiaries financial statements.

2. International Financial Reporting Standards applied

2.1 Statement of compliance

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

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

During 2014 - 2015 the Group did not discontinue activity that requires recognition in these Consolidated Financial Statements.

These Consolidated Financial Statements have been prepared on the historical cost except of derivatives measured at fair value, liabilities arising from the put option for non-controlling shares and non-current assets classified as held for sale.

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

2.2 Status of endorsement of the Standards in the EU

The following amendments to existing standards issued by the International Accounting Standards Board and adopted by European Union are effective since 2015:

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

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

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

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

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

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

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

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

- **IFRS 9 "Financial Instruments"** - applicable to the periods beginning on or after 1 January 2018.
- **IFRS 14 "Regulatory Deferral Accounts"** - applicable to the annual periods beginning on or after 1 January 2016.
- **IFRS 15 "Revenue from Contracts with Customers"** - applicable for annual periods beginning on or after 1 January 2017.
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates"** entitled Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - applicable for periods beginning on or after 1 January 2016.
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** entitled Investment Entities: Applying the Consolidation Exception - applicable for periods beginning on or after 1 January 2016.
- **IFRS 16 "Leasing"** - applicable for annual periods beginning on or after 1 January 2019.

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

3. Material values based on professional judgment and estimates

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

3.1 Professional accounting judgement

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

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

3.2 Estimation uncertainty

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

3.2.1 Economic useful life of fixed assets and intangible assets

The Management Board of the Parent Company estimates economic useful lives of particular fixed assets and intangible assets and determines depreciation rates of particular items. The estimations are based on expected economic useful lives of these assets.

Depreciation rates may change in case of circumstances causing the change in expected useful life (e.g. technological changes, withdrawal from use, etc.). Consequently, the depreciation rates and the net carrying amount of fixed assets and intangible assets will also change. An analysis conducted in 2015 in order to verify the useful life of fixed assets and intangible assets has not revealed the need to correct the previously applied depreciation rates.

3.2.2 Residual value of railroad fleet

The Group uses own and leased train engines and wagons. According to the IFRS, residual value of non-current assets should be recognised separately and it should not be depreciated as a part of the total initial value of the property plant and equipment item. The residual value is based on the current prices of classes of scrap. According to the applied accounting principles residual value was subject to revaluation, when the scrap prices change by more than 50% in comparison to scrap prices as at the end of preceding period. For the past years no significant changes in scrap prices occurred, therefore no adjustment to residual value was needed.

In the fourth quarter 2015 a significant decrease in scrap prices was observed by approximately 30% in comparison to prices constituting the basis for residual values assessment. The Group analyzed the impact of this change on the value of property, plant and equipment. It has been decided, that the decrease in prices significantly affects the financial statements, therefore accounting principles regarding estimates has been amended i.e. a policy on reassessment of residual values in case of changes in scrap prices by 50% has been removed and a new policy was introduced to reassess residual values in each case when current scrap prices affect significantly financial statement.

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

3.2.3 Impairment of property, plant and equipment and intangible assets

Due to the volatile situation on the Czech coal market which impacts rail freight market, the Group has identified the risk of reduced cash flow and risk of impairment of assets belonging to the AWT Group. Impairment tests were carried out in relation to the cash-generating units in order to determine their recoverable amount.

The recoverable amount of assets was determined based on estimation of their value in using discounted net cash flows method based on of financial projections prepared for 2016-2025. According to the Group due to the fact that the tangible assets used by the Group have a significantly longer period of economic utility the application of financial projections for period longer than five years is justified and better reflects the impact on the financial affairs of the Group and the expected changes on the Czech coal market.

The key assumptions that affect the estimation of value in use of the cash-generating units are presented below:

a) non-current assets belonging to the AWT Group have been recognized as cash-generating units - they are used mostly to serve customers in the Czech railway market.
b) a decrease in fright volumes for one of the main customers by 10% annually in the period 2016-2025.
c) the adoption of the weighted average cost of capital after tax (WACC) during the projection period at 6.61%.
d) after the forecast period free cash flows' growth of 1% has been assumed (with assumed inflation rate of 2.0%).

The tested carrying amount of AWT Group non-current assets amounted to PLN 867,466 thousand as at 31 December 2015. As a result of the test the recoverable value exceeded carrying amount of tested non-current assets as at 31 December 2015 and therefore the Group did not recognize impairment of assets in the AWT Group.

WACC and growth rate of free cash flows after the forecasted period were key assumptions in impairment model. Changing the WACC by +/- 0.3 p. p. does not indicate the need for impairment recognition. Also by changing the level of growth of free cash flows after the forecasted period by +/- 0.5 p .p. there is no need for impairment recognition.

For other assets, the Group has analyzed the possibility of the occurrence of impairment indications, including market capitalization. According to the Management Board of Parent Company, there were no events recorded, which clearly indicate a reduction in value of the Group as at 31 December 2015. The Group is currently implementing a Strategy adopted for the years 2016 - 2020, according to which by implementing the optimization actions and commercial activities the enterprise value will significantly and permanently increase during year 2020. While the market capitalization of the Group since early 2015 is very strongly correlated with the WIG 20 index (Pearson coefficient is about 0.9), the value of which reaches the lowest levels in relation to the last few years. Therefore, after analyzing major factors both external and internal according to the Management Board of Parent Company, there are no indications for impairment, and therefore the Group does not conduct test for impairment.

The reasons for recognized impairment allowances of property, plant and equipment for the year ended 31 December 2015 was presented in Note 3.2.2. and 13.1 of these Consolidated Financial Statements.

3.2.4 Impairment allowances for receivables

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

Detailed information on write-downs of trade receivables is presented in Note 20 of the Consolidated Financial Statements.

3.2.5 Deferred income tax

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

Information concerning the deferred tax assets is presented in Note 12 of these Consolidated Financial Statements.

3.2.6 Employee benefits

Assumptions regarding discount rate, pay increases, expected average period of employment have a significant impact on the value of employee benefits provisions. Details on how to create these reserves are described in Note 4.23.1 and the results of the calculation of provisions for employee benefits are presented in Note 31 of the additional information to this Consolidated Financial Statements.

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

	31/12/2015	31/12/2014
	%	%
Discount rate	3,10	2,60
The average annual increase assumed for the basis of calculation of the provision for retirement benefits and jubilee bonuses	1,70	1,50
Assumed increase in the price of benefit entitlement	2,50	2,50
The average annual increase assumed for the basis of calculation of the provision for Social Benefit Fund	3,60	3,60
Weighted average employee mobility ratio	2,50	2,50
Inflation (annual)	1,7-2,5	2,50

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

		Discount rate		Pay increase ratio		Employee mobility ratio	
	As at 31/12/2015 PLN thousand (audited)	+0,30 pp.	-0,30 pp.	+0,25 pp.	-0,25 pp.	+0,25 pp.	-0,25 pp.
Jubilee benefits	318 239	(5 464)	5 653	5 911	(3 512)	(1 824)	4 643
Retirement benefits	150 505	(4 203)	3 564	3 491	(3 597)	(2 704)	2 886
Disability benefits	4 323	(84)	87	84	(65)	(67)	68
Death benefits	31 660	(656)	684	654	(497)	(523)	540
Social Benefit Fund	124 118	(4 945)	5 292	4 673	(4 434)	(526)	690
Transport benefits	33 654	(1 294)	1 382	1 234	(1 172)	(139)	278
Total	**662 499**	**(16 646)**	**16 662**	**16 047**	**(13 277)**	**(5 783)**	**9 105**

		Discount rate		Pay increase ratio		Employee mobility ratio	
	As at 31/12/2014 PLN thousand (restated*)	+0,25 pp.	-0,25 pp.	+0,25 pp.	-0,25 pp.	+0,25 pp.	-0,25 pp.
Jubilee benefits	323 382	(4 514)	4 644	4 682	(4 571)	(4 797)	4 872
Retirement benefits	154 739	(2 887)	2 990	3 014	(2 920)	(3 071)	3 061
Disability benefits	3 709	(44)	45	46	(45)	(46)	47
Death in service benefits	33 332	(446)	460	464	(452)	(477)	489
Social Benefit Fund	168 876	(5 244)	5 535	5 467	(5 207)	(872)	877
Transport benefits	37 719	(1 223)	1 291	1 289	(1 227)	(297)	307
Total	**721 757**	**(14 358)**	**14 965**	**14 962**	**(14 422)**	**(9 560)**	**9 653**

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

3.2.7 Liabilities due to put option on non-controlling AWT shares

The Parent company concluded with Minezit S.E. (hereinafter "MSE"), a minority shareholder holding 20% shares of AWT, the Agreement on the purchase option (call) and sale option (put) of non-controlling shares in AWT. Based on the Agreement, the Parent company is both buyer of a call option and the issuer of put option and therefore has both the right to purchase the shares from MSE (exercising of a call option) and an obligation to purchase shares from MSE (when MSE will exercise a put option).

31 DECEMBER 2015, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN THOUSAND)

According to the accounting policy applied by the Parent company:

- call option was not recognised in the statement of financial position as it did not meet the definition of a derivative in accordance with IAS 39;

- put option was recognised under the anticipated-acquisition method.

The description of accounting principles for recognition and valuation of liabilities due to put option is presented in Note 4.28 of these Consolidated Financial Statements.

The fair value of liability due to put option is based on the discounted cash flows, with applied discount rate adequate for such liabilities. The fair value of put option depends on the financial results of the AWT Group and is set as a multiplication of EBITDA and a coefficient defined in the Agreement, adjusted by the amount of net debt. The basic assumptions taken into account in the valuation include EBITDA, net debt, EUR/PLN exchange rate and interest rate appropriate for this type of liabilities.

The sensitivity analysis for key assumptions included in the valuation of liabilities arising from the put option on non-controlling shares as at 31 December 2015 is presented below.

Sensitivity analysis	EBITDA		Net debt		EUR/PLN rate		Interest rate	
	+5 %	-5 %	+5 %	-5 %	+9 %	-9 %	+0,25 pp.	-0,25 pp.
Impact on gross profit	(7 332)	7 332	428	(428)	(12 695)	12 695	1 874	(1 902)

Any change in the liability after initial recognition is recognized in profit or loss as "financial expenses and revenue." The amount recognized for the revaluation of liabilities after initial recognition is presented in Note 11 of these Consolidated Financial Statements.

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

4. Accounting policies

4.1 Operating revenues

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

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

4.1.1 Revenue from sales of services

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

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

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

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

4.1.2 Revenue from sales of goods and materials

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

4.2 Costs by kind

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

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

The Group company shall present the following costs by kind in the consolidated statement of comprehensive income:

a) Depreciation/amortization and impairment losses,
b) consumption of raw materials and energy,
c) external services,
d) taxes and charges,
e) employee benefits,
f) other costs by kind,
g) cost of merchandise and raw materials sold.

4.3 Other operating revenue and expenses

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

The other operating revenue and expenses include in particular:

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

4.4 Financial revenue and expenses

Financial revenue and expenses includes in particular:

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

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

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

4.5 Tax

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

4.5.1 Current tax

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

4.5.2 Deferred tax

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

A deferred tax liability is recognised with respect to taxable temporary differences resulting from investments in subsidiaries or associates and interests in joint ventures unless the Group can control reversal of the temporary differences and when it is likely that the temporary differences will not be reversed in the foreseeable future. The Group recognizes the deferred tax asset based on assumption that in the future the taxable profits will be available for use. Deterioration of tax results in the future could cause that this assumption would be ungrounded. The Management of the Parent Company verifies the assumptions of the probability of recovery of deferred tax assets based on changes in the factors taken into account in their calculation, new information and past experience.

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

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

4.6 Business combinations

Acquisitions are settled under the acquisition method in accordance with IFRS 3. The consideration transferred in a business combination is measured as the aggregate of the fair value (at the date of payment) of transferred assets, incurred or assumed liabilities, and equity instruments issued by the parent, in exchange for control over the acquiree. Contract related costs are recognised as expenses of the period in which they were incurred.

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

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

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

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

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

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

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

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

4.7 Principles of consolidation

The Consolidated Financial Statements comprise separate financial statements of the Parent company and entities controlled by it (its subsidiaries) for financial year ended at 31 December 2015 and 31 December 2014. The financial statements of subsidiaries after adjustments made to ensure its compliance with EU IFRS are prepared for the same reporting period as the statements of the parent company and based the same accounting policies applied to transactions and economic events of a similar nature.

Control is exercised when the Group is able to manage financial and operating policy of the subsidiary to gain economic benefits from its operation.

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

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

4.7.1 Change in interest in the Group subsidiaries

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

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

4.8 Investments in entities accounted for under the equity method

Investments in selected subsidiaries, associates and interests in joint ventures are measured using the equity method. In accordance with the equity method, investments in associate are initially recognised in the consolidated statement of financial position at cost and then they are recognised in the portion of the profit or loss attributable to the Group or in other comprehensive income of the associate. If the Group's share in the losses of the associate exceeds the value of its shares on that entity (long-term interest constituting part of the net value of investment in the entity), the Group ceases to recognise its shares in subsequent loss of the associate. The subsequent loss is recognised only up to the sum of legal or customary liabilities of the Group or payments made on behalf of entity accounted for under the equity method.

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

31 DECEMBER 2015, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN THOUSAND)

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

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

4.9 Lease

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

4.9.1 Group as a lessee

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

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

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

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

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

4.10 Foreign currencies

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

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

Currency	31 December 2015	31 December 2014
EUR	4,2615	4,2623
CHF	3,9394	3,5447
USD	3,9011	3,5072
CZK	0,1577	0,1537
HUF	0,0136	0,0135

As at 31 December 2015 items in the statement of comprehensive income arising from the financial statements of foreign entities included in the consolidated financial statements were converted according to the following exchange rates:

Currency	31 December 2015
EUR	4,2184
CZK	0,1555
HUF	0,0135

4.11 Government grants

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

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

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

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

4.12 Tangible fixed assets

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

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

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

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

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

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

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

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

31 DECEMBER 2015, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN THOUSAND)

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

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

4.13 Investment property

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

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

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

4.14 Intangible assets

4.14.1 Intangible assets purchased

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

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

4.15 Impairment of tangible fixed assets and intangible assets

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

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

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

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

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

4.16 Non-current assets held for sale

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

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

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

4.17 Inventories

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

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

4.18 Trade and other receivables

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

Write-downs for impairment of receivables are made when there is objective evidence that the Group will not be able to collect amounts due. The amount of the allowance for impairment of receivables is the difference between the current book value and the lower recoverable value. Impairment losses are recognized as other operating expenses.

4.19 Cash and cash equivalents

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

4.20 Financial assets

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

4.20.1 Financial assets available for sale (AFS)

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

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

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

4.20.2 Loans and receivables

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

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

4.20.3 Impairment of financial assets

At each reporting date, the Group assesses whether there is any indication of impairment of financial assets or group of financial assets.

Financial assets recognised at amortized cost

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

Financial assets recognised at cost

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

Financial assets available for sale

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

4.21 Other non-financial assets

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

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

4.22 Share capital

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

4.23 Provisions

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

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

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

4.23.1 Employee benefits provisions

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

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

Actuarial gains and losses on post-employment employee benefits are recognized in total in other comprehensive income and gains and losses from the jubilee awards are recognized as costs of the period.

Other increases and decreases in provisions are recognized in operating costs in addition to interest, which constitute to the development of the discount of provisions, which are presented at financial costs.

4.24 Trade and other payables

Liabilities constitute present obligation of the Group resulting from past events, the fulfilment of which is expected to result in an outflow from the entity of resources incorporating economic benefits.

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

Long-term liabilities are recognized initially at fair value less the transaction costs incurred and subsequently measured at amortized cost using the effective interest rate method.

Increase (decrease) in liabilities due to the lapse of time is recognized as financial expense (income).

4.25 Credits and loans

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

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

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

4.26 Derivatives

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

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

4.27 Hedge accounting

The Group applies hedge accounting for cash flow hedges. Cash flow hedge accounting allows recognition of the effective portion of the hedge on the equity, causing commensurate impact on the financial result of the valuation of hedging instruments and settlement of hedged items.

The Group applies cash flow hedge accounting regarding currency risk and interest rate risk. Cash flow hedge is a hedge related to the exposure to variability of cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction and could affect profit or loss. Gains or losses arising from changes in fair value of cash flow hedging instrument are recognized in other comprehensive income in the part representing the effective hedge, while the ineffective portion of the hedge is recognized in the financial result for the current period. Effective portion recognized in other comprehensive income is settled in the same periods in which the hedged item affects profit or loss.
The Group discontinues cash flow hedge accounting, if the hedging instrument expires, is sold, terminated or exercised, or if the Group revokes the designation of the instrument as a hedge or if the hedge no longer meets the criteria for hedge accounting or the Group stopped planned transaction.

4.28 The sale option (put) and the purchase option (call) on non-controlling interests in AWT

<u>The sale option (put) on non-controlling interests</u>

In the Consolidated Financial Statements, the obligation to purchase the shares of subsidiary arising from sale option (put), which are currently held by non-controlling interest, constitute the obligation to purchase own equity instruments and constitutes part of the Group's equity.
The Group recognize sale option (put) in accordance with the expected purchase method, assuming a hypothetical assumption if the future transaction has already taken place. As a result, the accounting treatment of sale option (put) is as if the option has already been implemented. Assuming that the sale of the shares has already taken place, using this method non-controlling interests are derecognized at the moment of the recognition of a financial liability - non-controlling interests which are the subject of the sale option (put) contract are treated in such a way as if they have already been purchased, despite that formally are still non-controlling interests. In the consolidated statement of financial position and consolidated statement of comprehensive income these shares are presented as shares already held by the parent company.

In accordance with IFRS 3, the liability under the sale option (put) included using the expected acquisition method has constituted at the acquisition moment the element of contingent consideration and influenced the bargain purchase gain. Liabilities arising from the sale option (put) are presented as financial liabilities measured at the fair value through profit or loss.

<u>The purchase option (call) on non-controlling interests</u>

The purchase option (call) on non-controlling interests is the right to purchase the shares of subsidiary arising from exercising purchase option (put) by the Group.
This instrument does not meet the definition of a derivative because it is dependent on the non-financial variable that is specific to the individual being a party to the contract, and as a result purchase option (call) is not recognized in the consolidated financial statements.

5. Change in accounting policy and presentation of financial data

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

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

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

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

a) net result would be lower by approximately PLN 5,377 thousand,
b) property, plant and equipment would be lower by approximately PLN 39,701 thousand,
c) deferred tax assets would be higher by approximately PLN 4,292 thousand,
d) equity would be lower by approximately PLN 33,496 thousand,
e) short term liabilities would be lower by approximately PLN 1,913 thousand.

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

5.2 Recognition of provisions for death in service benefits

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

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

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

5.3 Presentation changes

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

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

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

5.4 Restatement of comparable data

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

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

	For the year ended 31/12/2014 (audited)	Capitalization of cost of periodical repairs	Reclassification of penalties and compensations	Reclassification of discount interest expenses for employee benefits	Recognition of provision for death in service benefits	For the year ended 31/12/2014 (restated)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Other operating revenue	40 029	-	17 233	-		57 262
Total operating revenue	**4 257 102**	**-**	**17 233**	**-**		**4 274 335**
Depreciation / Amortization and impairment losses	367 200	15 591	-	-	-	382 791
Consumption of raw materials and energy	603 561	(9 551)	-	-	-	594 010
External services	1 319 111	(3 333)	-	-	-	1 315 778
Taxes and charges	41 135	(376)	-	-	-	40 759
Employee benefits	1 744 755	(23 009)	-	(23 414)	541	1 698 873
Other expenses by kind	40 341	(153)	3 767	-	-	43 955
Other operating expenses	25 722	(149)	13 466	-	-	39 039
Total operating expenses	**4 180 028**	**(20 980)**	**17 233**	**(23 414)**	**541**	**4 153 408**
Profit on operating activities	**77 074**	**20 980**	**-**	**23 414**	**(541)**	**120 927**
Financial expenses	37 577	-	-	23 414	1 108	62 099
Profit before tax	**74 190**	**20 980**	**-**	**-**	**(1 649)**	**93 521**
Income tax expense	12 905	2 647	-	-	(313)	15 239
NET PROFIT	**61 285**	**18 333**	**-**	**-**	**(1 336)**	**78 282**

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

	For the year ended 31/12/2014 (audited) PLN thousand	Capitalization of cost of periodical repairs PLN thousand	Reclassification of penalties and compensations PLN thousand	Reclassification of discount interest expenses for employee benefits PLN thousand	Recognition of provision for death in service benefits PLN thousand	For the year ended 31/12/2014 (restated) PLN thousand
NET PROFIT	**58 610**	**18 333**	-	**-**	**(1 336)**	**75 607**
Other comprehensive income that will never be reclassified to profit or loss	**(29 741)**	**-**	**-**	**-**	**3 070**	**(26 671)**
Actuarial gains / (losses) on post-employment benefits	(36 717)				3 790	(32 927)
Income tax on other comprehensive income	6 976				(720)	6 256
	(29 741)	**-**	**-**	**-**	**3 070**	**(26 671)**
TOTAL COMPREHENSIVE INCOME	**28 869**	**18 333**	**-**	**-**	**1 734**	**48 936**
Earnings per share (PLN per share):						
Earnings per share on operations (basic):	**1.32**	**0.41**	**-**	**-**	**(0.03)**	**1.70**
Earnings per share on operations (diluted):	**1.31**	**0.41**	**-**	**-**	**(0.03)**	**1.69**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 31 DECEMBER 2014

	As at 31/12/2014 (audited) PLN thousand	Capitalization of cost of periodical repairs PLN thousand	Reclassification of penalties and compensations PLN thousand	Reclassification of discount interest expenses for employee benefits PLN thousand	Recognition of provision for death in service benefits PLN thousand	As at 31/12/2014 (restated) PLN thousand
ASSETS						
Non-current assets						
Property, plant and equipment	4 011 542	33 064	-	-	-	4 044 606
Deferred tax assets	88 273	(3 031)	-	-	6 333	91 575
Total non-current assets	**4 218 099**	**30 033**	**-**	**-**	**6 333**	**4 254 465**
Total assets	**5 643 966**	**30 033**	**-**	**-**	**6 333**	**5 680 332**
EQUITY AND LIABILITIES						
Equity						
Other items of equity	(51 687)	-	-	-	3 070	(48 617)
Retained earnings	527 670	28 120	-	-	(30 069)	525 721
Equity attributable to the owners of the Company	3 330 672	28 120	-	-	(26 999)	3 331 793
Total equity	**3 394 172**	**28 120**	**-**	**-**	**(26 999)**	**3 395 293**
Non-current liabilities						
Long-term provisions for employee benefits	658 217	-	-	-	29 558	687 775
Total non-current liabilities	**1 135 856**	**-**	**-**	**-**	**29 558**	**1 165 414**
Current liabilities						
Short-term provisions for employee benefits	334 844	-	-	-	3 774	338 618
Current tax liabilities	641	1 913	-	-	-	2 554
Total current liabilities	**1 113 938**	**1 913**	**-**	**-**	**3 774**	**1 119 625**
Total liabilities	**2 249 794**	**1 913**	**-**	**-**	**33 332**	**2 285 039**
Total equity and liabilities	**5 643 966**	**30 033**	**-**	**-**	**6 333**	**5 680 332**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 1 JANUARY 2014

	As at 01/01/2014 (audited)	Capitalization of cost of periodical repairs	Reclassification of penalties and compensations	Reclassification of discount interest expenses for employee benefits	Recognition of provision for death in service benefits	As at 01/01/2014 (restated)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
ASSETS						
Non-current assets						
Property, plant and equipment	3 855 446	12 083	-	-	-	3 867 529
Deferred tax assets	83 185	(2 296)	-	-	6 740	87 629
Total non-current assets	**4 049 895**	**9 787**	**-**	**-**	**6 740**	**4 066 422**
Total assets	**5 743 616**	**9 787**	**-**	**-**	**6 740**	**5 760 143**
EQUITY AND LIABILITIES						
Equity						
Retained earnings	603 247	9 787	-	-	(28 733)	584 301
Equity attributable to the owners of the Company	3 446 517	9 787	-	-	(28 733)	3 427 571
Total equity	**3 508 894**	**9 787**	**-**	**-**	**(28 733)**	**3 489 948**
Non-current liabilities						
Long-term provisions for employee benefits	592 923	-	-	-	31 456	624 379
Total non-current liabilities	**1 166 736**	**-**	**-**	**-**	**31 456**	**1 198 192**
Current liabilities						
Short-term provisions for employee benefits	176 461	-	-	-	4 017	180 478
Total current liabilities	**1 067 986**	**-**	**-**	**-**	**4 017**	**1 072 003**
Total liabilities	**2 234 722**	**-**	**-**	**-**	**35 473**	**2 270 195**
Total equity	**5 743 616**	**9 787**	**-**	**-**	**6 740**	**5 760 143**

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

	For the year ended 31/12/2014 (audited)	Capitalization of cost of periodical repairs	Reclassification of penalties and compensations	Reclassification of discount interest expenses for employee benefits	Recognition of provision for death in service benefits	For the year ended 31/12/2014 (restated)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Cash flows from operating activities						
Profit before tax	74 190	20 980	-	-	(1 649)	93 521
Adjustments:						
Depreciation and amortization	366 825	15 591	-	-	-	382 416
Other adjustments	(45 025)	-	-	-	3 790	(41 235)
Changes in working capital:						
Increase / (decrease) in provisions	207 326	-	-	-	(2 141)	205 185
Net cash provided by operating activities	518 821	36 571	-	-	-	555 392
Cash flows from investing activities						
Acquisition of property, plant and equipment and intangible assets	(625 996)	(36 571)	-	-	-	(662 567)
Net cash (used in) investing activities	(202 172)	(36 571)	-	-	-	(238 743)
Net increase / (decrease) in cash and cash equivalents	165 478	-	-	-	-	165 478
Opening balance of cash and cash equivalents	263 700	-	-	-	-	263 700
Closing balance of cash and cash equivalents	429 178	-	-	-	-	429 178

6. Business combinations

6.1 The acquisition of AWT

On 28 May 2015 the Parent Company has acquired from Mr. Zdenek Bakala and The Bakala Trust 80% shares representing the same number or voting rights of Advanced World Transport B.V. with headquarters in Amsterdam (hereinafter AWT). AWT B.V. is a Parent Company in AWT Group.

The core business of AWT is primarily providing complex services of cargo rail transport. AWT renders services mainly in Czech Republic. Following the acquisition the Group should increase its presence on this market, develop new routes and provide complex logistics and transportation services for new customers. It is also expected that operating costs will be decreased as a consequence of economies of scale.

The acquisition was accounted for under the acquisition method in accordance with IFRS 3.

Additionally the Parent company concluded with MSE, the Agreement, described in details in Note 3.2.7. of these Consolidated Financial Statements, based on which the Parent company is the issuer of sale option (put) for non-controlling interest, and therefore has an obligation to purchase shares from MSE (in case, MSE exercise the sale option (put)). Under IFRS 3, the liability due to put option for non-controlling interest recognised under the anticipated-acquisition method is a part of the contingent consideration and influences the amount of bargain purchase gain.

A description of the key assumptions for the valuation of liabilities from option "put" is presented in Note 3.2.7. of these Consolidated Financial Statements.

The table below presents the fair value of main categories of total consideration to be paid on the purchase of AWT:

Category of consideration	Fair value as at the acquisition date PLN thousand
Cash	427 300
Contingent consideration	144 460
Total consideration	**571 760**

As at the date of acquisition of AWT, the fair value of liability due to put option amounted to PLN 144,460 thousand. As at 31 December 2015 the liability amounted to PLN 155,198 thousand. The difference arising from valuation of PLN 10,738 thousand was recognized in financial expenses.

The process of analysis of facts and circumstances that existed as at the acquisition date and could have affected the fair value measurement of identified assets and acquired liabilities of AWT is still not finished. In case of new information obtained about facts and circumstances that could have affected the fair value of identified assets and acquired liabilities determined as at the transaction date presented in these Consolidated Financial Statements, the Parent company shall retrospectively adjust the provisional amounts during the measurement period in accordance with IFRS 3.

Provisional fair value of the identifiable assets and liabilities of AWT as at the acquisition date is as follows:

ASSETS	Fair value as at the acquisition date PLN thousand
Property, plant and equipment	847 136
Intangible assets	7 021
Investments accounted for under the equity method	4 292
Trade and other receivables	166 902
Income tax receivables	1 561
Inventories	30 026
Other financial assets	4 749
Other non-financial assets	9 064
Cash and cash equivalents	93 066
Non-current assets classified as held for sale	911
Total assets	**1 164 728**

LIABILITIES	Fair value as at the acquisition date PLN thousand
Bank loans and credit facilities	121 501
Finance lease liabilities and leases with purchase option	64 926
Trade and other payables	114 565
Provisions for employee benefits	13 511
Other provisions	19 909
Other financial liabilities	2 093
Deferred tax liabilities	112 253
Current tax liabilities	6 431
Total liabilities	**455 189**
Total identifiable net assets	**709 539**

The fair value of trade and other receivables amounted to PLN 166,902 thousand and comprises trade receivables of fair value of PLN 159,103 thousand. The contractual gross amount of due trade receivables is PLN 172,709 thousand, from which the receivables of PLN 13,606 thousand were considered uncollectable as at the acquisition date.

As the consideration transferred is lower than provisional fair value of acquired identifiable assets and liabilities, a bargain purchase gain of PLN 137,779 thousand was recognised on the acquisition of AWT which is presented in other operating revenue.

The bargain purchase gain resulted from the seller's decision on restructuring its business and, as a consequence, the necessity to sell part of its own assets during short period of time. It is worth emphasizing that the value of acquired net assets represents their current fair value, while consideration transferred was determined on the basis of current market conditions concerning
a sector, in which the acquired company operates.

BARGAIN PURCHASE GAIN	PLN thousand
Consideration transferred	571 760
Fair value of identifiable net assets	709 539
Bargain purchase gain	**137 779**

Acquisition expenses totalled to PLN 9,054 thousand and were recognised as external services in the consolidated statement of comprehensive income in the amount of PLN 3,135 thousand for the financial year ended 31 December 2015 and in the for the financial year ended 31 December 2014 in the amount of PLN 5,919 thousand.

These Consolidated Financial Statements contains financial results of AWT for the period from the acquisition date till 31 December 2015. The revenues of AWT generated in this period amounted to PLN 541,419 thousand. The AWT Group achieved in this period the net profit of PLN 20,043 thousand.

If the business combination had taken place on 1 January 2015, the consolidated revenues of the Group would have amounted to PLN 4,712,987 thousand and consolidated net loss would have amounted to PLN 127,200 thousand. The estimated amounts do not consider the bargain purchase gain on acquisition of AWT and at the same time it is assumed that provisionally determined fair value adjustments as at the acquisition date would not change if the acquisition took place on 1 January 2015.

The reconciliation of acquisition of AWT for the purposes of consolidated statement of cash flows is presented below:

CASH FLOWS RELATED TO ACQUISITION OF AWT	PLN thousand
Acquired cash and cash equivalents	93 066
Cash transferred according to historical exchange rate	(419 022)
Cash flows in the statement of cash flows	**(325 956)**

6.2 Merger of PKP CARGO CONNECT Sp. z o.o. with CARGOSPED Sp. z o.o.

On 29 September 2015 the Management of PS TRANE TRANS Sp. z o.o. (actually PKP CARGO CONNECT Sp. z o.o.) and CARGOSPED Sp. z o.o. signed “The merger plan of companies: PS TRADE TRANS Sp. z o.o. i CARGOSPED Sp. z o.o."

On 31 December 2015 took place the merger PKP CARGO CONNECT Sp. z o.o. and CARGOSPED Sp. z o.o. under Article 492 § 1 point 1) of Code of Commercial Companies through transfer of all CARGOSPED Sp. z o.o. assets, as acquired company, to PKP CARGO CONNECT Sp. z o.o. as acquiring company. Share capital of acquiring company (PKP CARGO CONNECT Sp. z o.o. increased by PLN 4,050 thousand as a result of the merger and amounted to PLN 20,050 thousand as at 31 December 2015. 100% shares in share capital belong to PKP CARGO S.A.

The merger had no impact to Consolidated Financial Statements.

7. Revenue from sales of services and finished goods

7.1 Products and services of the operating segment

The Company has not determined operating segments since it has a single product to which all services provided by the Company are assigned. The Company operates only in one segment - domestic and international transport of goods and providing comprehensive logistics services in the field of railway freight. The Management Board of the Company analyzes financial data in a manner in which they have been presented in these Consolidated Financial Statements. Additional services rendered by the Group, repair of railroad fleet and recultivation services, are not material to the Group's operations and are not treated as separate operating segments.

Revenue of the Company from external customers according to geographical areas is presented in Note 7.2.

7.2 Geographical information

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

The main geographical area of activity of the Group is Poland, however the Group actively expanding its geographic area, using the opportunities arising from the liberalization of the European rail market.

A significant increase of PKP CARGO Group presented on Czech market took place as a result of acquisition of AWT. The total revenues from Czech contractors exceed 11.4% of total revenues from sales of services as at 31 December 2015, compared to 2% generated in the same period of the previous year.

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

	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (audited) PLN thousand
Poland	3 313 688	3 582 888
Germany	494 444	88 391
Czech Republic	185 693	165 853
Slovakia	76 302	89 025
Cyprus	49 086	76 277
Other countries	211 123	159 737
Total	**4 330 336**	**4 162 171**

7.3 Information about major customers

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

7.4 Sales revenues structure

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

	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (audited) PLN thousand
Transport revenue and railway shipping	3 727 552	3 791 533
Revenue from other transport activities	137 363	114 976
Siding and traction revenue	235 143	159 318
Cargo revenues	44 611	42 739
Recultivation	78 049	-
Other revenue [(1)]	107 618	53 605
Total	**4 330 336**	**4 162 171**

[(1)] The position of other revenue for the year ended 31 December 2015 presents mainly revenue arising from renting of assets of PLN 33,109 thousand, revenue arising from customs agencies and border shipping services of PLN 14,068 thousand, revenues arising from sale of finished goods of 14,872 thousand and revenue arising from repair services of railroad fleet of PLN 15,427 thousand.

This position for the financial year ended 31 December 2014 presented mainly revenue arising from renting of [railroad] fleet of PLN 23,897 thousand, arising from repair services of railroad fleet of PLN 9,242 thousand and revenue arising from customs agencies and border shipping services of PLN 10,814 thousand.

8. Expenses by kind

8.1 Depreciation / amortization and impairment losses

	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (restated*) PLN thousand
Depreciation of property, plant and equipment	447 833	365 799
Amortization of intangible assets	19 778	16 617
Recognized / (Released) impairment allowances		
Property, plant and equipment	154 630	375
Goodwill	2 712	-
Assets held for sale	24 029	-
Total depreciation / amortization and impairment losses	**648 982**	**382 791**

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

8.2 Consumption of raw materials and energy

	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (restated*) PLN thousand
Fuel consumption	188 639	207 426
Consumption of materials	85 980	19 048
Electricity, gas and water consumption	415 541	385 665
Impairment losses recognised / (derecognised)	6 147	(19 390)
Other	687	1 261
Total consumption of materials and energy	**696 994**	**594 010**

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

8.3 External services

	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (restated*) PLN thousand
Access to infrastructure connections	675 194	680 006
Repair services	29 315	25 516
Rent and lease fees (real estate and railroad fleet)	188 211	165 402
Transport services	328 754	264 921
Telecommunication services	9 323	11 722
Legal, advisory and similar services	35 223	23 843
IT services	53 027	54 874
Services related to property maintenance and operation of fixed assets	27 395	28 367
Cargo services	20 671	18 284
Siding services	39 580	23 849
Other services (1)	94 467	18 994
Total external services	**1 501 160**	**1 315 778**

(1) Other services include AWT costs in the amount of PLN 68,330 thousand regarding mainly subcontractor services relating to recultivation services.

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

8.4 Employee benefits

	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (restated*) PLN thousand
Salaries and wages	1 089 640	1 094 347
Costs of social insurance	229 533	217 267
Appropriation to the Company's Social Benefits Fund	25 334	33 428
Other employee benefits during employment	37 504	37 161
Other post-employment benefits	1 642	10 879
Voluntary Redundancy Program	70 179	265 331
Changes in provisions for employee benefits	24 681	38 473
Other employee benefit costs	6 251	1 987
Total employee benefits	**1 484 764**	**1 698 873**

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

8.5 Other expenses by kind

	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (restated*) PLN thousand
Business travels	31 154	24 941
Advertising and representation	10 560	8 215
Property insurance	10 123	9 905
Other	2 017	894
Total other expenses by kind	**53 854**	**43 955**

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

9. Other operating revenue and expenses

9.1 Other operating revenue

	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (restated*) PLN thousand
Gains on disposal of assets:		
Gain on sales of non-current assets	2 142	9 550
Derecognised impairment losses:		
Trade receivables	6 260	5 602
Other (including interest on receivables)	306	533
	6 566	6 135
Other operating revenue:		
AWT bargain purchase gain	137 779	-
Penalties and compensations	23 098	17 233
Release of provisions for the fine imposed by OCCP	4 399	14 362
Release of provisions for the other fines	-	5 548
Release of other provisions	9 525	-
Interest on trade and other receivables	1 435	2 006
Forex gains on trade receivables and payables	-	213
Grants	1 208	68
Other	4 513	2 147
Total other operating revenue	**190 665**	**57 262**

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

9.2 Other operating expenses

	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (restated*) PLN thousand
Recognised impairment losses:		
Trade receivables	4 918	10 714
Other (including on interest on receivables)	438	364
	5 356	11 078
Other operating expenses:		
Penalties and compensations	16 835	13 466
Costs of liquidation of non-current and current assets	3 998	7 666
Provisions for the fines imposed by OCCP	12 192	-
Other provisions	2 920	2 573
Court and collection costs	1 523	771
Costs of transport benefits for non-employees	1 932	2 213
Interest on trade and other payables	289	582
Forex losses on trade receivables and payables	1 611	-
Other	1 561	690
Total other operating expenses	**48 217**	**39 039**

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

10. Financial revenue

	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (audited) PLN thousand
Interest income:		
Bank deposits and accounts	4 452	19 439
Bid bonds and collateral	202	274
Loans granted	465	26
Other (including interest on state settlements)	4 406	12 919
	9 525	32 658
Dividends from capital investments	27	-
Total interest income and dividends	**9 552**	**32 658**

Other financial revenue		
Gains on shares:		
Gains on sale of shares	199	-
Reversal of impairment loses on shares	47	-
Other financial revenue:		
Net result from exchange differences	4 922	-
Other financial revenue	3	1 154
Total financial revenue	**14 723**	**33 812**

11. Financial expenses

	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (restated*) PLN thousand
Interest expense:		
Interest on loans and borrowings	14 090	6 675
Interest on liabilities under finance lease agreements	9 634	11 840
Interest on long-term liabilities	5 193	7 679
Interest on bid bonds and guarantees	300	455
Other (including interest on state settlements)	1 510	733
Total interest expense	**30 727**	**27 382**
Other financial expenses		
Losses on shares:		
Recognised impairment losses on shares	13	9
Losses on measurement of financial assets and liabilities at FVTPL, it that:	10 115	2 857
Valuation of liabilities arising from the put option for non-controlling shares	*10 738*	-
Valuation of FX forwards	*(623)*	*2 857*
Unwinding discount of employee benefits provision	18 923	24 522
Other financial expenses:		
Net forex result	-	6 060
Other financial expenses	5 289	1 269
Total financial expenses	**65 067**	**62 099**

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

12. Income tax

12.1 Income tax recognised in profit or loss

	For the year ended 31/12/2015 (audited)	For the year ended 31/12/2014 (restated*)
	PLN thousand	PLN thousand
Current income tax:		
Current tax expense	5 204	10 949
Adjustments recognised in the current period with respect to prior year tax	15	650
	5 219	**11 599**
Deferred income tax:		
Deferred tax that occurred in the reporting period	(21 782)	3 640
Total tax expense recognised in profit or loss	**(19 563)**	**15 239**

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

Reconciliation of tax profit to accounting profit:

	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (restated*) PLN thousand
Profit before tax	**11 848**	**93 521**
Income tax expense at 19% rate	2 251	17 769
Tax effect of non-taxable revenues pursuant to tax regulations:	(32 193)	(8 946)
Realise of non-tax provisions and impairment allowances	(4 059)	(5 472)
Bargain purchase gain	(26 178)	-
Other	(1 956)	(3 474)
Tax effect of non-tax deductible expenses pursuant to the tax regulations:	15 569	11 787
Disabilities Fund	4 375	4 304
Recognition of non-tax deductible provisions and impairment allowances	3 859	1 325
Permanent diff related to property plant and equipment	840	912
Representatives costs	465	826
Penalties and compensations	1 606	2178
Derivatives	2 040	-
Other	2 284	2 242
Effect of tax losses applied in the period	(1 963)	(1 599)
Effect of recognition / reversal of impairment loss on deferred tax assets from tax losses	(3 183)	-
Using of the tax relief for the acquisition of new technologies (1)	-	(8 265)
Other	41	3 843
	(19 578)	**14 589**
Adjustments recognised in the current period with respect to prior year tax	15	650
Income tax expense recognised in profit	**(19 563)**	**15 239**

(1) In 2014 the Parent company took the opportunity to deduct the incurred expenses connected with acquisition of new technologies from taxable income for the years 2008-2012.

The tax rate applied in the above reconciliation for 2014 and 2015 amounts to 19% and represents a current income tax imposed by Polish tax regulations.
The tax rates applicable for the other entities in the Group are as follow: 19% in Czech Republic, 10% in Hungary, 25% in Netherlands. The effect of application different tax rates has no significant impact on the effective tax rate.

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

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

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

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

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

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

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

12.2 Income tax recognized in other comprehensive income

	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (restated*) PLN thousand
Deferred income tax		
Income tax from revaluation of fair value measurement of financial instruments designated as cash flow hedges	641	(600)
Deferred income tax on actuarial gains and losses of post-employment benefits	10 111	(7 235)
Exchange differences on translation of deferred tax balances of foreign subsidiaries recognized in other comprehensive income [(1)]	4 790	-
Income tax recognised in other comprehensive income	**15 542**	**(7 835)**

[(1)] Presented within equity as foreign exchange differences on translation of financial statements of foreign subsidiaries.

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

12.3 Income tax receivables and liabilities

	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (restated*) PLN thousand
Income tax receivables	**2 748**	**3 053**
Income tax liabilities	**3 494**	**2 554**

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

12.4 Deferred tax assets and liabilities

Below is presented deferred tax assets (liabilities) recognised in the consolidated statement of financial position:

	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (restated*) PLN thousand
Deferred tax assets	104 587	91 575
Deferred tax liabilities	(118 353)	(2 328)
Total	**(13 766)**	**89 247**

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

12.4.1 Table of movements of deferred income tax

For the year ended 31/12/2015 (audited)	**As at 01/01/2015 (restated*)**	**Acquisition of AWT**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Exchange differences on translation of deferred tax recognized in other comprehensive income**	**As at 31/12/2015 (audited)**
	PLN thousand	**PLN thousand**	**PLN thousand**	**PLN thousand**	**PLN thousand**	**PLN thousand**
Temporary differences resulting in items of deferred tax (liabilities) / assets:						
Property, plant and equipment and intangible assets and assets held for sale	(139 061)	(120 410)	79 488	-	(5 163)	(185 146)
Investments in associates – impairment	3 364	-	(3 364)	-	-	-
Trade payables	-	-	4 608	-	-	4 608
Long-term liabilities	(1 575)	-	1 032	-	-	(543)
Inventories	(1 177)	219	1 414	-	10	466
Receivables - impairment allowances	6 249	651	(71)	-	27	6 856
Accrued interest on assets	(608)	-	451	-	-	(157)
Accrued interest on liabilities	-	-	(6)	-	-	(6)
Provisions for employee benefits	194 428	2 737	(53 375)	(10 111)	121	133 800
Other provisions	2 465	3 468	(1 426)	-	145	4 652
Accrued expenses	5 982	-	1 283	-	-	7 265
Deferred income	(5 454)	-	723	-	-	(4 731)
Unpaid employee benefits	8 244	89	(1 148)	-	3	7 188
Forex losses	6 974	-	(5 405)	-	-	1 569
Forex gains	6	-	7	-	-	13
Valuation of derivatives	2 670	383	(1 981)	(641)	19	450
Other	-	-	858	-	-	858
	82 507	**(112 863)**	**23 088**	**(10 752)**	**(4 838)**	**(22 858)**
Unused tax losses						
Tax losses [1]	6 741	610	1 694	-	48	9 092
Total deferred tax assets (liabilities)	**89 247**	**(112 253)**	**21 782**	**(10 752)**	**(4 790)**	**(13 766)**

[1] Deferred tax assets from unused tax losses for future periods represent the loss of subsidiaries not from TCG in amount of PLN 47,857 thousand as at 31 December 2015

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

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

For the year ended 31/12/2014 (restated)	**As at 01/01/2014 (restated*)** PLN thousand	**Recognised in profit or loss** PLN thousand	**Recognised in other comprehensive income** PLN thousand	**As at 31/12/2014 (restated*)** PLN thousand
Property, plant and equipment and intangible assets and assets held for sale	(155 333)	16 272	-	(139 061)
Investments in associates – impairment	-	3 364	-	3 364
Long-term liabilities	(3 031)	1 456	-	(1 575)
Inventories	4 364	(5 541)	-	(1 177)
Receivables - impairment allowance	9 042	(2 793)	-	6 249
Accrued interest on assets	(2 373)	1 765	-	(608)
Accrued interest on liabilities	1	(1)	-	-
Provisions for employee benefits	171 931	15 262	7 235	194 428
Other provisions	4 381	(1 916)	-	2 465
Accrued expenses	5 654	328	-	5 982
Deferred income	(2 665)	(2 789)	-	(5 454)
Unpaid employee benefits	9 048	(804)	-	8 244
Forex losses	9 354	(2 380)	-	6 974
Forex gains	(6)	12	-	6
Other (including hedging derivatives)	1 754	316	600	2 670
	52 121	**22 551**	**7 835**	**82 507**
Unused tax losses				
Tax losses [(1)]	32 931	(26 191)	-	6 740
Total deferred tax assets (liabilities)	**85 052**	**(3 640)**	**7 835**	**89 247**

[(1)] Deferred tax asset arising from tax losses to be used in future periods represented loss incurred by the Parent Company of PLN 25,975 thousand and tax loss of PLN 9,503 thousand in subsidiaries.

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

12.5 Tax losses unrecognised in calculation of deferred tax assets

	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
The following deferred tax assets are not recognised as at the reporting date:		
- Unused tax losses [(1)]	75 562	12 960

[(1)] The balance of unused tax losses not recognised in deferred tax assets as at 31 December 2015 represents the losses of subsidiaries from AWT Group in amount of PLN 73,122 thousand, which arose before the acquisition date (AWT B.V of PLN 61,252 thousand, AWT Retail HU Zrt. Of 11,870 thousand) and CARGOSPED Terminal Braniewo Sp. z o.o. loss of PLN 2,440 PLN. Whereas, the amount of tax losses not included in the calculation of deferred income tax as at 31 December 2014, represented a loss of PKP CARGOTABOR USŁUGI Sp. z o.o. of PLN 8,737 thousand, PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o. of PLN 1,861 thousand and CARGOSPED Terminal Braniewo Sp. z o.o. of PLN 2,362 thousand.

13. Property, plant and equipment

Carrying amounts	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (restated*) PLN thousand
Land	152 572	139 876
Buildings, premises, civil and water engineering structures	597 070	504 665
Technical equipment and machinery	146 749	120 825
Means of transport	3 784 969	3 253 259
Other fixed assets	10 558	7 757
Fixed assets under construction	27 830	18 224
	4 719 748	**4 044 606**

Including finance lease	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (restated*) PLN thousand
Technical equipment and machinery	12 427	6 138
Means of transport	346 493	324 810
	358 920	**330 948**

Fixed assets under construction	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (restated*) PLN thousand
Gross value		
Opening balance	**20 024**	**31 996**
Additions	463 886	583 261
Acquisition of AWT	2 768	-
Grants to property, plants and equipment	(6 544)	(13 999)
Disposals - transfer to non-current assets	(449 902)	(580 870)
Disposal - abandoned investments	(79)	(364)
Foreign exchange differences on translation of subsidiaries' financial statements	179	-
Closing balance	**30 332**	**20 024**
Accumulated impairment		
Opening balance	**1 800**	**1 800**
Additions	702	-
Disposals	-	-
Closing balance	**2 502**	**1 800**
Net value		
Closing balance	**27 830**	**18 224**

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

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

For the year ended 31 December 2014 (restated*)	Land PLN thousand	Buildings, premises, civil and water engineering structures PLN thousand	Technical equipment and machinery PLN thousand	Means of transport PLN thousand	Other fixed assets PLN thousand	Total PLN thousand
Gross value						
As at 1 January 2014 (restated*)	**142 430**	**600 987**	**290 583**	**4 250 325**	**31 926**	**5 316 251**
Additions:						
Acquisition	-	27 278	21 610	527 655	1 587	578 130
finance leases	-	-	275	2 465	-	2 740
Other	-	194	347	3	-	544
Disposals						
Sales	(1 863)	(8 267)	(1 191)	(1 931)	(48)	(13 300)
Liquidation	-	(9 602)	(1 785)	(212 470)	(162)	(224 019)
Other	-	-	(397)	(639)	(399)	(1 435)
As at 31 December 2014 (restated*)	**140 567**	**610 590**	**309 442**	**4 565 408**	**32 904**	**5 658 911**
Accumulated depreciation						
As at 1 January 2014 (restated*)	**-**	**84 519**	**156 222**	**1 204 195**	**21 991**	**1 466 927**
Additions						
Depreciation charges	-	23 480	33 344	305 277	3 698	365 799
Other	-	-	130	-	-	130
Disposals						
Sales	-	(4 194)	(153)	(1 724)	(20)	(6 091)
Liquidation	-	(911)	(846)	(195 187)	(158)	(197 102)
Other	-	-	(106)	(412)	(372)	(890)
As at 31 December 2014 (restated*)	**-**	**102 894**	**188 591**	**1 312 149**	**25 139**	**1 628 773**
Accumulated impairment loss						
As at 1 January 2014 (restated*)	**691**	**11 300**	**-**	**-**	**-**	**11 991**
Additions						
Impairment recognition	-	341	26	-	8	375
Disposals						
Impairment loss utilization	-	(8 610)	-	-	-	(8 610)
As at 31 December 2014 (restated*)	**691**	**3 031**	**26**	**-**	**8**	**3 756**
Net value						
As at 31 December 2014 (restated*)	**139 876**	**504 665**	**120 825**	**3 253 259**	**7 757**	**4 026 382**

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

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

For the year ended 31 December 2015 (audited)	Land PLN thousand	Buildings, premises, civil and water engineering structures PLN thousand	Technical equipment and machinery PLN thousand	Means of transport PLN thousand	Other fixed assets PLN thousand	Total PLN thousand
Gross value						
As at 1 January 2015 (restated*)	**140 567**	**610 590**	**309 442**	**4 565 408**	**32 904**	**5 658 911**
Additions:						
Acquisition	78	26 195	18 517	389 923	5 417	440 129
Acquisition of AWT	13 866	101 062	32 105	695 862	1 473	844 368
Finance leases	-	-	4 471	5 301	-	9 772
Foreign exchange differences on translation of subsidiaries' financial statements	640	4 064	1 431	31 138	65	37 338
Other	-	131	39	595	35	800
Disposals						
Sales	(11)	(697)	(197)	(3 062)	(169)	(4 136)
Liquidation	-	(91)	(2 904)	(151 306)	(441)	(154 742)
Reclassification to assets held for sale	(1 817)	(5 830)	-	(91 969)	-	(99 616)
Other	-	-	-	(279)	(1)	(280)
As at 31 December 2015 (audited)	**153 323**	**753 425**	**362 904**	**5 441 611**	**39 283**	**6 732 544**
Accumulated depreciation						
As at 1 January 2015 (restated*)	**-**	**102 894**	**188 591**	**1 312 149**	**25 139**	**1 628 773**
Additions						
Depreciation charges	-	28 431	29 669	385 647	4 085	447 832
Foreign exchange differences on translation of subsidiaries' financial statements	-	34	40	369	3	446
Other	-	-	128	28	-	156
Disposals						
Sales	-	(114)	(79)	(921)	(168)	(1 282)
Liquidation	-	(54)	(2 511)	(144 900)	(341)	(147 806)
Reclassification to assets held for sale	-	(1 647)	-	(43 300)	-	(44 947)
Other	-	-	-	(229)	(1)	(230)
As at 31 December 2015 (audited)	**-**	**129 544**	**215 838**	**1 508 843**	**28 717**	**1 882 942**
Accumulated impairment loss						
As at 1 January 2015 (restated*)	**691**	**3 031**	**26**	**-**	**8**	**3 756**
Recognition of impairment allowance	60	5 778	291	147 799	-	153 928
As at 31 December 2015 (audited)	**751**	**8 809**	**317**	**147 799**	**8**	**157 684**
Net value						
As at 31 December 2015 (audited)	**152 572**	**597 070**	**146 749**	**3 784 969**	**10 558**	**4 691 918**

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

Below is presented property, plant and equipment by location:

	As at 31/12/2015 (audited)	As at 31/12/2014 (restated*)
	PLN thousand	PLN thousand
Poland	3 857 312	4 044 606
Czech Republic	862 087	-
Hungary	349	-
Total	**4 719 748**	**4 044 606**

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

13.1 Impairment of property, plant and equipment

As at 31 December 2015 and 31 December 2014 impairment of property, plant and equipment amounted to PLN 160,186 thousand and PLN 5,556 thousand, respectively.

For the year ended 31 December 2015 the Group recognized impairment allowance of property, plant and equipment of PLN 154,630 thousand. Increase of the allowance by PLN 147,799 thousand related to adjustment of residual value of railroad fleet without valid technical efficiency certificates, further described in Note 3.2.2. Other increases of impairment allowance related to individual items of property, plant and equipment located in leased spaces that has lost their usability for the Group.

13.2 Assets used as collateral

As at 31 December 2015 and 31 December 2014 the Group used assets as collateral of the investment loans. The established security is limited to the amount of actual debt obligation at the reporting date. Detailed information on loans secured by the assets is disclosed in Note 27.1 these Consolidated Financial Statements.

13.3 Grants to property, land and equipment

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

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

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

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

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

Carrying amounts	As at 31/1/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Licenses	45 835	29 633
Other intangible assets	2 693	2 326
Intangible assets under development	17 909	26 309
	66 437	58 268

14. Intangible assets

For the year ended 31 December 2014 (audited)	Licenses – computer software PLN thousand	Other intangible assets PLN thousand	Intangible assets under development PLN thousand	Total PLN thousand
Gross value				
As at 1 January 2014 (audited)	**105 891**	**6 877**	**27 942**	**140 710**
Additions – acquisitions	-	-	13 472	13 472
Putting intangible assets under construction into use	15 006	99	(15 105)	-
Others	19	(42)	-	(23)
As at 31 December 2014 (audited)	**120 916**	**6 934**	**26 309**	**154 159**
Accumulated amortization				
As at 1 January 2014 (audited)	**76 077**	**3 238**	**-**	**79 315**
Amortization charges	15 206	1 411	-	16 617
Others	-	(41)	-	(41)
As at 31 December 2014 (audited)	**91 283**	**4 608**	**-**	**95 891**
Net value				
As at 31 December 2014 (audited)	**29 633**	**2 326**	**26 309**	**58 268**

For the year ended 31 December 2015 (audited)	Licenses – computer software PLN thousand	Other intangible assets PLN thousand	Intangible assets under development PLN thousand	Total PLN thousand
Gross value				
As at 1 January 2015 (audited)	**120 916**	**6 934**	**26 309**	**154 159**
Additions – acquisitions	-	-	20 674	20 674
Acquisition of AWT	2 596	3 704	721	7 021
Putting intangible assets under construction into use	29 827	-	(29 827)	-
Others	(19)	-	-	(19)
Foreign exchange differences on translation of subsidiaries' financial statements	100	158	32	290
As at 31 December 2015 (audited)	**153 420**	**10 796**	**17 909**	**182 125**
Accumulated amortization				
As at 1 January 2015 (audited)	**91 283**	**4 608**	**-**	**95 891**
Amortization charge	16 303	3 475	-	19 778
Others	(10)	-	-	(10)
Foreign exchange differences on translation of subsidiaries' financial statements	9	20	-	29
As at 31 December 2015 (audited)	**107 585**	**8 103**	**-**	**115 688**
Net value				
As at 31 December 2015 (audited)	**45 835**	**2 693**	**17 909**	**66 437**

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

31 DECEMBER 2015, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN THOUSAND)

15. Subsidiaries

Detailed information regarding consolidated subsidiaries as at 31 December 2015 and 31 December 2014 are as follows:

No.	Name of subsidiary	Core business	Place of registration and operation	% of interests held by the Group As at 31/12/2015	% of interests held by the Group As at 31/12/2014
1	CARGOSPED Sp. z o.o. [4]	Forwarding services (transport of aggregate as well as domestic and international intermodal transport)	Warsaw	-	100,0%
2	PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	Services supporting land transport, transhipment of goods, wholesale and retail sale of waste and metal scrap	Małaszewicze	100,0%	100,0%
3	PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o.	Transhipment of goods in other terminals	Żurawica	100,0%	100,0%
4	PKP CARGO SERVICE Sp. z o.o.	Siding services	Warsaw	100,0%	100,0%
5	PKP CARGO CONNECT Sp. z o.o. [1], [4]	Shipping services	Warsaw	100,0%	55,6%
6	PKP CARGOTABOR Sp. z o.o.	Repair and maintenance of railroad fleet	Warsaw	100,0%	100,0%
7	PKP CARGOTABOR USŁUGI Sp. z o.o. [3]	Collection, processing and disposal of waste; recovery of recyclable materials	Warsaw	100,0%	100,0%
8	CARGOTOR Sp. z o.o.	Management of logistics infrastructure including railway sidings and tracks	Warsaw	100,0%	100,0%
9	CARGOSPED Terminal Braniewo Sp. z o.o.	Transhipment of goods, customs depot	Braniewo	100,0%	100,0%
10	Advanced World Transport B.V. [2]	Holding and financial activity	Amsterdam	80,0%	-
11	Advanced World Transport a.s. [2]	Providing complex services: rail transport, railway shipping, siding services, repair of railroad fleet	Ostrava	80,0%	-
12	AWT ROSCO a.s. [2]	Managing and lease of railroad fleet	Ostrava	80,0%	-
13	AWT Čechofracht a.s. [2]	Railway shipping and customs service	Prague	80,0%	-
14	AWT Rekultivace a.s. [2]	Providing complex services: recultivation of land, construction services, waste management, designing of land development	Havířov-Prostřední Suchá	80,0%	-
15	AWT Rail HU Zrt. [2]	Providing complex services: rail transport, railway shipping, siding services	Budapest	80,0%	-
16	AWT Coal Logistics s.r.o. [2]	Railway shipping	Prague	80,0%	-

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

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

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

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

31 DECEMBER 2015, PREPARED IN ACCORDANCE WITH IFRS EU (IN PLN THOUSAND)

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

Simultaneously, based on the Shareholders Agreement, the Parent company has concluded with a minority shareholder of AWT B.V. an agreement on the purchase option (call) and sale option (put) of a minority shares in AWT B.V. As a result of recognition of liabilities due to put option in accordance with the expected purchase method non-controlling shares were no recognized in the consolidated statement of financial position. Detailed information is presented in Note 6 of these Consolidated Financial Statements.

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

(4) The transaction merger PKP CARGO CONNECT Sp. o.o. and Cargosped Sp. o.o. described in Note 6.2 of these consolidated financial statements.

Detailed information regarding other subsidiaries belonging to the Group as at 31 December 2015 and 31 December 2014 are as follows:

	Name of subsidiary	Core business	Place of registration and operation	% of interests held by Group	
				As at 31/12/2015	As at 31/12/2015
17	PKP CARGO International a.s. in liquidation (1)	Shipping outside of Poland	Bratislava	-	51,0%
18	ONECARGO Sp. z o.o. (2)	Rail transport of goods	Warsaw	100,0%	-
19	ONECARGO CONNECT Sp. z o.o. (2)	Services supporting land transport	Warsaw	100,0%	-
20	Trade Trans Karya Sp. z o.o.	Transhipment of goods, customs depot	Lublin	100,0%	55,6%
21	Transgaz S.A.	Transport agency	Zalesie k. Małaszewicz	64,0%	35,6%
22	Trade Trans Finance Sp. z o.o.	Financial and accounting services	Warsaw	100,0%	55,6%
23	PPHU "Ukpol" Sp. z o.o.	Transhipment of goods, customs depot	Werchrata	100,0%	55,6%
24	AWT Rail SK a. s.	Rail transport, railway shipping	Bratyslava	80,0%	-
25	AWT Rail PL Sp. z o.o. (3)	Railway shipping	Rybnik	80,0%	-
26	AWT DLT s.r.o.	Siding services	Kladno	80,0%	-
27	XZD a.s. in liquidation (4)	Railway shipping	Bratislava	-	-
28	G.I.B. s.r.o. in liquidation	Railway shipping	Prague	80,0%	-
29	AWT Trading s.r.o.	Trading of military purpose products	Petřvald	80,0%	-
30	AWT Rekultivace PL Sp. z o.o.	Providing complex services: recultivation of land, construction services, waste management, designing of land development	Cieszyn	80,0%	-
31	Spedrapid Sp. z o.o.	Railway shipping	Gdynia	52,8%	-
32	RND s.r.o.	Railway shipping, monitoring of transportation	Olomuoc	40,8%	-

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

(2) In March 2015 two companies were registered. The Parent company owns 100% of the share capital in these companies:
- ONECARGO Sp. z o.o.
- ONECARGO CONNECT Sp. z o.o.

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

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

Other changes in the percentage of shares held by the Group are the result of acquisition of shares of PS TRADE TRANS Sp. z o.o. (currently PKP CARGO CONNECT Sp. z o.o.) and Advanced World Transport B.V. by Parent company described within this note.

16. Investments in entities accounted for under the equity method

	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (audited) PLN thousand
Opening balance	**35 246**	**38 214**
Purchase of shares	1 619	305
Sales of shares	(135)	-
Share in profit / (loss) of investments accounted for under the equity method (1)	4 416	881
Changes in equity arising from dividend payment	(2 185)	(1 052)
The effect of mass liquidation from entities accounted for under equity method	(3 509)	-
Change in method of consolidation of investments that were accounted for under the equity method to full method		(3 102)
Recognition of entities accounted for under the equity method on the acquisition of AWT	4 292	-
Foreign exchange differences on translation of subsidiaries' financial statements	87	-
Closing balance	**39 831**	**35 246**

(1) The balance includes reversal of impairment allowance on investments accounted for under the equity method in the amount of PLN 1,890 thousand as at 31 December 2015.

	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Total assets	163 936	168 096
Total liabilities	54 314	58 792
Net assets (1)	**109 622**	**109 304**
Group's interests in net assets of entities accounted for under the equity method	53 767	31 784
Total revenues	234 993	316 583
Total profit for the reporting period	4 419	4 528
Group's share in the profit of entities accounted for under the equity method	2 526	1 751
Group's share in the comprehensive income of entities accounted for under the equity method	2 526	1 751

(1) Data calculated as the sum of respective net assets of all entries accounted for under equity method.

16.1 Detailed information on entities accounted for under the equity method

Name of entity accounted for under the equity method	% of interests by the Group		Carrying amount of assets	
	As at 31/12/2015	As at 31/12/2014	As at 31/12/2015	As at 31/12/2014
	%	%	PLN thousand	PLN thousand
COSCO POLAND Sp. z o.o.	20,0	20,0	1 108	1 171
Pol – Rail S.r.l [3]	50,0	37,4	6 889	7 882
PKP CARGO INTERNATIONAL a.s. [2]	-	51,0	-	-
Terminale Przeładunkowe Sławków – Medyka Sp. z o.o.	50,0	27,8	19 537	19 989
Trade Trans Karya Sp. z o.o. [3]	100,0	55,6	-	1
Transgaz S.A. [3]	64,0	35,5	4 741	3 774
Trade Trans Finance Sp. z o.o. [3]	100,0	55,6	302	224
PPHU "Ukpol" Sp. z o.o. [3]	100,0	55,6	-	13
Rail Cargo Spedition GmbH [1]	-	20,9	-	-
Rentrans Cargo Sp. z o.o. [3]	29,3	15,2	2 632	1 771
Rail Cargo Service Sp. z o.o. [1]	-	11,1	-	135
SC TRADE TRANS TERMINAL SRL [1]	-	13,2	-	-
Gdański Terminal Kontenerowy S.A.	41,9	41,9	106	286
AWT Rail SK a. s. [4]	80,0	-	4 516	-
SUMA			**39 831**	**35 246**

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

[2] Changes in ownership structures of PKP CARGO International a.s. were describe in Note 15 of these Consolidated Financial Statements.

[3] During period ended 31 December 2015 the value of shares held indirectly by the Group in entities accounted for under the equity method has changed due to acquisition of additional shares in PS TRADE TRANS Sp. z o.o (actually PKP CARGO CONNECT Sp. z o.o.)

[4] AWT Rail SK a.s. is accounted for under the equity method from the date of taking control over AWT.

17. Other financial assets

	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Financial instruments		
Currency forwards and spots	123	-
Investments in shares		
Shares in Polish entities [(1)]	7 351	6 020
Shares in foreign entities [(1)]	1 949	-
	9 300	6 020
Loans and receivables measured at amortized cost		
Loans granted to related entities	639	-
Loans granted to other entities [(2)]	2 000	4 999
Deposits over 3 months	1 282	301 415
	3 921	306 414
Units in investment funds	549	
Other financial assets	2	-
Total	**13 895**	**312 434**
Non-current assets	9 849	6 051
Current assets	4 046	306 383
Total	**13 895**	**312 434**

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

[(2)] In the period ended 31 December 2015 Group recognized impairment allowance for loan granted to other entity in the amount of PLN 2,999 thousand.

18. Other non-financial assets

	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Advances for purchase of fixed assets [1]	13 385	1 059
Prepayments [2]	31 017	40 664
Other	1 545	1 168
Total	**45 947**	**42 891**
Non-current assets	32 666	14 645
Current assets	13 281	28 246
Total	**45 947**	**42 891**

[1] As at 31 December 2015, the position includes mainly an advance of PLN 12,326 thousand paid under concluded agreement by the Parent company on delivery of 15 multisystem train engines. According to the scheduled terms of the agreement, train engines will be delivered during the period from February 2016 until June 2017. Detailed information on the aforementioned agreement is described in Note 36 to these consolidated Financial Statements.

[2] As at 31 December 2015 the most significant items of prepayments are cost of prepaid: rents of PLN 17,071 thousand, insurance of PLN 7,540 thousand and IT services of PLN 1,164 thousand. As at 31 December 2014 the most significant items of prepayments were: advances for purchase of traction energy of PLN 16,534 thousand, cost of prepaid rents of PLN 16,174 thousand and IT services of PLN 3,706 thousand.

19. Inventories

	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Materials (gross)	127 936	113 440
Semi-finished products	7 334	2 417
Merchandise	3 058	3 082
Impairment allowances	(9 815)	(3 641)
Materials (net)	**128 513**	**115 298**

Changes in inventories impairment allowance	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Opening balance	3 641	23 004
Impairment allowance recognition	6 295	335
Impairment allowance derecognition	(148)	(19 698)
Impairment allowance utilization	(28)	-
Foreign exchange differences on translation of subsidiaries' financial	55	-
Closing balance	**9 815**	**3 641**

In the period ended 31 December 2015, the Group recognized impairment allowance for inventory of PLN 6,295 thousand and derecognized impairment allowance of PLN 148 thousand. Increase in the allowance relates mainly to decrease in scrap prices, which are the basis of valuation of exploited rolling stock which is under liquidation.

In the period ended 31 December 2014 as a result of the verification of usefulness of inventory, the Group derecognised the impairment allowance on spare parts for rolling stock of PLN 17,034 thousand due to the fact that they are strategic and full-value inventories which are used for repairing rolling stock owned by the Group. Additionally as for the other items of inventory, in the period ended 31 December 2014, the Group derecognised the impairment allowance of PLN 2,664 thousand and recognised the impairment allowance of PLN 335 thousand

20. Trade and other receivables

	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Trade receivables	709 769	581 790
Impairment allowance for receivables	(73 635)	(84 213)
Total	**636 134**	**497 577**
Receivables from sales of non-financial non-current assets	2 197	-
State receivables	5 006	4 932
Guarantee, deposits and bid bonds	3 385	1 269
VAT settlements	19 249	16 262
Other receivables	3 424	6 109
Total	**669 395**	**526 149**
Non- current assets	5 074	-
Current assets	664 321	526 149
Total	**669 395**	**526 149**

Trade and other receivables include trade receivables and other receivables from related parties. Detailed information about receivables from related parties is presented in Note 34.1 of these Consolidated Financial Statements.

As at 31 December 2015, trade receivables in amount of PLN 44.773 thousand are used as collaterals.

20.1 Trade receivables

<u>The aging analysis of overdue receivables without impairment allowance</u>

Trade receivables	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Current receivables	569 335	441 501
Overdue receivables		
Up to 90 days	59 960	48 956
From 91 to 365 days	5 428	7 028
Over 365 days	1 411	92
Total	**636 134**	**497 577**
Average debt age (days)	**53**	**43**

<u>Change in impairment allowance for doubtful debt.</u>

Trade receivables	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Opening balance	**84 213**	**102 511**
Recognised impairment allowance for receivables	5 356	26 683
Utilized during the year	(9 980)	(30 829)
Derecognised impairment allowance	(6 566)	(14 152)
Foreign exchange differences on translation of subsidiaries' financial	612	-
Closing balance	**73 635**	**84 213**

21. Cash and cash equivalents

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

	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Cash in hand and at bank	226 624	73 647
Bank deposits up to 3 months	49 567	355 531
Total	**276 191**	**429 178**
including:		
Restricted cash	20 644	12 169

As at 31 December 2015 restricted cash relates mainly to guarantees and bid bonds in amount of PLN 20,642 thousand. As at 31 December 2014 restricted cash relates mainly to guarantees and bid bond in amount of PLN 12,166 thousand.

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

(Increase) / decrease in trade and other receivables	For the year ended 31/12/2015 (audited)	For the year ended 31/12/2014 (audited)
	PLN thousand	PLN thousand
Change in the statement of financial position	(143 246)	83 118
Change in receivables from sale of non-financial assets	1 818	(1 341)
Change in interest receivable	(652)	(275)
Change in grants receivable for non-financial assets	-	(10 782)
Incorporation of subsidiary to full consolidation method	-	5 891
Acquisition of AWT	166 902	-
Change in trade receivables and other receivables in the statement of cash flows	**24 822**	**76 611**

(Increase) / decrease in inventories	For the year ended 31/12/2015 (audited)	For the year ended 31/12/2014 (audited)
	PLN thousand	PLN thousand
Change in the statement of financial position	(13 215)	(39 257)
Change in inventories reclassified from fixed assets	4 580	13 016
Acquisition of AWT	30 026	-
Change in inventories in the statement of cash flows	**21 391**	**(26 241)**

(Increase) / decrease in other assets	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (audited) PLN thousand
Change in the statement of financial position	295 483	376 962
Change in advances paid for purchase of fixed assets	12 326	-
Change in other assets from bank deposits over 3 months	(300 132)	(302 814)
Change in receivables from loans granted	(2 999)	-
Cash flows related to shares issuance	-	(79 614)
Acquisition of AWT	13 813	-
Other	(291)	(125)
Change in other assets in the statement of cash flows	**18 200**	**(5 591)**

Increase / (decrease) in trade and other liabilities	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (audited) PLN thousand
Change in the statement of financial position	157 324	(191 107)
Change in liabilities due to purchase of non-financial non-current assets	21 655	69 181
Incorporation of subsidiary by full consolidation method	-	(2 985)
Acquisition of AWT	(114 565)	-
Other	2 812	(1 490)
Change in trade and other payables in the statement of cash flows	**67 226**	**(126 401)**

Increase / (decrease) in other financial liabilities	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (audited) PLN thousand
Change in the statement of financial position	153 438	3 628
Recognition of liabilities due to put option for AWT non-controlling interest	(144 460)	-
Acquisition of AWT	(2 093)	-
Change in other financial liabilities in the statement of cash flows	**6 885**	**3 628**

Increase / (decrease) in provisions	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (restated*) PLN thousand
Change in the statement of financial position	(308 277)	205 185
Acquisition of AWT	(33 420)	-
Change in provisions in the statement of cash flows	**(341 697)**	**205 185**

Other adjustments	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (restated*) PLN thousand
Actuarial gains / (losses) in other comprehensive income	53 217	(38 078)
The effective portion of changes in fair value of cash-flow hedging instruments	3 373	(3 157)
Foreign exchange differences on translation of subsidiaries' financial	2 863	-
Other adjustments in the statement of cash flows	**59 453**	**(41 235)**

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements.

23. Non-monetary transactions

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

Acquisition of assets in the form of financial leasing

In 2015, the Group acquired fixed assets of PLN 9,772 thousand under finance lease agreements.

In 2014, the value of fixed assets acquired under finance lease agreements amounted to PLN 2,740 thousand.

Liquidation of rolling stock

When the decision to liquidate component of rolling stock is taken, its residual value is recognized in inventories. In 2015, the residual value of fixed assets reclassified to inventories amounted to PLN 4,580 thousand, while in 2014 amounted to PLN 13,016 thousand.

24. Non – current assets held for sale

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

Assets held for sale	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Properties	10 994	4 994
Means of transport	33 067	12 566
Total	**44 061**	**17 560**

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

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

For the year ended 31 December 2015 (audited)	Properties PLN thousand	Means of transport PLN thousand	Total PLN thousand
As at 1 January 2015 (audited)	**4 994**	**12 566**	**17 560**
Acquisition of AWT	911	-	911
Reclassification from Property, Plant and equipment	6 000	48 669	54 669
Sales	(879)	(4 139)	(5 018)
Recognition of impairment allowance	-	(24 029)	(24 029)
Foreign exchange differences on translation of subsidiaries' financial statements	(32)	-	(32)
As at 31 December 2015 (audited)	**10 994**	**33 067**	**44 061**

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

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

25. Equity

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

25.1 Share capital

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

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

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

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

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

25.2 Share premium

	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Share premium, consists of:	**619 407**	**615 343**
Agio	201 263	201 263
Profit appropriation (statutory)	48 087	44 023
Profit appropriation (above the statutory minimum)	230 075	230 075
Capital created from shares redemption	139 982	139 982

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

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

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

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

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

In addition, it was decided to allocate to the payment of the dividend of PLN 56,255 thousand derived from retained earnings.

The dividend in the amount of PLN 110,176 thousand was paid on 26 June 2015.

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

Moreover, changes in the supplementary capital of the subsidiaries were as follows:

a) on 28 May 2015 the Ordinary Meeting of Shareholders (OGM) of Cargosped Terminal Braniewo Sp. z o. o. adopted a resolution to cover a net loss of PLN 650 thousand generated in 2014 from share premium,

b) on 23 June 2015 the Ordinary Meeting of Shareholders (OGM) of PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o. o. adopted a resolution on distribution of net profit of PLN 3,085 thousand achieved in 2014, as follows:

- the amount of PLN 3,060 thousand was allocated to cover the loss from previous years,
- the amount of PLN 25 thousand was allocated to the share premium.

25.3 Non-controlling interest

On 5 February 2015 the Parent company acquired 44.44% shares in PS Trade Trans Sp. z o.o. (actually PKP CARGO CONNECT Sp. z o.o.) from Trade Trans Invest a.s. The purchase price amounted to PLN 40,000 thousand.

As at 31 December 2015 the Parent company owns 100% of the shares in PKP CARGO CONNECT Sp. z o.o

The impact of the transaction on the Group's equity is presented below:

	Transactions with non-controlling interest
	PLN thousand
Consideration transferred	40 000
Change in non-controlling interest	(63 357)
Adjustment recognised in retained earnings of the Group	**23 357**

Non-controlling interest was not recognized as a result of acquisition of AWT in the consolidated statement of financial position. Details are described in note 6 to these Consolidated Financial Statements.

26. Earnings per share

Profit used to calculate basic earnings and diluted earnings per share:

	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (restated*) PLN thousand
Profit attributable to shareholders of the Parent company	**31 554**	**75 984**

26.1 Basic earnings per share

	For the year ended 31/12/2015 (audited)	For the year ended 31/12/2014 (restated*)
Weighted average number of ordinary shares (units)	44 786 917	44 524 924
Basic earnings per share (PLN per share)	**0,70**	**1,70**

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

26.2 Diluted earnings per share

	For the year ended 31/12/2015 (audited)	For the year ended 31/12/2014 (restated*)
Weighted average number of ordinary shares (units)	44 786 917	44 790 878
Diluted earnings per share (PLN per share)	**0,70**	**1,70**

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

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

(*) restatement of comparative figures has been described in note 5 of these Consolidated Financial Statements

27. Credit facilities and loans received

	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Credit facilities and loans received measured at amortized cost		
Bank loans – pledged on assets	119 579	39 658
Bank loans – other	589 817	258 956
Borrowings from related parties	3 407	-
Borrowings from other entities	1 366	1 586
Total	**714 169**	**300 200**
Non-current liabilities	460 577	208 077
Current liabilities	253 592	92 123
Total	**714 169**	**300 200**

27.1 Summary of loan and borrowings agreements

Loans agreements in the Group were concluded mainly to finance the investment plan, the financing of the acquisitions takeovers and to finance current operations. Loans agreements are denominated in PLN, EUR and CZK.

Parent company
As at 31 December 2015

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

1) On 16 November 2015, the Parent company signed two investment loan agreements with Bank Gospodarstwa Krajowego up to the maximum amount of EUR 100,000 thousand. The loan is dedicated to finance the purchase of multi-system engines. Until 31 December 2015 loan was available in the amount of EUR 15,000 thousand (of which as at 31 December 2015 the amount of EUR 2,901 thousand has been utilized), while from 1 January 2016 the loan will be available in the amount of EUR 85,000 thousand after establishment of collateral. Unutilised credit and overdraft facilities are presented in Note 27.2 these Consolidated Financial Statements.

Subsidiaries
As at 31 December 2015

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in PLN thousand	Liability in PLN thousand
Overdraft	PKO BP S.A.	PLN	WIBOR 1M + margin	15.04.2016	Capped mortgage in amount of PLN 700 thousand, Pledge on inventories PLN 600 thousand	1 300	495
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.09.2016	Surety of PKP CARGO S.A. up to PLN 1,048 thousand	911	136
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.10.2016	Surety of PKP CARGO S.A. up to PLN 1,380 thousand with submission to enforcement by the guarantor	1 200	206
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Surety of PKP CARGO S.A. up to PLN 1,028 thousand	894	256
Loan	WFOŚIGW Łódź	PLN	Fixed interest rate(1)	31.03.2024	1) Blank promissory notes, 2) Non-revocable authorization to charge bank accounts, 3) Surety of PKP CARGO S.A...	1 686	1 366
Investment loan	ING Bank N.V. UniCredit Bank Czech Republic, a.s.	CZK	PRIBOR 3M + margin	30.09.2016	1) Pledge on shares of AWT a.s. 2) Pledge in tangible fixed assets	246 012	97 667
Investment loan	ING Bank N.V. UniCredit Bank Czech Republic, a.s.	EUR	EURIBOR 3M + margin	30.09.2016	1) Pledge on shares of AWT a.s. 2) Pledge in tangible fixed assets	48 581	19 288
Investment loan	Raiffeisenbank a.s.	EUR	Fixed interest rate(1)	30.06.2016	1) Registered pledge on tangible fixed assets and receivables 2) Bills 3) Assignment of insurance	34 092	2 129
Loan	AWT Rail SK a.s.	EUR	Fixed interest rate(1)	31.12.2016	Pledges	3 409	3 407
						Total	**124 950**

(1) The interest rate on bank credit and loans payable with fixed interest rate is within the range from 2,5% to 6,5%.

Parent company
As at 31 December 2014

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

Subsidiaries
As at 31 December 2014

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

27.2 Unutilised credit and overdraft facilities

Type of loan	Name of bank	Currency	As at 31/12/2015	As at 31/12/2014
			PLN thousand	PLN thousand
Investment loan	Bank Gospodarstwa Krajowego	PLN	5 627	336 771
Investment loan	European Investment Bank	PLN	-	240 000
Investment loan	Bank Gospodarstwa Krajowego	EUR	51 560	-
Investment loan	Bank Pekao S.A.[1]	PLN	100 000	2 500
Investment loan	The European Bank for Reconstruction and Development [2]	EUR	426 150	-
Overdraft	mBank S.A.	PLN	100 000	100 000
Overdraft	ING BANK N.V. UniCredit Bank Czech Republic a.s.	CZK	27 708	-
Overdraft	ING BANK Śląski S.A.	PLN	19 000	-
Overdraft	PKO BP S.A.	PLN	805	1 029
Total not utilized credit and overdraft facilities			**730 850**	**680 300**

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

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

27.3 Events of default in loan agreement

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

28. Other financial liabilities

	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Financial instruments		
Interest rate swap (IRS)	2 164	3 284
FX forwards and spots	10	650
Liabilities due to put option for non-controlling shares [1]	155 198	-
Total	**157 372**	**3 934**
Non-current liabilities	155 198	-
Current liabilities	2 174	3 934
Total	**157 372**	**3 934**

[1] The item has been described in Note 3.2.7 and Note 6 of these Consolidated Financial Statements

29. Finance lease liabilities and leases with purchase option

29.1 General terms of lease

The Group uses mainly cargo wagons, transshipment devices, devices of technical backroom, cars and computer hardware under finance leases. The leases are concluded from 3 to 11 years and denominated in PLN, EUR, CHF and CZK.

29.2 Finance lease liabilities

	Minimum lease payments	
	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Up to one year	73 086	137 662
Over one year, up to five years	155 335	161 747
Over 5 years	54 967	48 136
	283 388	**347 545**
Less future lease charges	(24 472)	(28 967)
Present value of minimum lease payments	**258 916**	**318 578**

	Present value of minimum lease payments	
	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Up to one year	65 416	127 742
Over one year, up to five years	140 841	144 327
Over 5 years	52 659	46 509
Present value of minimum lease payments	**258 916**	**318 578**

	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Included in the financial statements as:		
Long-term finance lease liabilities and leases with purchase option	193 500	190 836
Short-term finance lease liabilities and leases with purchase option	65 416	127 742
Total	**258 916**	**318 578**

30. Trade and other payables

	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Trade payables	321 303	227 664
Accruals	62 486	20 453
Liabilities due to purchase of non-financial non-current assets	113 728	134 685
Liabilities related to securities (deposits, bid bonds)	23 472	21 624
State settlements	98 686	106 215
Liabilities due to Voluntary Redundancy Program (1)	48 249	-
Other settlements with employees	78 097	79 764
Other settlements	6 616	3 987
VAT payables	3 109	4 030
Total	**755 746**	**598 422**
Non-current liabilities (2)	25 953	67 982
Current liabilities	729 793	530 440
Total	**755 746**	**598 422**

(1) Voluntary Redundancy Program liabilities are described in Note 31 of these Consolidated Financial Statements

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

31. Employee benefits

As at 31 December 2015 and 31 December 2014 the actuarial valuation was based on the following assumptions:

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

	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (restated*) PLN thousand
Post-employment defined benefit plans		
– retirement benefits	16 395	10 155
– appropriations to the Social Benefit Fund for pensioners	6 352	7 001
– death in service benefits	1 615	1 797
– transport benefits	1 277	2 293
Other employee benefits		
– jubilee bonuses	33 060	39 549
– other employee benefits (unused holidays / bonuses)	(14 459)	2 200
– provision for Voluntary Redundancy Program (VRP)	70 179	265 331
Total	**114 419**	**328 326**

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

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

	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (restated*) PLN thousand
Post-employment defined benefit plans		
– retirement benefits	(2 440)	17 689
– appropriations to the Social Benefit Fund for pensioners	(44 165)	23 174
– death in service benefits	(2 127)	(3 790)
– transport benefits	(4 485)	1 005
Total	**(53 217)**	**38 078**

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

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

	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (restated*) PLN thousand
Employee benefits	94 860	303 804
Financial expenses	18 923	24 522
External services	636	-
Total recognized in profit before tax	**114 419**	**328 326**
The amount recognized in other comprehensive income	(53 217)	38 078
Total recognized in comprehensive income	**61 202**	**366 404**

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

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

	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (restated*) PLN thousand
Post-employment defined benefit plans		
– retirement benefits	154 828	158 448
– appropriations to the Social Benefit Fund for pensioners	124 118	168 876
– death in service benefits	31 660	33 332
– transport benefits	33 654	37 719
Other employee benefits		
– jubilee bonuses	318 239	323 382
– other employee benefits (unused holidays / bonuses)	41 505	39 305
– provision for Voluntary Redundancy Program (VRP)	-	265 331
Total	**704 004**	**1 026 393**
including:		
– long-term	603 621	687 775
– short-term	100 383	338 618
Total	**704 004**	**1 026 393**

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

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

	For the year ended 31/12/2015 (audited) PLN thousand	For the year ended 31/12/2014 (restated*) PLN thousand
Opening balance of defined benefit plan liabilities	**1 026 393**	**804 857**
Acquisition of AWT	13 511	-
Current service cost	22 876	22 407
Past service costs, to which rights were acquired	4 851	-
Other employee benefits	(13 222)	2 128
Interest expense	18 923	24 522
Actuarial losses/ (gains) - post-employment benefits	(53 217)	38 078
Actuarial losses/ (gains) - other long term employee benefits	10 812	13 938
Benefits paid	(349 419)	(71 697)
Employment Guarantees Program	-	(73 171)
Voluntary Redundancy Program	70 179	265 331
VRP reclassification to trade and other payables	(48 249)	-
Foreign exchange differences on translation of subsidiaries' financial	566	-
Closing balance of defined benefit plan liabilities	**704 004**	**1 026 393**

(*) restatement of comparative figures has been described in Note 5 of these Consolidated Financial Statements

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

	changes in demographic assumptions PLN thousand	changes in financial assumptions PLN thousand	Other changes PLN thousand	Total PLN thousand
Actuarial losses/ (gains) - post-employment benefits				
– retirement benefits	(3 811)	(7 361)	8 732	(2 440)
– provision for Employment Guarantees Program (EGP)	(8 738)	(9 124)	(26 303)	(44 165)
– death in service benefits	7 994	(961)	(9 160)	(2 127)
– transport benefits	(2 570)	(2 341)	427	(4 485)
Actuarial losses/ (gains) - other long term employee benefits				
– jubilee bonuses	(3 624)	(10 508)	24 944	10 812
Total	**(10 749)**	**(30 296)**	**(1 360)**	**(42 405)**

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

	changes in demographic assumptions PLN thousand	changes in financial assumptions PLN thousand	Other changes PLN thousand	Total PLN thousand
Actuarial losses/ (gains) - post-employment benefits				
– retirement benefits	791	14 958	1 940	17 689
– provision for Employment Guarantees Program (EGP)	1 994	26 167	(4 987)	23 174
– death in service benefits	(1 515)	2 341	(4 616)	(3 790)
– transport benefits	408	6 089	(5 492)	1 005
Actuarial losses/ (gains) - other long term employee benefits				
– jubilee bonuses	1 609	23 414	(11 085)	13 938
Total	**3 287**	**72 969**	**(24 240)**	**52 016**

31.1 Employee benefits - Voluntary Redundancy Program

Based on Resolutions of the Management Board and Supervisory Board of PKP CARGO S.A and PKP CARGOTABOR Sp. z o.o, Voluntary Redundancy Programs for the employees (VRP or Program) were introduced in both companies in the second quarter of 2015. The main purpose of the Program was restructuring of employment in the Group. These Programs did not meet the definition of collective redundancies within the meaning of Act of 13 March 2013 on the specific principles of terminating labour relationship for reasons not attributable to employees.

The employees were allowed to apply to join the proposed Programs on the following dates:

a) From 1 June 2015 to 17 June 2015 for PKP CARGO S.A. and,
b) From 1 July 2015 to 15 July 2015 for PKP CARGOTABOR Sp. z o.o.

As a result of the verification of declarations of employees, the Group agreed that 981 employees could benefit from the VRP.

The total value of liabilities resulting from the implemented in 2015 Programs amounted to PLN 70,179 thousand.

The major part of benefits related to the VRP was paid out together with the salaries for July and August 2015. The remaining liabilities related to the VRP of PLN 10,301 thousand, were paid in 2016.

As at 31 December 2015 the Group also recognized liabilities arising from the Program that was introduced in 2014 of PLN 37,948 thousand, which were paid in January 2016.

Amount relating to the Group's liabilities concerning the Voluntary Redundancy Program recognised in the consolidated statement of financial position is as follows:

	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Long-term employee benefits	-	37 852
Short-term employee benefits	-	227 479
Trade and other payables	48 249	-

Amounts recognized in the statement of comprehensive income in relation to the Voluntary Redundancy Program are presented in Note 8.4.

32. Other provisions

	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Provision for the fine imposed by OCCP	16 209	8 416
Recultivation provision	5 356	-
Provision for onerous contracts	9 737	-
Other provisions	15 439	24 214
Total	**46 742**	**32 630**
Long-term provisions	28 886	8 416
Short-term provisions	17 856	24 214
Total	**46 742**	**32 630**

Other provisions	Provision for the fine imposed by OCCP PLN thousand	Recultivation provision PLN thousand	Provision for onerous contracts PLN thousand	Other provisions PLN thousand	Total PLN thousand
As at 1 January 2014 (audited)	**22 778**	**-**	**-**	**26 203**	**48 981**
Provisions recognised	-	-	-	8 334	8 334
Derecognised	(14 362)	-	-	(10 173)	(24 535)
Used	-	-	-	(150)	(150)
As at 31 December 2014 (audited)	**8 416**	**-**	**-**	**24 214**	**32 630**
As at 1 January 2015 (audited)	**8 416**	**-**	**-**	**24 214**	**32 630**
Acquisition of AWT	-	7 262	10 107	2 541	19 910
Provisions recognised	12 192	62	-	2 858	15 112
Derecognised	(4 399)	-	-	(9 525)	(13 924)
Used	-	(2 264)	(814)	(4 763)	(7 841)
Foreign exchange differences on translation of subsidiaries financial statements	-	296	444	115	855
As at 31 December 2015 (audited)	**16 209**	**5 356**	**9 737**	**15 440**	**46 742**

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

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

First fine (in the amount of PLN 1,786 thousand on the basis of the decision no. DOK-4/2012 dated on 26 July 2012) related to delay in implementation of the OCCP's President's decision dated on 31 December 2004 concerning unjustified differentiation of discounts in the carriage of coal. By judgment of 3 November 2014 the Court of Competition and Consumer Protection dismissed the appeal of the company while maintaining the same decisions of the OCCP's President's no DOK-4/2012 dated on 26 July 2012 including a quantification of the fine. On 22 December 2014, the company has appealed against the above mentioned judgment. Any obligation to pay fines will arise after the judgment of the Court of Appeal. The hearing of the Court of Appeal took place on 8 March 2016. The Parent company expects that final judgement will be given to end of March 2016.

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

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

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

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

Recultivation provision

The provision was recognized to cover the future expenses related to the cultivation works of land. The provision was estimated at the present value of the expected future expenses.

Provision for onerous contracts

The Group recognized a provision for onerous contract related to real estate lease agreement, where the expected revenues will not cover the lease costs incurred by the Group.

Other provisions

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

33. Financial instruments and financial risk management

33.1 Financial risk management objectives and principles

During the years covered by these consolidated Financial Statements the group was exposed to the following types of risk:

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

c) credit risk.

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

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

According to the adopted Financial Risk Policy the Group concluded in 2015 currency forward transactions for EUR/PLN currency pair.

Details of liquidity, currency, interest rate and credit risk management are presented in Notes 33.3., 33.4., 33.5 and 33.6 respectively.

33.1.1 Equity management

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

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

	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (restated*) PLN thousand
Equity (i)	3 353 866	3 395 293
Debt (ii)	2 758 796	2 285 039
Cash and cash equivalents	(276 191)	(429 178)
Net debt	2 482 604	1 855 861
Balance sheet total	6 112 662	5 680 332
Net debt to balance sheet total	41%	33%

(i) Equity equals to total equity.
(ii) Debt includes both short- and long-term debt.

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

33.2 Categories of financial instruments

Financial assets by categories	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Hedging instruments	**123**	**-**
Financial assets available for sale	**9 849**	**6 020**
Shares in unquoted companies	9 300	6 020
Units in investment funds	549	
Loans and receivables	**918 443**	**1 233 169**
Trade receivables	636 134	497 577
Receivables from sale of non-current assets	2 197	-
Loans granted	2 639	4 999
Deposits	1 282	301 415
Cash and cash equivalents	276 191	429 178
Total financial assets	**928 415**	**1 239 189**

Financial liabilities by categories	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Financial liabilities measured at fair value through profit or loss	**155 208**	**633**
Held for trading		
Derivatives	10	633
Liabilities measured at fair value on initial recognition		
Liabilities due to put option for non-controlling interest	155 198	**-**
Hedging instruments	**2 164**	**3 301**
Financial liabilities measured at amortised cost	**1 211 686**	**683 002**
Credits and loans	714 169	300 200
Trade payables	383 789	248 117
Payables arising from purchase of non-current assets	113 728	134 685
Financial liabilities excluded from the scope of IAS 39	**258 916**	**318 578**
Total financial liabilities	**1 627 974**	**1 005 514**

Impairment losses for shares in unquoted companies, loans granted and trade receivables are described in Notes 17 and 20 of these Consolidated Financial Statements.

33.2.1 Fair value hierarchy

As at 31 December 2015 and 31 December 2014 the only financial instruments measured at fair value were derivative financial instruments and units in investment funds. Date of maturity of those instruments falls after the reporting period. In terms of valuation techniques. These instruments qualify for level 1, 2 and 3 of fair value hierarchy.

Financial assets and liabilities measured at fair value	As at 31/12/2015 (audited)			As at 31/12/2014 (audited)	
	Level 1 PLN thousand	Level 2 PLN thousand	Level 3 PLN thousand	Level 2 PLN thousand	Level 3 PLN thousand
Assets	**549**	**123**			
Derivatives – forward contracts and IRS		**123**	**-**	**-**	**-**
Units in investment funds	549				
Liabilities		**2 174**	**155 198**	**3 934**	**-**
Derivatives - forward currency contracts		2 174	-	3 934	-
Put option for non-controlling interest in AWT		-	155 198	-	-

Fair value of units in investment funds is based on the current purchase price quoted on active market.

Methods for measuring the fair value of these derivatives qualified for level 2 of fair value hierarchy are described in Note 33.3.2 of these Consolidated Financial Statements.

Disclosures in the methods of valuation and the measurement of fair value of financial instruments qualified for level 3. of fair value hierarchy are described in Note 3.2.7 and Note 6 of these Consolidated Financial Statements.

For the categories of financial instruments, listed in Note 33.2, other than shares held in entities not quoted on active market, which are not measured at fair value, the company does not disclose the fair value due to the fact that the fair value of these financial instruments as at 31 December 2015 and 31 December 2014 did not significantly differ from their values presented in the statement of financial position.

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

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

As at 31/12/2015 (audited)	Hedging instruments	Assets classified as held for sale	Loans and receivables	Financial liabilities measured at fair value through profit or loss	Financial liabilities excluded from the scope of IAS 39	Financial liabilities at amortized cost	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Dividends and shares in profits	-	27	-	-	-	-	27
Interest income / (expense)	-	-	6 352	-	(19 571)	(9 634)	(22 853)
Foreign exchange differences	-	-	7 863	-	1 792	(6 344)	3 311
Impairment losses / revaluations	-	33	(1 788)	(10 114)		-	(11 869)
Fees related to loans and debt securities	-	-	-	-	(1 052)	-	(1 052)
Profit / (loss) on investing activities	-	199	-	-	-	-	199
Net profit / (loss)	**-**	**259**	**12 427**	**(10 114)**	**(18 831)**	**(15 978)**	**(32 237)**
Change in valuation	2 732	-	-	-	-	-	2 732
Other comprehensive income	**2 732**	**-**	**-**	**-**	**-**	**-**	**2 732**

As at 31/12/2014 (audited)	Hedging instruments	Assets classified as held for sale	Loans and receivables	Financial liabilities measured at fair value through profit or loss	Financial liabilities excluded from the scope of IAS 39	Financial liabilities at amortized cost	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Dividends and shares in profits	-	-	-	-	-	-	-
Interest income / (expense)	-	-	6 352	-	(14 938)	(11 840)	(20 424)
Foreign exchange differences	-	-	3 347	-	(701)	(8 492)	(5 846)
Impairment losses / revaluations	-	(9)	(4 943)	(2 857)		-	(7 809)
Fees related to loans and debt securities	-	-	-	-	(56)	-	(56)
Profit / (loss) on investing activities	-	-	-	-	-	-	-
Net profit / (loss)	**-**	**(9)**	**4 756**	**(2 857)**	**(15 695)**	**(20 332)**	**(34 137)**
Net profit / (loss)	(2 557)	-	-	-	-	-	2 557
Other comprehensive income	**(2 557)**	**-**	**-**	**-**	**-**	**-**	**2 557**

33.3 Currency risk management

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

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

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

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

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

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

	ASSETS		LIABILITIES	
	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
USD	1 157	1 421	2 221	2 840
EUR	159 863	73 864	398 680	167 004
CHF	1 014	589	7 712	73 817
CZK	219 000	-	209 815	1 003
GBP	36	2	1	-
Other	17	-	7	-

33.3.1 Currency risk sensitivity

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

As at 31/12/2015 (audited)		Currency risk		Currency risk				Currency risk		Currency risk			
Financial statements item	Carrying amount in PLN thousand	USD/PLN		EUR/PLN				CHF/PLN		CZK/PLN			
		impact on profit or loss		impact on profit or loss		impact on equity		impact on profit or loss		impact on profit or loss		impact on equity	
		+12%	-12%	+9%	-9%	+9%	-9%	+18%	-18%	+10%	-10%	+10%	-10%
ASSETS													
Trade and other receivables	242 120	93	(93)	10 830	(10 830)	(4 770)	4 770	158	(158)	-	-	(10 729)	10 729
Other current financial assets	1 892	-	-	58	(58)	(53)	53	-	-	-	-	(114)	114
Cash and cash equivalents	137 075	45	(45)	3 243	(3 243)	(2 080)	2 080	24	(24)	-	-	(9 067)	9 067
EQUITY AND LIABILITIES													
Non-current liabilities													
Long-term bank loans and credit facilities	12 363	-	-	(1 113)	1 113	-	-	-	-	-	-	-	-
Long-term finance lease liabilities and leases with purchase option	113 950	-	-	(9 413)	9 413	3 545	(3 545)	-	-	-	-	851	(851)
Other long-term financial liabilities	155 198	-	-	(12 695)	12 695	-	-	-	-	-	-	-	-
Current liabilities													
Short-term bank loans and credit facilities	163 197	-	-	(5 769)	5 769	1 997	(1 997)	(142)	142	-	-	8 937	(8 937)
Short-term finance lease liabilities and leases with purchase option	40 923	-	-	(2 678)	2 678	530	(530)	(1 244)	1 244	(109)	109	287	(287)
Short-term trade and other payables	132 805	(266)	266	(2 941)	2 941	2 365	(2 365)	-	-	-	-	8 901	(8 901)
Total gross effect		**(128)**	**128**	**(20 478)**	**20 478**	**1 534**	**(1 534)**	**(1 204)**	**1 204**	**(109)**	**109**	**(934)**	**934**

As at 31/12/2014 (audited)		Currency risk		Currency risk		Currency risk		Currency risk	
Financial statements item	Carrying amount in PLN thousand	USD/PLN		EUR/PLN		CHF/PLN		CZK/PLN	
		impact on profit or loss		impact on profit or loss		impact on profit or loss		impact on profit or loss	
		+15%	-15%	+5%	-5%	+5%	-5%	+5%	-5%
ASSETS									
Trade and other receivables	67 838	196	(196)	3 297	(3 297)	29	(29)	-	-
Other current financial assets	-	-	-	-	-	-	-	-	-
Cash and cash equivalents	8 039	-	-	396	(396)	-	-	-	-
EQUITY AND LIABILITIES									
Non-current liabilities									
Long-term finance lease liabilities and leases with purchase option	98 215	-	-	(4 875)	4 875	(36)	36	-	-
Current liabilities									
Short-term finance lease liabilities and leases with purchase option	112 125	-	-	(2 139)	2 139	(3 468)	3 468	-	-
Short-term trade and other payables	34 323	(426)	426	(1 337)	1 337	(187)	187	(50)	50
Total gross effect		**(230)**	**230**	**(4 658)**	**4 658**	**(3 662)**	**3 662**	**(50)**	**50**

33.3.2 Currency forward transactions

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

Details of the currency risk management are disclosed in Note 33.3.

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

As at 31 December 2015 (audited):

Company	Transaction type	Transaction date	Settlement date	Currency pair	Base currency amount	Floating currency amount PLN thousand	Fair value (*) PLN thousand
BZ WBK	forward	08.2015 - 10.2015	01.2016 - 06.2016	EUR/PLN	1 000	4 259	(18)
mBank	forward	08.2015 - 12.2015	02.2016 - 11.2016	EUR/PLN	8 060	34 322	35
Pekao	forward	06.2015 - 12.2015	01.2016 - 12.2016	EUR/PLN	9 610	40 981	72
PKO BP	forward	07.2015 - 12.2015	01.2016 - 12.2016	EUR/PLN	12 400	53 330	24
Total					**31 070**	**132 892**	**113**

As at 31 December 2014 (audited):

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

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

33.4 Interest rate risk management

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

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

33.4.1 Sensitivity to interest rate fluctuations

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

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

As at 31/12/2015 (audited)		Interest rate risk		Interest rate risk		Interest rate risk		Interest rate risk	
Financial statements item	Carrying amount in PLN thousand	WIBOR impact on profit or loss		EURIBOR impact on profit or loss		LIBOR impact on profit or loss		PRIBOR impact on profit or loss	
		+ 100 pb	- 100 pb	+ 70 pb	- 70 pb	+ 70 pb	- 70 pb	+70 pb	- 70 pb
ASSETS									
Other short-term financial assets	2 032	20	(20)	-	-	-	-	-	-
Cash and cash equivalents	150 633	1 506	(1 506)	-	-	-	-	-	-
EQUITY AND LIABILITIES									
Non-current liabilities									
Long-term bank loans and credit facilities	459 390	(4 470)	4 470	(87)	87	-	-	-	-
Long-term finance lease liabilities and leases with purchase option	138 428	(768)	768	(432)	432	-	-	-	-
Current liabilities									
Short-term bank loans and credit facilities	247 877	(1 309)	1 309	(135)	135	-	-	(684)	684
Short-term finance lease liabilities and leases with purchase option	55 109	(150)	150	(279)	279	(6)	6	-	-
Total gross effect		**(5 171)**	**5 171**	**(933)**	**933**	**(6)**	**6**	**(684)**	**684**

As at 31/12/2014 (audited)		Interest rate risk		Interest rate risk		Interest rate risk		Interest rate risk	
Financial statements item	Carrying amount in PLN thousand	WIBOR impact on profit or loss		EURIBOR impact on profit or loss		LIBOR impact on profit or loss		PRIBOR impact on profit or loss	
		+ 100 pb	- 100 pb	+ 70 pb	- 70 pb	+ 70 pb	- 70 pb	+70 pb	- 70 pb
ASSETS									
Other long-term financial assets	30	-	-	-	-	-	-	-	-
Other short-term financial assets	306 383	3 085	(3 085)	-	-	-	-	-	-
Cash and cash equivalents	428 184	4 801	(4 801)	-	-	-	-	-	-
EQUITY AND LIABILITIES									
Non-current liabilities									
Long-term bank loans and credit facilities	208 077	(2 081)	2 081	-	-	-	-	-	-
Long-term finance lease liabilities and leases with purchase option	190 836	(926)	926	(683)	683	(5)	5	-	-
Current liabilities									
Short-term bank loans and credit facilities	92 124	(921)	921	-	-	-	-	-	-
Short-term finance lease liabilities and leases with purchase option	127 742	(194)	194	(318)	318	(462)	462	-	-
Total gross effect		**3 764**	**(3 764)**	**(1 001)**	**1 001**	**(467)**	**467**	**-**	**-**

Sensitivity to interest rate fluctuations of liabilities due to the put option for non-controlling interest are presented in Note 3.2.7 of these Consolidated Financial Statements

33.4.2 Opened interest rate

In order to present effects of hedging transactions in accordance with their economic nature, hedge accounting has been used in the Group (in PKP CARGO CONNECT Sp. z o.o). In the currency risk management process the Group uses the IRS financial instruments (the stream of interest swap).

These transactions hedge floating interest rate of investment loans and lease liabilities. Following a hedge effectiveness test, measurement of the following IRS was charged to the Group's equity.

As at 31 December 2015 (audited):

Entity	Transaction type	Transaction date	Beginning of period	End of period	Nominal amount PLN thousand	Amount payable	Amount receivable	Fair value (*) PLN thousand
CITI Handlowy	IRS	09-04-2013	31-12-2015	01-05-2018	74 776	3,33%	WIBOR 1M + margin	(2 164)
							Total	(2 164)
							including positive	-
							including negative	(2 164)

As at 31 December 2014 (audited):

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

(*) The fair value of the forward transactions on interest rate is determined by the future discounted cash flows from the transaction, calculated based on the difference between the forward rate and the price of the transaction. Fair value is calculated and discounted by bank with WIBOR 1M rate.

33.5 Credit risk management

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

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

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

Maximum exposure to credit risk is represented by balance of receivables held by the Group and at 31 December 2015 in the amount of PLN 636,134 thousand. This exposure is limited by the pledges established in favour of the Group (in the form of bank / insurance guarantees or guarantee deposits).

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

33.6 Liquidity risk management

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

	As at 31/12/2015 (audited)	As at 31/12/2014 (restated*)
	PLN thousand	PLN thousand
Current assets	1 089 100	1 408 307
Current liabilities	1 172 708	1 119 625
Short-term provisions for employee benefits	(100 383)	(338 618)
Other short-term provisions	(17 856)	(24 214)
Current liabilities, net	1 054 469	756 793
Current ratio	**1,03**	**1,86**

As at 31 December 2015 current liquidity ratio decreased from 1.86 to 1.03. This decrease is a result of the AWT acquisition as well as payments under Voluntary Redundancy Program, financed from its own funds. In order to improve the liquidity situation as at December 2015, the Parent company entered into long-term loan agreement with the European Bank for Reconstruction and Development to refinance the acquisition of AWT in the amount of EUR 100,000 thousand. Additionally, in November long-term loan agreement has been concluded to finance the planned acquisitions and capital expenditures in the amount of PLN 700,000 thousand, of which the amount available as at 31 December 2015 amounted to PLN 100,000 thousand. The steps taken will improve the current liquidity ratio in subsequent reporting periods. Detailed information on available sources of external financing is presented in Note 27.2 of these Consolidated Financial Statements.

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

As at 31/12/2015	Below 3 months	From 3 to 12 months	From 1 year to 5 years	Above 5 years	Total PLN thousand
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	
Interest-bearing credit facilities and loans	32 959	233 658	459 499	19 893	**746 009**
Trade liabilities	395 948	4 124	3 343	217	**403 632**
Liabilities due to purchase of property, plant and equipment	58 347	35 579	22 896	-	**116 822**
Finance lease liabilities	21 710	51 376	155 335	54 967	**283 388**
Derivatives	-	10	2 164	-	**2 174**
Liabilities due to put option for non-controlling shares			155 198		**155 198**
Total	**508 964**	**324 747**	**798 435**	**75 077**	**1 707 223**

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

34. Related party transactions

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

34.1.1 Transactions with related parties from PKP Group

In the period covered by these Consolidated Financial Statements, the Group concluded the following commercial transactions with related parties from PKP Group:

	Year 2015 (audited)			
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Parent company (PKP S.A.)	817	79 188	1 233	4 980
Subsidiaries / co-subsidiaries – not consolidated	9 654	17 091	3 619	2 959
Associates	8 130	1 483	2 566	54
Other related parties from PKP S.A. Group	43 990	1 060 490	6 445	98 794

	Year 2014 (audited)			
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Parent company (PKP S.A.)	(478)	103 828	1 026	6 584
Subsidiaries / co-subsidiaries -– not consolidated	5 848	7 137	2 160	530
Associates	6 859	1 909	315	-
Other related parties from PKP S.A. Group	65 122	1 262 166	9 971	86 556

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

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

34.1.2 Transactions with the State Treasury

In the financial years ended 31 December 2015 and 31 December 2014, no individual significant transactions concluded between the Group and the State Treasury and the entities belonging to the State Treasury have been identified that would be significant taking into consideration their non-standard range and amount. Transactions for the period from 1 January 2015 to 31 December 2015 and for the period from 1 January 2014 to 31 December 2014 concluded with other entities controlled by the State Treasury are connected with the current operating activities of the Group. In 2015 the most significant suppliers controlled by the State Treasury were the following entities: LOTOS Paliwa Sp. z o.o. and PKN ORLEN S.A. The most significant customers controlled by the State Treasury were the following entities: Jastrzębska Spółka Węglowa S.A., Kompania Węglowa S.A., Węglokoks S.A., PKN ORLEN S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A.

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

34.2 Loans granted to / received from related parties

	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Loans granted to related parties	639	-
Loans received from related parties	3 407	-

34.3 Remuneration of executive management

Remuneration of Members of the Parent company Management Board in the financial year:	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Short-term benefits	3 964	2 763
Post-employment benefits	69	855
Employment termination benefits	315	631
Total	**4 348**	**4 249**

Remuneration of Members of the Parent company Supervisory Board in the financial year:	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Short-term benefits	1 219	837
Total	**1 219**	**837**

Remuneration of Parent company's other executive management (Proxies - Managing Directors) in the financial year:	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Short-term benefits	1 999	1 422
Post-employment benefits	181	-
Share-based payments	-	11
Employment termination benefits	204	19
Total	**2 384**	**1 452**

Remuneration of Members of the subsidiaries Management Board in the financial year:	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Short-term benefits	6 553	4 412
Post-employment benefits	611	1 576
Employment termination benefits	264	118
Total	**7 428**	**6 106**

Remuneration of Members of the subsidiaries Supervisory Board in the financial year:	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Short-term benefits	1 125	1 103
Total	**1 125**	**1 103**

Remuneration of subsidiaries' other executive management (Proxies, Managing Directors) in the financial year:	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Short-term benefits	3 687	2 197
Post-employment benefits	337	-
Employment termination benefits	96	50
Total	**4 120**	**2 247**

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

35. Operating lease agreements

35.1 Company as a lessee

35.1.1 Terms of lease

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

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

35.1.2 Rents recognized as an expense during the period

	For the year ended 31/12/2015 (audited)	For the year ended 31/12/2014 (audited)
	PLN thousand	PLN thousand
Minimum lease payments	130 129	80 223
Subleases fees received	(1 163)	-
	128 966	**80 223**

35.1.2.1 Future minimum lease payments under non-cancellable operating leases

	As at 31/12/2015 (audited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Up to 1 year	61 827	62 753
1 year – 5 years	47 886	15 248
Above 5 years	11 347	11 517
	121 060	**89 518**

36. Commitments to incur expenses for non-financial assets

In 2015 the Parent company concluded an agreement for delivery and maintenance of 15 multisystem engines. The contract agreement covers the supply of 15 multisystem engines, hardware and computer software, spare parts and full maintenance of engines within 8 years period. The agreement also includes the service of first overhaul after 8 years of exploitation, with an option to withdraw. According to the schedule engines will be delivered between January 2016 and June 2017. As at 31 December 2015 the future value of liabilities connected with the aforementioned agreement amounts to EUR 72,083 thousand, which is equivalent of PLN 307,182 thousand.
The agreement also provides for the possibility of extending the delivery for further 5 multisystem engines with additional services. The contract value of additional purchase amounted to EUR 26,038 thousand, which is equivalent of PLN 110,962 thousand.

In addition, as at 31 December 2015, the Parent company has future investment liabilities connected with concluded in previous year's agreements that are unrealized as at the reporting date:
a) an agreement regarding modernisation of SM-48 series diesel engines, amounting to PLN 13,920 thousand,
b) an agreement for construction and delivery of Sggrss container wagons, amounting to PLN 5,750 thousand. The agreement is covered by subsidies up to 30% of the value of contract.

The other entities from the Group do not have significant commitments to incur expenses for non-financial assets.

37. The conditional agreement for the acquisition of assets by PKP CARGO Group entities

On 16 November 2015:

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

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

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

In the case of a KolTrans sale agreement the highest guarantee payments are equal to:
a) 25% of the shares sale price for the benefit of PKP CU,
b) 35% of the shares sale price for the benefit of PKN ORLEN S.A.;

In the case of the ZCP sale agreement the highest guarantee payments are equal to:
a) 25% of the sale price for the benefit of PKP CARGO S.A. or another subsidiary,
b) 35% of the sale price for the benefit of Euronaft.

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

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

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

38. Contingent liabilities

	As at 31/12/2015 (audited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Guarantees issued by banks on request of entities belonging to Group (i)	77 181	36 431
Proceedings carried out by OCCP (ii)	-	9 946
Other contingent liabilities (iii)	98 397	75 797
Total	**175 578**	**122 174**

(i) Guarantees issued by banks on request of entities belonging to Group

As at 31 December 2015 guarantees issued by banks on request of entities belonging to PKP CARGO Group are presented as contingent liabilities. The balance relates mainly to good performance bond and bid bonds. The increase of contingent liabilities from bank guarantees in the period 12 months of 2015 mainly results from acquired contingent liabilities as part of acquisition of AWT.

(ii) OCCP proceedings

In connection with a judgement of District Court in Warsaw from 23 November 2015 on decision of the President of OCCP no. RWR 44/2015 of 31 December 2012, the Group ceased to recognize contingent liability to OCCP. Information on the above proceeding is described in Note 32 of these Consolidated Financial Statements.

(iii) Other contingent liabilities

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

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

In addition, other contingent liabilities include mainly conducted by the subsidiary PKP CARGO CONNECT Sp. z o.o. guarantee agreements with recourse with the right to insurance companies. As at 31 December 2014 the total value of the PKP CARGO CONNECT Sp. z o.o. contracts with insurance companies amounted to PLN 27,600 thousand, while as at 31 December 2014, the total value amounted to PLN 27,100 thousand.

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

39. Events after reporting date

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

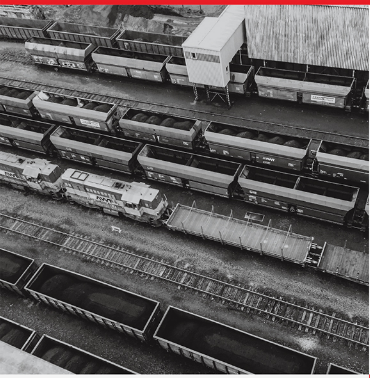
40. Approval of the Consolidated Financial Statements

These Consolidated Financial Statements were approved by the Management Board of the Parent company and approved for publication on 17 March 2016.

Management Board of the Parent company

Maciej Libiszewski	President of the Management Board
Dariusz Browarek	Member of the Management Board

Warsaw, 17 March 2016



pkpcargo.com

MANAGEMENT BOARD'S REPORT OF THE ACTIVITIES OF **PKP CARGO** CAPITAL GROUP IN 2015

MANAGEMENT BOARD REPORT ON THE ACTIVITY OF THE PKP CARGO GROUP FOR THE FINANCIAL YEAR 2015

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

1. Financial highlights of the PKP CARGO Group

Table 1 Financial highlights of the PKP CARGO Group

PKP CARGO Group	PLN 000s		EUR 000s	
	12 months* 2015 (audited)	12 months** 2014 restated data*****	12 months 2015 (audited)	12 months 2014 restated data*****
Operating revenues	4,554,133	4,274,335	1,088,256	1,020,298
Profit (loss) on operating activities	55,911	120,927	13,360	28,866
Profit before tax	11,848	93,521	2,831	22,324
Net (loss) profit	31,411	78,282	7,506	18,686
Total comprehensive income attributable to the owners of the parent company	108,892	43,759	26,021	10,445
*Adjusted profit (loss) on operating activities****	166,970	386,258	39,899	92,201
*Adjusted profit (loss) before tax****	122,907	358,852	29,370	85,659
*Adjusted net profit(loss)****	95,191	293,200	22,747	69,988
*Adjusted total comprehensive income attributable to the owners of the parent company****	172,672	258,677	41,262	61,747
Weighted average number of shares (units)	44,786,917	44,524,924	44,786,917	44,524,924
Weighted average number of shares used to calculate diluted profit (units)	44,786,917	44,790,878	44,786,917	44,790,878
Earnings per share (PLN, EUR)	0.70	1.70	0.17	0.41
*Adjusted earnings per share (PLN, EUR)****	2.13	6.59	0.51	1.57
Diluted earnings per share (PLN, EUR)	0.70	1.70	0.17	0.41
Net cash flow from operating activities****	387,502	559,932	92,597	133,658
Net cash flow from investing activities	-515,199	-238,743	-123,112	-56,989
Net cash flow from financing activities	-29,447	-155,711	-7,037	-37,169
Movement in cash and cash equivalents	-157,144	165,478	-37,551	39,500

	31 December 2015	31 December 2014	31 December 2015	31 December 2014
Non-current assets	4,979,501	4,254,465	1,168,486	998,162
Current assets	1,089,100	1,408,307	255,567	330,410
Non-current assets classified as held for sale	44,061	17,560	10,339	4,120
Share capital	2,239,346	2,239,346	525,483	525,384
Equity attributable to the owners of the parent company	3,353,866	3,331,793	787,015	781,689
Equity attributable to non-controlling interests	-	63,500	-	14,898
Non-current liabilities	1,586,088	1,165,414	372,190	273,424
Current liabilities	1,172,708	1,119,625	275,187	262,681

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

* Each time whenever the Report mentions the year 2015, it should be understood as 12 months ended 31 December 2015
** Each time whenever the Report mentions the year 2014, it should be understood as 12 months ended 31 December 2014
*** The data for 2015 were adjusted for presentation purposes for the profit on bargain purchase of AWT in the amount of PLN 137.8 million, the impairment loss on property plant and equipment and assets classified as held for sale in the amount of PLN 178.7 million and the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Board and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million, whereas in 2014 the presentation data were adjusted for the costs following from the implemented 1st Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Board and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 265.3 million
**** Including the performance of liabilities stemming from the implemented 1st and 2nd Voluntary Redundancy Program in the amount of PLN 287.4 million
***** Translation of comparable data is described in detail in Note 5 to the Annual Consolidated Financial Statements

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

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

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

PKP CARGO Group	PLN 000s		EUR 000s	
	2015	2014 restated data**	2015	2014 restated data**
Profit (loss) on operating activities	**55,911**	**120,927**	**13,360**	**28,866**
Corrections:				
Operating revenues				
Bargain purchase of AWT	137,779	-	32,924	-
Operating expenses				
VRP I	-	265,331	-	63,335
VRP II	70,179	-	16,770	-
Impairment loss on property plan and equipment	178,659	-	42,692	-
Adjusted profit (loss) on operating activities*	**166,970**	**386,258**	**39,899**	**92,201**

Source: Proprietary material

* The data for 2015 were adjusted for presentation purposes for the profit on bargain purchase of AWT in the amount of PLN 137.8 million, the impairment loss on property plant and equipment and assets classified as held for sale in the amount of PLN 178.7 million and the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Board and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million, whereas in 2014 the presentation data were adjusted for the costs following from the implemented 1st Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Board and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 265.3 million

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

2. Organization of the PKP CARGO Group

2.1. Highlights on the PKP CARGO Group[1]

The PKP CARGO Group is the second largest rail freight operator 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[2]) and it is the second largest operator on the Czech market (according to SZDC[3]). Notwithstanding the areas mentioned above, the Group conducts operations that it is constantly developing in Czech Republic, Slovakia, Germany, Austria, Belgium, the Netherlands, Lithuania and Hungary.

The Group offers comprehensive logistics handling under which, on top of the rail freight transport service, the following auxiliary and complementary services are provided:

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

2.2. Units subject to consolidation

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

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

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

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

[1] Whenever the Report mentions:
- The Company or Parent Company, it should be construed to mean PKP CARGO S.A.,
- PKP CARGO Group, Group or Capital Group it should be construed to mean PKP CARGO S.A. and its subsidiaries collectively.

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

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

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

PKP CARGO S.A.

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

PKP CARGO SERVICE Sp. z o.o.

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

PKP CARGOTABOR Sp. z o.o.

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

PKP CARGOTABOR USŁUGI Sp. z o.o.

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

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

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

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

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

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

PKP CARGO CONNECT Sp. z o.o.

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

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

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

Cargosped Terminal Braniewo Sp. z o. o.

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

CARGOTOR Sp. z o.o.

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

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

Advanced World Transport B.V.

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

Advanced World Transport a.s.

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

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

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

AWT Čechofracht a.s.

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

AWT Rekultivace a.s.

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

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

AWT ROSCO a.s.

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

AWT Coal Logistics s.r.o.

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

AWT Rail HU Zrt.

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

2.3. Organizational structure of the PKP CARGO Group

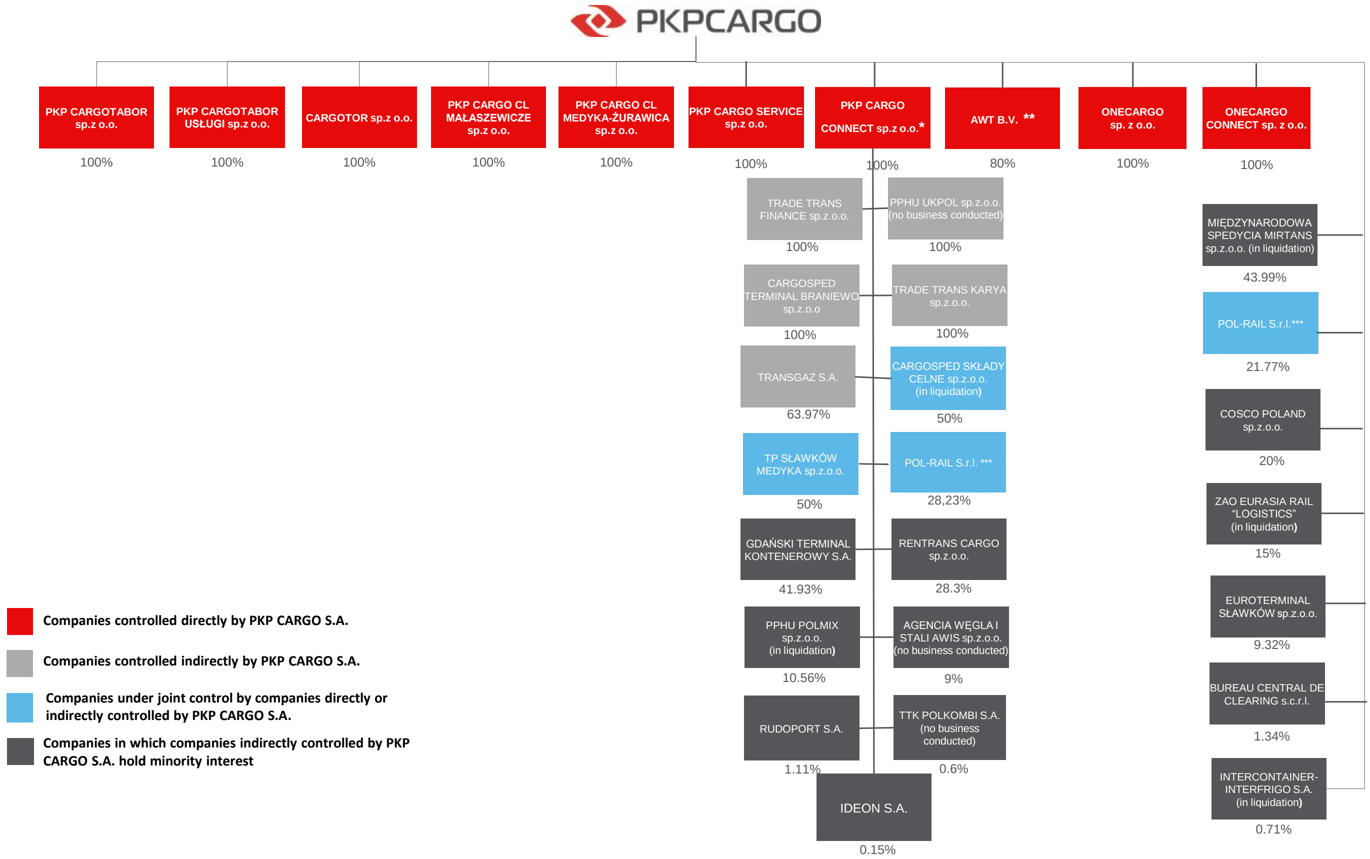
As of 31 December 2015, the PKP CARGO Group consisted of the following entities besides PKP CARGO S.A.: 29 subsidiaries of PKP CARGO S.A., controlled directly or indirectly (by entities controlled by PKP CARGO S.A.), including:

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

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

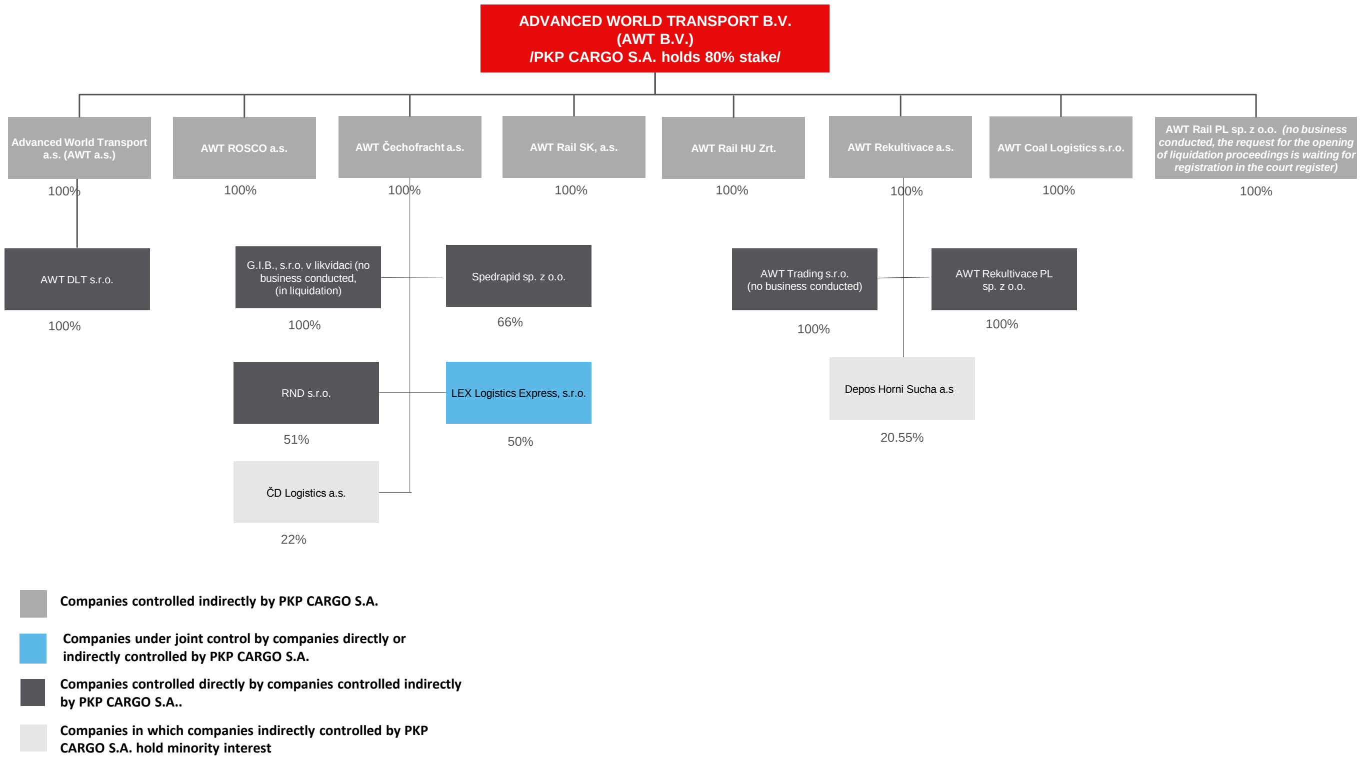
The figure below presents the organizational links between PKP CARGO S.A. and other entities as at 31 December 2015:

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



** On 31 December 2015, the merger of PKP CARGO CONNECT Sp. z o.o. and CARGOSPED Sp. z o.o. was registered in the National Court Register (KRS).*
*** Figure 2 depicts the AWT Group's full structure and capital ties with companies in which the AWT Group's companies hold shares or interests (minority stakes)*
**** both PKP CARGO S.A. and one of the companies controlled directly by PKP CARGO S.A. - PKP CARGO CONNECT Sp. z o.o. hold shares in POL-RAIL s.r.l. with its registered office in Rome in such a manner that in total these two entities belonging to the PKP CARGO Group hold a 50% equity stake in the share capital of POL-RAIL s.r.l.*

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



2.4. Consequences of changes to the structure of the Company and the Group

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

- on 5 February 2015, PKP CARGO S.A. acquired 640 shares in PS TRADE TRANS Sp. z o.o. (at present: PKP CARGO CONNECT Sp. z o.o.) with its registered office in Warsaw, representing in total a 44.44% stake in this company's share capital in the possession of Trade Trans Invest a.s. with its registered office in Bratislava. As a result of this transaction, PKP CARGO S.A. became this company's sole shareholder with a 100% equity stake in its share capital. These changes intend to acquire full control over the company to optimize the structure of the PKP CARGO Group, including inter alia the conduct of freight forwarding and terminal activity.

- on 5 February 2015 PKP CARGO S.A. acquired 490 shares in PKP CARGO International a.s. in liquidation with its registered office in Bratislava, representing in total a 49% stake in this company's share capital in the possession of Rail Cargo Spedition a.s. with its registered office in Bratislava. As a result of this transaction, PKP CARGO S.A. became this company's sole shareholder with a 100% equity stake in its share capital. In July 2015, The Extraordinary Shareholder Meeting of PKP CARGO International a.s. in liquidation divided the company's liquidation assets. Cash from liquidation assets was paid to the sole shareholder, PKP CARGO S.A., on 5 August 2015. The liquidation procedure of PKP CARGO International a.s. ended on 26 November 2015 (the company was deleted from the Slovak business register). The purpose of the above-described acquisition of shares in the company PKP CARGO International a.s. in liquidation it was to accelerate the process of liquidation of the company.

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

On 31 March 2015, PKP CARGO International a.s. in liquidation entered into an agreement with CFL CARGO S.A. to sell 31 shares (all the shares it held i.e. 50% of the share capital) in PKP CARGO CFL International S.A. in liquidation. As a result of this transaction PKP CARGO International a.s. in liquidation no longer holds any shares in PKP CARGO CFL International S.A. in liquidation. The above-described sale of shares in the company PKP CARGO CFL International SA in liquidation it was to accelerate the process of liquidation of the company PKP CARGO International a.s. in liquidation.

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

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

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

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

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

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

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

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

Details are presented in Note 6 to the Consolidated Financial Statements of the PKP CARGO Group.

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

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

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

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

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

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

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

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

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

The on-going acquisition of ORLEN KolTrans Sp. z o.o. and ZCP Kolej is aimed at strengthening the position of the PKP CARGO Group in the Polish market, in a segment that guarantees extending the Group's competences, increasing its profitability and competitiveness.

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

The Parent Company

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

PKP CARGO Group

Mergers of companies dedicated to freight forwarding activity

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

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

2.6. 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 2015.

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

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

Source: Proprietary material

A list of all the subsidiaries and associates can be found in Notes 15-16 to the Consolidated Financial Statements of PKP CARGO Group for the financial year ended 31 December 2015 prepared according to EU IFRS.

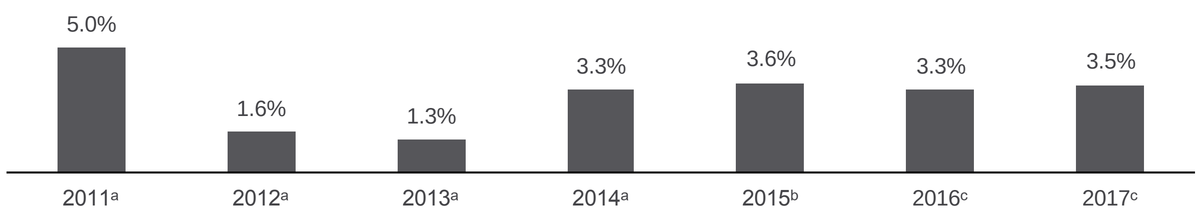
3. Key areas of operation of the PKP CARGO Group

3.1. Macroeconomic environment

Polish economy

According to the preliminary estimates of the Central Statistical Office of Poland, the Polish economy achieved growth of 3.6% yoy in 2015.[4] Forecasts for the coming years are positive, however GDP growth will not be as high as it was in 2015. It is expected that GDP growth in 2016 will be 3.3% yoy and will reach 3.5% yoy in 2017.[5] The current positive economic situation is confirmed by good business conditions in the industry: preliminary estimates show that sales in industry grew by 4.9% yoy and construction and installation production by 3.0% yoy. In December 2015, PMI (*Purchasing Managers Index*) was 52.1. This confirms the increased economic activity, which however was not as high as in December 2014 when PMI was 52.8.
In spite of the reduction of its GDP growth forecasts by the NBP *(National Bank of Poland)*, the estimated growth of Poland's economy is still higher than the average growth in other EU economies.

Figure 3 GDP growth in Poland in 2011-2014 per annum and 2015-2017 forecast



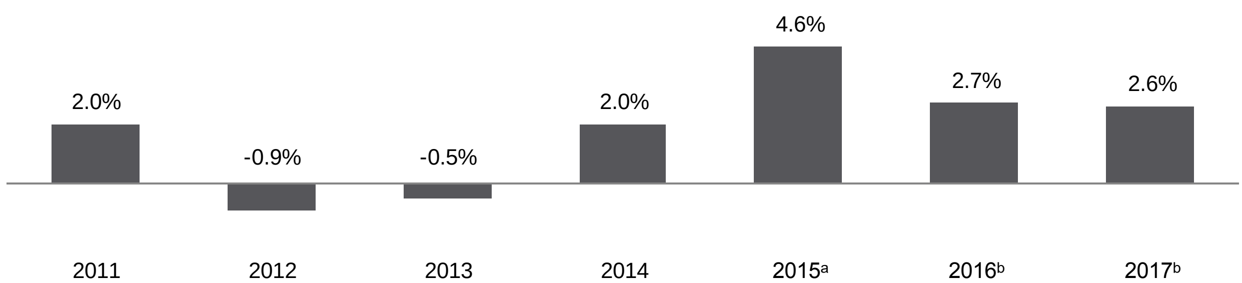
Source: Central Statistical Office (note: in 2014, the Central Statistical Office aligned its GDP calculation methodology with the ESA 2010 standards; this modified methodology has also been applied to adjust GDP readings in the previous years)

[a] *the change results from the revision of estimates by the Central Statistical Office of Poland (of 16 October 2015)*
[b] *preliminary estimates of the Central Statistical Office (of 26 January 2016)*
[c] *National Bank of Poland forecast (November 2015)*

Czech economy

According to the Czech Republic's Finance Ministry reasons for the strong growth of the Czech economy can be many. Some of them are referred to as one-off factors, or short-term, the impact of which is limited to the year 2015. Mainly they relate to the use of EU funds from an EU perspective 2007-2013 that could be spent by the end of 2015. Further preferred factors are fiscal stimulation and a positive supply shock in the form of a drop in world oil prices. However, it is estimated that the last stimulus also will have a limited effect in time. The current forecast predicts GDP growth of 2.7% yoy in 2016 and of 2.6% yoy in 2017.[6]

Figure 4 Real GDP growth in the Czech Republic in 2011-2014 per annum and 2015-2016 forecast



Source: Czech Republic's Finance Ministry, Macroeconomic Forecast January 2016

[a] *preliminary estimates of the Czech Republic's Finance Ministry*
[b] *forecast of the Czech Republic's Finance Ministry*

[4] GUS
[5] NBP's forecast (November 2015)
[6] Macroeconomic forecast January 2016 (Ministry of Finance, Financial Policy Department)

According to the survey pertaining to macroeconomic forecasts prepared by the Czech Republic's Finance Ministry[7], in 2015 and 2016 the following macroeconomic trends are to be expected:

- It is expected that GDP growth in 2016 will increase to 2.7% yoy and reach 2.6% yoy in 2017. It is expected that the economic growth will continue to translate into domestic demand. There will be dynamic increase of consumption both among governmental organizations (increase by 4.4% yoy) and households (increase by 2.7% yoy);
- the inflation rate amounted to only 0.3% yoy in 2015, and was the lowest since 2003 and the second lowest in the history of the independent Czech Republic. The low inflation is caused mainly by the very significant decline of global mineral fuel prices and low global inflation;
- the situation observed in the labor market is also favorable. It is caused by the economic recovery, which translates into growth of employment. Its growth rate exceeded 1% yoy for four consecutive quarters. The unemployment rate dropped to 4.8% in Q3 2015, which is the second lowest rate in the European Union, just after Germany (4.4%);
- surplus in the current account in the balance of payments probably amounted to 1.2% of GDP in 2015, reaching the highest level in the history of the independent Czech Republic. In addition, the same surplus is planned for 2016.[8]

European economy

It is the third year of the economic recovery in the European Union, which is to be maintained at a similar level, despite the difficult situation in the global economy. The European Commission estimates that in 2015, GDP growth in real terms was 1.9% yoy and is expected to be 1.9% yoy and 2.0% yoy in 2016 and 2017, respectively.[9] The factors that work to the benefit of the European economy include: accommodating monetary policy, weak Euro and lower prices of oil, which are to be maintained in 2016. Moreover, the increase in GDP in real terms is to be supported by greater availability of credit, continuing reduction of debt, higher investments and productivity of work, which contributes to the increase in income in real terms. The European Union's public debt is expected to stay at the current level of 87% of GDP, even though Greece's debt increased to about 179% of GDP in 2015 and is expected to increase to 185% in 2016. The level of the EU's deficit and budget debt fell to 2.5% of GDP in 2015. It is expected to decline to the level of 2.2% of GDP in 2016 and 1.8% of GDP in 2017.[10]

Unfortunately, the impact of the above factors has been reduced by the negative impact of the slow-down of emerging economies and international trade and the continuing geopolitical tension. The Chinese economy is one of primary importance. The European Commission estimates that it will post a 6.9% yoy growth in 2015, only to drop to 6.2% yoy in 2017.[11]

The industry PMI is an important factor indicating an improving condition of the Euro zone economy. In December 2014 it was 50.6 rising to 53.1 in December 2015[12], indicating improving sentiments of managers in the production industry. The improving business conditions are also forecast through inflation: in 2015 it remained flat at 0%, while in 2016 and 2017 it is expected to increase to 0.5% yoy and 1.6% yoy, respectively.[13]

The influx of refugees and migrants to EU member states has been a very important factor affecting the EU economy in recent months. The policy of proper use of the migrating human potential may constitute a threat as well as an opportunity. According to an European Commission forecast incorporating the additional budget expenditures for actions associated with the refugee and migrant issue, but also the potential inflow of additional workforce, the GDP in 2017 may increase by the additional 0.2-0.3% yoy annually.[14]

[7] Czech Republic's Finance Ministry
Twice a year, the Finance Ministry runs research (called the Colloquium) whose purpose is to learn how significant institutions perceive the Czech economy's prospects and how they assess the major trends in the forecasts. Results 39 The Colloquium held in April 2015 relied on the forecasts of 20 institutions (MoF; Ministry of Industry and Trade; Ministry of Labor and Social Affairs; Czech National Bank; Citibank; CYRRUS; Česká spořitelna; ČSOB; Generali Investments CEE; Czech Chamber of Commerce; IDEA CERGE-EI; Institute of Economic Studies, Faculty of Social Sciences, Charles University; ING Bank; J&T Banka; Komerční banka; Liberální Institut + Faculty of Economics, University of Economics; Raiffeisenbank; Union of Czech and Moravian Production Co-operatives; Confederation of Industry of the Czech Republic; UniCredit Bank). To make this survey more representative, EC's forecasts (winter 2015) and the European IMF's economic forecasts (April 2015 World Economic Outlook) were added.
[8] Czech Republic's Finance Ministry
[9] EC forecasts, European Economic Forecast Winter 2016.
[10] EC forecasts, European Economic Forecast Winter 2016.
[11] EC forecasts, European Economic Forecast Winter 2016.
[12] Stooq.pl
[13] EC forecasts, European Economic Forecast Winter 2016.
[14] EC forecasts, European Economic Forecast Autumn 2015.

Industry in Poland

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

Over the entire year 2015, sales in industry increased by 4.9% yoy, compared to 4.1% yoy in 2014. The decline in industrial sales was recorded in just three sectors, while 31 other posted growth. Industries with higher sales included, among others: other transport equipment (+17.8% yoy), including locomotives and rolling stock (+60.7% yoy); motor vehicles, trailers and semi-trailers (+10.7% yoy); metal products (+6.0% yoy); chemicals and chemical products (+5.2% yoy); wood products (+5.0%). Overall, in the processing industry a 5.8% yoy increase was observed, including 3.4% yoy in water supply, sewerage, waste management and remediation and 1.8% yoy in mining and quarrying[15]. Coal sales were very positively affected by the increased efficiency of mining in the restructured mines and a decline in mining costs from PLN 300 to PLN 240 per ton after the end of Q2 2015.[16][17]

We should note in particular the production of metals, which increased by 1.2% yoy in 2015, despite the concerning situation on the global commodity market, which drives down the prices of metals and metal products. The situation in the steel industry was positively affected by the change in regulations on the certificates to use "green energy". The solution proposed within the framework of the "Program for Silesia" has also had a positive effect. That program will provide excise tax relief for electricity, which will be very beneficial for energy-intensive industries, including the metallurgical industry. Since the beginning of the previous year, the industry may also benefit from a partial exemption from excise tax for electricity. For energy-intensive branches of the industry, this represents a significant decrease of production costs[18].

In 2015 the situation on the scrap market was very unstable, recorded declines in scrap prices at the level of 20-30%. The reason for the low price was the influx of cheap raw material exports (mainly from China), and its purchase by the Polish steelworks. Low prices persist to the present.

The sales of crude oil and refined petroleum products were affected by events such as: the nuclear deal with Iran and abolishment of an embargo for this commodity and an increase of its inventories in the USA. In January 2016, the US Department of Energy announced that its crude oil inventories rose to 482.56 million barrels. This means an increase of oil oversupply, which will exert even stronger price pressures on oil and oil derivatives. As at 31 December 2015, the price per barrel was USD 37.04. A comparable price per barrel was recorded in September 2003.[19]

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

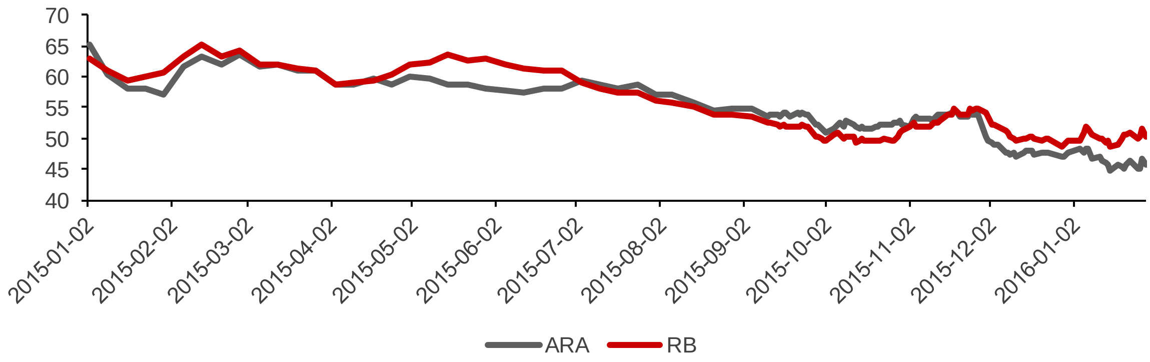
<u>Mining industry</u>

In 2015, the output of Poland's hard coal mining sector was 72.5 million tons, compared to 73.3 million tons in 2014, down by 1.1% yoy. Average monthly ARA prices were subject to increased pressures during the year. In December 2015, the average ARA price was 47.83 USD/t, down by 22.53 USD/t from the average ARA of 70.36 USD/t in December 2014.[20] The mining industry was adversely affected by the levels of stockpiled coal inventories. Despite the reduction to 5.82 million tons in December 2015 from 8.21 million tons in December 2014 (down by 29.1%), the inventories remain high.[21]

The Polish mining industry has been materially affected by the restructuring process of the unprofitable Kompania Węglowa mines, which has been planned and is to be implemented by the end of the first half of 2016. The structural transformation process is to be supported by listed companies: PGE, Energa and PGNiG Termika.[22] Additionally in 2016, private investors will be able to enter the market after they obtain a mining concession. Through private businesses, it will be possible to create mines with mining efficiency superior to that of those currently operating in Poland. It is expected that such projects will result in the stabilization of the mining market.[23]

[15] GUS Statistical Bulletin (includes data of enterprises employing more than 9 people)
[16] Information Center on the Energy Market
[17] Information Center on the Energy Market
[18] Biznes PAP
[19] Forsal
[20] Virtual New Industry
[21] Polish Coal Market
[22] Virtual New Industry
[23] Virtual New Industry

Figure 5 Coal prices on ARA vs. RB markets*



Source: Virtual New Industry

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

Steel industry

It may be inferred from the World Steel Association data that Poland was one of the few European countries that increased its steel output: by approx. 60% from 8.6 million tons in 2014 to 9.1 million tons.[24] When compared to the overall production in Europe, which dropped from 169.3 million tons in 2014 to 166.2 million tons in 2015 (down by 1.8% yoy), those are indeed very good figures. The Polish Steel Association calculated that the consumption of steel increased to 12.5 million tons, from 12.3 million tons in 2014. In 2015, two thirds of the demand were satisfied by imports.[25] The analysts forecast steel production and consumption to increase by 2-3% in 2016 and 2017 if no changes in the demand occur. Of special importance is to maintain the current consumption levels in construction, road, railway and power industry investment projects. Other sectors with significant influence on the increase in the production and consumption of steel are the construction, engineering and automotive industries.

A decline in prices, caused by price pressures on the raw materials for steel production, is a very important factor affecting the business conditions of the steelmaking industry. The pressures resulted from the general crisis on the market for raw materials and an economic slowdown in China. It is speculated that raw material prices have already reached the minimum levels and they should return to a growth path in 2016.[26]

The decline in the prices of raw materials and semi-finished products also caused a decline in prices of metal products by 1.0% yoy[27], while the sales of industrial production in the metal products industry increased by 6.0% yoy[28]. The prices of metals rose by 1.2% yoy[29] and production of metals by 0.3% yoy[30].

The prices in international trade in iron ore have been falling continuously since August 2015, reaching 39.6 USD/t in December, down by as much as 42.4% yoy from 68.8 USD/t in December 2014. The highest prices of almost 190 USD/t and 150 USD/t were recorded in 2011 and 2013, respectively.[31]

Construction industry

The indicator of construction and installation production in businesses with more than 9 employees increased by 2.8% yoy in 2015 (cs. 3.6% in 2014). Positive growth in construction and installation production was recorded in land and water engineering (up by 4.2% yoy 2015, up by 8.6% in 2014), specialist construction works (up by 2.5% yoy vs. 7.5 yoy in 2014) and in building construction (up by 1.4% yoy vs. -4.0% yoy in 2014). During the year, investment project construction declined by -2.1% yoy, compared with an increase of 1.8% yoy in 2014[32].

[24] World Steel Association
[25] Inzynieria.com
[26] PAP Biznes
[27] GUS Statistical Bulletin (includes data of more than 3.3 thousand enterprises, employing more than 9 people)
[28] GUS Statistical Bulletin (includes data of industrial and non-industrial enterprises, no limit on the number of employees)
[29] GUS Statistical Bulletin (includes data of more than 3.3 thousand enterprises, employing more than 9 people)
[30] GUS Statistical Bulletin (includes data of industrial and non-industrial enterprises, no limit on the number of employees)
[31] http://www.indexmundi.com
[32] GUS Statistical Bulletin (includes data of enterprises employing more than 9 people)

In December, the business tendency indicator in construction reached -16.1, compared with -11.6 in November and -19.0 in December 2014. The construction sector businesses, which influenced the level of the indicator, estimated that since September 2015, the order portfolio, construction and installation production and the financial standing had been deteriorating, however the decline in employment may be slightly lower than anticipated in November. In 2015, the construction industry recorded a 5.8% yoy decrease in employment and in 2014 average employment growth was -7.7% yoy. This is correlated with the barriers for business activity. The businesses mention mainly the high cost of employment (important for 60.6% of businesses, vs. 61.2% one year before), high amounts due to the State Treasury (41.9% vs. 40.5% in December 2014) and unclear and inconsistent legal regulations (31.9% vs. 29.7% in December 2014)[33].

The good outlook for the construction industry may be ensured by an increase in the value of infrastructural investments, which are yet to begin (also those for which tender procedures were completed in 2015). Additionally, the record high investments in residential housing have a positive effect on the forecasts. One threat for the construction sector is the expected decline in corporate investments in architecture.[34]

Another possible threat is the lack of financial resources to implement the National Road Building Program in 2014-2023 with the outlook towards 2025. It was initially assumed that the execution of the infrastructural works will cost PLN 93 billion, however following an extension of the program, the cost of construction rose to PLN 107 billion. The main reason is the completion or significant reduction of EU financing after the EU framework 2014-2020 ends and significant costs of maintaining and repairing the existing roads.[35]

Industry in the Czech Republic

Industrial production in 2015 grew by 4.4% yoy, and following seasonal adjustment taking into account the number of working days, it increased by 4.6% yoy. The biggest contribution in the growth of industrial production was made by the production of passenger cars, trailers and semi-trailers (+2.0 p.p., up by 11.5% yoy), production of rubber and plastics (+0.7 p.p., up by 9.8% yoy) and production of finished metal products (+0.6 p.p., up by 6.7% yoy). However the industrial production in generation and distribution of electricity, gas, steam and air for air-conditioning systems (-0.3 p.p., down by 2.2% yoy), chemicals and chemical products (-0.2 p.p., down by 5.7% yoy) and mining and extraction of raw materials (-0.1 p.p., down by 1.7% yoy) decreased[36].

Revenues from industrial activity at current prices in 2015 rose by 2.5% yoy. Direct export revenues of industrial companies at current prices increased by 5.7% yoy. Revenues from domestic sales, which comprises indirect exports through non-industrial companies, at current prices decreased 1.3% yoy[37].

The value of new orders in selected sectors in 2015 increased by 5.9% yoy. New orders from abroad increased by 8.0% yoy, while new domestic orders rose by 2.1% yoy.

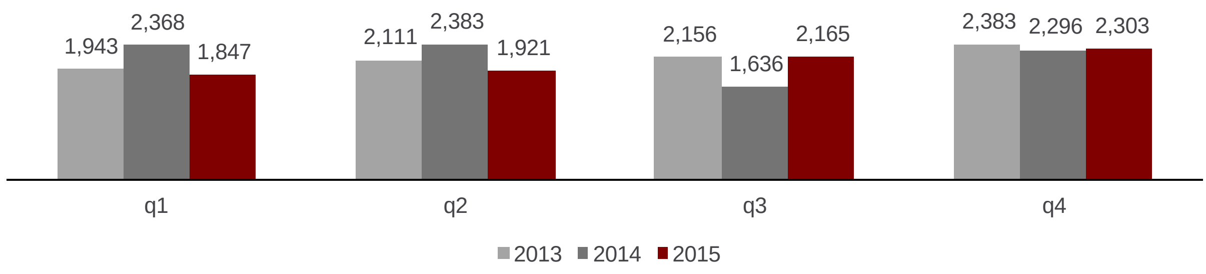
The average number of registered employees in industrial companies employing 50 or more staff in 2015 increased 3.4% yoy. The average monthly nominal gross salary of such employees in 2015 increased by 2.6% yoy and amounted to CZK 28,344[38].

<u>Mining industry</u>

The figure below shows hard coal production in 2013-2015; the full annual breakdowns do not comprise coke or coal deposit, only coking coal and steam coal. OKD a.s. is the only producer of hard coal in the Czech Republic. Coal is extracted by this company in underground mines in the southern part of the Upper Silesian Coal Basin[39]. The total hard coal production in 2015 amounted to 8.24 million tons, compared to 8.68 million tons in 2014, which means that the output dropped 5.2% yoy.

[33] Central Statistical Office of Poland
[34] Infrastructure Market
[35] Biznes.pl
[36] Czech Statistical Office
[37] Czech Statistical Office
[38] Czech Statistical Office
[39] OKD

Figure 6 Extraction of hard coal in the Czech Republic in 2013-2015 (thousand tons)

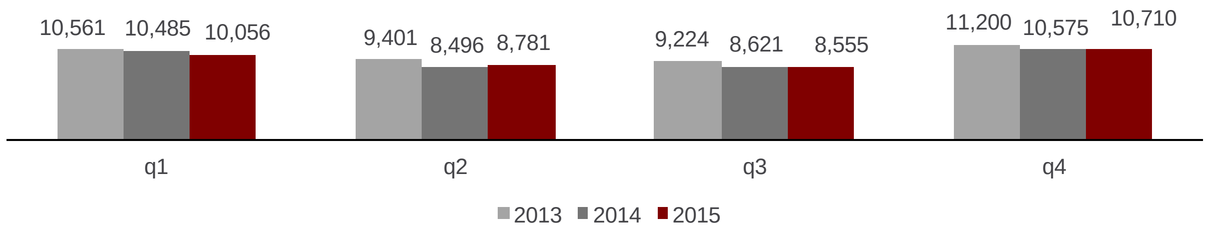


Source: Czech Ministry of Industry and Trade

The future of hard coal mining is still uncertain, just like the future of OKD a.s. According to a declaration by the director general of OKD a.s., the Paskov, Lazy and Darkov mines should be decommissioned by 2018. In the years to come OKD a.s. may manage the only operative mines ČSA and ČSM, but this is only one of the possible scenarios[40]. According to New World Resources (OKD a.s.'s parent with its registered office in the Netherlands), it is expected that hard coal production in the years to come will decrease from 6.6 million tons in 2016 (estimate value) to 4.8 million tons in 2020 (estimate value).

The biggest producers of brown coal in the Czech Republic are: Severeročeské doly a.s., Sokolovská uhelná a.s., Vršanská uhelná a.s. and Severní energetická a.s. The total amount of extracted brown coal in 2015 amounted to 38.1 million tons. In 2014, 38.2 million tons were extracted, down by 0.3% yoy. The Czech government has approved exceeding of the mining limitations in the Bílina mine (Severočeské doly, member of the ČEZ group), which may ease the gradual decrease of coal mining in the future[41].

Figure 7 Extraction of brown coal in the Czech Republic in 2013-2015 (thousand tons)



Source: Czech Ministry of Industry and Trade

Steel industry

The metallurgical industry in the Czech Republic consists mainly of sub-groups: metallurgy (ferrous and non-ferrous) and the metal foundry industry. Development in this sector is caused primarily by strong demand from the automotive industry, construction and mechanical engineering. The impediment the Czech Republic's economy faces is its geographic location, i.e. lack of access to the sea and water connections. Consequently, the costs of international transport are higher, which constitutes a barrier to export of these goods[42].

According to Eurofer (European Steel Association), the SWIP index in the Czech Republic in 2014 increased by 5.7% yoy, and in 2015, a 4.3% increase yoy was anticipated and another 4.0% yoy in 2016. The SWIP index includes such sectors of the steel industry as automotive industry, construction, metal products, steel pipes and machine construction.

According to Steel Federation a.s. data for the entire 2015, the monthly growth rate of production of selected goods can be classified as slightly decreasing. This was caused by higher production of steel products in H1 2015. Throughout 2015 production of rolled products increased 1.56% yoy. In the same period the production of pig iron dropped by 2.92% yoy, and raw steel by 1.86% yoy.[43]

[40] ekonomika.idnes.cz
[41] usti.idnes.cz
[42] http://www.budoucnostprofesi.cz/sectoral-studies/industries-development/14_manufacture-of-basic-metals-and-fabricated-metal-products.htm
[43] Steel Production in Czech Republic, Eurofer Economic Committee Meeting April 2015

Construction industry

Following years of a downward trend in production (2008-2013) the construction industry in the Czech Republic shows signs of recovery and an increasing trend has been noticeable since 2014. Construction and installation production in 2015 increased by 5.5% yoy. The figure adjusted for seasonality by the number of working days increased by 5.6% yoy. Construction production increased by 0.6% yoy (+0.4 p.p.) and engineering construction production grew by 16.4% yoy (+5.1 p.p.). Compared to 2008, when the construction boom occurred, construction and installation production recorded a 16.1% decline [44].

The number of orders from construction companies employing 50 or more employees in 2015 increased by 3.7% yoy, which translated into 47,927 orders. The total value of orders dropped 2.3% yoy and amounted to CZK 181.7 billion. The total value of orders for building construction was CZK 69.8 billion (up by 1.1% yoy) and civil engineering contracts CZK 111.9 billion (down by 4.2% yoy). The average value of new construction orders amounted to CZK 3.8 million and was 5.7% lower yoy. By the end of 2015 construction companies employing 50 or more employees signed contracts for nearly 13.2 thousand orders (down by 0.2% yoy), for the total amount of CZK 123.5 billion (down by 24.4% yoy).

The number of building permits issued in 2015 increased by 1.4% yoy, which means that the state planning authorities issued 80,478 permits. The approximate total value of the buildings for which building permits were issued amounted to CZK 254.9 billion and increased 2.0% compared to 2014.

The number of apartment started in 2015 increased by 8.3% yoy and amounted to 26,378. The number of apartments in single-family houses increased 10.3% yoy and in multi-family buildings increased by 2.9% yoy. The number of apartments completed in 2015 increased by 4.8% yoy and amounted to 25,094. The number of completed apartments in single-family houses decreased 0.7% yoy and in multi-family buildings increased by 14.7% yoy.

Automotive Industry

The automotive industry is a crucial industry in the Czech Republic and it is one of the traditional driving forces of the Czech economy. This is not only just because it provides a considerable number of jobs, has a long-standing tradition and regularly manufactures more than one million vehicles per year, but also high position of this part of the Czech economy in Europe, even though the country and the economy is relatively small compared to other member states. The well-developed automotive industry in the Czech Republic does not lose its pace and even goes forward, judging on the ratios such as the number of manufactured vehicles or the percentage of the workforce employed in the automotive industry[45].

The major car passenger manufacturers are: Škoda Auto, Hyundai Motor Manufacturing Czech (HMMC) and Toyota Peugeot Citroën Automotive (TPCA). Buses and vans are manufactured by: SOR Libchavy, Iveco Bus, Skoda Electric and Tatra.

According to the Automotive Industry Association, 1,328,788 road vehicles were manufactured in 2015 in the Czech Republic, including 1,305,330 motor vehicles (up 4.2% yoy) and 23,458 trailers (down 8.3% yoy). This is the highest annual production of vehicles in the history of the Czech Republic and Czechoslovakia. According to the data from automotive companies, production of passenger cars and small vans in the Czech Republic reached almost 1.3 million in 2015, exactly 1,298,236 (up by 4.2% yoy). This number has exceeded even the estimates prepared during 2015. Another record production of buses was recorded, exceeding 4000 units. In 2015, TATRA Kopřivnice manufactured about 850 vehicles, increasing its production by 3.5% yoy.

[44] Czech Statistical Office
[45] AutoSAP

3.2. Freight transportation activity

The rail freight market is presented with a breakdown into the domestic and international markets. The report also includes data about the Czech market following the consolidation of the AWT Group with the PKP CARGO Group as of 28 May 2015. In 2015, those markets (Polish and Czech) were of key importance for the PKP CARGO Group, especially for PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and AWT a.s.

3.2.1. Rail transport market in Poland

In 2015, there were 66 carriers holding a license for rail freight transport, while in 2014, in addition to the PKP CARGO Group, there were 65 rail carriers operating on the Polish rail freight market. Each of the operators held a license to carry out rail freight operations.

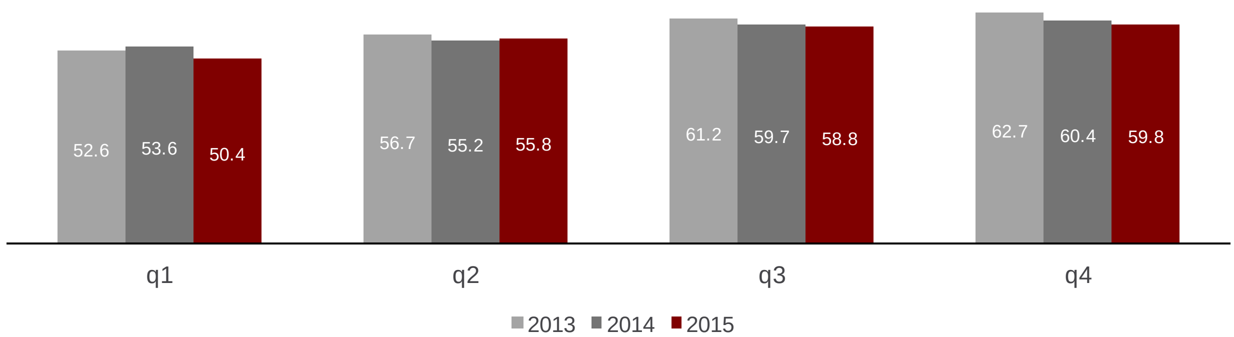
In 2015 224.8 million tons of cargo were transported by rail. Given the freight volume of 228.9 million tons in 2014, this was a decrease by -1.79% yoy. In 2015, actual freight turnover, at 50.6 billion tkm was 1.04% higher than the year before and average haul rose by 6.3 km yoy (+2.87% yoy) to 225.2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

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

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

According to the forecasts, production of and demand for aggregate in 2015 was lower than in the preceding year. In 2014 the production was 240 million tons, declining to 210 million tons in 2015.[46] It is estimated that, because of the shifting execution periods of road and railway investment projects, there is a chance for improvement in this cargo category. It is expected that demand for aggregate may increase by 10% in 2016 to 230 million tons of material. The second half of 2016, when particularly dynamic growth is expected, should be especially important.[47]

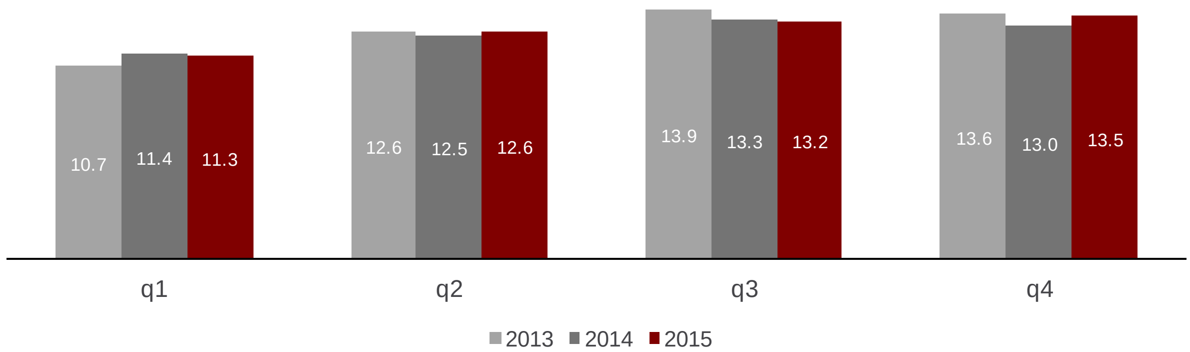
Figure 8 Rail freight volumes in Poland (in million tons) in individual quarters of 2013-2015



Source: Office of Rail Transport

[46] Virtual New Industry
[47] Virtual New Industry

Figure 9 Rail freight volumes in Poland (in billions tkm) in individual quarters of 2013-2015

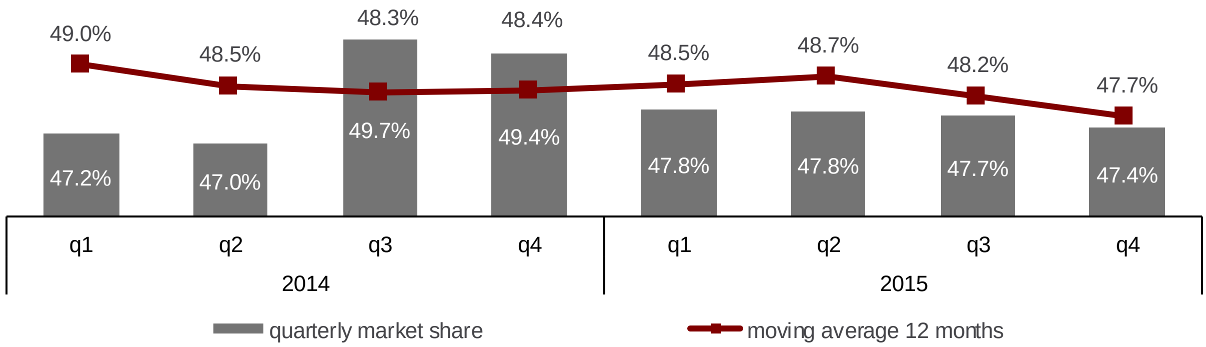


Source: Office of Rail Transport

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

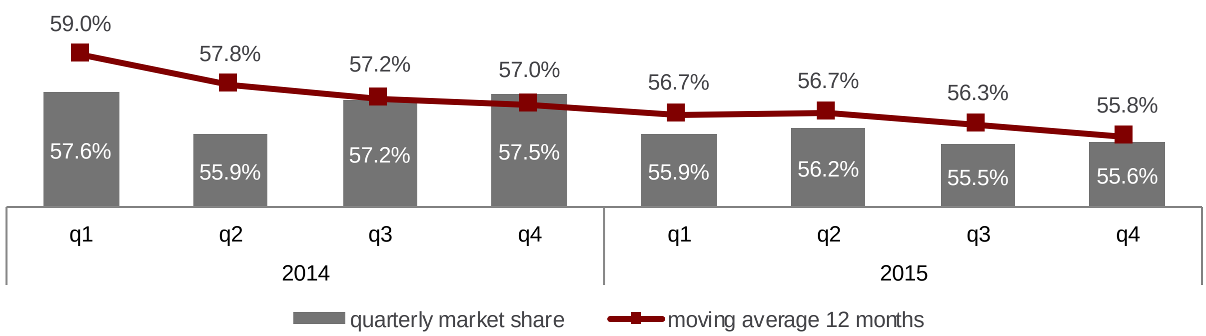
In 2015, the PKP CARGO Group retained the leading position on the railway cargo transport market with a 47.7% market share (-0.7 p.p. yoy) in terms of freight volume and a 55.8% market share in terms of freight turnover (-1.2 p.p. yoy).

Figure 10 Share of the PKP CARGO Group in freight volume in 2014 and in 2015 in Poland



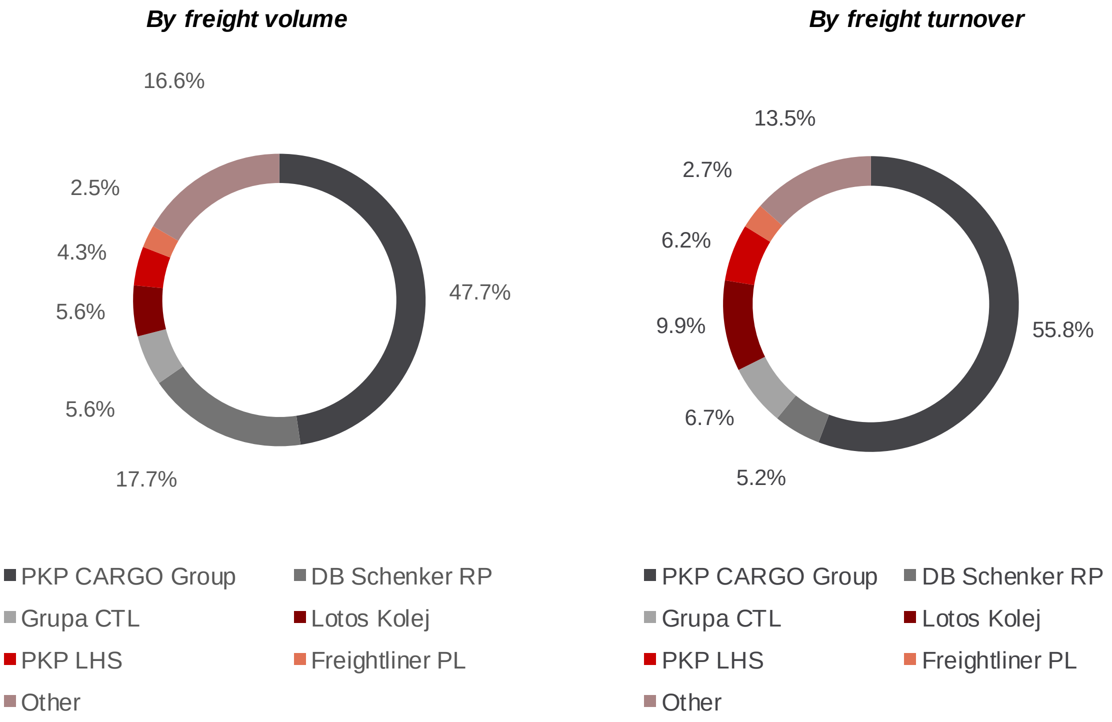
Source: proprietary material based on Office of Rail Transport's data

Figure 11 Share of the PKP CARGO Group in realized freight turnover in 2014 and 2015 in Poland



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

Figure 12 Rail operators' market shares by freight volume and freight turnover in 2015 in Poland



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

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

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

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

3.2.3. Rail freight market in the Czech Republic

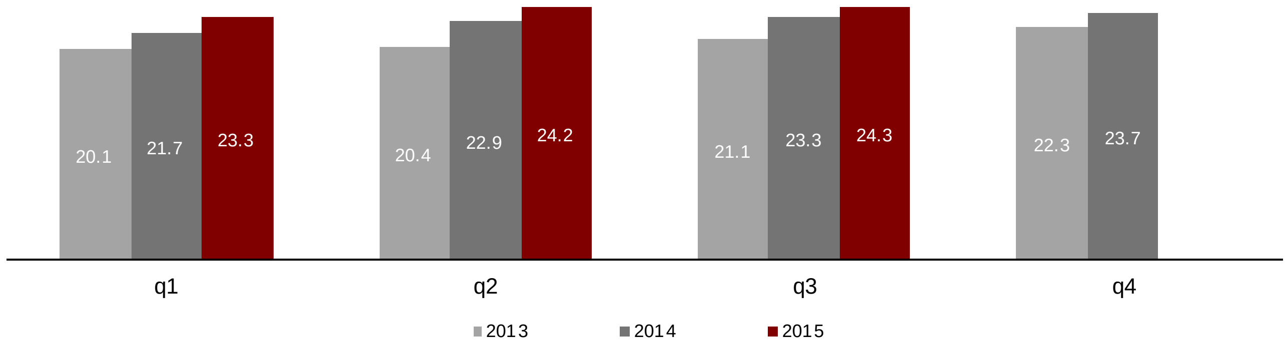
In 2014, the rail freight market in the Czech Republic was estimated at about 480 million tons per annum, of which approx. 91.6 million tons were transported by rail.[48] The largest percentage of the volume was transported by road. Road transport represented 81% of all freight transport; nearly all the remaining cargo was transported by rail (almost 19%). Other means of transportation (air or inland navigation) were not significant for the Czech market.

In Q3 2015, rail transport was used to carry approx. 24.3 million tons of cargo. This is 1.0 million tons, or 4.4%, more than in Q3 2014. The performance recorded in Q3 2015 has been the best since the beginning of 2013. As the results of individual quarters are analyzed, we may conclude that growth would also be posted in Q4 2015 (each quarter breaks the record high levels from the same quarters in previous years).

In terms of freight turnover, the result achieved in Q3 2015 (an increase of 0.16 billion tons, i.e. 4.4% yoy) is the second largest result since the beginning of 2013. The largest freight turnover was achieved in Q4 2014.

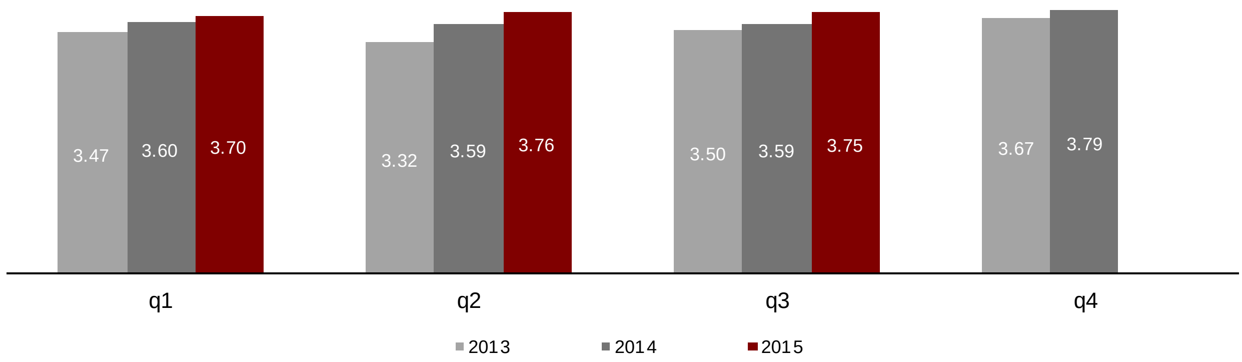
[48] *Czech Statistical Office, data for 2014.*

Figure 13 Rail freight transport by freight volume in Czech Republic in individual quarters of 2013-2015 (million tons)



Source: Czech Republic's Transport Ministry

Figure 14 Rail freight transport by freight turnover in the Czech Republic in individual quarters of 2013-2015 (in billions of tkm)



Source: Czech Republic's Transport Ministry

3.2.4. Position of the AWT Group in the rail transport market in the Czech Republic

According to the annual report of the Czech infrastructure manager (SŽDC), in 2014 there were 89 carriers in the Czech Republic holding licenses to provide rail freight services.[49]

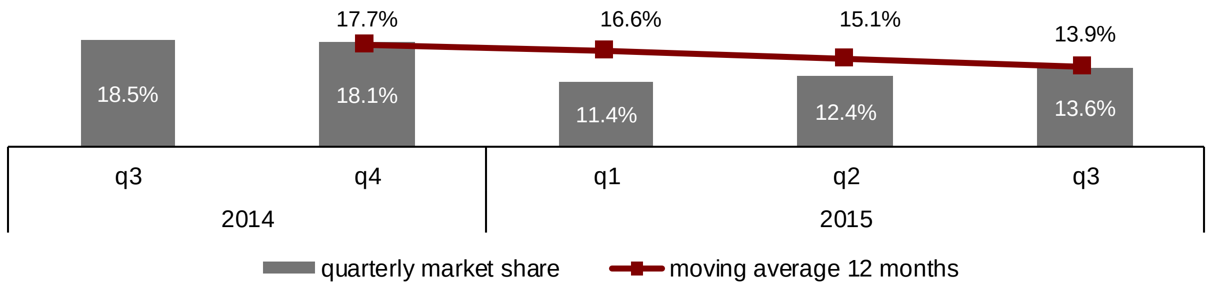
In 2015, AWT had a smaller market share in terms of freight volume than in 2014. The reduced mass after Q4 2014 resulted mainly from the lower volume of freight transported within the Czech Republic. This was caused mainly by lower volumes of coal transported under orders from OKD and loss of lignite transports to the Chvaletice power plant. This decline was offset in part by transports performed for the automotive industry. The lower tonnage of cargo contributed to the reduced market share in terms of volume and in terms of freight turnover.

We should note however that the AWT Group managed to increase the freight volume quarterly. The relevant market shares in terms of freight volume also increased (from 11.4% in Q1 2015 to 13.6% in Q3 2015).

After the market share in terms of freight turnover fell in Q1 2015 vs. Q4 2014, quarterly market share hikes were recorded from 8.2% in Q2 2015 to 8.8% in Q3 2015.

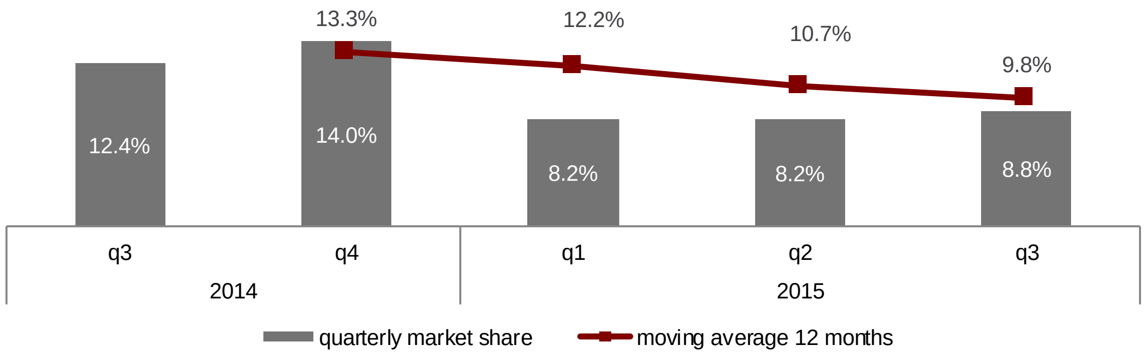
[49] Správa železniční dopravní cesty (SŽDC)

Figure 15 Share of AWT a.s. in freight volume in 2014 and in 2015 in the Czech Republic



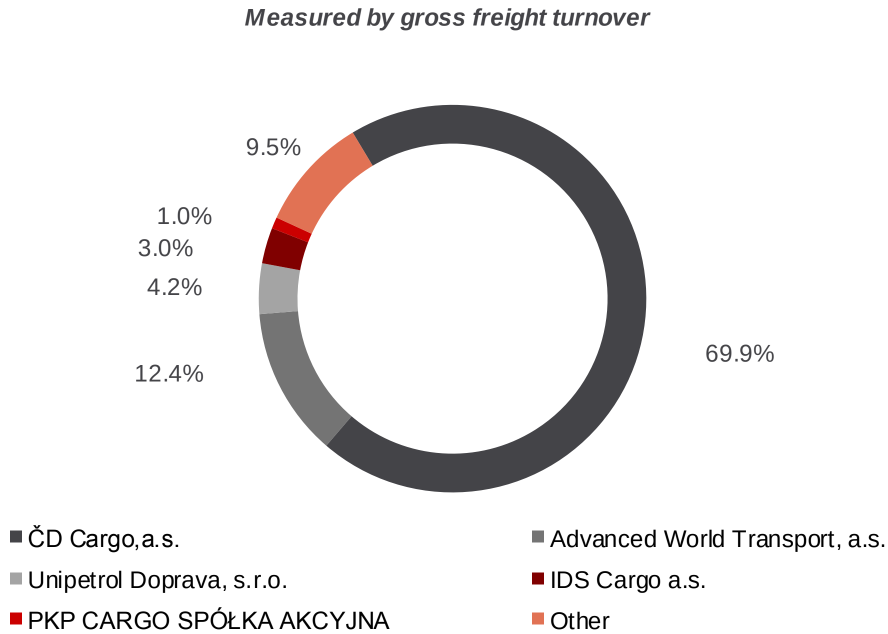
Source: Proprietary material based on Czech Republic's Transport Ministry

Figure 16 Share of AWT a.s. in freight turnover in 2014 and in 2015 in the Czech Republic



Source: Proprietary material based on Czech Republic's Transport Ministry

Figure 17 Market shares of rail operators according to operational freight turnover in 2014 in the Czech Republic (btkm)



Source: SŽDC, Annual Report 2014

In terms of gross freight turnover, ČD Cargo a.s. is the leader of the Czech rail freight services market. Up until 1995, the company was the only operator on the market and currently it remains the leading rail operator. In 2014, its market share fell to 69.9%, which indicates a decline of 6.4 percentage points from 76.3% in 2013. The majority of this market share was taken over by the AWT Group, which increased its market share from 7.8% in 2013 to 12.4% in 2014 (by 4.6 p.p.).[50]

The key carriers in the Czech Republic with market shares above 5% are: state-owned ČD Cargo a.s. and Advanced World Transport a.s. Other market players with less than 5% but more than 1% share included: Unipetrol Doprava, s.r.o., IDS Cargo a.s. SD – Kolejova doprava and Rail Cargo Austria. Before the acquisition of AWT B.V. by PKP CARGO S.A., the PKP CARGO Group held 0.95% of the Czech market in terms of gross freight turnover.

3.2.5. PKP CARGO Group's rail transport

The data on the transport activity conducted by the PKP CARGO Group in 2015 and 2014 comprise consolidated data for PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and the AWT Group[51], however the data on the AWT Group pertain only to the period from its acquisition by PKP CARGO S.A. (it has been consolidated by the full method since 28 May 2015). After the company was acquired, AWT recorded freight turnover of 1,059 million tkm and carried freight volume of 8,655 thousand tons.

The transport activity in 2015 was conducted by 5 entities from the Group. Following the acquisition (80% of shares) of AWT B.V., 3 carriers (AWT a.s., AWT Rail HU Zrt, AWT Rail SK a.s.) joined as of 28 May 2015 the two other carriers from the PKP CARGO Group, i.e. PKP CARGO S.A. and PKP CARGO SERVICE sp. z o.o. (a 100% subsidiary of PKP CARGO S.A.).

The PKP CARGO Group provides rail freight services in the territory of Poland and eight other European Union states, i.e.: Germany, the Czech Republic, Slovakia, Austria, Belgium, the Netherlands, Hungary and Lithuania. The presence in these markets is a growth opportunity for the Group, since it allows the Group to independently handle the volumes transported from/to key European seaports, including those located in the North Sea (Amsterdam, Rotterdam, Zeebrugge, Antwerp, Hamburg) and those located in the Adriatic Sea (Koper, Triest, Rijeka). The size of the rail freight market in the countries where the PKP CARGO Group operates was over 920 million tons in 2014.[52]

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

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

In 2015, the PKP CARGO Group carried 116.3 million tons of cargo (+5% yoy) and achieved freight turnover of 29.8 billion tkm (+3% yoy). The Group's transport results in 2015 were adversely affected by the transports in Q1 2015. In Q2-Q4 2015, the transportation activity recovered, resulting in an increase in freight volume by 8% yoy in Q2, 7% yoy in Q3 and 9% yoy in Q4 (up to 32.4 million tons) and an increase in realized freight turnover by 4% yoy in Q2, 3% yoy in Q3 and 8% yoy in Q4 (up to 8.1 billion tkm). The performance was materially affected by the increase in transports outside of Poland, which reached 12.0 million tons (+344% yoy) while freight turnover of 1.6 billion tkm (+336% yoy) was achieved.

The Group's transport activity in 2015 was characterized by increased inter-branch and intra-branch price competition. Solid fuels were the main type of goods carried by the Group, with hard coal being the dominating cargo. Transportation of solid fuels accounted for 54% of transported volumes and 46% of realized freight turnover by the PKP CARGO Group in 2015. In the same period, transportation of solid fuels was higher in terms of freight turnover by 12% yoy and 11% yoy in terms of freight volume.

[50] SŽDC, Annual Report 2014
[51] This applies to the AWT Group companies consolidated by the full method.
[52] Eurostat

As a result of an active trading policy, freight turnover in coal transport increased by 15% yoy, driven by an increase of transports in Poland by 9% yoy and significant growth in international freight (+2467% yoy) in connection with new transports from the Czech Republic to Slovakia obtained in 2015, acquisition of shares in AWT and execution of hard coal transports on the entire route from Poland to Germany. Freight turnover in the solid fuels segment also affected the average haul of hard coal in 2015 (+3% yoy) and especially in Q4 2015 (+7% yoy) driven by an increase in transports to ports and international transports, which are characterized by longer distances. In 2015, an unfavorable impact on the transport of solid fuels in 2015 was exerted by the transport of coke within Poland, whose volume was 14% yoy lower, mainly due to decreasing demand for coke transport to Germany and in exports via seaports, due to low prices of this product on global markets.

Aggregates and construction materials were the second largest group of products carried by the PKP CARGO Group in 2015, with an 18% share in total freight turnover (21% in the corresponding period of 2014). The transportation of aggregates and construction materials in 2015 (decrease by 8% yoy in terms of freight volume) was affected by the stagnation in infrastructural investment projects while waiting for the decisions on pending tenders and commencement of work on new infrastructural investment projects (since the beginning of 2016, GDDKiA signed 12 contracts in the total amount of PLN 4.2 billion to build about several sections of roads, including S3, S5, S6, S8, S11, S17 and the A1 highway). One should note that the year 2014 saw intensification of transport in connection with the need to urgently complete the investments from the EU framework for 2007-2013.

Products associated with the metallurgical industry, i.e. metals and iron ore, are another important market area serviced by the PKP CARGO Group. Their percentage in the PKP CARGO Group's freight turnover in 2015 was 12% (13% in 2014). No change of freight volume was recorded in this cargo category: the lower metal transports (-15% yoy) were offset by an increase in iron ore transports (+21% yoy). The changes that occurred in freight transports in this segment are a result of the relocation of selected production processes from Ukraine to other countries, among others to Poland, the situation in the metallurgical industry in the global markets and the situation in the scrap market in Poland – inflow of cheap steel from China and low raw material prices decreased the demand for scrap and led a significant price reduction. In Q4 2015, in connection with the changes in the freight routes (average haul increasing by 12%) with only a slight rise in freight volume (+2% yoy), freight turnover increased (+14% yoy).

In the chemicals transportation segment in 2015, freight turnover increased by 6% yoy, driven by an increased share of transports to seaports, offset to some extent by a reduction of domestic transports (average haul increase of 8%). In Q4 2015, in connection with the changes in the freight routes (average haul increasing by 1%) with only a slight decline in freight volume (-4% yoy), freight turnover fell slightly (-3% yoy).

In 2015, a 4% yoy decline in freight turnover in timber and agricultural produce was recorded, which was driven by lower volume of timber (including biomass) carried from Belarus (mainly due to high raw material prices). In Q4 2015, freight volume and freight turnover rose by 5% yoy and 11% yoy, respectively (while average haul increased by 5%).

The PKP CARGO Group continues to lead the Polish market in intermodal transport, which is an important element of the Group's growth strategy. In 2015, the transport of intermodal units increased in terms of container freight volume by 14% yoy, while freight turnover increased by 11% yoy. In Q4 2015, both freight volume and freight turnover increased significantly by 39% yoy and 31% yoy, respectively. The increase in intermodal transport carried out by the Group is driven by the acquisition of new clients and freight routes, including the launch of trains from China to Duisburg, from Łódź to Piacenza and domestic operator trains to/from Poznań Franowo and Warsaw Praga terminals (which is closely associated with the development of this segment of freight services) as well as the size of transports executed by AWT. The HUB terminal located in Poznań Franowo, which has had its warehousing capacity increased by nearly 40%, is of fundamental importance for the expansion of the intermodal connection network.

Table 4 PKP CARGO Group freight turnover in 2014 and 2015 and in Q4 2014 and 2015*

Item	2015	2014	Change	% change	2015	2014	Q4 2015	Q4 2014	% change
	(million tkm)			%	percentage of total (%)		(million tkm)		%
Solid fuels[1]	13,593	12,181	1,412	12%	46%	42%	3,926	3,307	19%
of which hard coal	12,387	10,757	1,630	15%	42%	37%	3,629	2,938	24%
Aggregates and construction materials[2]	5,261	6,142	-881	-14%	18%	21%	1,256	1,609	-22%
Metals and ores[3]	3,709	3,650	59	2%	12%	13%	991	868	14%
Chemicals[4]	2,013	1,903	110	6%	7%	7%	483	497	-3%
Liquid fuels[5]	839	781	58	7%	3%	3%	255	210	21%
Timber and agricultural produce[6]	1,629	1,694	-66	-4%	5%	6%	436	394	11%
Intermodal transport	2,031	1,832	199	11%	7%	6%	593	451	31%
Other[7]	764	764	-1	0%	3%	3%	207	189	9%
Total	**29,839**	**28,947**	**892**	**3%**	**100%**	**100%**	**8,148**	**7,525**	**8%**

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

Source: Proprietary material

Table 5 PKP CARGO Group freight volume in 2014 and 2015 and in Q4 2014 and 2015*

Item	2015	2014	Change	% change	2015	2014	Q4 2015	Q4 2014	% change
	(000s tons)			%	percentage of total (%)		(000s tons)		%
Solid fuels[1]	63,285	56,919	6,366	11%	54%	51%	18,726	16,150	16%
of which hard coal	57,847	51,976	5,870	11%	50%	47%	17,182	14,854	16%
Aggregates and construction materials[2]	19,898	21,526	-1,628	-8%	17%	19%	5,008	5,647	-11%
Metals and ores[3]	12,311	12,293	19	0%	11%	11%	2,993	2,932	2%
Chemicals[4]	5,846	5,961	-115	-2%	5%	5%	1,428	1,491	-4%
Liquid fuels[5]	3,001	2,692	309	11%	3%	2%	870	759	15%
Timber and agricultural produce[6]	4,673	4,709	-35	-1%	4%	4%	1,247	1,187	5%
Intermodal transport	5,173	4,536	637	14%	4%	4%	1,549	1,113	39%
Other[7]	2,070	2,072	-2	0%	2%	2%	554	513	8%
Total	**116,257**	**110,706**	**5,551**	**5%**	**100%**	**100%**	**32,375**	**29,792**	**9%**

Source: Proprietary material

Table 6 PKP CARGO Group average haul in 2014 and 2015 and in Q4 2014 and 2015*

Item	2015	2014	Change	% change	Q4 2015	Q4 2014	% change
	km			%	km		%
Solid fuels[1]	215	214	1	0%	210	205	2%
of which hard coal	214	207	7	3%	211	198	7%
Aggregates and construction materials[2]	264	285	-21	-7%	251	285	-12%
Metals and ores[3]	301	297	4	1%	331	296	12%
Chemicals[4]	344	319	25	8%	338	333	1%
Liquid fuels[5]	280	290	-11	-4%	293	276	6%
Timber and agricultural produce[6]	348	360	-11	-3%	350	332	5%
Intermodal transport	393	404	-11	-3%	383	406	-6%
Other[7]	369	369	0	0%	373	368	1%
Total	**257**	**261**	**-5**	**-2%**	**252**	**253**	**0%**

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

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

Source: Proprietary material

From the point of view of the directions in which the PKP CARGO Group's transportation services were provided, the dominant share was transportation within Poland (95% of the realized freight turnover).

3.3. Other services

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

- traction services and locomotive lease services which involve the provision of a traction unit with an operating team to perform a railway transport operation or to ensure its readiness, e.g. to propel repair or rescue trains. Such services are provided on the Polish market and abroad;
- comprehensive siding services, entailing among others formation of trains, maneuvering services, rail traffic management on sidings, loading and unloading, warehouse management, conservation and ongoing maintenance of point infrastructure. PKP CARGO SERVICE Sp. z o.o. and AWT a.s. are the main entities providing these services. Siding services are offered in Poland, the Czech Republic, Slovakia and Hungary;
- transshipment services – 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.
- other 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.;
- rolling stock repairs – maintenance of the Group's rolling stock is provided mainly by a dedicated company PKP CARGOTABOR Sp. z o.o. Additionally, selected repair and maintenance work is also done in the facilities situated in the structures of the Units of PKP CARGO S.A. and by AWT a.s.;
- land reclamation services – the 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.

The Group does not distinguish operating segments of its activity, since it has one main product, which incorporates all the material services provided by the Group. The Group conducts its business activity within one main segment – domestic and international cargo freight and provision of comprehensive logistic services relating to rail freight. The Management Board of the Parent Company analyzes financial data in the layout in which they were presented in the Quarterly Condensed Consolidated Financial Statements of the Group. 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.

3.4. Information on selling markets and sources of supply.

Key customers

Poland is the key geographic area of the Group's activity, however the Group has been actively expanding the geographic area of its business, taking advantage of the liberalization of the European rail market.

Following the acquisition of AWT's equity, the market share of the PKP CARGO Group in the Czech Republic increased significantly. In the period ended 31 December 2015, total revenues from Czech partners reached almost 12% of revenues on the sale of services, compared to 2% in the corresponding period of the previous year.

The Group's revenues from external clients, broken down into individual locations, are described in Note 7.2 "Geographic Information" to the Consolidated Financial Statements.

The Group does not publish information on its leading customers, since revenues from no Group client individually exceeds 10% of all sales revenues.

Key suppliers

The PKP CARGO Group as a freight transport operator, in terms of access to the infrastructure relies on the largest supplier of access to the rail infrastructure in Poland, PKP Polskie Linie Kolejowe S.A. (PKP PLK). It is a domestic provider, which gives access to the major part of the rail infrastructure in Poland, according to the price list approved annually by the President of the Office of Rail Transport. This infrastructure is made provided against payment, on the same terms to all the carriers conducting the passenger and cargo rail transport business. PKP PLK provides the PKP CARGO Group with services including the provision of access to the rail infrastructure, the provision of access to traction network devices, the directing and carrying of traffic and access to train handling devices. In 2015, the share of PKP PLK in the costs of the Group's purchases (defined as the sum of the cost of external services and consumption of raw materials and supplies) was 28.2%.

Additionally, PKP Energetyka S.A. is the Group's main supplier in respect to traction fuel and traction energy. This supplier specializes in selling and supplying electricity, selling liquid fuels and providing energy-related services. In 2015, the share of PKP Energetyka S.A. in the costs of the Group's purchases (defined as the sum of the cost of external services and consumption of raw materials and supplies) was 19.8%.

3.5. Headcount

Due to the consolidation, as of 28 May 2015, of the AWT Group companies, the following data include their employees: in terms of data presented only as at 30 September 2015 and 30 December 2015, as regards the average headcount data, the figures take into account only data from the acquisition date.

Information on changes in the headcount in the PKP CARGO Group in 2015 and 2014 is provided below.

Table 7 Headcount in 12M and Q4 2015 in the PKP CARGO Group (active employees only)

Item	Headcount as at:			Change YTD	Change in Q4 2015
	31 December 2015*	30 September 2015**	31 December 2014		
Company	17,979	17,819	20,830	-2,851	160
Subsidiaries	5,826	5,815	4,130	1,696	11
Total	**23,805**	**23,634**	**24,960**	**-1,155**	**171**

** including AWT Group's employees (2,149 persons)*
*** including AWT Group's employees (2,132 persons)*

Source: Proprietary material

Table 8 Headcount in 12M and Q4 2014 in the PKP CARGO Group (active employees only)

Item	Headcount as at:			Change YTD	Change in Q4 2014
	31 December 2014	30 September 2014	31 December 2013		
Company	20,830	21,870	22,480	-1,650	-1,040
Subsidiaries	4,130	4,220	4,073	57	-90
Total	**24,960**	**26,090**	**26,553**	**-1,593**	**-1,130**

Source: Proprietary material

Table 9 Average headcount in 12M 2015 and 2014 in the PKP CARGO Group (active employees only)

Item	Average headcount in FTEs		Change	Average headcount in persons		Change
	2015*	2014		2015*	2014	
Company	18,484	22,010	-3,526	18,486	22,012	-3,526
Subsidiaries	5,891	4,175	1,716	5,921	4,203	1,718
Total	**24,375**	**26,185**	**-1,810**	**24,407**	**26,215**	**-1,808**

** Including AWT Group's employees in the period after the acquisition date of AWT B.V. (2,115 FTEs / 2,124 persons)*

Source: Proprietary material

Table 10 Change in the headcount structure in 12M and Q4 2015 in the PKP CARGO Group (active employees only)

Item	Headcount as at:			Change YTD	Change in Q4 2015
	31 December 2015**	30 September 2015*	31 December 2014		
White-collar positions	5,324	5,284	5,349	-25	40
Blue-collar positions	18,481	18,350	19,611	-1,130	131
Total	**23,805**	**23,634**	**24,960**	**-1,155**	**171**

** including AWT Group's employees (2,149 persons)*
*** including AWT Group's employees (2,132 persons)*

Source: Proprietary material

Table 11 Change in the headcount structure in 12M and Q4 2014 in the PKP CARGO Group (active employees only)

Item	Headcount as at:			Change YTD	Change in Q4 2014
	31 December 2014	30 September 2014	31 December 2013		
White-collar positions	5,349	5,464	5,566	-217	-115
Blue-collar positions	19,611	20,626	20,987	-1,376	-1,015
Total	**24,960**	**26,090**	**26,553**	**-1,593**	**-1,130**

Source: Proprietary material

In 2015, the average headcount in the PKP CARGO Group decreased (despite the acquisition of AWT) by 1,810 FTEs in comparison to 2014, mainly as a result of the headcount optimization process in the form of Voluntary Redundancy Program ("VRP").

Following a review of applications for the first Voluntary Redundancy Program, 3,041 employees were given consent to take advantage of the program. They stopped being employees as of 1 February 2015.

As a result of verification of applications for the second Voluntary Redundancy Program, 874 employees were given consent to take advantage of the Program. They stopped being employees of PKP CARGO S.A. as of 1 July 2015. The program was also implemented in PKP CARGOTABOR Sp. z o.o. As a result of verification of applications, 107 employees were given consent to leave as of 1 August 2015.

In Q4 2015, vacancies were filled, including train crew vacancies.

The reduction of employment in the PKP CARGO Group in 2015 was greater than assumed in the PKP CARGO S.A. Prospectus prepared in connection with the initial public offering. The reduction was caused mainly by the Voluntary

Redundancy Program. The Management Board of the Parent Company assumes that the pace of headcount changes will be similar to the one specified in the Prospectus.

3.6. PKP CARGO Group's investments

3.6.1. Capital expenditures

In 2015, the Group incurred capital expenditures for the acquisition of property, plant and equipment and intangible assets in the form of purchases, modernizations and the so-called overhaul component (scheduled overhauls of the rolling stock P4 and P5 and P3 [53]periodic inspections) in the amount of PLN 484.6 million, which accounted for 81% of the actuals for 2014.

Detailed information about the changes of the accounting policy in respect to the capitalization of rolling stock repair and periodic inspection costs is presented in Note 5 to the Consolidated Financial Statements.

The Group has not made any capital expenditures in property, plant and equipment or intangible assets outside of Poland.

The biggest part of capital expenditures in the Group in 2015 was allocated for the execution of investment tasks associated with the rolling stock, mainly for scheduled overhauls of the rolling stock P4 and P5, including periodic inspections P3 (the number of scheduled overhauls and periodic inspections performed in individual periods is derived from the number of cycles specified in the MSD[54] of the rolling stock approved by the Office of Rail Transport and the number size of the rolling stock being maintained for production as required for the provision of transportation services), modernization of locomotives (15 locomotives), purchase of wagons (70 platform wagons for transporting containers) and modernization of wagons – for the total amount of PLN 399.7 million. Additionally, the expenditures for IT development, i.e. the purchase of hardware and intangible assets (software) and modernization of servers were PLN 34.9 million (including: implementation of IT systems in the trading and transportation areas), for construction investments at PLN 28.1 million (including, among others: construction and furnishing of a railway intermodal terminal and expansion of the repair yard in Poznań Franowo, modernization of sewage management in Kamieniec Ząbkowicki, modernization of buildings in Gdynia, Wrocław and Jaworzna Szczakowa) and other purchases at PLN 21.9 million (including, among others, the purchase of machinery, equipment and cars).

Table 12 Capital expenditures on property, plant and equipment and intangible assets in the PKP CARGO Group in 2015 as compared to 2014 (thousands of PLN)

Item	2015*	2014 restated*	Change	% change
Investment construction activity	28,084	18,130	9,954	55%
Modernization of locomotives	70,400	48,544	21,856	45%
Purchase of w agons	20,063	57,301	-37,238	-65%
Modernization of w agon	1,624	0	1,624	n/a
Machinery and equipment	12,170	9,469	2,701	29%
IT	34,862	21,972	12,890	59%
Other	9,744	4,163	5,581	134%
Components in overhaul:	307,613	437,154	-129,541	-30%
Scheduled overhauls of locomotives	*150,681*	*126,072*	*24,609*	*20%*
Scheduled overhauls of wagons	*156,932*	*311,082*	*-154,150*	*-50%*
Total	**484,560**	**596,733**	**-112,173**	**-19%**

Source: Proprietary material

**In 2014 and 2015, the components in overhaul item included periodic inspections of locomotives and wagons (P3) in the amount of PLN 34,280 thousand in 2015 and PLN 36,571 thousand in 2014, resulting from a change made in the Company's accounting policy in respect to the capitalization of periodic inspections of the rolling stock; translation of comparable data is described in detail in Note 5 to the Annual Consolidated Financial Statements*

The financing structure of capital expenditures towards property, plant and equipment and intangible assets was as follows: PLN 288.2 million from own funds, PLN 180.1 million from loans, PLN 9.8 million as a lease and PLN 6.5 million from the Cohesion Fund, which the Company received under the "Infrastructure and Environment" Operational Programme.

[53] Periodic inspections of wagons and major inspections of locomotives set forth in the Maintenance System Documentation (MSD)
[54]Maintenance System Documentation

Additionally, in 2015 the Parent Company used a loan to finance the advance payment in the amount of PLN 12.3 million for purchase of multi-system locomotives to be delivered and settled in 2016. In 2015 the Parent Company also used loans to refinance capital expenditures from previous years in the amount of PLN 232.3 million.

Overall, the Parent Company drew down credit facilities in the total amount of PLN 424.7 million, of which:

- PLN 180.1 million to finance the 2015 expenditures,
- PLN 232.3 million to refinance expenditures from previous years,
- PLN 12.3 million to finance an advance payment for the purchase of multi-system locomotives.

In addition to capital expenditures on property, plant and equipment and intangible assets, as part of capital investments in 2015, the Parent Company:

- acquired 640 shares in PS TRADE TRANS sp. z o.o. (currently: PKP CARGO CONNECT Sp. z o.o.) representing in total a 44.44% stake in this company's share capital, having incurred expenditures of PLN 40.0 million;
- acquired 490 shares in PKP CARGO International a.s. in liquidation, representing in total a 49% stake in this company's share capital, having incurred expenditures of PLN 1.6 million;
- acquired 60,000 shares in Advanced World Transport B.V., representing in total an 80% stake in this company's share capital, having incurred expenditures of PLN 427.3 million.

Moreover, PKP CARGO S.A. transferred to PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o. a contribution-in-kind, i.e. a property, plant and equipment item worth PLN 1.4 million. The contribution-in-kind was contributed to raise the subsidiary's share capital.

3.6.2. Assessment of the capacity to execute investment plans

The PKP CARGO Group is able to finance its investment plans using both current and planned financial surplus from its operating activity and investment credit facilities from the European Investment Bank, Bank Gospodarstwa Krajowego, Bank Polska Kasa Opieki S.A., European Bank for Reconstruction and Development and by contracting new investment loans and facilities. The permitted financial ratios agreed with its strategic lenders have allowed the Group to increase the scale of external funding of its investment plans without the risk of defaulting on the financial covenants in the existing loan agreements.

In 2016, the Group plans to increase the percentage of debt capital used to finance capital expenditures.

Additionally, a cash pooling system is in place in the PKP CARGO Group which comprises, as at 31 December 2015, 8 Group companies.

4. Analysis of the financial situation and assets of the PKP CARGO Group

4.1. Basic economic and financial figures

4.1.1. Statement of comprehensive income

In connection with the acquisition of an 80% stake in AWT B.V., the figures include AWT's financial data for the period from the acquisition date. AWT's revenues earned in this period amounted to PLN 549.7 million. In the same period the AWT Group recorded a net profit of PLN 20.0 million. 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 2015 and 2014. The presentation data were adjusted for the costs following from the implemented 1st Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Board and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 265.3 million and 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Board and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million and the impairment loss on property plant and equipment and assets classified as held for sale in the amount of PLN 178.7 million. These amounts resulting from VRP were included in employee benefits, while the position of the impairment loss was recognized in depreciation item corrects depreciation and impairment losses. The adjustments were made also in other operating revenue after recognition of the profit from bargain purchase of AWT B.V. The profit on this transaction amounted to PLN 137.8 million.

In 2015 the Group redefined the components in its accounting policy, as a result of which the P3 periodic inspections of rolling stock were recognized as a repair component in light of IFRS. P3 periodic inspections of wagons and locomotives are of similar nature to P4 and P5 scheduled overhauls, so far classified by the Group as overhaul components.
Starting from the financial statements for the year ended 31 December 2015 the Group changed its accounting policy as regards recognition of the costs of interest on provisions for employee benefits and they are currently recognized in financial expenses. In accordance with previously applied accounting policy, interest expenses were presented together with the costs of current employment in the cost of employee benefits line. Additionally, the method of presentation of received and imposed penalties, which used to be presented in other expenses by kind, was changed. At present they are recognized in other operating expenses and other operating revenue.
Moreover, the cost of employee benefits and financial costs included a provision for death benefits. In previous reporting periods, the Group recognized in the books only severance payments paid in the given reporting period.. Currently the accounting policies were changed in this regard and the provision for all benefits, calculated according to the actuarial method was recognized. all benefits calculated. Detailed information about the changes of the accounting policy is presented in Note 5 to the Annual Consolidated Financial Statements.

In 2015, the PKP CARGO Group transported 116.3 million tons of cargo (i.e. 5% more than in 2014) and recorded freight turnover of 29.8 billion tkm (i.e. 3% more than in 2014), which is described in detail in the chapter entitled "PKP CARGO Group rail transport".

In 2015, the Group's operating revenues increased by 6.5% yoy and operating expenses by 8.3% yoy. In 2015, the Group generated profit on operating activities and net profit in the amount of PLN 55.9 million and PLN 31.4 million, respectively. The Group's adjusted operating revenues increased 3.3% yoy and adjusted operating expenses increased by 9.3% yoy. The Group's adjusted results are: profit on operating activities in the amount of PLN 167.0 million and net profit in the amount of PLN 95.2 million. The changes resulted mainly from the consolidation of AWT.

The details of individual line items of the Statement of comprehensive income are presented in the further part of this section. The table below presents the results of the PKP CARGO Group in 2015 as compared to 2014.

Table 13 Results of the PKP CARGO Group in 2015 compared to 2014 (thousands of PLN)

No.	Item	2015	2014 restated data***	2015 Adjusted*	2014 Adjusted** restated data***	Change 2015-2014 Adjusted*,**	Change rate 2015/2014 Adjusted*,**
1	Total operating revenue	4,554,133	4,274,335	4,416,354	4,274,335	142,019	3.3%
2	Total operating expenses	4,498,222	4,153,408	4,249,384	3,888,077	361,308	9.3%
3	**Profit on operating activities**	**55,911**	**120,927**	**166,970**	**386,258**	**-219,288**	**-56.8%**
4	Financial revenue	14,723	33,812	14,723	33,812	-19,089	-56.5%
5	Financial expenses	65,067	62,099	65,067	62,099	2,968	4.8%
6	Share in the (profit) / loss of entities measured by the equity method	4,416	881	4,416	881	3,535	401.1%
7	Profit/ (loss) on sales of shares in an associate	1,865	0	1,865	0	1,865	.
8	**Profit before tax**	**11,848**	**93,521**	**122,907**	**358,853**	**-235,946**	**-65.8%**
9	Income tax	-19,563	15,239	27,716	65,652	-37,936	-57.8%
10	**NET PROFIT**	**31,411**	**78,282**	**95,191**	**293,201**	**-198,010**	**-67.5%**

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

* The data for 2015 were adjusted for presentation purposes for the profit on bargain purchase 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 Board and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million and the impairment loss on property plant and equipment and assets classified as held for sale in the amount of PLN 178.7 million

** Presentation data for 2014 adjusted for the costs following from the implemented 1st Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Board and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 265.3 million.

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

Operating revenues

Table 14 Operating revenue of the PKP CARGO Group in 2015 compared to 2014 (thousands of PLN)

No.	Item	2015	2014 restated data**	2015 Adjusted*	2014 Adjusted restated data**	Change 2015-2014 Adjusted*	Change rate 2015/2014 Adjusted*
1	Revenue from sales of services and finished products, including:	4,330,336	4,162,171	4,330,336	4,162,171	168,165	4.0%
1.1	*Revenue from rail transportation and freight forwarding services*	3,727,552	3,791,533	3,727,552	3,791,533	-63,981	-1.7%
2	Revenue from sales of goods and materials	33,132	54,902	33,132	54,902	-21,770	-39.7%
3	Other operating revenue	190,665	57,262	52,886	57,262	-4,375	-7.6%
4	**Total operating revenue**	**4,554,133**	**4,274,335**	**4,416,354**	**4,274,335**	**142,019**	**3.3%**

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

* The 2015 data were adjusted for presentation purposes for the effect of the bargain acquisition of AWT in the amount of PLN 137.8 million

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

In the Group's total operating revenue the biggest item was revenue from sales of services and finished products (95.1% in 2015 compared to 97.4% in 2014). Revenue from sales of services comprises mainly: transport revenue, revenue from freight forwarding, revenue from siding and traction services, land reclamation services and revenue from the lease of rolling stock. The remaining part of operating revenue of the PKP CARGO Group comprises revenue from sales of goods and materials, which comprises, among others, sales of steel and cast iron scrap, as well as other operating revenue comprising, among others, sales of fixed assets, change of the balance of receivables impairment losses and interest on receivables, change of the balance of provisions for liabilities and received fines and compensations and the non-recurring event in 2015 i.e. the profit on bargain purchase of AWT.

The decrease of revenues from rail transportation and freight forwarding services in 2015 resulted from, among other things, strong price pressure in the rail freight market and decrease of revenues from transport of aggregates and construction materials, resulting from the early stage of development of road and railway investments while waiting for resolution of tenders and commencement of work on new infrastructural projects. One should note that the year 2014 saw intensification of transport in connection with the need to urgently complete the investments from the EU framework for 2007-2013. Additionally, decrease of revenues from railway transport services in the timber and agricultural produce cargo category resulted from higher timber prices in the Belarusian market and lower imports of this raw material from Belarus. The details pertaining to PKP CARGO Group's transport services were described in detail in chapter "PKP CARGO Group's rail transport".

The increase of revenue from sale of services and finished products is attributable exclusively to consolidation of AWT. Other revenue items, except from revenue from rail transportation and freight forwarding services, grow. The biggest increase was recorded in revenues from siding and traction services - PLN 75.8 million yoy and revenues from reclamation - PLN 78.0 million yoy.

The decrease in revenues from sales of goods and materials by PLN 21.8 million (i.e. 39.7% less yoy) was caused primarily by the low scrap prices in the market. Inflow of cheap steel from China and low raw material prices decreased the demand for scrap and led a significant price reduction – more than 20% to the amount of approx. 550 PLN/t. Due to lack of interest in the market in purchase of rolling stock at the offered prices, the Group significantly reduced the sale of redundant rolling stock and consequently, the revenues from sales of scrap declined.

Increase of other operating revenue by PLN 133.4 million, i.e. by 233.0% yoy was primarily caused by a non-recurring event, i.e. profit on the bargain acquisition of AWT, which increased this line item by PLN 137.8 million. Adjusted other operating revenue dropped by PLN 4.4 million, i.e. 7.6% yoy.

Operating expenses

Table 15 Operating expenses of the PKP CARGO Group in 2015 compared to 2014 (thousands of PLN)

No.	Item	2015	2014 restated data***	2015 Adjusted*	2014 Adjusted** restated data***	Change 2015-2014 Adjusted*,**	Change rate 2015/2014 Adjusted*,**
1	Depreciation/ amortization and impairment losses	648,982	382,791	470,323	382,791	87,532	22.9%
2	Consumption of materials and energy	696,994	594,010	696,994	594,010	102,984	17.3%
3	External services	1,501,160	1,315,778	1,501,160	1,315,778	185,382	14.1%
4	Taxes and charges	38,597	40,759	38,597	40,759	-2,162	-5.3%
5	Employee benefits	1,484,764	1,698,873	1,414,585	1,433,543	-18,957	-1.3%
6	Other expenses by kind	53,854	43,955	53,854	43,955	9,899	22.5%
7	Cost of goods and materials sold	25,654	38,203	25,654	38,203	-12,549	-32.8%
8	Other operating expenses	48,217	39,039	48,217	39,039	9,178	23.5%
9	**Total operating expenses**	**4,498,222**	**4,153,408**	**4,249,384**	**3,888,077**	**361,308**	**9.3%**

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

* Presentation data for 2015 adjusted for the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Board and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million and the impairment loss on property plant and equipment and assets classified as held for sale in the amount of PLN 178.7 million
** Presentation data for 2014 adjusted for the costs following from the implemented 1st Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Board and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 265.3 million.
*** Translation of comparable data is described in detail in Note 5 to the Annual Consolidated Financial Statements

In 2015, the adjusted operating expenses increased by PLN 361.3 million, i.e. by 9.3% yoy, to PLN 4,249.4 million. The growth was driven mainly by the consolidation of AWT Group's assets.

2015 saw an increase cost of depreciation / amortisation and impairment losses by PLN 266.2 million (i.e. 69.5% yoy) to PLN 649.0 million as a result of the consolidation of AWT Group's assets, a high level of capital expenditures in particular periodic repairs in 2014 gradual execution of periodic repairs in 2015 and recognition of the impairment loss on property plant and equipment and assets classified as held for sale in the amount of PLN 178.7 million - the details are disclosed in Notes 3.2.2 and 24 to Consolidated Financial Statements of PKP CARGO Group. Adjusted depreciation / amortization and impairment losses amounted to PLN 470.3 million in 2015 vs. PLN 382.8 million in 2014 which represents an increase by PLN 87.5 million i.e. 22.9% yoy.

Moreover, external services grew by PLN 185.4 million, i.e. by 14.1% yoy, up to PLN 1,501.2 billion. The increase is attributable primarily to an increase in rent and charges for the use of property and rolling stock by PLN 22.8 million, costs of transportation services by PLN 63.8 million and other external services by PLN 75.5 million, which resulted mainly from the consolidation of AWT. Additionally, the consumption cost of materials and energy increased by PLN 103.0 million, including: costs of materials by PLN 66.9 million and costs of consumption of electricity, gas and water by PLN 29.9 million and changed value of the impairment in the amount of PLN 25.5 million (the details disclosed in Note 19 to Consolidated Financial Statements of PKP CARGO Group). The increases were caused primarily by the acquisition of AWT. In 2015, the Group recorded a decrease in the fuel costs by PLN 18.8 million yoy, attributable to lower fuel consumption prices.

2015 saw a decrease of adjusted employee benefits, which reached the level of PLN 1,414.6 million, compared to PLN 1,433.5 million in 2014, dropping 1.3% yoy, despite consolidation of the employee benefits of AWT. This resulted from the implementation of the headcount optimization process in the form of the Voluntary Redundancy Program and termination of employment contracts in connection with obtaining retirement rights. Consequently, the average headcount in 2015 decreased by 1,810 FTEs yoy (taking into account the AWT employees in the period starting in June 2015 - on average 2,115 FTEs). Changes of headcount are presented in section "Headcount".

In 2015 the value of goods and materials sold decreased by PLN 12.5 million, i.e. 32.8% to PLN 25.7 million, following the decrease of revenue from sales of scrap.

Other operating expenses in 2015 increased by PLN 9.2 million, i.e. 23.5% yoy to PLN 48.2 million. The reason of that change was recognition of a provision for a OCCP penalty in the amount of PLN 12.2 million.

Profit on operating activities

As a result of the aforementioned changes of operating revenue and expenses, adjusted profit on operating activities in 2015 reached PLN 167.0 million.

EBITDA

The adjusted result on operating activities increased by the line item "Depreciation/amortization and impairment losses" referred to as EBITDA, amounted to PLN 637.3 million in 2015.

Financial activities

Table 16 Financial activities of the PKP CARGO Group in 2015 compared to 2014 (thousands of PLN)

No.	Item	2015	2014 restated data*	Change 2015-2014	Change rate 2015/2014
1	Financial revenue	14,723	33,812	-19,089	-56.5%
2	Financial expenses	65,067	62,099	2,968	4.8%
3	Share in the (profit) / loss of entities measured by the equity method	4,416	881	3,535	401.2%
4	Profit/ (loss) on sales of shares in an associate	1,865	-	1,865	
5	**Result on financial activities**	**-44,063**	**-27,406**	**-16,657**	**60.8%**

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

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

In 2015, the PKP CARGO Group recorded a loss on financial activities in the amount of PLN 44.1 million. In the corresponding period of the previous year the Group also generated a loss on financial activities in the amount of PLN 27.4 million. The main reason for the deterioration of the result on financial activities was a decline in interest income from deposits and bank accounts by PLN 15.0 million yoy (-77.1% yoy).

The details were presented in Notes 10-11 to the Annual Consolidated Financial Statements.

Profit before tax

In 2015, adjusted profit before tax decreased by PLN 235.9 million, i.e. 65.8% yoy, to PLN 122.9 million. This decrease resulted from the lower adjusted profit on operating activities and lower result on financial activities.

Income tax

In 2015, the PKP CARGO Group reported income tax in the amount of PLN -19.6 million, of which current tax was PLN 5.2 million and deferred tax was PLN -24.8 million.

Net profit

In 2015, the Group generated net profit of PLN 31.4 million while adjusted net profit was PLN 95.2 million compared to PLN 293.2 million in 2014.

4.1.2. Description of the asset and liability structure

ASSETS

Table 17 Horizontal and vertical analysis of assets (thousands of PLN)

	As at 31/12/2015 (audited)	As at 31/12/2014 restated data*	Asset structure		Change	
			31 December 2015	31 December 2014 restated data*		
ASSETS						
Non-current assets						
Property, plant and equipment	4,719,748	4,044,606	77.2%	71.3%	675,142	16.7%
Intangible assets	66,437	58,268	1.1%	1.0%	8,169	14.0%
Goodwill	-	2,712	-	0.0%	-	-
Investment property	1,309	1,362	0.0%	0.0%	-53	-3.9%
Investments accounted for under the equity method	39,831	35,246	0.7%	0.6%	4,585	13.0%
Trade and other receivables	5,074	-	0.1%	-	-	-
Other long-term financial assets	9,849	6,051	0.2%	0.1%	3,798	62.8%
Other long-term non-financial assets	32,666	14,645	0.5%	0.3%	18,021	123.1%
Deferred tax assets	104,587	91,575	1.7%	1.6%	13,012	14.2%
Total non-current assets	**4,979,501**	**4,254,465**	**81.5%**	**74.9%**	**725,036**	**17.0%**
Current assets						
Inventories	128,513	115,298	2.1%	2.0%	13,215	11.5%
Trade and other receivables	664,321	526,149	10.9%	9.2%	138,172	26.3%
Income tax receivables	2,748	3,053	0.0%	0.1%	-305	-10.0%
Other short-term financial assets	4,046	306,383	0.1%	5.4%	-302,337	-98.7%
Other short-term non-financial assets	13,281	28,246	0.2%	0.5%	-14,965	-53.0%
Cash and cash equivalents	276,191	429,178	4.5%	7.6%	-152,987	-35.6%
Assets classified as held for sale	44,061	17,560	0.7%	0.3%	26,501	150.9%
Total current assets	**1,133,161**	**1,425,867**	**18.5%**	**25.1%**	**-292,706**	**-20.5%**
Total assets	**6,112,662**	**5,680,332**	**100.0%**	**100.0%**	**432,330**	**7.6%**

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

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

Non-current assets

The biggest share in the asset structure was held by property, plant and equipment, which, as at the end of 2015, amounted to 77.2% of total assets, compared to 71.3% at the end of 2014. Means of transport (PLN 3,785.0 million) should be cited as belonging to the most important items shaping the level of property, plant and equipment, which growth by PLN 531.7 million (i.e. by 16.3%) as a result of consolidation of the AWT Group, while recognizing the impairment loss on property plant and equipment. This change resulted in an increase in property, plant and rquipment of PLN 675.1 million.

Current assets

Total current assets dropped at the end of 2015 by nearly PLN 292.7 million, i.e. by 20.5% in relation to the end of 2014, mainly as a result of lower other short-term financial assets by 98.7% yoy and cash and cash equivalents by 35.6% yoy - this was directly related to the acquisition of an 80% stake in AWT B.V. and a 44.44% stake in PKP CARGO CONNECT Sp. z o.o. and performance of the obligations following from the 1st and 2nd Voluntary Redundancy Program. The share of total current assets in total assets dropped from 25.1% as at 31 December 2014 to 18.5% as at 31 December 2015.

The biggest share in the structure of total current assets was held by trade and other receivables (58.6%), cash and cash equivalents (24.4%) and inventories (11.3%). The growth in the level of receivables and inventories at the end of 2015 by PLN 138.2 million and PLN 13.2 million, respectively, resulted from the consolidation of AWT Group's assets.

Moreover, 2015 saw an increase of assets classified as held for sale by PLN 26.5 million yoy, The details are disclosed in Note 24 to Consolidated Financial Statements of PKP CARGO Group.

At the end of 2015 the current liquidity ratio dropped from 1.86 in 2014 to 1.03. The decrease resulted from the acquisition of AWT B.V. and payments under the Voluntary Redundancy Program financed from own cash. In order to improve the financial situation, by the end of 2015 the Parent Company entered into a long-term loan agreement with European Bank of Reconstruction and Development to refinance the AWT acquisition in the amount of EUR 100.0 million. In addition, in November 2015 a long-term loan agreement was concluded to refinance planned acquisitions and capital expenditures in the amount of PLN 700.0 million, out of which the amount made available by the end of 2015 was PLN 100.0 million. The actions taken will make it possible to improve the ratio in the periods to come.

EQUITY AND LIABILITIES

Table 18 Horizontal and vertical analysis of equity and liabilities (thousands of PLN)

	As at 31/12/2015 (audited)	As at 31/12/2014 restated data*	Structure of equity and liabilities		Change	
			31 December 2015	31 December 2014 restated data*		
EQUITY AND LIABILITIES						
Equity						
Share capital	2,239,346	2,239,346	36.7%	39.5%	-	-
Share premium	619,407	615,343	10.1%	10.8%	4,064	0.7%
Other items of equity	-2,779	-48,617	0.0%	-0.9%	45,838	-
Exchange differences resulting from conversion of foreign operations	31,500	-	0.5%	-	-	-
Retained earnings	466,392	525,721	7.6%	9.3%	-59,329	-11.3%
Equity attributable to the owners of the parent company	**3,353,866**	**3,331,793**	**54.9%**	**58.7%**	**22,073**	**0.7%**
Non-controlling interest	-	63,500	-	1.1%	-	-
Total equity	**3,353,866**	**3,395,293**	**54.9%**	**59.8%**	**-41,427**	**-1.2%**
Non-current liabilities	,	,			,	
Long-term bank loans and credit facilities	460,577	208,077	7.5%	3.7%	252,500	121.3%
Long-term finance lease liabilities and leases with purchase option	193,500	190,836	3.2%	3.4%	2,664	1.4%
Long-term trade and other payables	25,953	67,982	0.4%	1.2%	-42,029	-61.8%
Long-term provisions for employee benefits	603,621	687,775	9.9%	12.1%	-84,154	-12.2%
Other long-term provisions	28,886	8,416	0.5%	0.1%	20,470	243.2%
Other long-term financial liabilities	155,198	-	2.5%	-	-	-
Deferred tax provision	118,353	2,328	1.9%	0.0%	116,025	4983.9%
Non-current liabilities, total	**1,586,088**	**1,165,414**	**25.9%**	**20.5%**	**420,674**	**36.1%**
Current liabilities	,	,			,	
Short-term bank loans and credit facilities	253,592	92,123	4.1%	1.6%	161,469	175.3%
Long-term finance lease liabilities and leases with purchase option	65,416	127,742	1.1%	2.2%	-62,326	-48.8%
Short-term trade and other payables	729,793	530,440	12.0%	9.4%	199,353	37.6%
Short-term provisions for employee benefits	100,383	338,618	1.6%	6.0%	-238,235	-70.4%
Other short-term provisions	17,856	24,214	0.3%	0.4%	-6,358	-26.3%
Other short-term financial liabilities	2,174	3,934	0.0%	0.1%	-1,760	-44.7%
Current tax liabilities	3,494	2,554	0.1%	0.0%	940	36.8%
Current liabilities, total	**1,172,708**	**1,119,625**	**19.2%**	**19.7%**	**53,083**	**4.7%**
Total liabilities	**2,758,796**	**2,285,039**	**45.1%**	**40.2%**	**473,757**	**20.7%**
Total liabilities and equity	**6,112,662**	**5,680,332**	**100.0%**	**100.0%**	**432,330**	**7.6%**

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

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

Equity

The share of equity in total assets as at 31 December 2015 was 54.9% compared to 59.8% at 31 December 2014. The decline in the percentage held by equity in total assets is caused by the decrease in the level of equity of PLN 41.4 million and the higher level of total liabilities of PLN 473.8 million. Additionally, on 5 February 2015, the Parent Company purchased from Trade Trans Invest a.s. 44.44% shares of PKP CARGO CONNECT Sp. z o.o. for PLN 40,0 million, and the amount of the difference between the price paid for the shares and the carrying value of the non-controlling interest (PLN 23.4 million) was captured in the Group's retained earnings.

Non-current liabilities

Non-current liabilities at the end of 2015 rose by PLN 420.7 million, i.e. by 36.1%, compared to 31 December 2014. Long-term loans and credit facilities increased PLN 252.5 million (121.3%) – this is attributable to disbursement of individual tranches of the loan in Bank Gospodarstwa Krajowego ("BGK") and the loan from the European Investment Bank ("EIB") and also the consolidation of the AWT Group. Other long-term financial liabilities reached PLN 155.2 million, as a result of recognition of the net liability under the "put" and "call" option of the minority stake in AWT. At the same time, a decrease of long-term provisions for employee benefits by PLN 84.2 million was recorded, primarily as a result of updating the actuarial provision and using the provisions for the Voluntary Redundancy Program.

Current liabilities

Current liabilities increased as at the end of 2015 compared to the end of 2014 by PLN 53.1 million (i.e. 4.7%). The largest movements were recorded in the following line items:

- short-term provisions for employee benefits – down by PLN 238.2 million mainly resulting from disbursement of the benefits under the Voluntary Redundancy Program;
- short-term trade and other payables - growth of PLN 199.4 million, resulting primarily from the outstanding liability on account of the Voluntary Redundancy Program and consolidation of the AWT Group.
- short-term bank loans and credit facilities - growth of PLN 161.5 million, resulting primarily from the consolidation of the AWT Group

4.1.3. Cash flow statement

The table below depicts the main line items in the PKP CARGO Group's cash flow statement in 2015 compared to 2014.

Table 19 The main line items in the PKP CARGO Group's cash flow statement in 2015 compared to 2014.

Item	2015	2014 restated data*	Change 2015 - 2014	Change 2015/2014
Net cash on operating activities	387,502	559,932	-172,430	-30.8%
Net cash (used) / generated in connection with investing activities	-515,199	-238,743	-276,456	115.8%
Net cash (used) / generated in connection with financing activities	-29,447	-155,711	126,264	-81.1%
Net increase / (decrease) in cash and cash equivalents	**-157,144**	**165,478**	**-322,622**	**-195.0%**
Cash and cash equivalents at the beginning of the reporting period	**429,178**	**263,700**	**165,478**	**62.8%**
Impact exerted by FX rate movements on the cash balance in foreign currencies	4,157	-	-	-
Cash and cash equivalents at the end of the reporting period	**276,191**	**429,178**	**-152,987**	**-35.6%**

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

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

Cash flow on operating activities

In 2015, net cash flow from operating activities was PLN 387.5 million compared to PLN 559.9 million in 2014. The cash flow was generated on an gross profit of PLN 11.8 million and amortization and depreciation and impairment losses of PLN 649.0 million. This is chiefly related to the disbursement of benefits under the Voluntary Redundancy Program for PLN 287.4 million and the decrease in other provisions for employee benefits of PLN 57.1 million.

Cash flow from investing activities

In 2015 net cash flow used in connection with investing activities was PLN -515.2 million vs. PLN -238.8 million in the previous year. This decline is related to the AWT acquisition. This transaction's impact after deducting the acquired cash is

PLN 326.0 million. Expenditures to acquire property, plant and equipment and intangible assets in 2015 were PLN 508.7 million vs. PLN 662.6 million in the corresponding period of 2014.

Cash flow from financial activities

Net cash flow from financing activities in 2015 was PLN -29.4 million vs. PLN -155.7 million in 2014. Proceeds of PLN 425.0 million were obtained from loans taken out in 2015, compared to PLN 179.2 million in 2014. In 2015, total cash expenditures for leases and to repay bank credits and loans together with interest were PLN 304.5 million vs. PLN 214.0 million in 2014. The dividend paid out in the amount of PLN 110.2 million in 2015 compared to PLN 137.5 million in 2014 also contributed to change. Moreover, in 2015 a 44.44% stake was acquired in PKP CARGO CONNECT Sp. z o.o. for PLN 40.0 million.

4.1.4. Selected financial and operating ratios

The table below presents PKP CARGO Group's key financial and operating ratios in 2015 compared to 2014.

Table 20 Selected financial and operating ratios in 2015 compared to 2014

Item	2015	2014 restated data*	2015 Adjusted*	2014 Adjusted* restated data*	Change 2015 - 2014 Adjusted*		Change 2015/2014 Adjusted*
EBITDA margin[1]	15.5%	11.8%	14.4%	18.0%	-3.6	p.p.	-20.0%
Net profit margin[2]	0.7%	1.8%	2.2%	6.9%	-4.7	p.p.	-68.1%
Net financial debt to EBITDA ratio[3]	1.2	-0.2	1.3	-0.1	1.5	p.p.	-
ROA[4]	0.5%	1.4%	1.6%	5.2%	-3.6	p.p.	-69.2%
ROE[5]	0.9%	2.3%	2.8%	8.6%	-5.8	p.p.	-67.4%
Average distance covered by one locomotive (km/day)[6]	233.3	243.9	233.3	243.9	-10.6		-4.3%
Average gross train tonnage per operating locomotive (tons)[7]	1,500	1,481	1,500	1,481	19.0		1.3%
Average running time of train locomotives (hours per day)[8]	14.9	15.4	14.9	15.4	-0.5		-3.2%
Freight turnover per employee (thousands tkm/employee)[9]	1,224	1,105	1,224	1,105	119		10.7%

Source: Proprietary material

* The data for 2015 adjusted for presentation purposes for (1) the profit on bargain purchase of AWT in the amount of PLN 137.8 million, (2) the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Board and Supervisory Boards of PKP CARGO S.A and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million and (3) the impairment loss on property plant and equipment and assets classified as held for sale in the amount of PLN 178.7 million
The adjustment concerns only data from the Statement of comprehensive income.

** The 2014 data adjusted for presentation purposes for (1) the costs following from the implemented 1st Voluntary Redundancy Program (VRP 1) pursuant to Resolutions adopted by the Management Board and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. The liabilities were estimated in the amount of PLN 265.3 million

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

1. *Calculated as the quotient of profit on operating activities plus amortization/depreciation and impairment losses by total operating revenue*
2. *Calculated as the quotient of net profit and total operating revenue*
3. *Calculated as the quotient of net financial debt (constituting the sum of (i) long-term bank loans and credit facilities; (ii) short-term bank loans and credit facilities, (iii) long-term finance lease liabilities and leases with purchase option; (iv) short-term finance lease liabilities and leases with purchase option; and (v) other short-term financial liabilities and (iv) other long-term financial liabilities, minus (i) cash and cash equivalents; and (ii) other short-term financial assets) and EBITDA for the last 12 months (profit on operating activities plus amortization and impairment charges).*
4. *Calculated as the quotient of net profit for the past 12 months and total assets.*
5. *Calculated as the quotient of net profit for the past 12 months and equity.*
6. *Calculated as the quotient of vehicle-kilometers (i.e. distance covered by PKP CARGO 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 by the average headcount (in FTEs) in the group in the given period. The calculation took into account the AWT data as of the purchase date*

In 2015, the key profitability ratios, i.e. net profit margin, ROA, ROE were lower than in the same period of the previous year. Furthermore the net financial debt to EBITDA ratio deteriorated. It increased from -0.2 in 2014 to 1.2 in 2015. The deterioration of the ratio is attributable to increased spending of cash associated with capital expenditures and execution of the liabilities under the 1st Voluntary Redundancy Program and 2nd Voluntary Redundancy Program.

If performance is adjusted, the following ratios (net profit margin, ROA, ROE) improved compared to the figures reported. This results primarily from profit on bargain purchase of AWT (PLN 137.8 million) and other adjustments.

In 2014 the average daily mileage of locomotives was 243.9 km/day. In 2015, this figure fell by 10.6 km/day, reaching 233.3 km/day. Hence the average daily mileage shrunk by 4.3%.

The average gross train tonnage per locomotive moved up from 1481.0 tons (2014) to 1500.0 tons (2015). Hence an increase of the average tonnage of driven trains of 19.0 tons was recorded (i.e. by 1.3%).

In 2014, the average running time of locomotives was 15.4 hours/day. In 2015, this figure fell by 0.5 hours/day, reaching 14.9 hours/day. Hence the average daily running time of locomotives decreased 3.2%.

The freight turnover per employee ratio in 2015 improved compared to 2014 by 10.7%. This is attributable mainly to a decrease of the average headcount level in the Group by 6.9% yoy with simultaneous change of the freight turnover by 3.1% yoy.

4.2. Information about production assets

4.2.1. Rolling stock

Due to the consolidation of AWT Group companies as of 28 May 2015, the data stated below include their rolling stock and properties presented only as at 30 September 2015 and 31 December 2015.

Wagons and traction rolling stock are the main elements of PKP CARGO Group 's production assets. Changes in the Group's rolling stock levels result directly from such actions as liquidation and sale of rolling stock or purchase of rolling stock. In Q4 2015 alone, the number of diesel locomotives declined as a result of their sale, while the reduction of owned wagons resulted from removing them from the books following a decision to liquidate them (due to the technical condition).

The tables below present the structure of the locomotives and wagons used, by type and ownership during the reporting period.

Table 21 Structure of the locomotives used by the PKP CARGO Group by traction type and ownership

Item	31 December 2015*	30 September 2015**	31 December 2014	Change YTD	Change in Q4 2015
diesel locomotives	1,429	1,442	1,300	129	-13
electric locomotives	1,173	1,176	1,162	11	-3
Total	**2,602**	**2,618**	**2,462**	**140**	**-16**
owned locomotives (including financial lease)	2,579	2,597	2,451	128	-18
locomotives in operational lease or rented	23	21	11	12	2
Total	**2,602**	**2,618**	**2,462**	**140**	**-16**

** including AWT Group locomotives (169 units)*
*** including AWT Group locomotives (167 units)*

Source: Proprietary material

Table 22 Structure of the wagons used by the PKP CARGO Group, by ownership

Item	31 December 2015*	30 September 2015**	31 December 2014	Change YTD	Change in Q4 2015
owned wagons (including financial lease)	64,907	65,000	62,086	2,821	-93
wagons in operational lease or rented	1,868	1,915	0	1,868	-47
Total	**66,775**	**66,915**	**62,086**	**4,689**	**-140**

** including AWT Group's wagons (4,980 units)*
*** including AWT Group's wagons (5,038 units)*

Source: Proprietary material

On 24 October 2013, PKP CARGO S.A. signed an agreement on co-financing from European Union funds of a project under the name "Purchase and delivery of newly built platform 80' wagons for transport of containers". Under the project, PKP CARGO S.A. will purchase 330 series Sggrss 80`container platforms, under an agreement concluded on 25 September 2013 with the contractor selected in an unlimited tender - European Railway Consortium "Wagon" Sp. z o.o. The net value of the wagon delivery agreement is PLN 94,875,000.00. The maximum value of the project co-financing from the Infrastructure and Environment Operational Program amounted to PLN 28,366,090.26.

On 18 December 2015 an annex to the Agreement on co-financing of the Project "Purchase and delivery of newly built platform 80' wagons for transport of containers". The material scope of the Project changed - it currently comprises purchase and delivery of 310 80' platform wagons (series Sggrs) for transport of intermodal containers (before there were 330 wagons) Due to the change of the Project value, also the amount of possible co-financing changed - it now amounts to PLN 26,487,951.84.

By 31 December 2015, 310 wagons were delivered under the delivery agreement.

4.2.2. Real estate

In the transport process, due to the necessity to guarantee appropriate maintenance and repair support, real estate plays an important role. Most real estate used by the Group is used on the basis of lease and rental agreements. The table below presents the change in the balance of real properties owned and used by the PKP CARGO S.A. Group in 2015.

Table 23 Real estate owned and used by PKP CARGO Group as at 31 December 2015 compared to 31 December 2014.

Item	31 December 2015*	31 December 2014	Change YTD
Land - owned, in perpetual usufruct and leased from other entities [ha]	1,560	1,006	554
Buildings - owned, leased and rented from other entities [sqm]	794,303	684,945	109,358

**including AWT Group's real property*

Source: Proprietary material

The increase of the size of land and buildings owned and in perpetual usufruct by the Group and increase of the size of leased and rented land and buildings is a direct result from PKP CARGO S.A.'s acquisition of shares in AWT B.V.

In addition to the changes following from the above transaction, there were no other events that had influence on the presented increases.

4.3. Key information about the PKP CARGO Group's financial standing

4.3.1. Information on loan and credit agreements executed and terminated

On 19 January 2015, the Parent Company concluded with ING BANK Śląski S.A. a Current Account Overdraft Agreement enabling it to use a current account overdraft facility up to the amount of PLN 19,000,000.00 (WIBOR 0/N + margin). The final repayment date was 18 January 2016.

On 10 March 2015, the Parent Company entered into an annex to the Investment Loan Agreement with EIB shortening the loan repayment term to 5 years and cancelling the collateral for the agreement.

On 1 June 2015, the Parent Company entered into an annex to the Current Account Overdraft Agreement with mBank S.A. extending the final repayment date to 31 May 2017. (WIBOR 0/N + margin).

On 16 November 2015, the Parent Company entered into two investment loan agreements with Bank Gospodarstwa Krajowego for the maximum total amount of EUR 100,000,000.00 (EURIBOR 3M + margin). The loans were granted for financing and/or refinancing of purchase of multi-system locomotives, investments following from the investment plans and financing of mergers and acquisitions. The loans are available till 31 December 2016. They will be repaid within 10 years of the end of the availability period. The final loan repayment date is 20 December 2026. The loans are not collateralized on the Company's assets.

On 16 November 2015, the Parent Company entered into an investment loan agreement with Bank Polska Kasa Opieki S.A. for the maximum amount of PLN 700,000,000.00 (WIBOR 3M + margin). The loan was granted for financing and/or refinancing of the investment plan and/or financing of mergers/acquisitions.

The loan was granted in two parts:

Part I – repayment – 7 years of the end of the availability period, i.e. 31 December 2023 – up to PLN 315,000,000.00 with the possibility of increasing up to the maximum amount of PLN 350,000,000.00 if the companies from the PKP CARGO Group do not use up the limit granted to them by the Bank (on the basis of the separate investment loan agreements entered into between the Bank and the companies from the PKP CARGO Group) up to the maximum amount of PLN 35,000,000.00.

Part II – repayment – 10 years of the end of the availability period, i.e. 31 December 2026 – up to PLN 315,000,000.00 with the possibility of increasing up to the maximum amount of PLN 350,000,000.00 if the companies from the PKP CARGO Group do not use up the limit granted to them by the Bank (on the basis of the separate investment loan agreements entered into between the Bank and the companies from the PKP CARGO Group) up to the maximum amount of PLN 35,000,000.00.

Availability period for the aforementioned parts of the loan elapses on 31 December 2016.

On 23 December 2015, the Parent Company entered into an investment loan agreement with European Bank of Reconstruction and Development for the maximum amount of EUR 100,000,000.00 (EURIBOR or WIBOR 6M + margin). The loan was granted for refinancing of the acquisition of AWT. The loan is available till 31 December 2016. The loan may be disbursed in EUR or PLN. The full loan repayment should take place by 25 September 2027.

On 28 December 2015, PKP CARGO S.A. made an early repayment of the loan under the agreement of 22 August 2012 with Bank Millennium S.A.

On 31 December 2015, PKP CARGO S.A. made an early repayment of the loan under the agreement of 13 June 2011 with FM Bank PBP S.A.

In 2015, no loan agreement with the Company was terminated.

The details regarding the bank loans are presented in Note 27.1-27.2 to the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2015.

4.3.2. Information about granted loans

In 2015 the Parent Company did not grant any loans to companies from the PKP CARGO Group.

In 2015 AWT a.s. granted a loan to the AWT Group company for the amount of CZK 50,000,000. The loan bore interest at a fixed interest rate. The loan was repaid in 2015.

4.3.3. Information about granted and received sureties and guarantees

In connection with the concluded commercial contracts for freight transport, the Parent Company commissioned bank guarantees for the total amount of PLN 19.7 million.

In 2015 the Parent Company did not grant any sureties to subsidiaries.

As at 31 December 2015 the PKP CARGO Group had off-balance sheet liabilities on account of granted guarantees and sureties for the total amount of PLN 131,231 thousand. In 2015 the amount comprised:

- guarantees and sureties granted to subsidiaries for third party entities in the amount of PLN 24,451 thousand.
- 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 106,780 thousand.

Additional information about contingent liabilities is presented in Note 38 to the Consolidated Financial Statements for 2015.

4.3.4. 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.

4.3.5. Assessment of management of financial resources

The Group has been efficiently managing the cash management cycle by matching the maturity of receivables and liabilities. To secure the risk associated with shortage of cash in the short run, the Parent Company had current account overdraft agreements with limits amounting to PLN 100 million and PLN 19 million. The same solution is used in selected companies from the PKP CARGO Group.

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 Group's finances. Excess cash generated by the Group were invested in fixed rate bank deposits with maturities of mainly 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 Group's ability to settle its liabilities in a timely manner.

The PKP CARGO Group's finance management system was supplemented by the implemented cash concentration management mechanism (cash pooling), which makes it possible to limit the costs incurred in connection with the use of short-term external financing sources and maximize the financial revenues in connection with available cash surpluses.

The structure of cash in the Group shows that the Parent Company had clearly the biggest share of such cash and was in 2015 a natural source of financing of the subsidiaries participating in the cash-pooling system.

In H2 2015, the Parent Company entered into a bank guarantee limit agreement on the basis of which it was possible to issue guarantees to any company from the PKP CARGO Group, which made it possible to reduce the costs incurred in connection with obtained guarantees and made the guarantees independent of the financial standing of the given company.

In 2015 the Group had full capacity to settle its liabilities at maturity thanks to its good financial standing and the support provided by the cash-pooling system.

4.3.6. Description of the structure of key equity investments or key investments made within the PKP CARGO Group.

Most financial investments made by the Group in 2015 were bank deposits which are concluded for the period of up to 3 months, depending on the Company's liquidity needs.

4.3.7. Current and forecasted financial standing of the PKP CARGO Group

The PKP CARGO Group has full capacity to settle its liabilities at maturity. The acquisition activities take into account the Group's financial capacity.

4.4. Key risk factors and threats

4.4.1. Description of the key threats and risks

Risks related to the economic and market environment

Risk of deterioration in business conditions- Transport, both rail and road, is a key component of every economy. The economic situation, both in Poland and globally, has strong impact on the growth rate of the rail transport sector. The growth rate of industry and development of its import-intensive sectors that have direct impact on international trade exchange, are important factors that have a strong bearing on rail transport. Also the situation in the road transport sector has direct impact on the rail transport sector constituting its close substitute.

The economic situation in Greece continues to be an important risk factor for the EU economy. In August 2015 Greece was granted an aid package of EUR 86 billion. In early October 2015, the government of Aleksis Tspipras, a co-author of the agreement, got the vote of confidence of the Greek parliament, which points to Greece's readiness to fulfill its obligations towards its creditors.[55]

[55] http://www.money.pl/gospodarka/unia-europejska/wiadomosci/artykul/reformy-oszczednosciowe-w-grecji-rzad,61,0,1926205.html

Economic growth and overall macroeconomic situation of the country point to high correlation with the sector constituting the PKP CARGO Group's area of activity. The production and commercial activity sectors have seen long-term fluctuations within the economic cycle. They have strong impact on the Group's operations. One can also note that changes of Poland's GDP demonstrate strong correlation with the growth rate of the freight turnover in rail transport.

Freight transportation activity involving rail freight transport in Poland and internationally is the main source of the PKP CARGO Group's revenues. Hence the market situation not just in Poland and Czech Republic also in countries that are its main trading partners materially affects the PKP CARGO Group's operations and financial results. The financial results are closely dependent on the overall situation in the home markets and in the countries which constitute the existing or potential areas of the Group's activities. Hence worse situation has negative impact on the Group's financial performance.

In addition, the situation in Central and Eastern Europe (CEE) is under noticeable influence of the standing of Chinese economy, driven to the largest extent by the prices of industrial raw materials and global economy. The collapse in the Chinese market brought a strong depreciation of the currencies of emerging markets, including the Polish zloty. Additionally, medium - term predictions assume continuation of the slowdown in China. This will affect particularly the Russian economy which, after relaxing its relations with the West, started closer cooperation with the Chinese market, hoping for drawing more benefits from its development. However after the crisis was declared, at the Chinese exchange the prices of oil - Russia's main raw material generating significant budget revenues - dropped by 20% in January 2016 to approx. 30 USD.

As of the end of 2015 the sanctions for exports of oil from Iran were lifted. This is the outcome of a nuclear agreement with Western states. Iran's efforts to regain its former position in the global oil market will allow it to gradually increase oil sales, which will definitely contribute to further decrease of global oil prices.[56]

Risk associated with the situation on the rail transport market in the main cargo categories – The rail freight market is closely dependent on the business conditions on the market for coal, aggregates, coke, iron ore, metals, petroleum oil refinery products, chemical products and container transport. The growth rate of the volumes of freight transported by the PKP CARGO Group is strongly linked to changes in the transport in the aforementioned cargo categories.

The coal transport market depends on the uncertain situation in the mining industry, determined primarily by:

- decreases in global coal prices – the average ARA price in December 2014 was 70.36 USD /t[57], while in December 2015 it was 47.83 USD /t[58] (down by 32.0% yoy), which is the worst result in the analyzed period,
- decreasing but still relatively high levels of coal inventories in Poland – at the end of November 2015 there were 5.88 million tons – down by 8.21 million tons in December 2014, i.e. by 28.4%,[59]
- increasing role of Renewable Energy Sources ("RES") – it is estimated that in 2014 in Poland renewable energy accounted for 11.5% [60] of gross final energy consumption (compared to 11.3% in 2013); ultimately in 2020 it is to reach 15%; in the Czech Republic RES provided an estimated 11% of electricity while the plan is to obtain 13% by 2020,[61]
- uncertain situation of NWR (New World Resources) and its subsidiary, Czech mining company OKD – OKD's restructuring and global decline of coal prices has negative impact on the profitability of NWR's mines (most of them may record negative financial results). In December 2015 the company asked for financial aid from the Czech state in the amount of CZK 3 billion (approx. EUR 150 million) to save the indebted mines. The loan has not been granted but the talks are still going on. Additionally, to improve the company's financial standing, OKD has introduced a cost optimization program.

In the period of the first 11 months of 2015, 65.9 million tons of hard coal were mined in Poland, which was 1.1% less than in the corresponding period of 2014. This decline is the outcome of excess coal supply on the domestic market (the large amount of inventories on coal yards) and decreases of global coal prices. In the Czech Republic, the situation is equally tough: 8.6 million tons of hard coal were mined there in 2014, i.e. 2% less yoy, while the coal production sold plunged by 14% yoy.

The persisting trend concerning the generation of electricity in power plants in Poland is another material risk factor. According to the National Electrical Energy System and the Balancing Market, 161,772 GWh of electricity were generated in Poland in 2015, signifying generation growth by 3.3% yoy in relation to 2014 (156,567 GWh). In turn, the energy mix in 2015 proved to be

[56] http://www.forbes.pl/iran-znow-w-grze-polskie-firmy-moga-na-tym-zarobic,artykuly,197438,1,1.html
[57] http://gornictwo.wnp.pl/notowania/ceny_wegla/
[58] http://gornictwo.wnp.pl/notowania/ceny_wegla/
[59] http://www.polskirynekwegla.pl/raport-dynamiczny/stan-zapasow-wegla-kamiennego-caly-okres-czasu
[60] http://wysokienapiecie.pl/oze/749-oze-w-polsce-udzial-nowelizacja-ustawy-o-oze
[61] Wysokienapiecie.pl

less favorable to brown coal (the generation of energy using this raw material receded by 1.2% yoy) coupled with growth in the generation of electricity using hard coal-fired power plants (2.0% growth yoy) and wind power plants (increase by 39.8% yoy).

Risk associated with the rail freight sector – Both the Polish and Czech rail transport market is characterized by strong competition among the operators. The number of the PKP CARGO Group's competitors is variable, which is attributable to liberalization of the regulations governing the activity in these markets.

While the PKP CARGO Group is the largest Polish rail freight operator, the competition holds a total of approximately 52,2% of the market share measured by freight volume (data for 11 months of 2015). Currently 66 entities operate in the Polish rail freight market. On the Czech market PKP CARGO Group has an approx. 11.5% share (based on data for Q1 2015) in terms of transported volumes.

Relatively strong competition stimulates looking for new markets and expanding the range of the services offered by the Group.

The leading players on the rail freight market in Poland are: the PKP CARGO Group, DB Schenker Rail Polska, Lotos Kolej and CTL Logistics. The activity of competing rail operators entails among others whole train transport of coal, aggregate and other dry bulk commodities, liquid fuels, chemical articles and intermodal transport.

The key players on the Czech rail freight market are: ČD CARGO, Unipetrol Doprava, Rail Cargo Austria, Loko-Trans SD-KD (SD - Kolejová doprava), and also Metrans in some areas of rail freight transport (intermodal services). Similarly to Poland, competitive activities include: rail transport services for coal and other dry bulk commodities, liquid fuels, chemical materials and intermodal transport.

The diminished demand for steam coal, the delays in the process of road and rail investments and the unstable volume of transshipment at the Polish-Ukrainian border in connection with the political crisis in Ukraine are the main areas of risk pertaining to the Group's freight transport.

Risks in the operations conducted

Risks associated with rail infrastructure – The activities of the PKP CARGO Group depend on the condition of the rail infrastructure and the railway network being used is characterized by low quality. An intensive railway network modernization program, although ultimately it will entail improvement of operating conditions, during the course of the construction and renovation work will cause hindrances and a necessity to route the railway traffic using detours.

Risk associated with changes of legal regulations – In accordance with the current EU Commission bills, the obligation to install quiet brakes in wagons will be implemented in Poland as of 2026. Implementation of this obligation in all PKP CARGO S.A.'s wagons is an investment estimated at approx. PLN 360 million. In other European countries this obligation is to be introduced as of 2020 (Germany already applies higher rates for access to infrastructure for wagons which do not have this kind of brakes).

Risk associated with change of the conditions of access to rail infrastructure and conditions of access to/availability of service infrastructure facilities – The PKP CARGO Group conducts its core business based on access to rail infrastructure and a new category being designed by the legislator – service infrastructure facilities. In addition the Group uses facilities which (according to the contemplated regulations) are likely to be designated as service infrastructure facilities. Change of the conditions is associated with implementation in the Polish legal order of the Directive 2012/34/EU of the European Parliament and of the Council of 21 November 2012 establishing a single European railway area. The planned amendments may lead to changes in the payments for access to rail infrastructure, which will depend on the execution plan. In addition conditions for availability of the rail infrastructure facilities will be introduced. Currently, public consultations are under way.

Risk of changes to the rules for calculating the rates for access to the rail infrastructure – Draft amendment to the Railway Transport Act for provides the possibility of rates for access to the rail infrastructure to depend on the trains going according to the schedule. This will have a direct impact on the amount of fees paid by freight carriers, including companies of PKP CARGO Group. The demand for transport services is result of production tasks of companies cooperating with the Group (mainly mines), manufacturing process and the specifics of their operation which does not allow to precisely plan the transport tasks.

Risk of fuel price growth – The current global petroleum oil prices are at minimum levels in several years. If the largest global producers elect to limit the current high production levels of this commodity, it is possible that the current trends will reverse and this commodity's price will rise, which as a result will contribute to higher prices for liquid fuels.

Road transport constitutes increasing competition from the Group – In the territory of Poland, road freight transport is the most serious competitor for rail transport. For the past few years an intensive program has been executed to modernize the road network. This has contributed to significant improvement of the surface of the existing roads and increase of the density of the road network. The focus was mainly on development of the motorway and express road network. At the end of 2015, there were 1,553.2 km of motorways and 1,495.7 km of express roads in use[62]. In total the network comprised 3,048.9 km of roads of key importance for the road transport. By the end of 2020 the total length of motorways and express roads is expected to increase by 1,770 km[63]. The key source of financing for the road investments are the EU funds budgeted for this purpose in the 2014-2020 framework.

Expansion of the road network will bring reduction of the costs of transport of goods and reduction of the transport time. The possibility of delivery of goods directly to the destination indicated by the principal is also an important advantage. In the case of rail transport the cargo is transported to the nearest terminal or transshipment station and delivery of the cargo to the specified address requires change of the means of transport. All these advantages of the road transport may continue to contribute to reduction of the significance of rail transport.

Also in the Czech Republic the motorway and express road network is improving. By the end of 2015, 775 km of motorways and 463 km of express roads were opened, yielding a total of 1,055 km. As of 1 January 2016 a large portion of the express roads were given the status of motorways. In total there are 1,238 km of roads of key importance for transport. This result of better by 183 km than by the end of 2014. Similarly to Poland, the Czech Republic is improving the density of its road network thanks to EU subsidies - in total 95 km of national roads and motorways are to be added.

The abolishment of sanctions on the exports of Iranian oil by the end of 2015 may result in a significant reduction of rail transportation. Low prices of the raw material from Iran increase the economic attractiveness of road transport and hence make it often more competitive than rail transport.

The Group's customer base is highly dependent on a limited number of industries and their suppliers – Long-term agreements have a predominant share in the structure of contracts concluded with customers. Although they include, among others, the declared volumes of transport orders, there is a certain risk of periodic or total loss of contracts to competitors in the transport industry. Also change of the contracted transport volume is a threat - it may translate directly into reduction of the actual volumes of transported freight. In the case of loss of one of the Group's key customers it is not certain that it will be able to find other counterparties who would be willing to use the transportation services of similar scale as in the previously negotiated contracts that have been lost.

The condition and determinants of activity of one of the Group's biggest customers in the Czech Republic, i.e. OKD a.s., is an additional risk factor. It is the only producer of hard coal in the Czech Republic and in connection with the hard situation on the hard coal market the company may have liquidity problems within the next 12 months. If such a situation arises, this may have an adverse effect on AWT's performance and consequently there is a risk of deterioration of AWT's financial liquidity.

Structural changes in the activity of key customers – The Group's activity is dependent on, inter alia, the structure of the activity of its key customers. Transformations of the structure of entities using the Group's services may manifest themselves for example in establishment of subsidiaries focusing on the transport of the goods manufactured by the company. Among PKP CARGO Group's customers there are also enterprises which currently have subsidiary companies which are rail operators but transport only some of their freight using the subsidiaries. One should bear in mind, however, that the aforementioned transportation entities may take over increasing shares of the services for their parent companies for which the Group has been their service provider so far. What is more, these entities may expand their activities to include transportation services provided to PKP CARGO Group's other customers, i.e. start activities competitive in relation to the Group.

Changes in the stricture of the activity conducted by the Group's customers may comprise also change of the production cycle and change of the location of the company or place of business. This may contribute to change of the scale of the transport services provided.

Risk associated with acquisition activity – The results of the acquisition processes in which PKP CARGO S.A. participated and presently participates will have impact on the Group's results. The transactions may not bring the expected business and financial results.

To finalize the transaction associated with purchase of the shares of ORLEN KolTrans and ZCP Kolej it is necessary to obtain the consent of the Office of Competition and Consumer Protection, but also fulfilment of other conditions precedent. The

[62] PSWNA – Polish Association of Asphalt Surface Contractors
[63] GDDKiA

purchase agreement may be terminated if not all conditions precedent are fulfilled (or waived) prior to the elapse of the deadline agreed upon in the purchase agreement.

Risk associated with shortage of trained personnel – In connection with increase of the average age of many train crews and shortage of graduates, the Group has undertaken a number of actions aimed at reducing the risk of shortage of personnel. However there is still a risk of shortage of key professionals, such as members of train crews, mainly train engineers. However the Group takes measures to mitigate the risk such as recruitment campaigns, dialogue with technical education institutions, personnel skills improvement and broadening the knowledge of routes.

Risk of continuation of collective disputes and strike – In connection with the collective dispute in the Company as of 2 July 2015, on 16 December 2015, PKP CARGO S.A. concluded a memorandum of agreement with the National Protest and Strike Committee under which the parties undertook to take steps leading to the execution, by no later than 31 March 2016, of a memorandum of agreement ending the collective dispute. In connection with the above arrangements KKPS resolved to suspend the announced general strike and not to undertake any protest and strike activities until 31 March 2016. A potential protest and strike may have negative impact on the Group's financial results.

On 15 March 2016, parties of the Collective Labour Agreement have reached an agreement, within which Trade Union committed itself to close down the KKPS and its counterparts on a plant level and to cancel any protest and strike activities regarding structural and organizational changes in the Company. Furthermore, the parties of the agreement have committed itself to establish an agreement on wage policies until 30June 2016 as a consequence of a group dispute's postulate and a liability under § 5 of the Employee Guarantee Treaty of 2 September 2013.

Risk of increase of salaries – In 2016 the risk of increase of salaries will be enhanced especially by two circumstances:

- the undertaking of the parties to the Employee Guarantee Package of 2 September 2013 as regards annual negotiation of increase of the salaries and its execution no later than by 1 July, depending on the performance and financial standing of the Parent Company (permanent, predictable risk),
- the trade unions' attitude of the negotiations with the Management Board in connection with subject to the collective dispute of 2 July 2015.

The situation in the next few months may change because the parties to the CCBA undertook to finally resolve the issues following from the renumeration postulate by concluding a memorandum of agreement by the end of June 2016.

As of now, it is not possible to determine the impact of the remuneration pressure on the Parent Company's result for 2016 because the resolutions in this respect will depend, on the one hand, on the Company's financial standing and, on the other hand, on the willingness to reach an agreement by the trade unions.

Financial risks

Liquidity risk – The Group is exposed to liquidity risk following from the ratio of current assets to net current liabilities (current liabilities without short-term provisions).

The current liquidity ratio amounted to 1.04 and 1.86, respectively, as at 31 December 2015 and 31 December 2014.

To ensure an additional source of funds required to secure its financial liquidity the Company used a current account overdraft facility, investment loans and leasing. To optimize the financial costs in the PKP CARGO Group, a cash pooling system is in place which comprises, as at 31 December 2015, 8 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 market risks following from the aforementioned factors on the basis of internal procedures which define the rules of measurement of individual exposures, parameters and time horizon.

The principles of market risk management are implemented through assigned organizational units under the supervision of the 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 2015, 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 (up to 1 month) and payables expressed in foreign currencies are mostly short- and long-term leasing liabilities.

Balance sheet valuation of the receivables and liabilities expressed in foreign currencies, and settlements in foreign curren cies both on the side of receivables and liabilities, lead to financial revenues (positive FX differences) and financial expenses (negative FX differences). The level of financial revenues and financial expenses fluctuates during the year, which is caused by changes of the exchange rates.

Due to the long maturities, short- and long-term leasing liabilities denominated in EUR and in CHF have the biggest share in financial revenue and expenses, and cause volatility in the Group's result on the level of financial expenses and revenues on account of unrealized FX differences.

Short-term receivables expressed in foreign currencies (mainly EUR) amount on average to approx. EUR 12 million per month. Large part of the short-term receivables were receivables from international transport.

Cash flows in EUR were partly hedged with forward transactions and, in the remaining part, natural hedging was used.

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 the Company's cash flows are partly balanced out by the costs in the same currency.

For the EUR/PLN exchange rate, there is partial hedging due to the fact that sales revenues in EUR are partly balanced out by costs in the same currency. For the CHF/PLN exchange rate, natural hedging is available to a limited extent. The FX risk hedging transactions used by the Company are aimed at hedging the net free position exposed to change of the value in PLN.

According to the Financial Risk Management Policy prevailing in the Company, in 2015, FX risk management transactions were used for the EUR/PLN currency pair. Due to the stable exchange rate of the EUR/CHF currency pair throughout 2015 no FX risk management transactions were used for this pair (according to the adopted assumptions following from the Group's policy, this was treated as natural hedging).

Forward transactions were used to hedge FX risk in 2015. As at 31 December 2015, the PKP CARGO Group had outstanding forward contracts in the amount of EUR 31,070,000.00 (including PKP CARGO S.A. EUR 21,100,000.00 and PKP CARGO CONNECT Sp. z o.o. EUR 9,970,000.00).

Interest rate risk – Most financial investments made by the Group were bank deposits which are concluded for the period of several days up to approx. 3 months, depending on the Group'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 financial lease liabilities paid in 2015 amounted to PLN 8,607,386.89. Interest on leasing agreements was accrued according to the reference rates increased by the financing party's margin. The reference rate for agreements denominated in EUR is EURIBOR 3M and 6M and for agreements denominated in CHF – LIBOR 6M CHF.

The interest rate risk in leasing agreements is executed through revaluation of leasing installments in the per iods of 1 month, 3 months, 6 months, depending on the agreement. The value of interest on loan liabilities paid in 2015 amounted to PLN 15,402,714.85 thousand. Interest on loan agreements were accrued according to the WIBOR 1M, WIBOR 3M, EURIBOR 3M, PRIBOR 3M reference rates plus the banks' margin. The interest rate risk in loan agreements is executed through revaluation of loan installments in monthly and quarterly 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.

In 2013, due to its external financing based on variable interest rates, PKP CARGO CONNECT Sp. z o.o. entered into IRS transactions to hedge the volatility of interest rates for PLN loans, adapted properly to fit the assume principal repayment schedule. In the case of lease agreements – in the 2013 financial year the risk of increase of interest rates was hedged (also through entering into an IRS transaction) for the lease agreement for 210 Talns series wagons. As at the balance sheet date, a subsidiary, PKP CARGO CONNECT Sp. z o.o., had opened interest rate transactions.

Financial risk management of AWT Group assumes a use of financial derivatives. During 2015, AWT Group has been exploiting interest rate swaps and commodity swaps, which were used to cover the risk of changes of carrying values and cash flows. As at 31.12.2015, there was no open positions on hedge transactions – its maturity dates expired during 2015.

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

Counterparties' receivables are monitored on a regular basis. In the case of overdue receivables, in accordance with prevailing procedures, the delivery of services is suspended and recovery procedures are triggered.

Concentration of risk associated with trade receivables is limited due to the large number of counterparties with commercial credit dispersed among different sectors of economy. In addition, to reduce the risk of problems with recovery of trade receivables, the Group accepts from their customers securities in the form of, among others: bank/insurance guarantees, assignment of contracts, blockage on bank accounts, and promissory notes.

The credit risk associated with cash and bank deposits is perceived as low. All entities in which the 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) whose value as at the balance sheet date amounted to PLN 7,328,562.75.

4.4.2. Information on financial instruments with respect to the risk and financial risk management objectives and methods adopted by the PKP CARGO Group.

In 2015, the PKP CARGO Group did not record any significant cash flow disruptions and loss of financial liquidity.

The principles of market risk management are implemented through assigned organizational units under the supervision of the 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 2015, the Parent Company did not apply hedge accounting.

Hedge accounting was used by company from the PKP CARGO Group – 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.

Hedge accounting has been applied by AWT Group during 2015. Forward transactions such as interest rate swaps (IRS) or commodity swaps (combined with diesel fuel purchase) have been used. Maturity of these securities expired during 2015.

5. Key events and information on the PKP CARGO Group's activity

5.1. Key information and events

Table 24 Key information and events which occurred in 2015 and after the balance sheet date

Period	Event
January	• PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o., as employers, gave consent to 3,041 out of 3,300 interested employees from the PKP CARGO Group to take advantage of the Voluntary Redundancy Program which began in 2014. The final total amount of the resulting liabilities was PLN 266 million. This amount, as a provision for future liabilities under the Voluntary Redundancy Program, was reflected in the ledgers and charged to the consolidated result of the PKP CARGO Group for Q4 2014. The people who obtained the employers' consent stopped being employees of PKP CARGO Group as of 1 February 2015. Payment of severance pays under the Voluntary Redundancy Program: The first tranche in the amount of approx. PLN 227 million was paid out together with the salaries for January 2015 and the second tranche in the amount of approx. PLN 38 million was paid out in January 2016. • PKP CARGO S.A. announced a tender for the purchase of 20 multi-system locomotives for cross-border connections, out of which 5 are optional. The total value of the order may amount to PLN 400 million. The hand-over of the first new locomotives for operation is planned for H2 2016. They will take trains to Germany, Czech Republic, Slovakia, Austria, Hungary and Netherlands. • PKP CARGO S.A. signed a railway infrastructure access agreement with PKP PLK S.A. The agreement is in effect from 14 December 2014 to 12 December 2015. The expected value of the Agreement during its term will total PLN 684,713,941 net (PLN 842,198,147 gross). • The Company submitted a notification of a collective dispute with a trade union organization - Federation of Trade Unions of Polish Rail Employees (FZZPPK), active in PKP CARGO S.A. Due to elapse of the deadline for acceptance of the demands (mainly of compensation nature) and presentation of the method of meeting them, the Company embarked on a collective dispute with FZZPPK, effective as of 13 January 2015. • PKP CARGO S.A. decided to expand the Poznań - Franowo terminal. The storage area was to increase from the existing 1,280 TEUs to 1,760 TEUs. The expansion was to be co-financed in 50% from EU funds. The total value of the investment project was estimated at PLN 5.8 million. Completion of the construction work was scheduled for November 2015. • A tax group under the name of PKP CARGO LOGISTICS – Tax Group ("Tax Group") started to operate in the Group. The agreement will be in effect for 3 years till 31 December 2017. The Tax Group at the moment of creation comprises PKP CARGO S.A., as the representative company, CARGOSPED Sp. z o.o., PKP CARGO SERVICE Sp. z o.o., PKP CARGOTABOR Sp. z o.o. and CARGOTOR Sp. z o. o.
February	• PKP CARGO S.A. entered into a memorandum of agreement ending the collective dispute effective as of 30 October 2014. The memorandum of agreement envisages partial fulfilment of the postulates pertaining primarily to: a benefit paid on the occasion of the Railway Man Day, introduction of a benefit for change of the work schedule, increase of daily rates for purchase of supportive meals and regenerative meals, introduction of an allocation and incentive allowance, and organizational matters. • Receipt of a notice that as a result of a sale of the Company's shares in a block trade, the European Bank for Reconstruction and Development reduced its shareholding below 5% of the total number of votes at the PKP CARGO S.A. shareholder meeting. Before the Transaction EBRD held 5.10% of the Company's share capital and was entitled to 5.10% of the total number of votes. • PKP CARGO S.A. and KGHM Polska Miedź S.A. entered into a preliminary agreement on potential acquisition, by PKP CARGO S.A., of 49% shares in Pol-Miedź Trans (PMT), which is currently wholly-owned by KGHM. • PKP CARGO S.A. received information from Mr. Zdenek Bakala and The Bakala Trust on the fulfillment of one of the conditions precedent laid down in the agreement on acquisition, by PKP CARGO S.A., of 80% shares in the share capital of Advanced World Transport B.V. (AWT), involving convalidation of the transfer of the legal title to a collective share slip of AWT. • PKP CARGO S.A. signed a purchase agreement for 44.44% shares in PKP CARGO CONNECT sp. z o.o. from Trade Trans Invest a.s. Currently PKP CARGO S.A. owns 100% shares in the company. • PKP CARGO S.A. signed an agreement for the acquisition of 49% of shares in PKP CARGO International a.s. in liquidation from Rail Cargo Spedition a.s. Currently, PKP CARGO S.A. holds 100% shares in the company.

	● PKP CARGO CONNECT Sp. z o.o. signed agreements for the sale of shares in Rail Cargo Spedition GmbH, Trade Trans Terminal SRL and Rail Cargo Service Sp. z o.o. Currently, PKP CARGO CONNECT Sp. z o.o. does not hold any shares in these companies.
March	● PKP CARGO S.A. received information from Mr. Zdenek Bakala and The Bakala Trust on the fulfillment of the second condition precedent laid down in the agreement on acquisition, by PKP CARGO S.A., of 80% shares in the share capital of Advanced World Transport B.V. (AWT), involving the obtaining of confirmation by some AWT group companies from banks and other financial institutions funding the AWT Group's activities that the transaction will not constitute a breach of the agreements with these institutions. ● PKP CARGO S.A. signed a strategic cooperation agreement with HŽ Cargo, a Croatian national rail freight carrier. Both companies will cooperate in providing services to their existing customers, transporting goods in the North-South corridor and will prepare a joint logistic offering for prospective new customers. ● PKP CARGO S.A. signed agreements with three leaders of the Polish industries using wood – International Paper Kwidzyn, Kronospan Szczecinek and Mondi Świecie. These are agreements for transport of, among other things, timber, wooden products and wood chips. The total volume of the goods transported by PKP CARGO S.A. over 2 years will exceed 5 million tons, out of which 65% will be transport of timber.
April	● Annual Shareholder Meeting (ASM) adopted a resolution on distributing the profit earned in 2014 - the ASM resolved to allocate the net profit of PLN 58,610,399.18 for: 1. payment of dividend in the amount of PLN 53,921,567.25; 2. supplementary capital in the amount of PLN 4,688,831.93. Additionally, the Annual Shareholder Meeting resolved to earmark for dividend the amount of PLN 56,254,248.57 from retained earnings. At the same time, the Company's ASM set 15 June 2015 as the dividend record date and 26 June 2015 as the dividend payment date. The total value of the dividend is PLN 110,175,815.82, i.e. PLN 2.46 per share. The dividend applies to all 44,786,917 shares of the Company. The contents of the ASM resolution were consistent with the Company's Management Board recommendation regarding distribution of the profit earned in 2014. As for allocation of the additional amount for dividend from retained earnings, the Management Board recommended the amount of PLN 56,078,432.75. ● The President of the Office of Rail Transport issued to PKP CARGO S.A. for 5 years safety certificate part B no. PL 1220150006 valid from 23 April 2015, being an extension of safety certificate part B no. PL 1220100001 dated 22 April 2010. The safety certificate confirms acceptance of the regulations adopted by the rail company to satisfy the national requirements regarding security of transport in a given network, in accordance with Directive 2004/49/EC and pertinent national regulations. ● Commencement of the consolidation process of freight forwarding activity in the Group. Freight forwarding services provided by PKP CARGO S.A. were currently spread between three companies: PKP CARGO CONNECT, CARGOSPED and PKP CARGO S.A. itself. The objective of the process is to harmonize the provision of services primarily from the customer's perspective. ● The Extraordinary Shareholder Meeting adopted changes in PKP CARGO S.A.'s Articles of Association; the Supervisory Board adopted the consolidated version of the Company's Articles of Association. ● PKP CARGOTABOR USŁUGI Sp. z o.o. suspended business activity for 9 months, i.e. until the end of 2015 (if necessary, this activity may be resumed earlier by the company – before the elapse of 9 months). ● The President of the Office of Rail Transport (UTK) issued a security authorization for railway infrastructure manager to CARGOTOR Sp. z o.o., a PKP CARGO Group company. This constitutes confirmation that this company ensures safe conduct of railway traffic and railway infrastructure access to rail operators.
May	● On 10 May 2015, the Management Board of PKP CARGO S.A. adopted a resolution to continue the optimization of headcount in the Company through the implementation of the Voluntary Redundancy Program. The anticipated value of liabilities arising from the implemented Program has been estimated at approx. PLN 20 million. This amount of liabilities is based on the assumption that approx. 250 employees will take advantage of the Voluntary Redundancy Program. A condition for an employee's eligibility for the Voluntary Redundancy Program was to obtain the employer's consent. ● The PKP CARGO S.A. Management Board reported that the last condition precedent has been fulfilled, i.e. that the Company has obtained, from the relevant antitrust authorities, approval of the concentration between the Company and AWT as laid down in the agreement for the Company's acquisition of a 80% stake in AWT's share capital. The transfer of legal title to shares in AWT's share capital took place on 28 May 2015 under a Dutch notarial deed in return for the Company's payment of the purchase price.

- PKP CARGO S.A. won a tender for the transportation of coal for PLN 62.5 million and will continue to deliver coal from Bogdanka in Lublin and from the Silesian mines to ENEA Wytwarzanie's Kozienice Power Plant. The new contract is in force for 12 months, starting in July 2015. The total volume of fuel to be transported under this agreement will be in excess of 5 million tons.

- In the performance of a share purchase agreement entered into on 30 December 2014, PKP CARGO S.A. acquired 60,000 shares in AWT's share capital with a par value of EUR 1 each, representing 80% of AWT's total share capital and carrying the right to exercise 80% of the total number of votes at AWT's shareholder meeting, following the Company's execution of an agreement transferring ownership of the shares to the Company and the Company's payment of EUR 103,200 thousand (PLN 427,300 thousand).

June

- The final total value of liabilities arising from the Voluntary Redundancy Program implemented by PKP CARGO S.A. in 2015 was PLN 63.9 million. 1,193 employees in the Company in total filed applications to enroll in the Voluntary Redundancy Program. Considering the need to preserve continuity in running processes and the economic conditions, 319 interested employees did not receive consent to take advantage of this Program. The 874 employees in the Company who received their employers' consent to enroll in the Voluntary Redundancy Program ceased to be employed by the Company starting on 1 July 2015. Severance payments under the Voluntary Redundancy Program were made in two tranches: The first tranche in the amount of approx. PLN 54.5 million was paid out with the salaries for June 2015; the second tranche in the amount of approx. PLN 9.5 million was paid out in February 2016. The liability of PLN 63.9 million under the Voluntary Redundancy Program was recognized in the Company's financial result for Q2 2015.

- Execution by PKP CARGO S.A. of an annex to the Overdraft Facility Agreement with mBank S.A. changing the repayment date to 31 May 2017.

- PKP CARGO S.A. concluded a letter of intent for cooperation with Zhengzhou International Hub Development and Construction Co., Ltd. in which the Parties declared that they would establish an international logistics operator dedicated to supporting container transport to/from China from/to Western Europe through Małaszewicze. The Parties will pursue the objective of taking joint actions towards further development and increase in efficiency of a whole-train rail link between the Zhengzhou in China and the Western Europe, consolidation of trade relations between China and Poland and development of strategic cooperation in the field of transshipment activity in the Małaszewicze container terminal.

- PKP CARGO S.A. signed a three-year agreement with Veolia in Poland to transport 4.25 million tons of hard coal. This contract will be performed in 2016-2018. This contract chiefly anticipates coal supplies from Silesian mines to central and western Poland.

- AWT a.s., AWT B.V., AWT Rekultivace a.s. and AWT Coal Logistics s.r.o. as borrowers signed an annex to the Consortium Credit Facility Agreement. The consortium's members are as follows: ING Bank N.V. and UniCredit Bank Czech Republic and Slovakia a.s. as lenders. According to the executed Annex, the term of validity of the line of credit and the lines for bank guarantees and letters of credit is extended for one year, until September 2016 for the line of credit and the usage of new guarantees and until September 2017 for bank guarantees and letters of credit. As at the date of signing the Annex (25 June 2015), the outstanding amount to be repaid under this facility is approx. EUR 27 million.

- In PKP CARGOTABOR Sp. z o.o., a workforce optimization project has been implemented in the form of the Voluntary Redundancy Program. As a result of the verification of applications, 107 employees were given consent to leave as of 1 August 2015. The provision for liabilities under the implementation of the program amounting to PLN 6.3 million was recognized in the Company's financial result and consequently also the Group's consolidated result for Q2 2015.

July

- Signing of a letter of intent between PKP CARGO S.A. and Greenbrier Europe Wagony Świdnica on launching the production of wagons in Szczecin. Under this cooperation Greenbrier will furnish the indispensable documentation, technology, quality control standards and the production line equipment. PKP CARGOTABOR Sp. z o.o. (a company belonging to the PKP CARGO Group) will be charged among others with providing qualified production and administrative staff and workshops.

- On 8 July 2015 the Company filed a notification with the State Labor Inspection Service on the emergence of a collective dispute with the trade union organizations operating in the Company. By letter dated 2 July 2015, four trade union organizations operating in the Company requested the implementation of their demands pertaining to increases in employee compensation, setting a five-day time limit, expiring on 7 July 2015, for such implementation. The demands put forward by the trade unions in their letter of 2 July 2015 concerned the following issues:
1. Implementing a wage increase as of 1 July 2015 in base salary in the amount of PLN 250 for all employees paid in accordance with the Collective Bargaining Agreement ("CBA") for persons employed in PKP CARGO as of 1 July 2015;
2. Implementing a change in the base for the ratio in Q4 2014 for PKP CARGO S.A.'s employees paid on a ratio basis according to the Management Board's Resolution,
where the consequence of the refusal to fulfill these demands will be entry into a collective dispute in respect of each one of the postulates described above. According to the Company's estimates, the annual cost of fulfillment of the demands put forward by the trade union organizations would amount to approx. PLN 120 million. The PKP CARGO S.A. Management

Board, in its letter dated 7 July 2015, refused to fulfill the demands formulated by the trade unions in their letter of 2 July 2015, as a result of which a collective dispute emerged with effect from 2 July 2015. The Management Board refused to accept the demands put forward by the social side during the mediation held on 30 July 2015. A consequence of the failure to reach an agreement was to complete the mediation within the framework of a collective dispute by preparing a discrepancy report, which took place on 30 July 2015. The completion of the mediation stage entitles the trade unions to take strike action.

- On 29 July 2015, the Company's Management Board adopted a resolution to increase employee salaries as of 1 July 2015: (i) for employees remunerated under the Company Collective Bargaining Agreement, the gross base salary increased by PLN 110, (ii) for employees remunerated on the basis of coefficients, the net salary increased by PLN 110. The Management Board announced that it will request the Supervisory Board for consent to raise the salaries. According to the Company's estimates, the cost of such a raise, including associated payments, is approx. PLN 50 million per full calendar year.

- PKP CARGO S.A. commenced an expansion of the container terminal in Poznań Franowo, whose capacity upon completion was to increase by nearly 40%. This investment was slated for completion in December 2015. In the future this terminal will form part of the Logistics Center in Poznań, which renders comprehensive logistics services. As a result of this expansion, the terminal in Poznań Franowo was to obtain a new maneuvering plaza and storage yard with an area of 8.2 thousand square meters, while this facility's storage capacity in Franowo was to grow from its current 1,280 TEUs to nearly 1,800 TEUs. The expansion was co-financed in 50% from EU funds. The total net value of the investment project was estimated at PLN 6.8 million.

- The Extraordinary Shareholder Meeting of PKP CARGO International a.s. in liquidation divided the company's liquidation assets. Cash from liquidation assets was paid to the sole shareholder, PKP CARGO S.A., on 5 August 2015. Completion of the PKP CARGO International a.s. in liquidation process is conditional upon obtaining consents of relevant administrative bodies with geographic jurisdiction over the company.

- The PKP CARGO S.A. Supervisory Board expressed its consent for the sale of additional part of the rolling stock.

August

- The Extraordinary Shareholder Meeting of AWT Rail PL sp. z o.o. adopted a resolution to dissolve AWT Rail PL, open its liquidation as of 7 August 2015 and appoint the liquidators. A petition for the opening of the liquidation proceedings was filed with the court of registration in Gliwice.

- In a resolution adopted on 10 August 2015, the Company's Supervisory Board issued a positive opinion on the resolution adopted by the Management Board of PKP CARGO S.A. on 29 July 2015 providing for salary increases for employees working for employers operating in the Company in the following amounts: (i) PLN 110 gross for employees remunerated under the Company Collective Bargaining Agreement, (ii) PLN 110 net for employees remunerated on the basis of coefficients, with the change in salaries due to take effect as of 1 July 2015.

September

- Signing on 23 September 2015, with the Consortium composed of Siemens Sp. z o.o. in Warsaw as the Consortium leader and Siemens A.G. in Munich as a Consortium member, an agreement for delivery of 15 multi-system locomotives in three batches from 31 January 2016 to 30 June 2017 (the basic order) with an option to purchase 5 additional locomotives at basic order prices, where PKP CARGO S.A. must take the decision to exercise this option no later than on 31 December 2017 (the optional order).
  The net value of the agreement will not exceed EUR 75 million under the basic order (15 locomotives) and EUR 26 million under the optional order (5 locomotives), however for deliveries and maintenance services under the optional order a one-time price restatement mechanism was introduced with a specified negative and positive rate, which will not exceed +/-2% of the initial prices.

- Approval by the PKP CARGO S.A. Supervisory Board of the "PKP CARGO Group's Strategy for 2016-2020". The Strategy assumed that by 2020, PKP CARGO S.A. would become the leading logistics operator in Central and Eastern Europe. The planned outcome of its implementation is the growth of transport performed entirely beyond Poland from the current 2% to approx. 22% and almost doubling the intermodal transport, among others through increase of transport to and from China. Diversification of revenues should make the PKP CARGO Group more independent from transport of its basic cargo, i.e. coal and aggregates. The PKP CARGO S.A. Group will be developing its rail transport in Central Europe using the assets of PKP CARGO and the Czech company AWT acquired in 2015. The main directions of expansion (organic and through acquisitions) will involve the services provided in the North-South and East-West corridors.

- Signing by the Management Boards of PKP CARGO CONNECT Sp. z o.o. (as the Acquiring Company) and CARGOSPED sp. z o.o. (as the Acquired Company) of the "Merger Plan for PKP CARGO CONNECT sp. z o.o. and CARGOSPED sp. z o.o.". That plan was submitted to the relevant court of registration.

- On 16 September 2015, a Shareholder Meeting was held representing Class B Shares in AWT B.V., where a resolution was adopted to give consent to sell 100% of shares held in XZD a.s. with its registered office in Košice (Slovakia) by AWT Čechofracht a.s., a wholly-owned subsidiary of AWT B.V. – to liquidate them in favor of the legal firm Ecker Khan for the amount of 1 EUR.

- PKP CARGO S.A. began the consolidation of part of the sales services in a single company – PKP CARGO CONNECT. Its line of business will include sales of PKP CARGO S.A.'s comprehensive logistical services in Poland and on international markets. That company will be responsible for commercial and freight forwarding services of the PKP CARGO Group. It will combine the services provided to international clients with a comprehensive logistical offer based on PKP CARGO Group's assets (sidings, terminals, know-how related to freight forwarding, intermodal logistic and customs administration). PKP CARGO CONNECT will be also responsible for the terminal business and will offer cargo transshipment and storage services.

- End of ban on disposing employee shares (lock-up) – pursuant to §6 sec. 5 of the Company's Articles of Association, employee shares were subject to a lock-up for two years from the floating date on the Warsaw Stock Exchange, i.e. until 30 October 2015.

October

- Registering changes to PKP CARGO S.A.'s Articles of Association concerning, among other things, defining the authorities of supervisory board members, in particular those elected by employees, and management board members (they may not discharge an elected function or sit in the bodies of a company, inter-company or national trade union organization, a federation of trade unions or a confederation of trade unions).

- Approval by the President of the Office of Rail Transport of the new price list for PKP PLK S.A. As of 13 December 2015 (i.e. as of the new schedule), the unit rates of the basic charge and certain unit rates of the basic charge for access to the train control devices on the rail network administered by PKP PLK S.A. increased.
  In addition, as of the new schedule, PKP PLK S.A. introduced, as part of separate regulations (which are not subject to the Rail Transport Act of 28 March 2003), the new type of broad-gauge (1520 mm) rail infrastructure access charges.

- The Company's Management Board received a letter from the National Protest and Strike Committee active in PKP CARGO S.A. ("KKPS") in which KKPS announced a decision to carry out, on 9 November 2015, a rolling general strike in the Company.

November

- AWT Čechofracht a.s., a wholly-owned subsidiary of AWT B.V., entered into an agreement on the sale of 80% of shares held in XZD a.s.

- The Management Board of Krajowy Depozyt Papierów Wartościowych S.A. (National Securities Depository, "KDPW") adopted a resolution on conversion of the Company's series C registered shares to bearer shares.

- The Company's Management Board received a resolution adopted by the Management Board of Giełda Papierów Wartościowych S.A. (Stock Exchange, "GPW") to admit the Company's series C bearer common shares and introduce them into stock exchange trading on GPW's Main Market.

- On 6 November 2015, the Management Board of KDPW decided to assimilate 1,448,902 Company's shares designated by code PLPKPCR00045 with 43,338,015 Company's shares designated by code PLPKPCR00011. The Management Board of KDPW asserted that, as at 6 November 2015, 44,786,917 of the Company's shares were designated by code PLPKPCR00011. Accordingly, the condition for introducing the Company's series C shares into stock exchange trading has been fulfilled.

- The Extraordinary Shareholder Meeting of CARGOSPED sp. z o.o. and the Extraordinary Shareholder Meeting of PKP CARGO CONNECT sp. z o.o. gave consent and adopted a resolution to merge CARGOSPED sp. o.o. (as the Acquired Company) with PKP CARGO CONNECT sp. z o.o. (as the Acquiring Company).
  In connection with the adopted resolutions on the merger and share capital increase in PKP CARGO CONNECT sp. z o.o., PKP CARGO S.A. subscribed to all the shares in the increased share capital of PKP CARGO CONNECT sp. z o.o. in exchange for the shares held by PKP CARGO S.A. in CARGOSPED sp. z o.o.

- The Company and the employers acting on the Company's behalf filed a claim to rule non-existence of collective disputes in the Company's individual plants and on the level of the entire Company. The above claims were filed because, in the opinion of the Company's Management Board, the manner in which the collective dispute was conducted by the trade union organizations active in the Company was unlawful. These statements of claim comprised also petitions for injunctive relief in the form of prohibiting an industrial action until the claims of the statements of claim are resolved.

- KKPS notified the Company's Management Board about suspension of commencement of the general strike in the Company till 9 December 2015. However, KKPS reserved the right to immediately start a strike in individual Company plants before 9 December 2015 if the employer takes restructuring actions or makes decisions on the relocation of employees.

- On 11 November 2015, PKP CARGO S.A. entered into an agreement with PKP Informatyka Sp. z o.o. on the purchase of an organized part of an enterprise for PLN 21.1 million. The agreement on the purchase of an organized part of an enterprise from PKP Informatyka expired on 1 January 2016 without any legal consequences due to failure to satisfy the condition precedent of obtaining the consent from the Minister of Infrastructure and Construction.

- Receipt of a notice from Nationale-Nederlanden PTE S.A. on increasing the stake held by Nationale-Nederlanden OFE ("Fund") in the Company, as a result of the acquisition of shares in the Company in transactions executed on the Warsaw Stock Exchange and settled on 5 November 2015. Prior to the acquisition of the shares, the Fund held 5,620,103 shares representing 12.55% of the Company's share capital and was entitled to 5,620,103 votes at the Shareholder Meeting representing 12.55% of the total number of votes. On 12 November 2015, the Fund's securities account showed 5,771,555 shares, which accounted for 12.89% of the Company's share capital. The shares entitled the holder to 5,771,555 votes at the Company's Shareholder Meeting representing 12.89% of the total number of votes.

- PKP CARGO S.A. entered into two investment loan agreements with Bank Gospodarstwa Krajowego for the maximum total amount of EUR 100 million, exceeding 10% of the Company's equity.

- PKP CARGO S.A. and Bank Polska Kasa Opieki S.A. entered into a loan agreement pursuant to which the Company received an investment loan for up to PLN 700 million, earmarked for financing and/or refinancing of an investment plan and/or financing and/or refinancing of mergers/acquisitions.

- PKP CARGO S.A. entered into with PGE Górnictwo i Energetyka Konwencjonalna S.A. 3 agreements for rail transport of the following cargo: hard coal and/or limestone sorbents with the total maximum 13,28 mln tons. The estimate maximum net value of the agreements during their term, i.. from 1 January 2016 to 31 December 2018, amounts to PLN 288.9 million.

- PKP Cargotabor Usługi Sp. z o.o. as the purchaser, PKP CARGO S.A., as the guarantor, and PKN ORLEN S.A., as the seller, entered into a conditional binding sales agreement for 40,796 shares with the nominal value of PLN 1,000 each, with the total nominal value of PLN 40,796,000, representing approx. 99.85% of the shares in the share capital of ORLEN KolTrans Sp. z o.o. for the total amount of PLN 192,248,367.05.

- PKP CARGO S.A. and Euronaft Trzebinia Sp. z o.o. ("Euronaft") entered into a conditional binding sales agreement for an organized part of Euronaft's enterprise, based on which Euronaft provides rail transport services, rail siding service and the services of track works and repair of rolling stock ("ZCP Kolej") for a total amount of PLN 59,397,000.00.

- 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 of the President of the Office for Competition and Consumer Protection, no. RWR 44/2012, in the part imposing on PKP CARGO S.A. a fine 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.

- On 26 November 2015 the liquidation procedure of PKP CARGO International a.s. ended (the company was deleted from the Slovak business register).

December

- PKP CARGO S.A. signed with PKP Polskie Linie Kolejowe S.A a rail infrastructure access agreement for cargo transport covering the 2015/2016 timetable. The agreement is in effect from 13 December 2015 to 10 December 2016. The expected value of the Agreement during its term will total PLN 646.8 million net (PLN 795.6 million gross).

- On 16 December 2015, PKP CARGO S.A. entered into a memorandum of agreement with the National Protest and Strike Committee under which the parties undertook to take steps leading to the execution, by 31 March 2016, of a memorandum of agreement ending the collective dispute pending in the Company since 2 July 2015. Until 31 March 2016 the parties will conduct negotiations in good faith in order to implement the statement of the Regional Labor Inspector of 15 October 2015 in the matter of changes to the terms of remuneration in the form of additional protocols to the Company Collective Bargaining Agreement.
  Additionally, the parties signed the "Memorandum of Agreement between the parties to the Company Collective Bargaining Agreement for employees of PKP CARGO S.A. plants" ("CCBA Memorandum of Agreement") on the basis of which they resolved to:
  1) suspend until 31 March 2016 introduction of organizational changes in the Company associated with the transfer of the Logistics and Dispatch functions from the Plants to the Head Office, transfer of Commercial Sections from the Plants to PKP CARGO Connect Sp. z o.o., a PKP CARGO S.A. subsidiary, relocation of Head Office and Plant employees and separation of the rolling stock maintenance and repair function to the PKP CARGOTABOR Sp. z o.o. subsidiary or to another entity,
  2) cancel, by 31 December 2015, all the decisions to release employees from the obligation to provide work prevailing as the date of the CCBA Memorandum of Agreement.

- After Mr. Adam Purwin submitted, on 14 December 2015, his resignation from the Company's Management Board and the function of President of the Management Board, on 18 December 2015 the PKP CARGO S.A. Supervisory Board adopted a resolution according to which it resolved to delegate Mr. Maciej Andrzej Libiszewski to temporarily, i.e. until 18 March 2016, perform the duties of the Company's Management Board member and to entrust him with the duties of the President of the PKP CARGO S.A. Management Board.

- PKP CARGO S.A. ("Borrower") executed a loan agreement with the European Bank of Reconstruction and Development under which an investment loan ("Loan") will be made available to the Company up to a maximum value of EUR 100 million, earmarked to refinance the acquisition of AWT.
  The loan will be available till 31 December 2016 and may be disbursed in EUR or PLN. The Borrower is obligated to repay

the Loan in semiannual installments however the full repayment of the Loan should take place by 25 September 2027. The interest rate applicable to every utilization of the Loan is equal to the floating EURIBOR/WIBOR rate for 6-month deposits plus the Bank's margin. The Agreement provides for the possibility of early Loan repayment without the Borrower having to remit any additional fees. This Loan is not collateralized against the Company's assets.

- CARGOTOR Sp. z o.o. received the decision of the President of the Office of Rail Transport on refusal to approve the unit rates for rail infrastructure access charges for minimum access and for access to devices associated with servicing of trains. CARGOTOR Sp. z o.o. filed an appeal against this decision with the Regional Court in Warsaw – Competition and Consumer Protection Court.

- On 31 December 2015, the court registered the merger of PS TRADE TRANS Sp. z o.o. (currently PKP CARGO CONNECT Sp. z o.o.) and CARGOSPED Sp. z o.o. by transferring all the assets of CARGOSPED Sp. z o.o. to PKP CARGO CONNECT sp. z o.o. in exchange for the shares that PKP CARGO CONNECT Sp. z o.o. issued to PKP CARGO S.A. as the sole shareholder of CARGOSPED Sp. z o.o.

- The expansion of the intermodal terminal in Poznań Franowo was completed - it brought the second maneuvering plaza and storage yard and improved access road system. The area of the new yard exceeds 8 thousand square meters, thanks to which the facility is ready to handle additional containers transported between the Baltic and the Adriatic.

January 2016

- The Company's Management Board received a decision of the President of the Competition and Consumer Protection Office ("President of UOKiK") No. DOK-5/2015 of 31 December 2015 pursuant to which the President of UOKiK:
  i. concluded that the Company abused the dominant position in the domestic rail freight market by preventing development of conditions required for emergence or development of competition through introduction, as of 1 May 2006, of changes to the "Rules of sale of freight services by PKP CARGO S.A." in particular § 5 sec. 6-10 contained in chapter I of these rules which authorized the Company to refuse to sign special agreements with entrepreneurs considered as the Company's competitors;
  ii. concluded that the aforementioned practice was abandoned as of 1 July 2007; and
  iii. imposed on the Company a fine in the amount of PLN 14,224,272.18.
  In the opinion of the Company's Management Board, the decision of the President of the UOKiK of 31 December 2015 is groundless. PKP CARGO S.A. filed an appeal to SOKiK against the Decision.

- PKP CARGOTABOR USŁUGI Sp. z o.o. ("PKP CU") was notified by PKN ORLEN S.A. of the fulfillment of the first condition precedent specified in the conditional binding purchase agreement for 99.85% shares in the share capital of Orlen KolTrans Sp. z o.o. ("KolTrans") entered into by and between PKP CU as the buyer, PKP CARGO S.A. as the guarantor and PKN Orlen as the seller, as none of KolTrans' minority shareholders exercised its priority right to purchase KolTrans' shares they had pursuant to the KolTrans articles of association within the deadline prescribed therein.

- The PKP CARGO S.A. Supervisory Board, following a recruitment procedure, on 19 January 2016 appointed Maciej Libiszewski to the position of President of the PKP CARGO Management Board. On the same day, Maciej Libiszewski resigned from the position of member of the Company's Supervisory Board.

- Commencement of performance of the agreement with a consortium of Siemens Group companies for delivery of multi-system locomotives - the first 3 out of a total of 15 locomotives to be operated by PKP CARGO S.A. on international routes were delivered.

February 2016

- As at 31 December 2015, the Tax Capital Group did not achieve the assumed profitability of 3%. On the last day of the month in which the tax return for 2015 is filed, the financial year will end and the Tax Capital Group will cease to exist.

- Resignations from the PKP CARGO S.A. Management Board submitted by Mr. Łukasz Hadyś, Management Board Member in charge of Finance, Mr. Jacek Neska, Management Board Member in charge of Commerce, and Mr. Wojciech Derda, Management Board Member in charge of Operations. These resignations entered into force with immediate effect.

- Satisfied was the other condition precedent provided for in the conditional binding agreement for the purchase of shares in Orlen KolTrans sp. z o.o., consisting of registration, by the competent court of registration, of amendments to KolTrans's articles of association agreed upon in the Purchase Agreement concerning, among others, the termination of PKN ORLEN's rights to appoint and dismiss members of KolTrans's corporate authorities upon sale by PKN ORLEN of all shares held in KolTrans's share capital.

- PKP CARGO SA made the first disbursement concluded with the Polish Bank Pekao SA on 16 November 2015

- Following a material decline in the market prices of scrap metal in Q4 2015, the Company's Management Board, having analyzed the impact of this change on the 2015 standalone and consolidated financial statements, decided to recognize impairment losses based on the prices of appropriate scrap metal classes as at the end of 2015, on the following assets:
  1) property, plant and equipment – rolling stock, in the amount of PLN 147,799 thousand,
  2) inventories, in the amount of PLN 5,288 thousand,

	3) non-current assets classified as held for sale, in the amount of PLN 24,029 thousand. The total amount of the impairment losses in the 2015 standalone and consolidated financial statements is PLN 143,464 thousand, which includes the effect of tax. The impairment losses are non-cash items and have no effect on PKP CARGO's liquidity and do not affect its compliance with financial covenants under the existing loan agreements.
March 2016	● On 15 March 2016 a memorandum of agreement was executed between the parties to the Company Collective Bargaining Agreement for Employees Hired by the Establishments of PKP CARGO S.A. ("CCBA Memorandum of Agreement"), in particular with respect to the collective dispute commenced on 2 July 2015. By the power of the CCBA Memorandum of Agreement, the trade union party undertakes to dissolve the National Protest and Strike Committee and to bring about the dissolution of the Protest and Strike Committees at the establishment level and to call off any and all protest and strike-related actions pertaining to the Company's structural and organizational changes. Moreover, the parties to the CCBA Memorandum of Agreement undertake to enter into a memorandum of agreement pertaining to the collective dispute commenced on 2 July 2015 by 30 June 2016 to implement, in particular, the post-inspection report of the District Labor Inspector in Warsaw of 15 October 2015 on making changes to the terms and conditions of salary in the form of additional protocols to the Company Collective Bargaining Agreement. ● On 16 March 2016 The Management Board of PKP CARGO S.A. ("Company") became aware of a notification from Morgan Stanley (Institutional Securities Group and Global Wealth Management) concerning a reduction of the stake held by Morgan Stanley (Institutional Securities Group and Global Wealth Management) below 5% of the overall number of votes at the Company's extraordinary shareholder meeting ("SM"). This threshold was crossed by selling the Company's shares on the Warsaw Stock Exchange on 10 March 2016 ("Transaction"). Before the Transaction, Morgan Stanley (Institutional Securities Group and Global Wealth Management) held 2,380,008 shares of the Company representing 5.31% of the Company's share capital and 2,380,008 votes at the SM, which is 5.31% of all the votes. After the Transaction, Morgan Stanley (Institutional Securities Group and Global Wealth Management) holds 2,225,827 shares of the Company representing 4.97% of the Company's share capital and 2,225,827 votes at the SM, that is 4.97% of all the votes.

Source: Proprietary material

5.2. Evaluation of factors and unusual events affecting the result recorded by the PKP CARGO Group

Introduction of the Voluntary Redundancy Program

To optimize the headcount, the PKP CARGO Group introduced the Voluntary Redundancy Program ("VRP"). The application process for the Voluntary Redundancy Program started on 29 December 2014 and lasted till 15 January 2015. As a result of verification of VRP applications, 3,041 employees were given consent to take advantage of the Program. The value of liabilities following from implementation of the Voluntary Redundancy Program in the Group amounted to PLN 265.3 million. This amount, as a provision for future liabilities under the Voluntary Redundancy Program, was reflected in the ledgers and charged to the consolidated result of the PKP CARGO Group for Q4 2014. The people who obtained the employers' consent stopped being employees of PKP CARGO Group as of 1 February 2015. Payment of severance pays under the Voluntary Redundancy Program: The first tranche in the amount of approx. PLN 227 million was paid out together with the salaries for January 2015 and the second tranche in the amount of approx. PLN 38 million will be paid out in January 2016.

On 10 May 2015, the Management Board of PKP CARGO S.A. adopted a resolution to continue the optimization of headcount in the Company through the implementation of the Voluntary Redundancy Program. The total value of liabilities following from running the Voluntary Redundancy Program was PLN 63.9 million. As a result of verification of applications for the Voluntary Redundancy Program, 874 employees of the Company were given consent to take advantage of the Program. They stopped being employed by the Company as of 1 July 2015. The severance pays under the Voluntary Redundancy Program will be paid out in two tranches: The first tranche in the amount of approx. PLN 54.4 million was paid out with the salaries for June 2015; the second tranche in the amount of approx. PLN 9.5 million will be paid out in February 2016. The liability of PLN 63.9 million under the Voluntary Redundancy Program was recognized in the Company's financial result for Q2 2015.

The program was also implemented in PKP CARGOTABOR Sp. z o.o. As a result of verification of applications, 107 employees were given consent to leave as of 1 August 2015. The provision for future liabilities under the implementation of the program amounting to PLN 6.3 million was recognized in the Company's financial result and consequently also the Group's consolidated result for Q2 2015.

In total, as part of the programs implemented in 2015, more than 4,000 persons left the company, which will enable it in the coming years to generate savings of more than PLN 130 million per year.

Resolution to increase salary

On 29 July 2015, the Management Board of the Company adopted a resolution to increase salaries for its employees as of 1 July 2015:

- for employees remunerated under the Company Collective Bargaining Agreement, the gross basic salary is to increase by PLN 110,
- for employees remunerated on the basis of coefficients, the net salary is to increase by PLN 110.

In a resolution adopted on 10 August 2015, the Company's Supervisory Board issued a positive opinion on the resolution adopted by the Management Board of PKP CARGO S.A. on 29 July 2015 providing for the salary increase of the employees working for employers operating in the Company. According to the Company's estimates, the cost of such a raise, including associated payments, is about PLN 50 million per full calendar year.

Situation on the rail transport market in the main cargo categories

The rail freight market is closely dependent on the business conditions on the market for coal, aggregates, coke, iron ore, metals, petroleum oil refinery products, chemical products and container transport. The growth rate of the volumes of freight transported by PKP CARGO S.A. is strongly linked to changes in the transport in the aforementioned cargo categories.

The coal transport market depends on the uncertain situation in the mining industry, determined primarily by:

- decreases in global coal prices – the average ARA price in December 2014 was 70.36 USD /t, while in December 2015 it was 47.83 USD /t (down by 32.0% yoy), which is the worst result in the analyzed period,
- decreasing but still relatively high levels of coal inventories in Poland – at the end of November 2015 there were 5.88 million tons – down by 8.21 million tons in December 2014, down by 28.4%,[64]
- increasing role of Renewable Energy Sources ("RES") – it is estimated that in 2014 in Poland renewable energy accounted for 11.5% [65]gross final energy consumption (compared to 11.3% in 2013); ultimately in 2020 it is to reach 15%; in the Czech Republic RES provided an estimated 11% of electricity while the plan is to obtain 13% by 2020.[66]
- uncertain situation of NWR (New World Resources) and its subsidiary, Czech mining company OKD – OKD's restructuring and global decline of coal prices has negative impact on the profitability of NWR's mines (most of them may record negative financial results). In December 2015 the company asked for financial aid from the Czech state in the amount of CZK 3 billion (approx. EUR 150 million) to save the indebted mines. The loan has not been granted but the talks are still going on.

In the period of the first 11 months of 2015, 65.9 million tons of hard coal were mined in Poland, which was 1.1% less than in the corresponding period of 2014. This decline is the outcome of excess coal supply on the domestic market (the large amount of inventories on coal yards) and decreases of global coal prices. In the Czech Republic, the situation is equally tough: 8.6 million tons of hard coal were mined there in 2014, i.e. 2% less yoy, while the coal production sold plunged by 14% yoy.

The persisting trend concerning the generation of electricity in power plants in Poland is another material risk factor. According to the National Electrical Energy System and the Balancing Market, 161,772 GWh of electricity were generated in Poland in 2015, signifying generation growth by 3.3% yoy in relation to 2014 (156,567 GWh). In turn, the energy mix in 2015 proved to be less favorable to brown coal (the generation of energy using this raw material receded by 1.2% yoy) coupled with growth in the generation of electricity using hard coal-fired power plants (2.0% growth yoy) and wind power plants (increase by 39.8% yoy).

The abolishment of sanctions on the exports of Iranian oil by the end of 2015 may result in a significant reduction of rail transportation. Low prices of the raw material from Iran increase the economic attractiveness of road transport and hence makes it often more competitive than rail transport.

The situation in the transportation market had negative impact on the revenues earned on transportation services – PLN 270 million.

[64] http://www.polskirynekwegla.pl/raport-dynamiczny/stan-zapasow-wegla-kamiennego-caly-okres-czasu
[65] http://wysokienapiecie.pl/oze/749-oze-w-polsce-udzial-nowelizacja-ustawy-o-oze
[66] Wysokienapiecie.pl

Situation in the Czech coal sector

One of the Group's key clients is OKD a.s., the only producer of hard coal in the Czech Republic. In 2014, the OKD underwent a general restructuring process, however since the situation on the hard coal market is unpredictable, OKD is perceived as financially unstable and may have liquidity problems within the next 12 months. If such a situation arises, this may have an adverse effect on AWT's performance and consequently there is a risk of deterioration of AWT's financial liquidity.

Track construction and maintenance market

Through AWT Group companies the Group specializes in the construction and maintenance of rail tracks. On top of maintenance alone, the function of OKD sidings operator necessitates the application of unique technological solutions to maintain the efficiency of OKD's external logistics. One of the examples of activity in this area is the construction of new tracks for new locations to store coal and gangue. Accordingly, the Group has at its disposal a qualified and professional workforce and the required equipment.

Its resources and experience in this field poise the Group to participate in open tenders and form an incentive for the further development of these types of services.

Costs of access to infrastructure

The PKP CARGO Group's activity results largely depend on the amount of rail infrastructure access charges. The cost of access to infrastructure in 2015 accounted for approx. 15.0% of PKP CARGO Group's operating expenses.

Since 13 December 2015 (the launch of the new timetable), the infrastructure managed by PKP PLK S.A. is subject to a new price list for the use of 1435 mm gauge rail infrastructure on a per-unit basis, as approved by the President of the Office of Rail Transport (UTK) on 23 October 2015, and to a separate type of fee for the use of broad gauge (1520 mm) infrastructure. The above price lists are tied to pertinent provisions of the Rules of train route allotment and use of allotted routes by licensed railway carriers within the 2015/2016 timetable.

The new timetable has also taken into account the changes in fees charged for the use of lines managed by private operators. PKP CARGO S.A. provides some of its transportation services also using part of that infrastructure.

Additionally, the activities of the PKP CARGO Group depend on the condition of the railway infrastructure and the railway network is characterized by low quality. An intense railway network modernization program, although expected to ultimately result in improved operating conditions, during the course of the construction and renovation work will cause hindrances and the need to route railway traffic through detours.

Technical regulations related to rolling stock

The rolling stock used in rail transport must satisfy appropriate technical standards and requirements that determine the extent of the Company's modernization and repair activities. The investments in this area depend directly on the current technical condition of the rolling stock owned and the resulting mandatory periodic repairs.

In 2015 capital expenditures incurred in connection with scheduled overhauls P4 and P5 and P3 inspections of the rolling stock amounted to PLN 307.6 million.

Acquisition activities

The outcome of pending acquisition processes in which PKP CARGO Group companies have participated and is currently participating will influence the Group's results.

The finalization of the acquisition of an 80% stake in AWT B.V. in May 2015 was a key element of Group's international expansion. Following the acquisition, the Group increased its presence on Czech rail freight market. After the company was acquired, AWT recorded freight turnover of 1,059 million tkm and carried freight volume of 8,655 thousand tons .

To further grow the Group in the area of local and international freight forwarding, in February PKP CARGO S.A. finalized the share purchase transaction (44.44%) in PKP CARGO CONNECT sp. z o.o. and became its sole owner. These changes will make it possible to optimize the structure of the PKP CARGO Group in the future, including, inter alia, the conduct of freight forwarding and terminal activity.

On 16 November 2015, conditional agreements on the sale of shares in ORLEN KolTrans Sp. z o.o. and an organized part of the enterprise of Euronaft were executed. At present, work is underway to fulfill the conditions precedent, including in particular, to obtain consent to a concentration from the President of the Competition and Consumer Protection Office.

PKP CARGO S.A. has a preliminary memorandum of agreement with KGHM Polska Miedź S.A. under which it is planning to acquire 49% shares in Pol - Miedź Trans Sp. z o.o.

The adopted CARGO'20 strategy assumes acquisition activities which will, however, depend on the market situation and attractiveness of potential acquisition targets.

Call and put option

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

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

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

Traction fuel price level

In 2015, a PLN 18.8 million, or 9.1% yoy, decrease in the fuel consumption costs was recorded. This is directly related to a decline in fuel market prices. Energy costs in 2015 increased by PLN 29.9 million, i.e. 7.7%, as a result of an increase in unit prices for PKP Energetyka S.A.

Scrap price level

The decrease in revenues from sales of goods and materials by PLN 21.8 million (i.e. 39.7% less yoy) was caused primarily by the low scrap prices in the market. Inflow of cheap steel from China and low raw material prices decreased the demand for scrap and led a significant price reduction - more than 20% to the amount of approx. 550 PLN/t.

5.3. Information on contracts of significance for the PKP CARGO Group's business.

Contracts with vendors

Execution of significant contracts with PKP PLK S.A.

On 8 January 2015, PKP CARGO S.A. signed with PKP Polskie Linie Kolejowe S.A a rail infrastructure access agreement for cargo transport covering the 2014/2015 timetable. The agreement was in effect from 14 December 2014 to 12 December 2015.

The fees for the use of rail infrastructure were calculated based on the Price list for the use of rail infrastructure managed by PKP PLK, effective from 14 December 2014 approved by the President of the Office of Rail Transport by Decision No. DRRK-WKL.9110.6/2014 of 9 July 2014 and DRRK-WKL.9110.11/2014 of 28 October 2014 and the provisions of the Rules of train route allotment and use of allotted routes by licensed railway carriers within the 2014/2015 timetable. The expected total value of the Agreement during its term is PLN 684,7 million net (PLN 842,2 million gross).

The agreements pertained to the provision of access for the Company, by the infrastructure manager, to the line infrastructure and railway sections managed by PKP PLK for the purpose of fulfillment of the train timetable by the Company. Under the agreement, PKP PLK provided basic services of minimum access to rail infrastructure that comprised, among others, the preparation of an annual timetable in consultation with the carrier, the provision of access to the rail infrastructure in accordance with the allotted train routes, the provision of access to traction network devices, the directing and carrying of traffic and delivery of information regarding train passage, if so requested by the Company, and basic services regarding access to devices associated with train handling and a number of additional services comprising support in connection with non-standard loads and preparation and allotment of additional trains.

On 11 December 2015, PKP CARGO S.A. signed with PKP Polskie Linie Kolejowe S.A a rail infrastructure access agreement for cargo transport covering the 2015/2016 timetable. The Agreement will be in effect from 13 December 2015 to 10 December 2016.

Under the Agreement, PKP PLK provides the Company with access to rail infrastructure to perform cargo transport operations in accordance with the 2015/2016 timetable. Under the Agreement, the Administrator provides basic services of minimum access to rail infrastructure that comprises, among others, the preparation of an annual timetable in consultation with the Carrier, the provision of access to the rail infrastructure in accordance with the allotted train routes, the provision of access to traction network devices, the directing and carrying of traffic and delivery of information regarding train passage, if so requested by the Company. Under the Agreement, the Administrator also render basic services involving access to facilities related to the servicing of trains and certain additional services comprising the provision of assistance in connection with unusual loads and the preparation and commissioning of trains.

The fees for the use of rail infrastructure are calculated based on the Price list for the use of 1435 mm gauge rail infrastructure managed by PKP PLK, effective from 13 December 2015 approved by the President of the Office of Rail Transport by Decision No. DRRK-WKL.730.2.2015.JG of 23 October 2015 and the "Rules of access to 1520 mm gauge rail infrastructure managed by PKP Polskie Linie Kolejowe S.A." and pertinent provisions of the Rules of train route allotment and use of allotted routes by licensed railway carriers within the 2015/2016 timetable.

Material agreement signed with consortium of Siemens Group companies for delivery of multi-system locomotives

On 23 September 2015, PKP CARGO S.A. signed with the Consortium composed of Siemens Sp. z o.o. in Warsaw as the Consortium leader and Siemens AG. in Munich as a Consortium member, an agreement for delivery of 15 multi-system locomotives in three batches from 31 January 2016 to 30 June 2017 (the basic order) with an option to purchase 5 additional locomotives at basic order prices, where PKP CARGO S.A. must take the decision to exercise this option no later than on 31 December 2017 (the optional order).

The net value of the agreement will not exceed EUR 75 million under the basic order (15 locomotives) and EUR 26 million under the optional order (5 locomotives), however for deliveries and maintenance services under the optional order a one-time price restatement mechanism was introduced with a specified negative and positive rate, which will not exceed +/-2% of the initial prices.

<u>*Contracts with buyers*</u>

Turnover and agreements with the total value exceeding the value of a significant agreement with PGE Group companies

On 18 November 2015, PKP CARGO S.A. entered into with PGE Górnictwo i Energetyka Konwencjonalna S.A. with its registered office in Bełchatów ("Principal") 3 agreements for rail transport of the following cargo: hard coal and/or limestone sorbents with the total maximum volume of 13.28 million tons. The estimate maximum net value of the agreements during their term, i.e. from 1 January 2016 to 31 December 2018, amounts to PLN 288.9 million.

Due to the necessity to adapt the volume of coal and/or limestone sorbent deliveries to the changing current needs, reserves the possibility to reduce the volume to be transported by approx. 23% of the maximum volume, i.e. to approx. 10.24 million tons. Change of the freight volume within above limits does not entitle the Contractor to any claims against the Principal.

The agreement with the highest value is the agreement for rail transport of coal and limestone with the total maximum net value of PLN 125.8 million.

The agreement provides for contractual penalties whose maximum amount may exceed the equivalent of at least 10% of the net value of the Agreement or equivalent of at least EUR 200,000:

1) in the event of rescission of the Agreement by the Principal or Contractor for reasons attributable to the Contractor or Principal, respectively, in the amount of: (i) 20% of the net value of the subject matter of the Agreement in the case of rescission of the Agreement in 2016, (ii) 15% net value of the subject matter of the Agreement in the case of rescission of the Agreement in 2017, (iii) 10% net value of the subject matter of the Agreement in the case of rescission of the Agreement in 2018;

2) to the Principal if the Contractor transports in the given month less than 95% or 90% of the volume declared in the monthly transportation schedule, for reasons not attributable to the shipper and the Principal, in the amount of 25% or 40% of the net value of the transport of the cargo declared in the monthly transportation schedule.

In addition, the Agreement provides for contractual penalties in favor of the Principal in the following cases: (i) delivery of a different type of wagons than required by the Principal for the loading, in the amount of 20% of the net value of the transport of such cargo specified in the monthly transportation schedule, and (ii) delay exceeding 2 days in delivery of wagons by the Contractor to the shipper for loading, in the amount of 1% of the net value of the transport of such cargo (understood as the net remuneration due to the Contractor for the transport of such cargo).

If the contractual penalty does not cover the loss incurred, the Parties may pursue supplementary damages.

Other terms and conditions of the Agreement are substantially similar to those generally used in agreements of this type.

The total value of the aforementioned three agreement concluded on 18 November 2015 and turnover recorded between the PKP CARGO Group and the PGE Group in the period of 12 months till 31 October 2015 reached approx. PLN 410 million.

<u>*Loan agreements*</u>

Conclusion of agreements with significant value with BGK bank

On 16 November 2015, the Company entered into two investment loan agreements with Bank Gospodarstwa Krajowego seated in Warsaw (“Bank”) for the maximum total amount of EUR 100 million, exceeding 10% of the Company’s equity.

The agreement with the highest value was concluded on 16 November 2015. On its basis the Bank granted an investment loan (“Loan”) to the Company up to the maximum amount of EUR 85 million slated to finance and/or refinance the purchase of multi-system locomotives, investment projects following from the investment plans and/or finance and/or refinance the remaining activity in the area of mergers and acquisitions (hereinafter the “Agreement”).

According to the Agreement, the Loan will be available until 31 December 2016. The Borrower is obligated to repay the Loan in quarterly installments according to the terms and conditions prescribed by the Agreement, no later than within 10 years of the expiry of the availability period, where the full repayment of the Loan should take place by 20 December 2026. The interest rate applicable to every utilization of the Loan is equal to the floating EURIBOR rate for 3-month deposits plus the Bank’s margin. The Agreement provides for the possibility of early Loan repayment without the Borrower having to remit any additional fees. This Loan is not collateralized against the Company’s assets.

Execution of a significant loan agreement with Bank Pekao S.A.

On 16 November 2015 the Company concluded with Bank Polska Kasa Opieki S.A. seated in Warsaw (“Bank” a loan agreement pursuant to which the Company will receive an investment loan (“Loan”) for up to PLN 700 million, earmarked for financing and/or refinancing of an investment plan and/or financing and/or refinancing of mergers/acquisitions (hereinafter the “Agreement”).

The loan will be granted in two parts:

1) Part I – up to PLN 315 million, with the possibility of increasing up to the maximum amount of PLN 350 million in the event PKP CARGO Group companies do not use up the credit limit up to the maximum amount of PLN 35 million;

2) Part II – up to PLN 315 million, with the possibility of increasing up to the maximum amount of PLN 350 million in the event PKP CARGO Group companies do not use up the credit limit up to the maximum amount of PLN 35 million.

In accordance with the aforementioned agreement the credit limits will be granted by the Bank to PKP CARGO Group companies on the basis of separate agreements concluded by these companies with the Bank. According to the Agreement, the Borrower may use the Loan no later than by 31 December 2016. The Borrower is obligated to repay the Loan in quarterly installments according to the terms and conditions prescribed by the Agreement, no later than (i) within 7 years of the expiry of the availability period, but no later than by 31 December 2023 for Part I financing, and (ii) 10 years of the expiry of the availability period, but no later than by 31 December 2026 for Part II financing. The interest rate applicable to every utilization of the Loan is equal to the floating WIBOR rate for 3-month deposits plus the Bank’s margin. The Agreement provides for the possibility of early Loan repayment without the Borrower having to remit any additional fees.

Execution of a significant credit facility agreement with the European Bank of Reconstruction and Development

On 23 December 2015, PKP CARGO S.A. ("Company", "Borrower") executed a loan agreement with the European Bank of Reconstruction and Development seated in London ("Bank") under which an investment loan ("Loan") will be made available to the Company up to a maximum value of EUR 100 million, earmarked to refinance the acquisition of AWT (hereinafter referred to as the "Agreement").

According to the Credit Facility Agreement, the Loan will be available until 31 December 2016. This Loan may be originated in EUR or PLN as the Borrower elects. The Borrower is obligated to repay the Loan in semiannual installments according to the terms and conditions prescribed by the Credit Facility Agreement, where the full repayment of the Loan should take place by 25 September 2027.

The interest rate applicable to every utilization of the Loan is equal to the floating EURIBOR/WIBOR rate for 6-month deposits plus the Bank's margin.

The Agreement provides for the possibility of early Loan repayment without the Borrower having to remit any additional fees.

This Loan is not collateralized against the Company's assets.

The Credit Facility Agreement's other terms and conditions do not deviate from the terms and conditions generally applicable to similar credit transactions.

<u>*Purchase agreements*</u>

Purchase of shares in PS TRADE TRANS sp. z o.o. from Trade Trans Invest a.s.

PKP CARGO S.A. acquired 640 shares in PS TRADE TRANS PS TRADE TRANS Sp. z o.o. (currently: PKP CARGO CONNECT Sp. z o.o.) with its registered office in Warsaw, representing in total a 44.44% stake in this company's share capital in the possession of Trade Trans Invest a.s. with its registered office in Bratislava. As a result of this transaction, PKP CARGO S.A. became this company's sole shareholder with a 100% equity stake in its share capital. These changes intend to acquire full control over the company to optimize the structure of the PKP CARGO Group, including inter alia the conduct of freight forwarding and terminal activity.

Purchase of shares in PKP CARGO International a.s. in liquidation from Rail Cargo Spedition a.s.

PKP CARGO S.A. acquired 490 shares in PKP CARGO International a.s. in liquidation with its registered office in Bratislava, representing in total a 49% stake in this company's share capital in the possession of Rail Cargo Spedition a.s. with its registered office in Bratislava. As a result of this transaction, PKP CARGO S.A. became this company's sole shareholder with a 100% equity stake in its share capital. In July 2015, The Extraordinary Shareholder Meeting of PKP CARGO International a.s. in liquidation divided the company's liquidation assets. Cash from liquidation assets was paid to the sole shareholder, PKP CARGO S.A., on 5 August 2015. The liquidation procedure of PKP CARGO International a.s. ended on 26 November 2015 (the company was deleted from the Slovak business register).

Purchase of shares in Advanced World Transport B.V.

In the performance of a share purchase agreement entered into on 30 December 2014, PKP CARGO S.A. acquired 60,000 shares in the share capital of Advanced World Transport B.V. with a par value of EUR 1 each, representing 80% of AWT B.V.'s total share capital and carrying the right to exercise 80% of the total number of votes at AWT B.V.'s shareholder meeting, following the Company's execution of an agreement transferring ownership of the shares to the Company and the Company's payment of EUR 103,200 thousand (PLN 427,300 thousand). Another shareholder in this company, holding 15,000 shares, representing in total 20% of the share capital of AWT B.V., is MINEZIT SE with its registered office in Prague (Czech Republic).

Purchase of an organized part of the enterprise from PKP Informatyka Sp. z o.o.

PKP CARGO S.A. entered into an agreement with PKP Informatyka Sp. z o.o. on purchase of an organized part of the enterprise for PLN 21.1 million. The agreement on the purchase of an organized part of the enterprise from PKP Informatyka Sp. z o.o. expired on 1 January 2016 without any legal consequences due to failure to satisfy the condition precedent of obtaining the consent of the Minister of Infrastructure and Construction.

Execution of significant agreements for the purchase of 99.85% of shares in ORLEN KolTrans Sp. z o.o. and an organized part of the enterprise of Euronaft Trzebinia Sp. z o.o. by PKP CARGO S.A. and its subsidiary

On 16 November 2015, PKP CARGOTABOR Usługi Sp. z o.o. ("PKP CU") as the buyer, PKP CARGO S.A. as the guarantor, and PKN ORLEN S.A. ("PKN ORLEN") as the seller, entered into a conditional binding purchase agreement for 40,796 shares with the par value of PLN 1,000 each, with the total par value of PLN 40,796,000, representing approx. 99.85% of shares in the share capital of ORLEN KolTrans Sp. z o.o. ("KolTrans") ("KolTrans Shares") for the total price of PLN 192,248,367.05 ("Share Purchase Price") ("KolTrans Purchase Agreement"),

Furthermore, on 16 November 2015, PKP CARGO S.A. and Euronaft Trzebinia Sp. z o.o. ("Euronaft") entered into a conditional binding purchase agreement for an organized part of Euronaft's enterprise, based on which Euronaft provides rail transport services, rail siding service, track works and repair of rolling stock ("ZCP Kolej") for the total price of PLN 59,397,000.00 ("ZCP Purchase Price") ("ZCP Purchase Agreement").

5.4. The Management Board's stance with respect to the possibility of realizing previously published result forecasts for the year

The Parent Company has not published financial forecasts pursuant to § 5 Section 1 Item 25 of the Regulation issued by the Finance Minister on 19 February 2009 on the Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent, consolidated version of 27 June 2013 (Journal of Laws of 2014 Item 133) pertaining to the results of the Company and the PKP CARGO Group in 2015.

6. Group development policy

6.1. Characteristics of external and internal factors of relevance for the development of the PKP CARGO Group

Economic situation in Europe

Economic recovery is expected to remain at a level comparable to that of the recent years since mid-2013. The following factors have a favorable impact on this trend: accommodating monetary policy, the weak euro and low prices of crude oil. The favorable factors are partly offset by the unfavorable impact of the slowdown in global trade and developing economies as well as existing geopolitical tensions. According to forecasts published by the European Commission, this trend will continue into 2016 and 2017.

Situation in the transportation market

The coming years are expected to be focused on construction work funded from the new European Union perspective. This work will be aimed mostly at the development of road and railway networks. A significant portion of the work that was supposed to begin in the second half of 2015 was delayed, and the commencement of construction activities was postponed until 2016. This means that the return of high volumes of transported aggregates is expected to take place this year. For the years 2015-2020, the forecasted demand for aggregates is at an average annual level of 16-18.2 million tons (10-11.7 million tons for road projects and 6-6.5 million tons for railway projects).

Forecasted for 2016 and 2017 is also an increase in the production of and demand for steel. This target will be achieved if the current rate of consumption of this material is maintained for the purposes of execution of construction, road and railway projects and in the utilities sector. A significant impact on the favorable situation in the steel market is exerted by the construction, machine and automotive industries. An especially rapid growth is expected in the coming years in the intermodal and automotive markets as a result of the launch of new assembly lines. At the same time, it should be noted that the rail freight market in Poland is among the most competitive markets in the EU. Although the PKP CARGO Group continues to hold its position of the largest Polish rail freight carrier, the competition holds a total of over 50% of the market share measured by freight volume and over 40% measured by freight turnover (data as at the end of December 2015).

Situation in the energy fuel market

Due to the primary rail cargo categories, the fuel and energy industry is expected to remain the most important sector of the economy. The overall economic situation in the sector will continue to affect the company's freight volumes and the freight transport market.

To a significant extent, the ongoing oversupply of hard coal and the lowering prices of coal in all terminals throughout the world are driven by the lower demand for this commodity from Europe and from China. The lower European consumption was caused by high temperatures during the heating season. In turn, the lower Chinese consumption results from the economic collapse in that country's market. The collapse was the driver that caused an unstable situation in the energy and coal sectors. As a result, the prospects for 2016 are not very optimistic. The transportation of coal forms the primary cargo category for the PKP CARGO Group, hence the situation in this market has a strong impact on the Company's performance and market share.

One of the Group's key clients is OKD a.s., the only producer of hard coal in the Czech Republic. In 2014, the OKD underwent a general restructuring process, however since the situation on the hard coal market is unpredictable, OKD is perceived as financially unstable and may have liquidity problems within the next 12 months. If such a situation arises, this may have an adverse effect on AWT's performance and consequently there is a risk of deterioration of AWT's financial liquidity.

Condition of the railway infrastructure

Additionally, the activities of the PKP CARGO Group depend on the condition of the railway infrastructure and the railway network is characterized by low quality. An intense railway network modernization program, although expected to ultimately result in improved operating conditions, during the course of the construction and renovation work will cause hindrances and the need to route railway traffic through detours.

Rail infrastructure access charges

The PKP CARGO Group's activity results largely depend on the amount of rail infrastructure access charges. The cost of access to infrastructure in 2015 accounted for approx. 15.0% of PKP CARGO Group's operating expenses.

Since 13 December 2015 (the launch of the new timetable), the infrastructure managed by PKP PLK S.A. is subject to a new price list for the use of 1435 mm gauge rail infrastructure on a per-unit basis, as approved by the President of the Office of Rail

Transport (UTK) on 23 October 2015, and to a separate type of fee for the use of broad gauge (1520 mm) infrastructure. The new timetable has also taken into account the changes in fees charged for the use of lines managed by private operators. PKP CARGO S.A. provides some of its transportation services also using part of that infrastructure.

On 14 December 2015, CARGOTOR Sp. z o.o. received the decision of the President of the Office of Rail Transport of 11 December 2015 on refusal to approve the unit rates for rail infrastructure access charges for minimum access and for access to devices associated with servicing of trains. On 23 December 2015, CARGOTOR Sp. z o.o. filed an appeal against this decision with the Regional Court in Warsaw – Competition and Consumer Protection Court.

In parallel, CARGOTOR Sp. z o.o. filed an application for approval of the rates for the 2015/2016 train timetable, in order to proceed at the same time with two price lists. The aforementioned price list is currently analyzed by the Office of Rail Transport.

If the Office of Rail Transport does not approve the price list, CARGOTOR Sp. z o.o. may not be able to conduct operations and this may significantly impact the Group's financial result.

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 periodic repairs and check-ups performed in various periods results from the cycles specified in the Maintenance System Documentation (DSU) of the rolling stock approved by the Office of Rail Transport.

Optimization processes in the Group

Among the internal factors of relevance for further development of the PKP CARGO Group is the constant effort to increase efficiency and optimize costs through restructuring and organizational changes in the Company in order to provide customers with better and more comprehensive services. Also significant are the ongoing processes of computerization of all spheres of business that affect the efficient management of the Company.

To optimize the headcount, the PKP CARGO Group introduced the Voluntary Redundancy Program ("VRP"). As a result of verification of applications for the Voluntary Redundancy Program, 3,041 employees were approved as the Program's beneficiaries. The value of liabilities following from implementation of the Voluntary Redundancy Program in the Group amounted to PLN 265.3 million. The approved beneficiaries terminated their employment relationship with the Company as of 1 February 2015.

On 10 May 2015, the Management Board of PKP CARGO S.A. adopted a resolution to continue the optimization of headcount in the Company through the implementation of the Voluntary Redundancy Program. The total value of liabilities following from running the Voluntary Redundancy Program was PLN 63.9 million. As a result of verification of applications for the Voluntary Redundancy Program, 874 employees of the Company were given consent to take advantage of the Program. They stopped being employed by the Company as of 1 July 2015. The program was also implemented in PKP CARGOTABOR Sp. z o.o. Following a review of applications, 107 employees were given consent to leave as of 1 August 2015. The provision for future liabilities for the implementation of the program was PLN 6.3 million.

In total, as part of the programs implemented in 2015, more than 4,000 persons left the Group, which will enable it in the coming years to generate savings of more than PLN 160 million per year.

Additionally, a decision was made to consolidate the sales service activity in a single company – PKP CARGO CONNECT Sp. z o.o. The new organization with the previously dispersed sales-related services will significantly shorten the time needed to handle the individual orders and improve the capacity to execute them efficiently. The integrated management of the offer development and selling process will translate into improved customer service quality, communication with customers and efficiency of operation.

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

Financing of capital expenditures

The Group will finance capital expenditures with investment loans, its own funds and from other sources. The increase of borrowing liabilities will result in an increase of (short- and long-term) liabilities and financial expenses.

Acquisition activities

Acquisition activities in the Group are conducted mainly by the Parent Company and PKP CARGOTABOR Usługi Sp. z o.o. The activities are described in section 5.2.

6.2. Description of the growth prospects and development policy of the PKP CARGO Group at least in the financial year

Future development activities undertaken by PKP CARGO S.A. will remain consistent with the current strategy directed at developing the business of an international logistics operator. This strategy is based on the following four pillars:

1. CARGO Leader (development in the domestic market)
2. CARGO International (strengthening the international position, a significant increase in transport services outside the country)
3. CARGO Intermodal (the position of a leading operator of intermodal transport in Central Europe)
4. CARGO Connect (integration of logistics services of an international coverage within the PKP CARGO Group).

The position of the undisputed leader of railway transport in Poland, the comprehensive handling of international freight traffic passing through Poland and the achievement of the position of a leading intermodal operator in Central and Eastern Europe are the objectives of PKP CARGO S.A. laid down in the Company's strategy for the period 2016-2020. The Company will strive for continuous development of international services and expansion of its portfolio with elements enabling the provision of services to the whole logistics chain. The company will invest in intermodal services which constitute the fastest growing portion of the transportation market. The comprehensive offer of a logistics operator's services will be supplemented by road transport services provided on the "last mile".

The result of implementation of the Strategy of the PKP CARGO Group for 2016-2020 will be a significant increase in freight turnover – by approx. 30%, an increase in the share of transport performed entirely outside Poland – by approx. 20 p.p., and almost doubling the intermodal transport. Diversification of revenues should make PKP CARGO S.A. more independent from the transport of its basic freight, i.e. coal and aggregates.

The Company intends to take advantage of its growing logistics competence and Poland's geographical location – all of which form an excellent position to build the position of a leading logistics provider with a European outreach. The geographic coverage of the business is expected to expand towards the south.

PKP CARGO S.A. will be developing its rail transport in Central Europe using the assets of two carriers: PKP CARGO S.A. and the Czech company AWT acquired in 2015. The main directions of expansion (organic and through acquisitions) will involve the services provided in the North-South and East-West corridors.

PKP CARGO S.A. intends to make better use its strategic assets – its rolling stock and network of terminals. Terminal operations will be concentrated in PKP CARGO CONNECT. The PKP CARGO Group currently offers cargo transshipment and storage services in the most attractive locations: Małaszewicze, Warsaw, Poznań, Gliwice and Medyka. The terminals in Małaszewicze are expected to handle traffic with China associated with the development of the New Silk Road and become a gateway to Europe for Chinese products.

PKP CARGO CONNECT will also be responsible for the building of the Group's position as an intermodal operator in Central and Eastern Europe. By 2020, freight turnover in intermodal transport is expected to increase by approx. 80%.

The Company intends to develop its offer of operator trains, i.e. regular connections between logistics centers, including, for instance, connections from seaports to intermodal terminals away from the seaside. This type of service is a viable and attractive alternative to road transport, even for medium-sized or smaller customers interested in transporting merely one shipping container.

According to the strategy, by 2020, freight turnover within the Group is expected to increase approx. 30% to a level of 40 billion tkm, while the share of freight turnover generated outside Poland is expected to increase from the current 2% to approx. 22%.

It is also expected that in 2020 the share of coal and aggregates in freight turnover will decrease from the current 55% to 40%. This will result, on the one hand, from the changing conditions in the coal transport market, i.e., among other factors, a greater productivity of new power units, but predominantly will be a result of the Group's development in other business areas.

According to the PKP CARGO S.A. Management Board, there are no circumstances that would indicate a risk to the continuity of the Company's operation in the next financial year.

7. Other key information and events

7.1. Information on PKP CARGO S.A. shares

7.1.1. Issue of securities and use of proceeds from the issue

In the reporting period, in PKP CARGO S.A. there were no issues, redemptions or repayments of debt securities or equity securities.

7.1.2. Information about agreements which may in the future cause changes to the proportions of shares held by the current shareholders

PKP CARGO S.A. is unaware of any agreements entered into by its existing shareholders which may result in future changes to the proportions of their shareholdings.

7.1.3. Acquisition of treasury stock

In 2015, PKP CARGO S.A. did not effect any purchase or sale of its treasury stock.

7.1.4. Information on the employee share plan control system

According to the Employee Guarantee Package signed on 2 September 2013 by the Company's Management Board and the trade unions operating in the Company (agreement on labor and social guarantees) covering staff employed by the PKP CARGO S.A. Units and staff employed by the PKP CARGO Group Companies, employees of PKP CARGO S.A. and its five subsidiaries obtained guarantees of employment and acquired the right to a one-off cash benefit (privatization bonus) on the terms set forth in the Package. The bonus took the form of an employee share plan, because the parties to the Package agreed that it will be paid out in series C shares with a prohibition of sale within two years from the first day of stock exchange listing. According to the Information Memorandum issued for the public offering of the series C shares, subscriptions for the PKP CARGO S.A. employee shares were registered in the period from 2 December 2013 to 28 February 2014. A total of 22,146 (i.e. 99.8%) eligible employees of PKP CARGO S.A. and 2,395 (i.e. 99.9%) of eligible employees of the subsidiaries subscribed for the shares.

On 7 March 2014, the PKP CARGO S.A. Management Board adopted a resolution on the allocation of 1,448,902 series C ordinary registered shares. The plan was administered by the brokerage house Dom Maklerski PKO Banku Polskiego. On 3 November 2015, in connection with the expiration of the prohibition on the sale of series C shares, pursuant to Resolution No. 1104/2015 adopted by the Management Board of Giełda Papierów Wartościowych w Warszawie S.A. (Warsaw Stock Exchange), a total of 1,448,902 series C shares were admitted to trading on the main market of the Warsaw Stock Exchange, which shares, pursuant to § 6 sec. 5 of the Company's Articles of Association were subsequently converted into bearer shares.

Moreover, 15% of the funds generated by PKP S.A. as a result of the sale of PKP CARGO S.A. shares by way of a public offering effected on the basis of the Company's issue prospectus approved by the Polish Financial Supervision Authority (KNF) on 4 October 2013 was transferred to the PKP Employee Ownership Fund in accordance with the Act of 8 September 2000 on the Commercialization, Restructuring and Privatization of the State-Owned Enterprise "Polskie Koleje Państwowe".

7.1.5. Shares held by management board and supervisory board members

The holdings of shares in the Company or rights to such shares by members of the Company's Management Board from 12 March 2015, i.e. from the date of submission of the 2014 annual report to the date of submission of this report, were as follows:

Table 25 PKP CARGO S.A. shares held by Management Board members

Name	Number of PKP CARGO S.A. shares held by Management Board members	Par value of shares [PLN]
	as at the date of submission of this report	
Maciej Libiszewski	0	0
Dariusz Browarek	370	18,500
	as at 12 March 2015	
Adam Purwin	545	27,250
Jacek Neska	450	22,500
Wojciech Derda	300	15,000
Łukasz Hadyś	300	15,000
Dariusz Browarek	370	18,500

Source: Proprietary material

The holdings of shares in the Company or rights to such shares by members of the Company's Supervisory Board from 12 March 2015, i.e. the date of submission of the 2014 annual report to the date of submission of this report, were as follows:

Table 26 PKP CARGO S.A. shares held by Supervisory Board members

Name	Number of PKP CARGO S.A. shares held by Supervisory Board members	Par value of shares [PLN]
	as at the date of submission of this report	
Kazimierz Jamrozik	70	3,500
Stanisław Knaflewski	0	0
Raimondo Eggink	0	0
Mirosław Pawłowski	0	0
Jerzy Kleniewski	0	0
Andrzej Wach	0	0
Czesław Warsewicz	0	0
Małgorzata Kryszkiewicz	0	0
	as at 12 March 2015	
Jakub Karnowski	915	45,750
Piotr Ciżkowicz	675	33,750
Krzysztof Czarnota	70	3,500
Kazimierz Jamrozik	70	3,500
Marek Podskalny	70	3,500
Konrad Anuszkiewicz	0	0
Paweł Ruka	0	0
Sławomir Baniak	0	0
Stanisław Knaflewski	0	0
Jacek Leonkiewicz	0	0
Zbigniew Klepacki	0	0

Source: Proprietary material

The holdings of shares in the Company or rights to such shares by members of the Company's Management Board and Supervisory Board as at 31 December 2015 are the same as those as at the date of submission of this report.

None of the members of the issuer's Management Board or Supervisory Board, as at 31 December 2015 or as at the date of submission of this report, holds any shares or ownership interests in PKP CARGO S.A.'s related parties.

7.1.6. Dividends paid or declared

The PKP CARGO S.A dividend policy envisages a recommendation from the Company's Management Board on dividend payment in the amount of at least 35% to 50% of the net profit reported in the consolidated financial statements of the PKP CARGO Group for the financial year. By submitting its recommendations to the Shareholder Meeting, the Management Board takes into consideration the availability of cash and reserves available for distribution as well as other factors affecting the Company's financial standing, results and its capital expenditure requirements.

The Annual Shareholder Meeting (ASM) adopted a resolution on distributing the profit earned in 2014 – the ASM resolved to earmark the net profit of PLN 58,610,399.18 for:

1. payment of dividend in the amount of PLN 53,921,567.25;

2. supplementary capital in the amount of PLN 4,688,831.93.

Additionally, the Annual Shareholder Meeting resolved to earmark for dividend the amount of PLN 56,254,248.57 from retained earnings. At the same time, the Company's Annual Shareholder Meeting set 15 June 2015 as the dividend record date and 26 June 2015 as the dividend payment date. The total value of the dividend was PLN 110,175,815.82, i.e. PLN 2.46 per share. The dividend applies to all 44,786,917 shares in the Company. The content of the Annual Shareholder Meeting resolution was consistent with the Company's Management Board recommendation regarding distribution of the profit earned in 2014. As for the allocation of the additional amount for dividend from retained earnings, the Management Board recommended the amount of PLN 56,078,432.75.

7.2. Information on transactions with related parties

No entity from the PKP CARGO Group entered in 2015 any transactions with related parties on non-market terms. Also after the balance sheet date no such transactions have been entered into.

Detail information about transactions with related parties are presented in Note 34 to the Consolidated Financial Statements of the PKP CARGO Group

7.3. Proceedings pending before courts, arbitration bodies or public administration authorities

PKP CARGO S.A. and its subsidiaries are not parties to proceedings pending before courts, arbitration court or public administration body pertaining to liabilities or claims whose value amounts to at least 10% of the Parent Company's equity.

PKP CARGO S.A. and its subsidiaries are not parties to proceedings pertaining to liabilities or claims of the issuer or the issuer's subsidiary where the total value of such liabilities or claims constitutes at least 10% of the Parent Company's equity.

7.4. Major achievements in research and development

Drones

PKP CARGO S.A. began to use drones to protect its trains against theft. From January to October 2015, the value of shipments and cargo stolen decreased by nearly 65% compared to the same period in 2013. At the same time, the number of thefts decreased by 55%.

The Company uses two types of drones. The first of these types, "Phantom III", is used to perform patrol flights aimed at supporting the traffic of PKP CARGO S.A. trains and helping to protect trains stopped by thieves. The second type of drones is the "Eagle" – such drones are used predominantly for patrolling large areas from a high altitude.

Recently, PKP CARGO also started to use drones for checking the condition of freight wagons used by customers. This method enables the effective checking of tens of wagons in a short time.

Training of train drivers

PKP CARGO S.A. launched an extensive program of training for new train driving personnel. Annually, the Company employs and trains 500 new train drivers and candidates for this position. The preparation of one person to work independently in such a position costs up to PLN 100,000. PKP CARGO S.A. incurs the full amount of these costs. During the training, each of the candidates also receives a regular monthly remuneration.

Production of freight wagons

The PKP CARGO Group and the U.S. leading railcar company Greenbrier, one of the world's largest manufacturers of rolling stock, signed a letter of intent to cooperate within the framework of the Technology Transfer Platform administered by the Industrial Development Agency (IDA). As part of this cooperation, Greenbrier will furnish the indispensable documentation, technology, quality control standards and the production line equipment. PKP CARGOTABOR Sp. z o.o. (a PKP CARGO Group company) will be responsible, among others, for providing qualified production and administrative staff and workshops.

Industrial Development Agency

PKP CARGO S.A., in cooperation with the Industrial Development Agency, will search for innovative solutions for its business. On 6 October 2015, a letter of intent was signed to cooperate within the framework of the Technology Transfer Platform administered by the Industrial Development Agency. In this manner, PKP CARGO S.A. wants to encourage start-ups and scientists to look for solutions that would suit their business needs. The Company seeks improvements in a number of areas. It strives, among others, to adopt systems for the optimization of its transport and operation of conventional terminals as well as systems for the management, monitoring and protection of its rolling stock on the sidings and transshipment terminals. Valuable for PKP CARGO S.A. are also technologies reducing the consumption of electricity and fuel and the emission of noise as well as modern solutions in the production of rolling stock and cargo containers for the purposes of intermodal transportation.

Thanks to the actions taken by ARP S.A. (Industrial Development Agency) and ARP Venture Sp. z o.o., a technology was proposed to answer the Company's needs in the area of shunting locomotives. PKP CARGO S.A. is currently at the stage of direct contact with a company that is able to provide this solution.

National Center for Research and Development

The main objectives for PKP CARGO S.A.'s cooperation with the National Center for Research and Development are as follows: optimization of transport, innovations and modern solutions in the area of logistics and safety improvements. Projects resulting from research and development initiatives will be reported by institutions of higher education, scientific units and companies operating in the transportation sector. PKP CARGO S.A. and the National Center for Research and Development will each spend PLN 15 million for the implementation of the best initiatives. In particular, the Company intends to develop IT tools and systems aimed at optimizing logistics and operating processes (including rolling stock and terminal management) which, in addition to reducing operating expenses, will enable optimal use of the Company's existing resources. Moreover, the Company also intends to acquire solutions that will increase the safety of its trains, cargo and terminals. The Company's cooperation with the National Center for Research and Development is also expected to help acquire innovative technologies for designing and manufacturing modern rolling stock which would support the planned independent production or freight wagons starting in 2016 by the PKP CARGO Group.

Shift2Rail

PKP CARGO S.A. participates in the implementation of the European program for funding research and development projects in rail transport known as Shif2Rail, co-funded by the European Commission under the Horizon 2020 Framework Program. The objective of the program is to develop new technologies reflecting the increasing competitiveness of the railway sector. The Shift2Rail program is divided into five main areas (Innovation Programs) dedicated to distinct aspects of the railway system. PKP CARGO S.A. is involved in the Innovation Program 5 focused on the development and implementation of solutions for freight transport. Particular attention is focused on aspects associated with the reduction of noise, modern braking systems, terminal and siding management as well as new solutions for wagons and locomotives. PKP CARGO S.A.'s participation, together with PKP PLK and the Railway Institute, is coordinated by PKP S.A. as a member of EUROC (the European Rail Operating Community Consortium) which filed a successful application in the contest for an Associate Member in Shift2Rail. The program was officially launched in December 2015 and it will be terminated not earlier than in 2020.

Prototypes of rail vehicle simulators for training purposes

PKP CARGO S.A. is seeking to obtain project co-funding in a contest organized by the National Center for Research and Development under the Intelligent Development Operational Programme 2014-2020. The objectives of the project will be achieved through the joint performance – by PKP CARGO S.A. and a subcontractor – of research and development work focused, among others, on the creation of innovative software and structural assumptions for simulators leading to the construction of 3 different prototypes.

The main recipients and users of the simulators of rail freight vehicles will be PKP CARGO S.A. train drivers who (as required by law) are subject to the obligation to participate in regular training courses on simulators, candidates for the Company's train drivers, train drivers of other carriers as part of the provision of external training services and entities cooperating with the Company in the area of research and development.

Center for Research and Education in Rail Transport

PKP CARGO S.A. and the Silesian University of Technology will establish the Center for Research and Education in Rail Transport in Sosnowiec-Maczki. The newly created unit will train young engineers – specialists in the railway industry. This cooperation is aimed at filling the generation gap in railway-related occupations and ensuring the availability of personnel trained in new technologies – it will encompass the areas of research, education and personnel development. The activities of the Centre are expected to contribute to increased competitiveness of rail transport in Poland and improved attractiveness of rail transport education.

Within the framework of this cooperation, the Silesian University of Technology, apart from fulfilling this educational role, will also be involved together with PKP CARGO S.A. in research and development projects aimed at introducing patents and new technologies to the railway industry. The agreement between the two parties also contains an offer of 6-month internships in PKP CARGO S.A. for the Center's best students. Depending on its actual needs, the Company will also be open to hiring graduates of the rail transport courses.

We add value to the Polish economy

PKP CARGO S.A. is a partner in the program entitled "We add value to the Polish economy. Work for us!", organized by the State Treasury Ministry of the Republic of Poland. This means that participating graduates of institutions of higher education may be offered paid internships in the Company and gain experience participating in the execution of its projects. The best such participants may be offered employment with the Company. PKP CARGO S.A.'s participation in this initiative is a result of the Company's long-term strategy aimed at the provision of active support to education of young people as well as to scientific efforts which will contribute to the general promotion of railways, transportation and logistics.

Diamonds of Polish Infrastructure

PKP CARGO S.A. received an award in the contest entitled "Diamonds of Polish Infrastructure" in the category "Efficiency in management" for the optimization of its management model, the cutting of operating expenses and the evolution of Poland's largest rail carrier towards becoming an integrated logistics operator with an international outreach.

Those who change the Polish industry

PKP CARGO S.A. received an award in the contest entitled "Those who change the Polish industry" organized by the Polish Society for the Support of Entrepreneurship. The Company was awarded for actions taken in 2014, including its success in building efficiency, improving performance despite unfavorable external conditions and implementing a robust acquisition strategy.

7.5. Information on natural environment issues

The operations of PKP CARGO S.A. may cause potential damage to the environment stemming from, among others, the transport of hazardous materials. The Company is a leader in the consumption of electricity for traffic purposes, hence both the transport of hazardous materials and electricity consumption are significant aspects of its business and are subject to monitoring on an annual basis. Also monitored is the consumption of water, the quality of discharged wastewater, the management of industrial waste and the consumption of fuels for traffic and heating purposes. The objective of this monitoring is not only to gain knowledge of the magnitude of impacts on the natural environment by tracking certain assumed indicators but also to improve emission ratios. Year by year, through the introduction of objectives and tasks in significant areas in relation to the adopted classification criteria, PKP CARGO S.A. keeps reducing its environmental impact.

On account of fees due for the use of the environment in 2015, the Parent Company established a provision of PLN 1,167.7 thousand. The fees paid by PKP CARGO S.A. keep decreasing. In terms of the amounts of fees paid in comparison with the previous years, the largest decline in such fees was recorded in respect of the combustion of fuel in diesel locomotives by applying new emission ratios for the charging of fees for all modernized locomotives, i.e. SM42s with C27, Kolomna or MTU engines (a decrease for these types in unit fees by 45-60% per ton of fuel consumed).

In other Group companies, the estimated total amount of environmental usage fees for 2015 will be about PLN 280 thousand. Since the Group runs a rolling stock repair business, it is obligated to pay the fees among others for releasing gases and dust into air. This occurs through the use of materials in technological processes (mainly associated with painting), combustion of fuel in company boiler rooms and combustion of fuel by cars and machinery.

Implementation of the Company's strategy is based on adapting its resources and organization to the requirements of the contemporary transportation market, taking into account the principles of sustainable development, in accordance with the adopted policy of the Integrated Management System (IMS): quality, occupational health and safety, environmental protection. The IMS ensures the implementation of environmental policy and forms an integral part of the Company's overall management system. In the process of environmental review (conducted on an annual basis), specific environmental targets and tasks are formulated. Every year, the results of environmental efforts are evaluated in accordance with criteria established based on:

- legal requirements and decisions,
- results of system reviews and internal audits,
- data on the current and past performance of PKP CARGO S.A.

The Company performs an annual review of its environmental aspects, is involved in achieving compliance of its actions with the applicable laws and regulations, has in place a program of environmental measures and achieves measurable results of these activities, has qualified personnel conducting environmental matters with the use of instruments in the form of software for calculating environmental fees and databases of key environmental aspects, having access to current laws, regulations, instructions and the Internet, keeps increasing environmental awareness among its employees.

7.6. Description of the Company's sponsoring, charitable or other similar activities

PKP CARGO S.A.'s sponsoring and charitable activities in 2015 were conducted in accordance with the assumed business objectives and guidelines presented in the "Strategy of the PKP CARGO Brand for 2015-2018". This document presents an accurate depiction of the Company's sponsoring and social coverage. In turn, the detailed principles of the Company's operati on in these areas are laid down in the "Bylaws for financing social projects in the form of donations or sponsorship by PKP CARGO S.A.". The Bylaws have been adopted in order to ensure a uniform set of procedures for examining requests for donations and offers to provide sponsorship as well as to ensure a seamless flow of information in this area within the Company. The Bylaws have introduced transparent rules of conduct associated with the pursuit of socially useful objectives through the provision of donations by PKP CARGO S.A. and define the set of procedures applicable to the issuance of opinions on requests for sponsorship, the making of decisions in this respect, the execution of agreements and the monitoring of implementation of sponsoring initiatives.

The Company has in place the Committee for Sponsorship and Donations which is a consultative and opinion-making body established to support the making of decisions on the granting of financial assistance.

The organizational unit responsible for coordinating tasks in the area of donations and sponsorship in PKP CARGO S.A. was the Marketing Department.

Sponsoring

In 2015, PKP CARGO S.A. conducted sponsoring activities in the following areas:

Innovative projects for the development of TSL industry

Organized in 2015, at the initiative of PKP CARGO, was the European Logistics Congress ONECARGO – a unique (on an international scale) forum for dialog and exchange of experience in the logistics sector in Central and Eastern Europe, the largest international meeting of the logistics industry, a forum for the exchange of opinions and experience indicating the directions of discussion about the TSL industry in Europe. The first edition of the ONECARGO Congress was attended by approx. 1,500 guests, including international TSL experts, representatives of local, national and European administration and persons responsible for the strategies of leading companies representing the main branches of the logistics industry in Poland and in Europe.

During the two-day meeting, various cases of experience from different parts of the world and solutions adopted by leading companies in the logistics sector were presented. The range of topics discussed during the Congress covered a broad spectrum of issues related to transportation and infrastructure, such as the European Union's policy vis-à-vis the development of logistics, challenges for the transport sector until 2020, opportunities for Polish companies in the competitive European market, directions of investments in road and port infrastructure and cooperation between the academic community and the world of business.

Cooperation with institutions of higher education and scientific centers

Cooperation with the Warsaw School of Economics (SGH) within the framework of the SGH Partners Club – joint efforts aimed at creating educational programs, the conduct of information-sharing, promotion and recruitment activities at the Warsaw School of Economics. The partnership with the Warsaw School of Economics is predominantly about the exchange of experience and information.

Moreover, PKP CARGO S.A. collaborated in the organization of scientific conferences with the University of Economics in Katowice and the Cracow University of Economics.

Sports

A significant role in PKP CARGO S.A.'s long-term sponsoring strategy is played by sports initiatives targeted at children and youths. PKP CARGO S.A.'s involvement in the development of youths through sports is a reflection of the Company's social responsibility. Sport is a carrier of values that are of great significance in shaping individual attitudes and social relationships. Team spirit, passion, fair play and focus on the development and acquisition of targets are necessary skills to be had both in sports and in business. These values are also appreciated by PKP CARGO S.A. In 2015, the Company cooperated with the training academies of the following football clubs: the Football Academy of Legia Warsaw, KS Drukarz Warsaw, the Football Academy of GKS Katowice, the Football Academy of Zagłębie Sosnowiec and the Football Academy of Jagiellonia Białystok.

Culture

By supporting cultural events, PKP CARGO S.A. communicates the key role it plays in public life. PKP CARGO S.A. is a Strategic Partner of the National Symphony Orchestra of the Polish Radio in Katowice. The Orchestra is an elite ensemble of great importance for the Polish culture, well-known all over the world, regularly performing numerous concerts, ready for cooperation and innovative ideas. The National Symphony Orchestra of the Polish Radio in Katowice plays the role of a cultural ambassador representing Poland on the international arena of arts and forms an integral part of the strategy and cultural policy of Silesia, greatly contributing to the region's development. The presence of the PKP CARGO brand in the area of high culture brings image-related and relational benefits to the Company and ensures the transfer of values such as high quality, perfection and innovation.

Charitable activities

As part of its charitable initiatives, PKP CARGO S.A. spends funds on initiatives targeting especially those localities where the PKP CARGO Group's subsidiaries are headquartered or run their business as well as their immediate neighborhoods. The activities in this area are focused on pro-social projects consistent with the PKP CARGO Group's mission and development strategy and on the values represented by the PKP CARGO brand.

In the area of the provision of assistance to those in need and the leveling out of social differences, PKP CARGO S.A. cooperated in 2015 in particular with organizations supporting the treatment of children suffering from illnesses, including the "Zdążyć z pomocą" ("Providing On-Time Assistance") Foundation for Children, the Foundation for the Provision of Assistance to Children of the Grodno Region and the Association of Families for the Support of Persons with Hearing Challenges.

Together with the DKMS Stem Cell Donor Database Foundation, the Company executed a project aimed at promoting donorship and registering potential stem cell donors among its employees.

PKP CARGO S.A.'s social activities are also focused on caring for the national heritage in the area of railway history. In 2015, the Company funded the activities of two Open-Air Museums of Rolling Stock in Wolsztyn and Chabówka. To promote the knowledge of railway, a program entitled "Summer with steam locomotives" was implemented, directed predominantly at children of preschool and school ages, designed to promote interest in railway, in particular the history of railway, among children.

In the project, we use the facilities of the Locomotive Depo in Wolsztyn and the Open-Air Museum of Rolling Stock in Chabówka in which children may learn the historical heritage of railway through play.

PKP CARGO S.A.'s care for the historical and cultural heritage and tradition of the railway is an important element of the Company's social responsibility. The Company is multigenerational: it employs representatives of, in some cases, three generations of the same family. Initiatives such as the Company's patronage over the Open-Air Museum of Rolling Stock in Chabówka, combined with modern communications, strengthen PKP CARGO's image of a patron of and contributor to railway history.

7.7. Information on rules for compensating Management Board and Supervisory Board members and key managers at the parent company

7.7.1. General information about the compensation system accepted in the parent company

The Company has a compensation policy in place, yet it is not formulated in a single document adopted by the Company but stems from several documents pertaining to remunerating members of the Company's corporate authorities and key managers. In 2015, the rules for compensating members of the Management Board and the Supervisory Board were defined, among others, in the following corporate documents:

Compensation of Supervisory Board members:

a. Resolution No. 5/2014 of the Extraordinary Shareholder Meeting of PKP CARGO S.A. dated 30 July 2014 on setting the compensation of Supervisory Board members.

Compensation of Management Board members:

a. §12 Section 2 Item 3 of the Company's Articles of Association pursuant to which, as long as the stake in the Company held by PKP S.A. is greater than 50% of the Company's share capital and as long as required by the applicable provisions of law, the compensation of Management Board members are determined by the Shareholder Meeting;
b. Resolution No. 3/2014 of the Extraordinary Shareholder Meeting of PKP CARGO S.A. dated 26 March 2014 on determining the rules and amounts of remuneration of the President and Members of the PKP CARGO S.A. Management Board on establishing a non-competition requirement – in respect of the compensation of Management Board members appointed prior to 18 June 2014, i.e. prior to the date on which the PKP S.A.'s stake in the share capital of PKP CARGO S.A. decreased below 50%, and only to the extent the provisions of the above resolution have not been amended by the Supervisory Board after 18 June 2014;
c. Resolution of the PKP CARGO S.A. Supervisory Board of 9 March 2015 on setting objectives for the President and Members of the Management Board to be achieved in 2015;
d. Resolution of the Supervisory Board of 10 November 2015 on an annex to the agreement for the provision of management services entered into with the President and Members of the Management Board;
e. Resolution of the Supervisory Board of 23 December 2015 on authorizing the Chairman of the Supervisory Board to sign, in accordance with Article 379 § 1 of the Commercial Companies Code, on behalf of the Supervisory Board, the employment contract for the discharge of duties of the President of the PKP CARGO S.A. Management Board.

In 2015, the compensation of key managers such as the Company's managing directors was defined in Management Board resolutions nos. 498/2012 of 20 November 2012 and 58/2015 of 10 February 2015, according to which the maximum compensation for the Managing Director's position is 9.4 of the average monthly salary in the corporate sector without profit-sharing awards in Q4 2011.

Managing Directors are also covered by the Management By Objectives scheme. Resolution no. 266/215 adopted on 3 July 2015

7.7.2. Value of compensation and fringe benefits of Management Board and Supervisory Board members

The table below presents total compensation and fringe benefits of members of PKP CARGO S.A. Management Board members in 2015.

Table 27 Expenses on salaries and fringe benefits for PKP CARGO S.A. Management Board members in 2015 (PLN)

Full name	Fixed compensation elements	Variable compensation elements	Subsidiaries	Total	period covering the remuneration	
					from	to
Current Management Board members						
Maciej Libiszewski	18,286	-	-	18,286	18 December 2015	31 December 2015
Dariusz Browarek	670,341	252,852	-	923,194	01 January 2015	31 December 2015
Former Management Board members						
Adam Purwin	746,953	627,869	150,740	1,525,562	01 January 2015	14 December 2015
Wojciech Derda	545,746	188,530	70,310	804,586	01 January 2015	31 December 2015
Łukasz Hadyś	670,313	217,733	20,155	908,201	01 January 2015	31 December 2015
Jacek Neska	670,308	220,920	136,716	1,027,944	01 January 2015	31 December 2015
Łukasz Boroń	-	68,708	-	68,708	01 January 2015	18 February 2015
Sylwester Sigiel	255,069	-	-	255,069	01 January 2015	26 July 2015

Source: Proprietary material

The compensation and fringe benefits of former Management Board members employed on the basis of service agreements include severance pays, bonuses, compensation under non-competition agreements, remuneration for unused leave and other income subject to income tax and social security contributions. Moreover, the Management Board members were entitled to use the following made available by the Company: office space with furnishing, including a portable personal computer with wireless Internet access, means of communication, including a mobile phone and a landline phone and company car. The Management Board members could participate in conferences, seminars or business meetings beneficial for the Company and go on related international and domestic trips at the Company's expense, including the entitlement to a refund of the cost of transportation, accommodation and stay.

The Management Board member employed on the basis of employment agreements had the financial resources and means of communication required for the performance of their work provided by the Company.

Key managers, such as managing directors, had access to medical insurance offered to Company employees and the right to use company cars according to the general rules in place in the Company.

Variable compensation elements for Management Board members are defined by the Management by Objectives scheme (MBO) adopted for application based on resolutions adopted by the Company's Supervisory Board.

The President with other Management Board members were assigned objectives to be achieved in the following areas:

1. Financial PERFORMANCE - including return on equity and EBITDA
2. Transport - maintenance of the market share in the domestic transport market, intermodal transport
3. Human resources - improved effectiveness of using human resources
4. Internal processes - AWT synergies , computerization of thetransportationn process, optimization of Rolling Stock Maintenance Points, IT Governance policy, maximization of impact of the Purchasing Group
5. Strategy - Strategy of the PKP CARGO Group

All the objectives are closely linked to PKP CARGO S.A.'s strategy for the coming years and they link the level of compensation paid to Management Board members on the Company's actual financial standing and stability of its operations.

Managing directors were assigned objectives to be achieved in the following areas:

1. General corporate objectives - EBITDA maintenance of the market share in the domestic transport market
2. Individual objectives - each participant was assigned from 3 to 7 individual objectives in his/her domain

The objectives have a specific measure, weight, three acceptable fulfillment levels and a deadline for fulfilling the objective. This offers a possibility for a very transparent reconciliation of the goals, by calculating the fulfillment level and computing the possible bonus amount for each person participating in the MBO scheme.

The table below presents total salaries and fringe benefits of members of the Company's Supervisory Board in 2015. Taken into account in the table are only salaries received for the discharge of the position of member of the PKP CARGO S.A. Supervisory Board.

Table 28 Expenses on salaries and fringe benefits of members of the PKP CARGO S.A. Supervisory Board in 2015 (PLN)

Name	in the issuer's company 2015
Current Supervisory Board members	
Kazimierz Jamrozik	117,701
Stanisław Knaflewski	117,701
Raimondo Eggink	88,276
Mirosław Pawłowski	5,543
Jerzy Kleniewski	4,577
Andrzej Wach	4,577
Czesław Warsewicz	4,577
Małgorzata Kryszkiewicz	4,577
Former Supervisory Board members	
Jakub Karnowski	137,386
Piotr Ciżkowicz	113,451
Krzysztof Czarnota	87,949
Marek Podskalny	87,949
Konrad Anuszkiewicz	113,451
Paweł Ruka	24,521
Jarosław Pawłowski	9,808
Jacek Leonkiewicz	113,451
Sławomir Baniak	113,451
Zbigniew Klepacki	39,234
Jarosław Bator	30,079
Maciej Libiszewski	327

Source: Proprietary material

7.7.3. Agreements entered into between PKP CARGO S.A. and managers which provide for compensation in specific cases

Members of the PKP CARGO S.A. Management Board are hired under a contract for the provision of management services ('management contract') or an employment contract. The rules determining compensation in the event of resignation or dismissal from the position held without a significant reason are specified in the management contract of the given Management Board member or his/her employment contract and the provisions of labor law.

In 2015, the Management Board members employed on the basis of service agreements were entitled to severance pays for the termination of the agreement in the form of additional compensation equal to 3 times the monthly fixed basic compensation amount. The amount of severance pays to which Management Board members employed under employment agreements are entitled are calculated based on the labor code and other legislative acts.

Additionally, in the period of 12 months after the termination of the agreement, Management Board members were entitled to compensation under a no-compete clause in the amount of 100% of the monthly fixed basic compensation amount.

7.7.4. Indication of material changes introduced in the compensation policy in the last financial year or information on absence of such changes

No material changes in the Company's compensation policies were introduced in 2015.

7.7.5. Evaluation of the practical application of the compensation policy in the context of its goals, in particular the long-term increase of the company's value for shareholders and stability of its operations

The separation of a variable compensation element using the rules of the Management By Objectives Scheme for Company managers has allowed the Company to introduce a direct link between the fulfillment of strategic corporate goals and the fulfillment of individual goals set for individual employees for the year.

The goals set under MBO for the calendar year are monitored and reviewed during the year and then their achievement is evaluated. The final evaluation of the fulfillment of MBO goals and the possible payment of awards is conditional upon the Supervisory Board's evaluation of the Company's financial statements.

7.8. Information about the financial statements

7.8.1. Information about the agreement entered into with an entity authorized to audit financial statements

By Resolution No. 1272/V/2013 of the PKP CARGO S.A. Supervisory Board adopted on 17 December 2013, KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa (hereinafter referred to as "KPMG") with its registered office in Warsaw, entered in the register of entities authorized to audit financial statements, as the auditor of PKP CARGO S.A.'s standalone financial statements and the PKP CARGO Group's consolidated financial statements for the years from 2013 to 2015.

The agreement on the audit of financial information was entered into with KPMG on 31 January 2014 and covers the audit of PKP CARGO S.A.'s standalone financial statements and the PKP CARGO Group's consolidated financial statements for the years 2013-2015. The agreement on the audit of interim standalone and consolidated financial statements for H1 2014 and H1 2015 was entered into with KPMG on 8 May 2014.

Audit of the financial statements of other companies from the PKP CARGO Group was conducted by KPMG Audit and other authorized entities.

The total fees charged by the entities authorized to audit financial statements, paid or due for the relevant financial year is as follows:

Table 29 Total fees of the entities authorized to audit financial statements (PLN, net)

Item	Year ended 31 December 2015	Year ended 31 December 2014
Mandatory audit of financial statements	129,200	129,200
Mandatory audit of consolidated financial statements	24,500	9,500
Obligatory audit of the Separated Financial Statements of subsidiaries	1,118,994	178,950
Other attestation services	345,911	97,250
Other services	55,500	58,300
Accounting advisory services	185,840	0
Tax consulting services	0	0
TOTAL	**1,859,945**	**473,200**

Source: Proprietary material

** including AWT Group PLN 947,572*
*** including AWT Group PLN 201,961*

7.8.2. Rules for preparing the annual financial statements

The Consolidated Financial Statements of the PKP CARGO Group for the year ended 31 December 2015 have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board and approved by the European Union.

The Consolidated Financial Statements of the PKP CARGO Group have been prepared based on the assumption that the Group companies are a going concern in the foreseeable future. As at the date of preparation of the financial statements, there are no circumstances indicating any substantial threat to the ability of the Group companies to continue their operations as a going concern for the period of at least 12 months following the date of consolidated financial statements.

In the financial year ended 31 December 2015, certain amendments were made to the PKP CARGO Group's Accounting Policy, as described in notes to the Consolidated Financial Statements of the PKP CARGO Group for the year ended 31 December 2015.

7.8.3. Description of unusual items in the consolidated financial statements of the PKP CARGO Group

An unusual item in the Consolidated Financial Statements is a liability on account of the sale of a put option for a minority stake in Advanced World Transport B.V. (hereinunder: AWT B.V.) in the amount of PLN 155,198,167 presented in the line item "Other long-term financial liabilities".

A detailed description of how the liability on account of the sale of a put option for a minority stake in AWT B.V. is recognized is provided in Note 6 in the Group's Consolidated Financial Statements.

7.8.4. Description of significant off-balance sheet items

Significant off-balance sheet items are described in Notes 35 and 38 of the Group's Consolidated Financial Statements. Additionally, Note 37 contains a description of conditional asset purchase agreements binding on PKP CARGO Group companies.

8. Representation on the application of corporate governance

8.1. Indication of a set of corporate governance rules applicable to PKP CARGO S.A. and of the place where the wording of such rules is publicly available

In the period from the date of admission of the Company's shares to public trading, i.e. from 28 October 2013 to 31 December 2015, the Company was subject to the corporate governance rules described in the Code of Best Practice for WSE-Listed Companies ("Code of Best Practice") forming an attachment to Resolution No. 12/1170/2007 of 4 July 2007 adopted by the Supervisory Board of the Warsaw Stock Exchange, as amended by the following resolutions adopted by the Supervisory Board of the Warsaw Stock Exchange: Resolution No. 17/1249/2010 of 19 May 2010 (effective from 1 July 2010), Resolution No. 15/1282/2011 of 31 August 2011 (effective from 1 January 2012), Resolution No. 20/1287/2011 of 19 October 2011 (effective from 1 January 2012) and Resolution No. 19/1307/2012 of 21 November 2012 (effective from 1 January 2013).

The wording of the Code of Best Practice to which the Company was subject in 2015 is available on the website of the Warsaw Stock Exchange at http://static.gpw.pl/pub/files/PDF/dobre_praktyki/dobre_praktyki_16_11_2012.pdf.

On 13 October 2015, the Supervisory Board of the Warsaw Stock Exchange (Giełda Papierów Wartościowych w Warszawie S.A.) adopted a resolution on the adoption of a new set of corporate governance rules entitled the "Code of Best Practice for WSE-Listed Companies 2016" (hereinafter referred to as the "Code of Best Practice 2016") which entered into force on 1 January 2016 and replaced the previous set of corporate governance rules adopted by Resolution of the Warsaw Stock Exchange of 4 July 2007, as amended. The wording of the "Code of Best Practice 2016" to which the Company has been subject since 1 January 2016 is available on the website of the Warsaw Stock Exchange at http://static.gpw.pl/pub/files/PDF/RG/DPSN2016__GPW.pdf.

In connection with the entry into force on 1 January 2016 of the "Code of Best Practice 2016", on 4 January 2016 the Management Board published a current report in Electronic Information Base format containing "Information on the progress of the Company's application of recommendations and rules laid down in the Code of Best Practice for WSE-Listed Companies 2016, the wording of which is available on the Company's website in the section Investor Relations/Corporate Governance/Good Practices.

8.2. Extent to which PKP CARGO S.A failed to observe the provisions of the set of corporate governance rules, indication of such provisions and explanation of the reasons for the failure

In 2015, the Company complied with all corporate governance rules laid down in the Code of Best Practice for WSE-Listed Companies, except for the rules contained in:

<u>Chapter I Recommendation 5 of the Code of Best Practice concerning the remuneration policy and the rules for its establishment</u>
The Company has a remuneration policy in place, yet it is not formulated in a single document adopted by the Company but stems from several documents pertaining to remunerating members of the Company's corporate authorities. In 2015, the rules for remunerating members of the Management Board and the Supervisory Board were defined, among others, in the following corporate documents:

1. Remunerations of Supervisory Board members:

   a. Resolution No. 5/2014 of the Extraordinary Shareholder Meeting of PKP CARGO S.A. dated 30 July 2014 on determining the remunerations of the Supervisory Board members.

2. Remunerations of Management Board members:

   a. §12 Section 2 Item 3 of the Company's Articles of Association pursuant to which, as long as the stake in the Company held by PKP S.A. is greater than 50% of the Company's share capital and as long as required by the applicable provisions of law, the remunerations of Management Board members are determined by the Shareholder Meeting;
   b. Resolution No. 3/2014 of the Extraordinary Shareholder Meeting of PKP CARGO S.A. dated 26 March 2014 on determining the rules and amounts of remuneration of the President and Members of the PKP CARGO S.A. Management Board on establishing a non-competition requirement – in respect of the remunerations of Management Board members appointed prior to 18 June 2014, i.e. prior to the date on which the PKP S.A.'s stake in the share capital of PKP CARGO S.A. decreased below 50%, and only to the extent the provisions of the above resolution have not been amended by the Supervisory Board after 18 June 2014;

c. Resolution of the PKP CARGO S.A. Supervisory Board of 9 March 2015, on setting targets for the President and Members of the Management Board to be achieved in 2015;
d. Resolution of the Supervisory Board of 10 November 2015 on an annex to the agreement for the provision of management services entered into with the President and Members of the Management Board;
e. Resolution of the Supervisory Board of 23 December 2015 on authorizing the Chairman of the Supervisory Board to sign, in accordance with Article 379 § 1 of the Commercial Companies Code, on behalf of the Supervisory Board, the employment contract for the discharge of duties of the President of the PKP CARGO S.A. Management Board.

In 2015, the policy of remunerating members of the Company's management and supervisory bodies did not include all the elements indicated in the recommendation of the European Commission of 14 December 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC), supplemented by the recommendation of the European Commission of 30 April 2009 (2009/385/EC). In particular, the Company did not post a declaration presenting its remuneration policy on its corporate website.

Details of the Company's remuneration policy are described in the chapter 7.7.

Pursuant to § 91 Section 6 Item 17 of Finance Minister's Regulation of 19 February 2009 on the current and periodic information transmitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent (Journal of Laws of 2014 Item 133), the Company is required to publish every year, in its annual report, information about the value of remunerations, bonuses and benefits for each of the persons managing and supervising the Company.

<u>Chapter I Recommendation 9 of the Code of Best Practice concerning an equal participation of women in the performance of managerial and supervisory functions</u>
In 2015, the Company did not ensure an equal participation of women and men in the Management Board or the Supervisory Board. The Company expresses its support for this recommendation, but the decision on the composition of the Supervisory Board is made by the Company's shareholders at the Shareholder Meeting and the Management Board is appointed in accordance with the rules laid down in the Articles of Association. The Company has a policy in place under which the Company employs competent, creative individuals with appropriate professional experience and education, without considering the sex criterion.

<u>Chapter II Recommendation 1.9 a) of the Code of Best Practice concerning the posting on the corporate website of a recording of the Shareholder Meeting in an audio or video format</u>
In the opinion of the Company's Management Board, the decision not to adhere to the principle concerning the posting on the Company's corporate website of a recording of the Shareholder Meeting in an audio or video format does not affect the reliability of the Company's information policy or the completeness of any significant information provided by the Company to its Shareholders.

<u>Chapter IV Recommendation 10 of the Code of Best Practice concerning the enabling of shareholders to participate in a Shareholder Meeting using electronic means of communication</u>
The decision not to adhere to this principle according to which the Company should, among others, to provide real-time two-way communication where shareholders may take the floor during the Shareholder Meeting from a location other than the Shareholder Meeting was made for reasons of legal, organizational and technical risks which might threaten the proper conduct of the Shareholder Meeting by providing the shareholders with this method of communication.
In the opinion of the Company's Management Board, the principles governing the participation in Shareholder Meetings currently allow the shareholders to exercise all the rights arising from their shares efficiently and protect the interests of all shareholders.

8.3. Description of the primary attributes of the internal control and risk management systems used in PKP CARGO S.A. in respect of the process of preparing standalone and consolidated financial statements

<u>Uniform accounting policy</u>

PKP CARGO S.A.'s parent company has developed and implemented the Accounting Policy designed in accordance with the accounting principles approved by the European Union. The document is updated on an ongoing basis as statutory amendments are introduced. The principles contained in the document are applied to standalone financial statements of PKP CARGO S.A. and consolidated financial statements of the PKP CARGO Group. Companies subject to consolidation are required to apply the Accounting Policy of PKP CARGO S.A. in their preparation of reporting consolidation packages which form the basis for preparation of the PKP CARGO Group's consolidated financial statements.

Uniform consolidation packages of subsidiaries

For the purposes of preparation of consolidated financial statements for the PKP CARGO Group, a uniform pattern of IFRS-compliant reporting packages to be prepared by the subsidiaries has been adopted. The subsidiaries prepare their IFRS-compliant reporting packages taking into account the differences between Polish Accounting Standards and IFRS.

Bookkeeping

The reliability of financial statements is ensured by using data derived directly from the accounting ledgers. The Parent Company keeps a set of accounting ledgers forming the basis for preparation of financial statements in its computerized financial and accounting system SAP. PKP CARGO S.A. updates its financial and accounting system on an ongoing basis in line with the changing legislation and reporting requirements, both internal and external. Access to the IT systems is restricted by appropriate permissions granted to authorized employees. The IT and organizational solutions used by the Company secure control of access to the financial and accounting system and ensure appropriate protection and archiving of accounting ledgers.

Procedures for the closing of ledgers and authorization of financial statements

The Parent Company and the subsidiaries have implemented internal procedures for closing the reporting periods, setting the dates and defining the responsibilities of internal departments for each reporting area; financial statements are subjected to internal procedures aimed at verifying their completeness and compliance; IFRS-compliant reporting packages are signed by the Management Boards of the subsidiaries and IFRS-compliant consolidated financial statements are properly authorized and signed by the Company's Management Board.

Supervision by the Audit Committee

Within the structure of the PKP CARGO S.A. Supervisory Board, the Audit Committee has been established which, in accordance with the applicable regulations, exercises supervision over the process of preparation of consolidated financial statements and the process of financial audit and which analyzes and monitors interim and annual financial data of both the Company and the Group.

Audit and review of financial statements

Annual standalone and consolidated financial statements are audited by a statutory auditor, semi-annual standalone and consolidated financial statements are reviewed by a statutory auditor; opinions and reports on the auditor's activities are appended to all approved and published financial statements.

8.4. Shareholders holding directly or indirectly significant blocks of shares

As at the date of submission of this report, the total number of the Company's outstanding shares is 44,786,917. According to notices received by the Company, the structure of shareholders holding directly or indirectly significant blocks of shares in the Company was as follows:

Table 30 Shareholder structure of PKP CARGO S.A. as at 31 December 2014

Shareholder	Number of shares	% in share capital	Number of votes	% in the total number of votes at the Shareholder Meeting
PKP S.A. (1)	14,784,194	33.01%	14,784,194	33.01%
Nationale-Nederlanden OFE (2)	4,738,369	10.58%	4,738,369	10.58%
Morgan Stanley (3)	2,380,008	5.31%	2,380,008	5.31%
AVIVA OFE (4)	2,338,371	5.22%	2,338,371	5.22%
EBRD (5)	2,286,008	5.10%	2,286,008	5.10%
Other shareholders	18,259,967	40.78%	18,259,967	40.78%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

Source: Proprietary material

(1) According to a notice sent by the shareholder on 24 June 2014.

(2) According to a notice sent by the shareholder on 30 June 2014; on 20 July 2015, the name ING OFE was changed to Nationale-Nederlanden OFE.

(3) According to a notice sent by the shareholder on 18 June 2014.

(4) According to a notice sent by the shareholder on 13 August 2014.

(5) According to a notice sent by the shareholder on 5 November 2013.

On 17 February 2015, the Company's Management Board received a notice sent by the European Bank for Reconstruction and Development with its registered office in London containing information that, as a result of a sale of the Company's shares in a block transaction executed on the Warsaw Stock Exchange on 11 February 2015 and settled on 13 February 2015, EBRD reduced its stake to a level below 5% of the total number of votes at the Company's Shareholder Meeting. Following the transaction, EBRD does not hold any shares in the Company.

On 12 November 2015, the Company's Management Board received a notice from Nationale-Nederlanden PTE S.A. on increasing the stake held by Nationale-Nederlanden OFE ("Fund") in the Company, as a result of the acquisition of shares in the Company in transactions executed on the Warsaw Stock Exchange and settled on 5 November 2015, by at least 2% of votes at the Company's Shareholder Meeting.

The notice indicated that: (i) prior to the acquisition of the shares, the Fund held 5,620,103 shares representing 12.55% of the Company's share capital and was entitled to 5,620,103 votes at the Shareholder Meeting representing 12.55% of the total number of votes, and (ii) on 12 November 2015, in the Fund's securities account, there were 5,771,555 shares representing 12.89% of the Company's share capital and entitling the Fund to 5,771,555 votes at the Company's Shareholder Meeting, representing 12.89% the total number of votes.

Table 31 Shareholder structure of PKP CARGO S.A. as at 31 December 2015

Shareholder	Number of shares	% in share capital	Number of votes	% in the total number of votes at the Shareholder Meeting
PKP S.A. (1)	14,784,194	33.01%	14,784,194	33.01%
Nationale-Nederlanden OFE (2)	5,771,555	12.89%	5,771,555	12.89%
Morgan Stanley (3)	2,380,008	5.31%	2,380,008	5.31%
AVIVA OFE (4)	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	19,512,789	43.57%	19,512,789	43.57%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

Source: Proprietary material

(1) According to a notice sent by the shareholder on 24 June 2014.

(2) According to a notice sent by the shareholder on 12 November 2015; on 20 July 2015, the name ING OFE was changed to Nationale-Nederlanden OFE.

(3) According to a notice sent by the shareholder on 18 June 2014.

(4) According to a notice sent by the shareholder on 13 August 2014.

On 16 March 2016 The Management Board of PKP CARGO S.A. ("Company") became aware of a notification from Morgan Stanley (Institutional Securities Group and Global Wealth Management) concerning a reduction of the stake held by Morgan Stanley (Institutional Securities Group and Global Wealth Management) below 5% of the overall number of votes at the Company's extraordinary shareholder meeting ("SM").

This threshold was crossed by selling the Company's shares on the Warsaw Stock Exchange on 10 March 2016 ("Transaction").

Before the Transaction, Morgan Stanley (Institutional Securities Group and Global Wealth Management) held 2,380,008 shares of the Company representing 5.31% of the Company's share capital and 2,380,008 votes at the SM, which is 5.31% of all the votes.

After the Transaction, Morgan Stanley (Institutional Securities Group and Global Wealth Management) holds 2,225,827 shares of the Company representing 4.97% of the Company's share capital and 2,225,827 votes at the SM, that is 4.97% of all the votes.

Table 32 Shareholder structure of PKP CARGO S.A. as at the date of submission of this report

Shareholder	Number of shares	% in share capital	Number of votes	% in the total number of votes at the Shareholder Meeting
PKP S.A.(1)	14,784,194	33.01%	14,784,194	33.01%
Nationale-Nederlanden OFE (2)	5,771,555	12.89%	5,771,555	12.89%
AVIVA OFE (3)	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	21,892,797	48.88%	21,892,797	48.88%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

Source: Proprietary material

(1) According to a notice sent by the shareholder on 24 June 2014.

(2) According to a notice sent by the shareholder on 12 November 2015; on 20 July 2015, the name ING OFE was changed to Nationale-Nederlanden OFE.

(3) According to a notice sent by the shareholder on 13 August 2014.

The structure of PKP CARGO S.A.'s share capital as at the date of submission of this report is presented in the table below:

Table 33 Structure of PKP CARGO S.A.'s share capital

Shares	Issue date	Issue registration date	Number of shares
Series A	8 July 2013	2 October 2013	43,338,000
Series B	8 July 2013	2 October 2013	15
Series C	2 October 2013	25 April 2014	1,448,902
Total			**44,786,917**

Source: Proprietary material

8.5. Holders of securities giving special controlling rights and a description of such rights

No PKP CARGO S.A. securities give any of the shareholders of any special control rights.

8.6. Restrictions regarding the exercise of voting rights

Right to participate in the Shareholder Meeting and voting rights

Shareholder exercise their right to vote at Shareholder Meetings in accordance with the provisions of the Commercial Companies Code. The Company's shareholders may participate in the Shareholder Meeting and exercise their voting right in person or by proxy. A shareholder wishing to participate in a Shareholder Meeting by proxy must grant the proxy powers in writing or in electronic form. The Company provides a form of proxy in the notice on convening the Shareholder Meeting. Moreover, the Company should be notified about granting proxy powers in electronic form using the means of electronic communication specified in the announcement on convening the Shareholder Meeting. The Company takes proper action to identify the shareholder and his/her/its proxy to verify the validity of the proxy powers granted in electronic form. A detailed description of the manner of verification of the validity of proxy powers granted in electronic form must be included in the contents of the notice on convening the Shareholder Meeting.

A shareholder holding shares registered in more than one securities account may appoint separate proxies to exercise the rights attached to shares registered in each of his/her/its accounts.

If a member of the Management Board, a member of the Supervisory Board, the liquidator, an employee of the Company, or a member of a corporate body or an employee of the Company's subsidiary or cooperative acts as a proxy, then the proxy document may authorize such a person to represent the shareholder at a single Shareholder Meeting only. The proxy is obligated to disclose to the shareholder any circumstances indicating the existence or possibility of a conflict of interest. In such a situation, it is not permitted for the proxy to grant proxy powers to others. The proxy will vote in accordance with the instructions given by the shareholder.

Pursuant to § 11 Section 2 of the Articles of Association, each share entitles its holder to one vote at the Shareholder Meeting. The Articles of Association limit the voting rights of shareholders (acting individually or collectively, as shareholders being parent companies or subsidiaries) holding more than 10% of the total number of votes at the Shareholder Meeting and prohibit the exercise by such shareholders of more than 10% of the total number of votes at the Shareholder Meeting. However, this limitation does not apply to shareholders who on the date of adoption of the Shareholder Meeting resolution introducing this limitation were entitled to exercise voting rights (also as a user) attached to shares representing more than 10% of the total number of votes in the Company or any other entity that would acquire shares in the Company held by the shareholders referred to above in connection with their liquidation.

In accordance with the provisions of the Articles of Association, the limitation of voting rights of shareholders representing more than 10% of the total number of votes in the Company will not cease after a sale of all shares held by PKP S.A. to which the said limitation does not apply. As a consequence, the limitation of voting rights makes it potentially difficult for a single investor to gain control of the Company even if the stake held by PKP S.A. in the Company's share capital drops to zero.

A Company's shareholder may not, either personally or by proxy or while acting in the capacity of a proxy of any other person, vote on resolutions concerning his/her/its liability towards the Company on whatever account, including exonerating on the performance of his/her/its duties, being released from any of his/her/its liabilities towards the Company or any dispute between him/her/it and the Company. The above restriction does not apply to voting by a shareholder acting in the capacity of a proxy for another shareholder on any of the said resolutions concerning the voting shareholder.

8.7. Restrictions on the transfer of ownership title to PKP CARGO S.A. securities

Statutory restrictions on the transferability of shares

The Act on Public Offering, the Act on Trading in Financial Instruments and the Commercial Companies Code provide, among others, for the following restrictions on the unconstrained transferability of shares:

- the obligation to notify the Polish Financial Supervision Authority and the Company applies to anyone who: (i) has reached or exceeded 5%, 10%, 15%, 20%, 25%, 33%, $33^1/_3$%, 50%, 75% or 90% of the total number of votes in a public company; (ii) holds at least 5%, 10%, 15%, 20%, 25%, 33%, $33^1/_3$%, 50%, 75% or 90% of the total number of votes in a company and, as a result of a reduction in this shareholding, reached 5%, 10%, 15%, 20%, 25%, 33%, $33^1/_3$%, 50%, 75% or 90%, respectively, or less of the total number of votes; (iii) has changed his/her/its previously held share greater than 10% of the total number of votes by at least 2% of the total number of votes in a public company whose shares are admitted to trading on an official stock market (as at the Prospectus Date, the market in question is the main market of the Warsaw Stock Exchange); (iv) has changed his/her/its previously held share greater than 33% of the total number of votes in a public company by at least 1% of the total number of votes;

- the obligation to announce a call to subscribe for the sale or conversion of shares in the event of: (i) the acquisition of shares entitling the holder to exercise more than 10% or 5% of the total number of votes at the Shareholder Meeting, (ii) exceeding the threshold of 33% of the total number of votes at the Shareholder Meeting, (iii) exceeding the threshold of 66% of the total number of votes at the Shareholder Meeting;
- the prohibition of the acquisition or sale, for one's own account or for a third party, of any financial instruments, based on confidential information;
- the prohibition of the acquisition or sale of financial instruments during the lock-up period by the persons referred to in the Act on Trading in Financial Instruments;
- the parent company, within the meaning of Article 4 Section 1 Item 4 of the Commercial Companies Code, is required to inform a subsidiary of the establishment or termination of a relationship of dominance within two weeks of the date of establishment of such a relationship, otherwise its voting rights attached to the shares held by the parent company representing more than 33% of the share capital of the subsidiary will be suspended.

Apart from the foregoing, there are no other statutory restrictions on the transferability of shares in the Company.

Contractual restrictions on the transferability of shares

Contractual restrictions of the transferability of shares applied to shares subscribed for by eligible employees in connection with the right granted to them as part of the Employee Guarantee Package. Each eligible employee submitting a subscription for shares was required to sign an agreement providing for restrictions on the transferability of shares for a period of 2 years from the Company's first day of trading on the Warsaw Stock Exchange, i.e. until 30 October 2015. Any submitted subscription without signing the said agreement would have been considered invalid and the eligible employee would have lost his/her right to the privatization bonus, hence also to the shares. A sale of or encumbrance on any shares or rights to shares prior to 30 October 2015 was ineffective against the Company and may have exposed the employee to compensatory liability.

On the date of expiration of the above prohibition on the sale of shares, i.e. on 30 October 2015, series C shares were converted into bearer shares.

Pursuant to the Conditional Agreement for Underwriting the Subscriptions of Institutional Investors on the Principles of Underwriting the Initial Public Offering of PKP CARGO S.A. Shares (hereinafter referred to as the Underwriting Agreement) entered into on 8 October 2013 by and between PKP S.A. and PKP CARGO S.A. on the one side and the following entities:

1. Goldman Sachs International,
2. Morgan Stanley & Co. International plc,
3. Powszechna Kasa Oszczędności Bank Polski S.A. (also acting through its branch: Powszechna Kasa Oszczędności Bank Polski S.A. Oddział – Dom Maklerski PKO Banku Polskiego w Warszawie),
4. Dom Inwestycyjny Investors S.A.,
5. IPOPEMA Securities S.A.,
6. Mercurius Dom Maklerski Sp. z o.o.,
7. Raiffeisen Centrobank AG,
8. UniCredit Bank AG, London Branch,
9. UniCredit Bank Austria AG,
10. UniCredit CAIB Poland S.A.,

on the other side, collectively referred to as the "IPO Managers", the Company and PKP S.A. were subject to the following contractual restriction on the transferability of shares and the issue of shares:

1. PKP S.A. made a commitment to the IPO Managers that from the date of execution of the Underwriting Agreement to the end of the period of 180 days from the first listing of the Company's shares on the Warsaw Stock Exchange it will not execute, without the written consent of the Global Coordinators (which consent will not be unreasonably withheld or delayed), any other transaction that might result in the issue, offer of a sale or issue, sale or disposal of Company securities similar to securities forming the subject matter of the IPO. The restriction referred to above does not apply to the disposal of shares by PKP S.A. in response to a call to subscribe for a conversion or sale of Company shares to a strategic investor for a price not lower than that provided for in the IPO.

The Company made a commitment to the IPO Managers that from the date of execution of the Underwriting Agreement to the end of the period of 180 days from the first listing of the Company's shares on the Warsaw Stock Exchange it will not execute, without the written consent of the Global Coordinators (which consent will not be unreasonably withheld or delayed), any other transaction that might result in the issue, offer of a sale or issue, sale or disposal of Company securities similar to securities forming the subject matter of the IPO.

8.8. Rules for appointment and dismissal of managers and their rights

Appointment of Management Board Members

The Management Board consists of between one and five members, including the President of the Management Board. Management Board members are appointed for a joint 3-year term of office. The President and other Members of the Management Board are appointed by the Supervisory Board pursuant to the Articles of Association and the Bylaws for Appointment of Management Board Members.

Management Board Members are appointed following the conduct of a verification procedure only from among candidates participating in the qualification procedure who received a favorable opinion from the recruitment consultant. The recruitment procedure for a Management Board Member is prepared and organized by a professional personnel consulting company selected by a resolution of the PKP CARGO S.A. Supervisory Board. A participant in the procedure for appointment of Management Board Members is the Nomination Committee which exercises ongoing supervision over the process of selection of a Management Board Member and the process of evaluation and appointment of Management Board Members.

The Supervisory Board also selects one Management Board Member from among candidates nominated by the Company's employees. Such a candidate should have higher education – a master's or equivalent degree – with at least 5 years of professional experience in the PKP Group and have no criminal record. The bylaws for the conduct of elections of candidates for employee representatives on the Management Board are adopted by the Supervisory Board. Failure to appoint a representative of employees to the Management Board does not preclude the appointment of the Management Board or the effective adoption of its resolutions.

In the event that PKP S.A.'s share in the Company's share capital is 50% or less, PKP S.A. will have the personal power to select candidates for the President of the Management Board on its own. The exercise of the said personal power must be by way of delivering a written statement to the Supervisory Board Chairperson.

Mandates of the President and other Members of the Management Board expire on the date of holding the Shareholder Meeting approving the financial statements and the Management Board's Report on the Company activity in the most recent full financial year of their term of office. The President and other Members of the Management Board may submit a written resignation from their function to the Company with a copy for the information of the Supervisory Board.

Pursuant to § 18 and § 25 Section 3 Item 2 of the Articles of Association, the PKP CARGO S.A. Management Board is authorized, with the consent of the Supervisory Board, in accordance with the rules laid down in the provisions of the Commercial Companies Code, to pay shareholders an interim dividend towards the dividend expected at the end of the financial year.

The Company's executives are not authorized to make any decisions on the issue or redemption of shares.

8.9. Rules for amending the Articles of Association of PKP CARGO S.A.

Any amendment to the Articles of Association requires a resolution of the Shareholder Meeting. Moreover, the adoption of a resolution on amendments to § 14 Section 6, § 26 Section 3 or 4 or § 27 Section 7 of the Articles of Association requires a resolution of the Shareholder Meeting adopted by a majority of four-fifths of the votes in the presence of shareholders representing three-fourths of the Company's share capital.

Any amendments to the Articles of Association are subject to approval by the Shareholder Meeting and their registration by the appropriate court. Pursuant to § 25 Section 3 Item 11, the Supervisory Board is entitled, after the court's decision on the registration of amendments to the Company's Articles of Association becomes final non-appealable, to adopt the consolidated version of the Company's Articles of Association.

Amendments to the Articles of Association made in 2015:

- On 13 April 2015, the Extraordinary Shareholder Meeting of PKP CARGO S.A. adopted Resolution No. 3/2015 on amending the Company's Articles of Association. The amendments provided for in the resolution concerned the Company's line of business. The amendments were registered by the District Court for the Capital City of Warsaw. Pursuant to § 25 Section 3 Item 11 of the Articles of Association of PKP CARGO S.A., the PKP CARGO S.A. Supervisory Board adopted the consolidated version of the Articles of Association of PKP CARGO S.A. by Resolution No. 1424/V/2015 of the PKP CARGO S.A. Supervisory Board dated 30 April 2015.

- On 13 April 2015, the Extraordinary Shareholder Meeting of PKP CARGO S.A. adopted Resolution No. 4/2015 on amending the Company's Articles of Association. The amendments provided for in the resolution concerned the deletion of Section 5 concerning series B shares. The amendments were registered by the District Court for the Capital City of Warsaw. Pursuant to § 25 Section 3 Item 11 of the Articles of Association of PKP CARGO S.A., the PKP CARGO S.A. Supervisory Board adopted the consolidated version of the Articles of Association of PKP CARGO S.A. by Resolution No. 1424/V/2015 of the PKP CARGO S.A. Supervisory Board dated 30 April 2015.
- On 13 April 2015, the Extraordinary Shareholder Meeting of PKP CARGO S.A. adopted Resolution No. 5/2015 on amending the Company's Articles of Association. The amendments provided for in the resolution concerned the adoption of a new wording of § 7 in respect of reserve capital and special reserve capital. The amendments were registered by the District Court for the Capital City of Warsaw. Pursuant to § 25 Section 3 Item 11 of the Articles of Association of PKP CARGO S.A., the PKP CARGO S.A. Supervisory Board adopted the consolidated version of the Articles of Association of PKP CARGO S.A. by Resolution No. 1424/V/2015 of the PKP CARGO S.A. Supervisory Board dated 30 April 2015.
- On 20 July 2015, the Extraordinary Shareholder Meeting of PKP CARGO S.A. adopted Resolution No. 9/2015 on amending the Company's Articles of Association. The amendment provided for in the resolution concerned the Audit Committee. The amendments were registered by the District Court for the Capital City of Warsaw. Pursuant to § 25 Section 3 Item 11 of the Articles of Association of PKP CARGO S.A., the PKP CARGO S.A. Supervisory Board adopted the consolidated version of the Articles of Association of PKP CARGO S.A. by Resolution No. 1468/V/2015 of the PKP CARGO S.A. Supervisory Board dated 29 October 2015.
- On 29 September 2015, the Extraordinary Shareholder Meeting of PKP CARGO S.A. adopted Resolution No. 11/2015 on amending the Company's Articles of Association. The amendment provided for in the resolution concerned changes in the Polish Classification of Business Activity. The amendments were registered by the District Court for the Capital City of Warsaw. Pursuant to § 25 Section 3 Item 11 of the Articles of Association of PKP CARGO S.A., the PKP CARGO S.A. Supervisory Board adopted the consolidated version of the Articles of Association of PKP CARGO S.A. by Resolution No. 1468/V/2015 of the PKP CARGO S.A. Supervisory Board dated 29 October 2015.
- On 29 September 2015, the Extraordinary Shareholder Meeting of PKP CARGO S.A. adopted Resolution No. 14/2015 on amending the Company's Articles of Association. The amendment provided for in the resolution concerned changes in the provisions regarding competences of candidates for Management Board Members. The amendments were registered by the District Court for the Capital City of Warsaw. Pursuant to § 25 Section 3 Item 11 of the Articles of Association of PKP CARGO S.A., the PKP CARGO S.A. Supervisory Board adopted the consolidated version of the Articles of Association of PKP CARGO S.A. by Resolution No. 1468/V/2015 of the PKP CARGO S.A. Supervisory Board dated 29 October 2015.
- On 29 September 2015, the Extraordinary Shareholder Meeting of PKP CARGO S.A. adopted Resolution No. 15/2015 on amending the Company's Articles of Association. The amendments provided for in the resolution concerned the Supervisory Board. The amendments were registered by the District Court for the Capital City of Warsaw. Pursuant to § 25 Section 3 Item 11 of the Articles of Association of PKP CARGO S.A., the PKP CARGO S.A. Supervisory Board adopted the consolidated version of the Articles of Association of PKP CARGO S.A. by Resolution No. 1468/V/2015 of the PKP CARGO S.A. Supervisory Board dated 29 October 2015.

8.10. Manner of operation and key powers of the Shareholder Meeting, description of shareholders' rights and the manner of their exercise

The Company's Shareholder Meeting operates pursuant to the provisions of the Commercial Companies Code, the Company's Articles of Association (in particular, §10-§13) and the Bylaws of the Shareholder Meeting. Shareholders are entitled to participate in and exercise their voting rights at the Shareholder Meeting in person or by proxy.

The Shareholder Meeting is valid irrespective of the number of shares represented thereat.

Resolutions of the Shareholder Meeting are adopted by an absolute majority of votes except for resolutions the adoption of which is subject to more stringent requirements provided for by the Commercial Companies Code or the Articles of Association. Moreover, the adoption of a resolution on amendments to § 14 sec. 6, § 26 sec. 3 or 4 or § 27 sec. 7 of the Articles of Association requires a resolution of the Shareholder Meeting adopted by a majority of four-fifths of the votes in the presence of shareholders representing three-fourths of the Company's share capital.

Votes at the Shareholder Meeting are cast in an open ballot. A secret ballot is ordered for elections and motions for the dismissal of members of the Company's corporate bodies or the Company's liquidators, or for holding them accountable, or in other personal matters. Moreover, a secret ballot must be ordered at the request of at least one shareholder attending or represented at the Shareholder Meeting.

In accordance with the Bylaws of the Shareholder Meeting, open and secret ballots may be held using means of electronic communication with the consent of the Shareholder Meeting. The Shareholder Meeting may adopt a resolution on waiving the secrecy of voting in matters concerning the selection of a committee appointed by the Shareholder Meeting.

The Shareholder Meeting is presided over by its Chairman who oversees its efficient conduct in accordance with the adopted agenda. The Chairman may make decisions concerning procedural matters. Without the consent of the Shareholder Meeting, the Chairman may not remove or change the order of business entered in the adopted agenda.

The Shareholder Meeting of PKP CARGO S.A. is opened by the Chairman of the Shareholder Meeting appointed by the Management Board. If the President of the Management Board fails to appoint the Chairman of the Shareholder Meeting prior to the designated start time of the meeting, the provisions of Article 409 § 1 of the Commercial Companies Code are applied and then the Chairman of the Shareholder Meeting is elected from among the persons entitled to participate in the Shareholder Meeting. The Chairman of the Shareholder Meeting is elected by an absolute majority of votes cast in a secret ballot.

The Extraordinary Shareholder Meeting may be convened by a shareholder whose stake in the total number of votes in the Company is greater than 33%. In such a case, the shareholder convening the Extraordinary Shareholder Meeting appoints the Chairman of the Shareholder Meeting.

The Shareholder Meeting adopts the Bylaws of the Shareholder Meeting laying down a detailed procedure of conduct for its meetings. Draft Bylaws of the Shareholder Meeting are presented by the Management Board. It is permitted to participate in the Shareholder Meeting by means of electronic communication, provided that the notice of convocation of the Shareholder Meeting contains information about such a possibility.

8.11. Personnel composition and changes to it during the most recent financial year, description of the activity of PKP CARGO S.A.'s managing, supervising or administering authorities and their committees

MANAGEMENT BOARD

The Management Board of PKP CARGO S.A. with its registered office in Warsaw operates on the basis of the applicable provisions of law, in particular:

1) Act of 15 September 2000 entitled the Commercial Companies Code (Journal of Laws No. 94 Item 1037, as amended);
2) Act of 8 September 2000 on the Commercialization, Restructuring and Privatization of the State-Owned Enterprise "Polskie Koleje Państwowe" (Journal of Laws No. 84 Item 948, as amended)
3) Articles of Association of PKP CARGO S.A. (consolidated version adopted by Resolution No. 1468/V/2015 of the PKP CARGO S.A. Supervisory Board dated 29 October 2015)
4) Bylaws of the PKP CARGO S.A. Management Board adopted by Resolution No. 222/2015 of the PKP CARGO S.A. Management Board dated 17 June 2015
5) other internal regulations.

Powers of the Management Board

The Management Board manages the Company's day-to-day business, manages its assets and represents the Company in relations with third parties. The responsibilities of the Management Board include any activities that are not reserved for the Shareholder Meeting or the Supervisory Board. Management Board resolutions are adopted by an absolute majority of votes present at the meeting, provided that at least half of the Management Board members are in attendance. The President of the Management Board acting individually or two Management Board members acting jointly or a Management Board member acting jointly with a commercial proxy are authorized to make declarations of will.

Operation of the Management Board

The procedure of the Management Board's operation is described in detail in the Bylaws of the Management Board. The Bylaws are adopted by the Management Board and approved by the Company's Supervisory Board. In accordance with the provisions of the Bylaws of the Management Board, the Management Board makes decisions in the form of resolutions. Management Board resolutions are adopted by an absolute majority of votes present at the meeting, provided that at least half of the Management Board members are in attendance and may only be adopted if all the Management Board members have been duly notified of the Management Board meeting. 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 Bylaws of the Management Board, if a conflict of interest arises between the Company and a Management Board member, a spouse, kin or relative (up to the second degree of affinity) or another person with whom the Management Board member has personal relations, the Management Board member should immediately inform the remaining Management Board members about the conflict and, in the case of the President of the Management Board, also the Company's Supervisory Board, and refrain from discussing and from voting on a resolution in the matter in which the conflict of interest has arisen and may demand this to be recorded in the minutes of the Management Board meeting.

The table below presents the composition of the Management Board as at the date of submission of this report.

Table 34 Composition of the PKP CARGO S.A. Management Board from 1 January 2015 to the date of submission of this report

Name	Position	Period in office	
		from	to
Maciej Libiszewski	acting President of the Management Board (delegated member of the Supervisory Board)	18 December 2015	19 January 2016
	President of the Management Board	19 January 2016	to date
Adam Purwin	President of the Management Board	6 February 2014	14 December 2015 (resignation)
Wojciech Derda	Management Board Member in charge of Operations	24 April 2014	24 February 2016 (resignation)
Jacek Neska	Management Board Member in charge of Commerce	24 April 2014	24 February 2016 (resignation)
Dariusz Browarek	Management Board Member – Employee Representative in the Management Board	24 April 2014	To date
Łukasz Hadyś	Management Board Member in charge of Finance	12 May 2014	24 February 2016 (resignation)

Source: Proprietary material

On 14 December 2015, Mr. Adam Purwin resigned as President of the Management Board.

On 18 December 2015, by Resolution No. 1494/V/2015 of the PKP CARGO S.A. Supervisory Board, Mr. Maciej Libiszewski was delegated as a Member of the PKP CARGO S.A. Supervisory Board to perform on a temporary basis the duties of a Member of the PKP CARGO S.A. Management Board and hold the position of President of the PKP CARGO S.A. Management Board.

On 11 January 2016, the PKP CARGO S.A. Supervisory Board adopted Resolution No. 1509/V/2016 on initiating the recruitment qualification for the position of President of the PKP CARGO S.A. Management Board.

The recruitment procedure was carried out in accordance with § 14 sec. 4 of the Articles of Association of PKP CARGO S.A. and the Bylaws for Appointing Management Board Members in PKP CARGO S.A.

On 19 January 2016, by Resolution No. 1511/V/2016, Mr. Maciej Libiszewski was appointed as President of the PKP CARGO S.A. Management Board.

On 8 February 2016, the PKP CARGO S.A. Supervisory Board adopted Resolution No. 1514/V/2016 on initiating the recruitment procedure for the positions of Management Board Member in charge of Finance, Management Board Member in charge of Commerce and Management Board Member in charge of Operations.

On 24 February 2016 Mr. Łukasz Hadyś, Management Board Member in charge of Finance, Mr. Jacek Neska, Management Board Member in charge of Commerce, and Mr. Wojciech Derda, Management Board Member in charge of Operations resigned from the PKP CARGO S.A. Management Board submitted. These resignations entered into force with immediate effect.

The internal allocation of tasks and functions discharged by Management Board members in 2015 was as follows:

1) President of the Management Board – the scope of the President's duties includes directing the activities of the Management Board and the Company's ongoing operations and overseeing the management of specific areas of the Company's business, in particular:

- business strategy,
- safety of business and internal audit,

Special powers of the President of the Management Board include performance of the Company's defense tasks resulting from the regulations on the universal defense obligation.

2) Management Board Member in charge of Finance – the scope of duties of the Management Board Member in charge of Finance covers responsibility for rational management of the Company's resources and overseeing the management of specific areas of the Company's business, in particular:

- finance management,
- purchase and sale of assets.

Special powers of the Management Board Member in charge of Finance include the performance, on behalf of PKP CARGO S.A., of obligations arising from accounting, tax and insurance regulations.

3) Management Board Member in charge of Commerce – the scope of duties of the Management Board Member in charge of Commerce covers responsibility for adequate sales levels and customer relations and overseeing the management of specific areas of the Company's business, in particular:

- commercial policy,
- sales of transportation services.

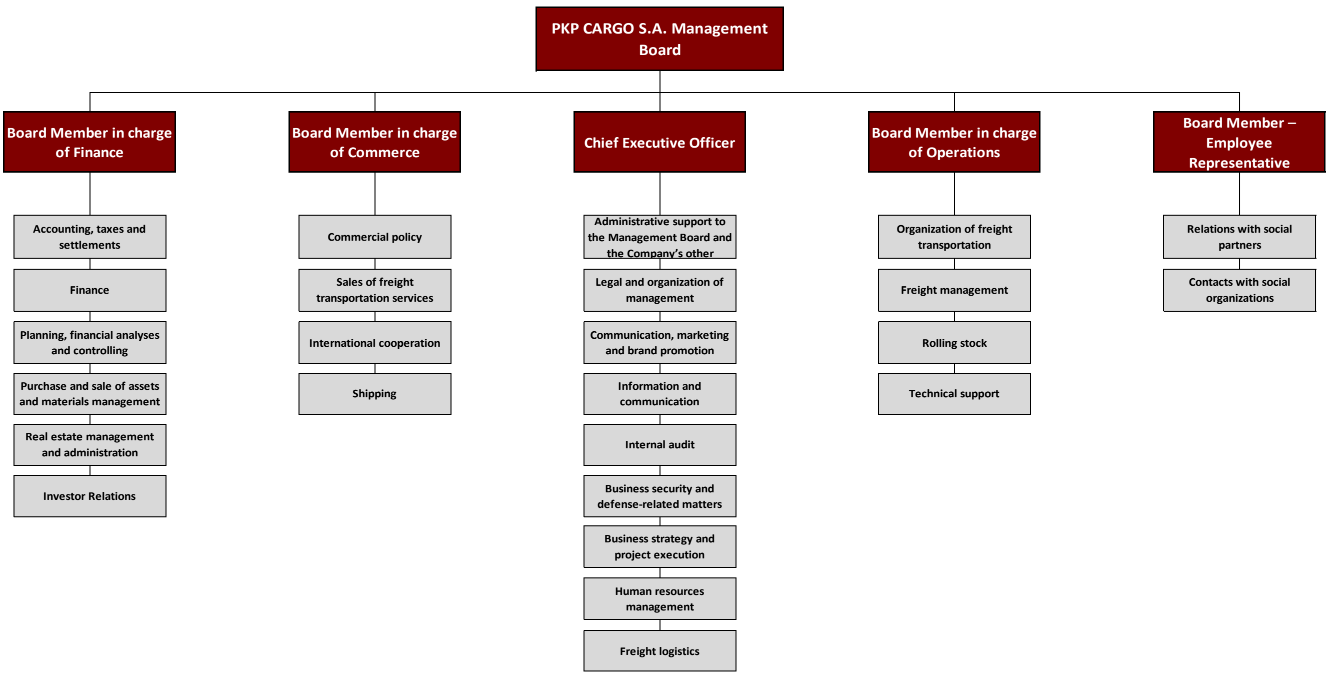
4) Management Board Member in charge of Operations – the scope of this Management Board Member's duties covers overseeing the management of specific areas of the Company's business, in alignment with the powers assigned in a separate resolution adopted by the Management Board, as regards:

- management of transport,
- organization of transport.

5) Management Board Member - Employee Representative in the Management Board - the scope of activity of the Management Board Member - Employee Representative includes overseeing the supervision of specific areas of the Company's business, in accordance with the powers established by a separate Management Board resolution, as regards:

- monitoring of relations with social partners,
- contacts with social organizations.

Figure 18 Duties and responsibilities of the parent company Management Board Members



Source: Proprietary material

Maciej Libiszewski – President of the Management Board

A lawyer by education. He graduated from the Faculty of Law and Administration at the Gdańsk University and then completed Polish-German Finance, Management and Marketing Studies. He has experience in top executive positions with a good track record of managing interdisciplinary teams and running complex projects. He is an experienced negotiator who successfully signed numerous agreements which ended disputes with trade unions. He has written restructuring and optimization programs for the financial area of commercial law companies.

Mr. Libiszewski ran his own business and subsequently worked for transport-related companies. He served on a number of supervisory boards and management boards of state, local government and privately-owned commercial companies (also as a Supervisory Board member and a Management Board member of PKP CARGO S.A. from 2005 to 2008). His professional career from 2001 through 2015 was focused on the transport sector. He speaks English, French, German and Russian. He passed an examination for supervisory board member candidates in State Treasury-owned companies.

Dariusz Browarek – Management Board Member – Employee Representative

In 2004, Mr. Browarek graduated from the Faculty of Law and Administration at the University of Warmia and Mazury in Olsztyn followed by postgraduate studies in human resources management at the Gdańsk University of Technology. Prior to this, he graduated from the Railway Technical School in Olsztyn.

For more than 30 years, he has been dealing with labor issues in the railway industry and is trade union and social activist. He has been with PKP CARGO S.A. since its inception. He worked in the Locomotive Depot in Olsztyn, then in the Cargo Rolling Stock Section in Olsztyn, and after the reorganization in the Northern Section of PKP CARGO S.A. in Gdynia where he was employed as an inspector of defense matters and protection of classified information. For a number of years, he was the chairman of the trade union organization in the section where he was employed, which organization is a member of the Trade Union of Polish Railwaymen in Gdańsk. Until April 2014, for two consecutive terms of office, he served as Vice-Chairman of the Federation of PKP Workers' Unions. He was also responsible for the operations of the Training Center of the Federation of PKP Workers' Unions. Also until April 2014, he represented the interests of PKP employees in the Investors Council of the PKP Employee Ownership Fund. He took an active part in negotiations with employers, including negotiations concerning the Social Guarantee Package for employees of PNI and the Employee Guarantee Package at PKP CARGO S.A. For a number of years, he has been preparing opinions on amendments to legislation related to railway transport as a member of the Sejm's Infrastructure Committee. On 24 April 2014, he was selected by the PKP CARGO S.A. Supervisory Board as the Management Board Member – Employee Representative. He supports the PKP CARGO S.A. Management Board in the running of an effective dialogue with trade unions.

Commercial proxies established and revoked.

A joint commercial proxy for Mr. Witold Bawor was in effect until 12 February 2015 – Resolution No. 325/2012 adopted by the Management Board of PKP CARGO S.A. on 17 July 2012. As of 12 February 2015, following the procedure prescribed in Article 371 § 5 of the Commercial Companies Code, the commercial proxy powers granted to Mr. Witold Bawor were revoked.

A joint commercial proxy for Mr. Grzegorz Kliczmachowski was in effect until 6 March 2015 – Resolution No. 585/2013 adopted by the Management Board of PKP CARGO S.A. on 5 December 2013. As of 6 March 2015, following the procedure prescribed in Article 371 § 5 of the Commercial Companies Code, the commercial proxy powers granted to Mr. Grzegorz Kliczmachowski were revoked.

Joint commercial proxies for Mr. Arkadiusz Pokropski – Resolution No. 170/2014 adopted by the Management Board of PKP CARGO S.A. on 6 May 2014 – and for Mr. Ireneusz Wasilewski – Resolution No. 324/2012 adopted by the Management Board of PKP CARGO S.A. on 17 July 2012 – were in effect until 17 March 2015. As of 17 March 2015, following the procedure prescribed in Article 371 § 5 of the Commercial Companies Code, the commercial proxy powers granted to Mr. Arkadiusz Pokropski and to Mr. Ireneusz Wasilewski were revoked. At the same time, joint commercial proxy was granted to Mr. Arkadiusz Pokropski – Resolution No. 104/2015 adopted by the Management Board of PKP CARGO S.A. and for Mr. Ireneusz Wasilewski – Resolution No. 103/2015 adopted by the Management Board of PKP CARGO S.A. on 17 March 2015.

On 1 March 2016 following the procedure prescribed in Article 371 § 5 of the Commercial Companies Code, the commercial proxy powers granted to Mr. Arkadiusz Pokropski.

SUPERVISORY BOARD

In accordance with the consolidated wording of the Articles of Association of PKP CARGO S.A. (Resolution no. 1468/2015 adopted by the PKP CARGO S.A. Supervisory Board on 29 October 2015), the Supervisory Board consists of 11 to 13 members (including the Supervisory Board Chairperson and Deputy Chairperson) appointed for a joint term of office. The Supervisory Board is appointed and dismissed by the Shareholder Meeting, subject to the provisions of § 19 sec. 2 and 3 of the Articles of Association of PKP CARGO S.A.

Powers of the Supervisory Board

The Supervisory Board conducts constant supervision over the Company's operations in all areas of its activity. Moreover, its powers, in addition to matters reserved by the Commercial Companies Code or other statutes, include: selecting and changing the entity authorized to audit the Company's financial statements and to review the Company's accounting records, granting consent for the payment of an interim dividend by the Management Board towards the anticipated end-of-the-year dividend, appointing and dismissing the President and Members of the Management Board, setting the number of Management Board Members, granting consent for the establishment or liquidation of the Company's branch, granting consent for the Company's accession to business organizations, issuing opinions on proposals submitted by the Management Board to the Shareholder Meeting.

Operation of the Supervisory Board

The procedure of the Supervisory Board's operation is described in detail in the Bylaws of the Company's Supervisory Board. The Bylaws are adopted by the Company's Supervisory Board. In accordance with the provisions of the Bylaws of the Supervisory Board, the Supervisory Board makes decisions in the form of resolutions. For Supervisory Board resolutions adopted at the meeting to be valid, all Supervisory Board members are required to be invited and at least half of them need to be present, including the Supervisory Board Chairman. Resolutions of the Supervisory Board are adopted by an absolute majority of votes. If an equal number of votes is cast "for" and "against" together with abstentions, the Supervisory Board Chairman shall have the casting vote. Supervisory Board resolutions in the matter of suspension of Management Board members or Management Board shall require the consent of the Supervisory Board Chairman. Supervisory Board resolutions may be also adopted without holding a meeting, using written ballot or using means of remote direct communication, excluding resolutions pertaining to election of the Supervisory Board Chairman and Deputy Chairman, appointment of a Management Board member and dismissal and suspension of these persons in their duties. Supervisory Board meetings are convened by the Supervisory Board Chairman as needed, but at last once every month.

In accordance with the Bylaws of the Supervisory Board, in the event of conflicting interests of the Company and personal interests of a Supervisory Board member, his/her spouse, relatives or relatives and second degree next of kin, the Supervisory Board member should refrain from participating in the discussion and voting on the resolution of such matters and request that this fact be recorded in the minutes from the Supervisory Board meeting. The table below presents the composition of the Supervisory Board as at the date of submission of this report.

Table 35 Composition of the PKP CARGO S.A. Supervisory Board from 1 January 2015 to the date of submission of this report

Name	Position	Period in office	
		from	to
Jakub Karnowski	Supervisory Board Chairman	24 May 2012	17 December 2015 (resignation)
Piotr Ciżkowicz	Supervisory Board Member	29 July 2014 (appointed as Deputy Chairman on 31 July 2014)	17 December 2015 (resignation)
Krzysztof Czarnota	Supervisory Board member	6 July 2006; 24 May 2012 for the 5th term of office	29 September 2015
Marek Podskalny	Supervisory Board member	6 July 2006; 24 May 2012 for the 5th term of office	29 September 2015
Kazimierz Jamrozik	Supervisory Board member	24 May 2012	to date
Konrad Anuszkiewicz	Supervisory Board Member	13 December 2013	17 December 2015 (resignation)
Stanisław Knaflewski	Supervisory Board member	17 December 2013	to date
Paweł Ruka	Supervisory Board member	17 December 2013	13 March 2015 (resignation)
Jarosław Pawłowski	Supervisory Board member	26 April 2014	18 February 2015
Jacek Leonkiewicz	Supervisory Board member	29 July 2014	17 December 2015 (resignation)
Sławomir Baniak	Supervisory Board member	24 November 2014	17 December 2015 (resignation)
Zbigniew Klepacki	Supervisory Board member	19 February 2015	9 June 2015 (resignation)
Raimondo Eggink	Supervisory Board member	13 April 2015	to date
Jarosław Bator	Supervisory Board Member	15 September 2015	17 December 2015 (resignation)
Mirosław Pawłowski	Supervisory Board Member	17 December 2015 (from 18 December 2015 as Supervisory Board Chairman)	to date
Jerzy Kleniewski	Supervisory Board Member	17 December 2015	to date
Andrzej Wach	Supervisory Board Member	17 December 2015	to date
Maciej Libiszewski	Supervisory Board Member	17 December 2015 (from 18 December 2015 delegated as acting President of the Management Board)	19 January 2016 (resignation)
Czesław Warsewicz	Supervisory Board Member	17 December 2015	to date
Małgorzata Kryszkiewicz	Supervisory Board Member	17 December 2015	to date

Source: Proprietary material

Stanisław Knaflewski – Supervisory Board Member

Mr. Knaflewski graduated from the Adam Mickiewicz University of Poznań with a master's degree in law (1992). In 1995, he obtained an MBA degree from INSEAD in Fontainebleau, France. He began his professional career in 1993 in the law firm Sołtysiński, Kawecki & Szlęzak as a counsellor providing legal assistance to parties involved in international investment and commercial transactions. From 1995 to 1999, he worked for the Boston Consulting Group, a leading global strategic consulting firm, initially as a BCG consultant in Paris where he assisted French pharmaceutical companies and retailers and later as a manager in the Warsaw office and a member of the team which created the Warsaw office. From 1999 to 2013, he was associated with Enterprise Investors, a leading private equity firm investing in Polish and Central and Eastern European companies, initially as a partner and from 2009 as a Member of the Board of Directors which is the company's main corporate authority at the international level. During his 14 years at Enterprise Investors, Mr. Knaflewski executed a number of investment projects, exercised owner supervision over portfolio companies and participated in the creation and implementation of their development strategies. As part of the execution of such projects, he held functions in the Supervisory Boards of the following public companies: Bulgarian Telecom, Stomil Sanok SA and Polfa Kutno SA.

Raimondo Eggink – Supervisory Board Member

Since 2002, Mr. Eggink (born on 1972) has been running an independent business as a consultant and trainer for entities operating in the financial market. At the same time, he has been a member of the Supervisory Boards of the following public and private companies: Prime Car Management S.A. (od 2015 r.), PKP Cargo S.A. (od 2015 r.), Suwary S.A. (od 2015 r.), Górnośląskie Przedsiębiorstwo Wodociągów S.A. (od 2015 r.), AmRest Holdings SE (od 2010 r.), Zespół Elektrociepłowni Wrocławskich KOGENERACJA S.A. (od 2009 r.) i PERŁA – Browary Lubelskie S.A. (2004-2005 oraz od 2008 r.).

Prior to that, he was a member of the Supervisory Boards in the following companies: Stomil-Olsztyn S.A. (2002-2003), Giełda Papierów Wartościowych w Warszawie S.A. (2002-2008), Wilbo S.A. (2003-2005), Mostostal Płock S.A. (2003-2006), Swarzędz Meble S.A. (2004-2005), PKN Orlen S.A. (2004-2008), KOFOLA S.A. (2004-2012, previously HOOP S.A.), Zachodni Fundusz Inwestycyjny NFI S.A. (2006), Firma Oponiarska Dębica S.A. (2008-2012), Netia S.A. (2006-2014) and Lubelski Węgiel „Bogdanka" S.A. (2012-2015).

Earlier, he served as Management Board Member, Investment Director, President of the Management Board and, most recently, liquidator of ABN AMRO Asset Management (Polska) S.A., a firm managing the assets of Polish institutional investors and high-net-worth individuals which terminated its business in 2001. He began his professional career in 1995 in the Warsaw branch of ING Bank N.V. where he played a major role in the establishment of Poland's first asset management firm.

Investment advisor license Raimondo Eggink acquired in March 1995. In 1995-1997, he served as Vice-President of the Council of Brokers and Advisers. In 2000, association AIMR (now - CFA Institute) awarded him the title of CFA (Chartered Financial Analyst), and in 2004-2013, he was a member of the Management Board of the CFA Society of Poland. He is the author of a number of articles on the development of the Polish capital market, especially on the protection of minority shareholders.

In 1994, he graduated the Jagiellonian University majoring in theoretical mathematics where in 2010 he obtained his Ph.D. degree. Raimondo Eggink is a Dutch citizen permanently residing in Poland.

Mirosław Pawłowski – Supervisory Board Member

Mr. Pawłowski is a graduate of economics studies. He also completed, among others, postgraduate studies in management and finance. Associated with the railway sector and PKP Group companies since 2001. In 2001, he became Director in charge of economic and financial matters in PKP S.A. where he was responsible for railway infrastructure. From 2001 to 2009, he was the Management Board Member in charge of economic and financial matters in PKP Polskie Linie Kolejowe S.A. In parallel, from 2006 to 2009, he served as Vice-President of the Railway Employers' Union. From 2009 to 2012, he was the President of the Management Board of the City of Siedlce Development Agency where he was responsible for infrastructural investments. From 2012 to 2015, the President of the Management Board of Pile Elbud Kraków and Pile Elbud S.A. Kraków. Currently, the President of the Management Board of PKP S.A.

Kazimierz Jamrozik – Supervisory Board Member

In 1975, Mr. Jamrozik graduated from a Vocational School and obtained his qualifications of a car mechanic. He continued his education in the Railway Technical School in Tarnowskie Góry where he became a qualified mechanic technician. In 2000, he passed an examination for supervisory board member candidates in State Treasury-owned companies organized by the State Treasury Ministry.

He began his professional career in PKS (Państwowa Komunikacja Samochodowa – State-Owned Road Transport Company) in Przemyśl in 1972. Until 1975, he was an intern, and then from 1975 to 1986 an assistant driver of rail vehicles in PKP's Locomotive Depot in Bytom. Subsequently, from 1986 to 1996, he was a driver of rail vehicles. In 1996, he was hired for the same position in PKP's Rolling Stock Department in Katowice where he worked until 2002. Since 2002, Mr. Jamrozik has worked as a driver of rail vehicles. Moreover, since 2001, with a break from 2006 to 2008, he has served as Chairman of the National Audit Committee of the Trade Union of Rail Vehicle Drivers in Poland.

Andrzej Wach – Supervisory Board Member

Mr. Wach is a graduate of the Faculty of Electrical Engineering at the Warsaw University of Technology and of the Department of Law of the Post-Graduate College of Administration at the University of Warsaw. He started his professional career in Polskie Koleje Państwowe. From 1980 to 2010, he worked as an instructor, controller, branch director, PKP's chief electrical engineer, President of the Management Board of PKP Energetyka S.A. and President of the Management Board of PKP S.A. Since 2011, he has been an advisor to the Management Board of PORR Polska Construction S.A. where he oversees the performance of investment contracts for a railway infrastructure administrator.

Since 2000, he has served on the Supervisory Boards of Elester PKP Sp. z o.o. and Kolejowe Zakłady Łączności Sp. z o.o. as the Supervisory Board Chairman, PKP Polskie Linie Kolejowe S.A. as the Supervisory Board Chairman, Telekomunikacja Kolejowa as the Supervisory Board Chairman, PKP Przewozy Regionalne as the Supervisory Board Chairman, Rail Project Sp. z o.o. as the Supervisory Board Chairman and PKP CARGO S.A. as the Supervisory Board Chairman. From 2005 to 2009, he was a member of the Steering Committee for the Community of European Railway and Infrastructure Companies (CER) in Brussels and, from 2009 to 2010, a member of the Executive Board of the International Union of Railways (UIC) in Paris.

Małgorzata Kryszkiewicz – Supervisory Board Member

Ms. Kryszkiewicz is a graduate of the Finance and Banking Faculty of the Warsaw School of Economics. She started her professional career in 1995. In subsequent years, she worked in various positions associated with accounting, tax and financial management. From 2002 to 2014, she headed the Accounting Department and the Finance and Accounting Department at PKP S.A. Currently, she runs a statutory auditor's office providing financial audit, advisory and consulting services. A statutory auditor since 2009.

Czesław Warsewicz – Supervisory Board Member

Mr. 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.

Jerzy Kleniewski – Supervisory Board Member

Mr. Kleniewski currently works for the Ministry of Infrastructure and Construction as the Minister's Aide responsible for international cooperation. From 2009 to 2014, he was an employee of the Railway Department of the then Ministry of Infrastructure. Since 2012, he has discharged the function of Chairman of the Inland Transport Committee at the UN Economic Commission for Europe in Geneva and Chairman of various working and expert groups at the UN/ECE ITC. He spent 5 years in the diplomatic and consular service as a representative of the Minister of Transport and Marine Economy in New York and subsequently worked 6 years for the European Parliament.

He holds a PhD Eng. degree in natural sciences. In 1998, he completed postgraduate studies at the New York University, NY, receiving an Investment Banking Certificate and completed various foreign training courses, including a management course at the Hull University in the UK. A lecturer at the Columbia University, NY, at the Customs and Logistics University in Warsaw and at postgraduate courses of the Warsaw School of Economics (SGH).

He passed an examination for supervisory board member candidates in State Treasury-owned companies. He served as a Supervisory Board member in the following companies: PPH "Dalmor" S.A., PŻB S.A., Zakłady Chemiczne "Organika-Sarzyna" S.A., and most recently at Zakład Robót Komunikacyjnych DOM w Poznaniu Sp. z o.o.

SUPERVISORY BOARD'S AUDIT COMMITTEE

The PKP CARGO S.A. Audit Committee is appointed by the PKP CARGO S.A. Supervisory Board. It consists of at least three Supervisory Board members, including at least two Members fulfilling the independence criteria and appointed in the manner provided for in § 20 and 21 of the Company's Articles of Association. Members of the Committee are appointed for a term corresponding to the Supervisory Board's term of office. Tasks of the Audit Committee include in particular: supervision over the organizational unit responsible for internal audit, monitoring the financial reporting process, monitoring the performance of financial audit activities, monitoring the independence of the statutory auditor and the entity authorized to audit financial statements, recommending an entity authorized to audit financial statements to the Supervisory Board to perform financial audit activities for the Company, etc.

Table 36 Composition of the Audit Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2015 to the date of submission of this report

Name	Position	Period in office	
		from	to
Paweł Ruka	Committee Chairman	6 February 2014	13 March 2015
Stanisław Knaflewski	Committee Member	6 February 2014	to date
Konrad Anuszkiewicz	Committee Member	6 February 2014 (Committee Chairman from May 2015)	17 December 2015
Raimondo Eggink	Committee Member	30 April 2015 (Committee Chairman since 18 December 2015)	to date
Małgorzata Kryszkiewicz	Committee Member	18 December 2015	to date

Source: Proprietary material

NOMINATION COMMITTEE

The Nomination Committee is appointed by the PKP CARGO S.A. Supervisory Board. It consists of three Supervisory Board members, of whom at least one Supervisory Board Member must satisfy the independence criteria and be appointed in the manner provided for in § 20 and 21 of the Company's Articles of Association. Members of the Committee are appointed for a term corresponding to the Supervisory Board's term of office. The Nomination Committee organizes and exercises ongoing supervision over the recruitment procedure to the positions of Management Board members and over the Management Board member evaluation and appointment process.

Table 37 Composition of the Nomination Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2015 to the date of submission of this report

Name	Position	Period in office	
		from	to
Stanisław Knaflewski	Committee Chairman	17 December 2013	to date
Jakub Karnowski	Committee Member	17 December 2013	17 December 2015
Jacek Leonkiewicz	Committee Member	31 July 2014	17 December 2015
Mirosław Pawłowski	Committee Member	18 December 2015	to date
Andrzej Wach	Committee Member	18 December 2015	to date

Source: Proprietary material

9. Investor Relations

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

In 2015, PKP CARGO S.A., seeking to ensure the highest standards in the area of investor relations, implemented various tools and conducted numerous events targeted at the investor community.

The primary objective of PKP CARGO S.A. is the correct and timely fulfillment of a listed company's disclosure duties. In this context, the Company identified a number of events in 2015 that require an immediate public announcement. As part of its stock exchange reporting activities, PKP CARGO S.A. published 78 current reports in 2015.

In 2015, PKP CARGO S.A. held four conferences for analysts and investors to discuss the Company's published interim results. During the conference, representatives of the PKP CARGO S.A. Management Board presented the Company's results and answered the participants' questions. In order to ensure the broadest possible outreach to the conference, PKP CARGO S.A. provided webcasts of the events through the Company's website. During the conference, PKP CARGO S.A. provided simultaneous translation into English of each event, both for the attending participants and for Internet viewers or persons participating via teleconference.

In order to ensure a broad spectrum of information on key events in the Company outside conferences devoted to end-of-period results, PKP CARGO S.A. also held conferences for investors to discuss events such as M&A projects or to present the PKP CARGO Group's strategy.

Within the framework of activities targeted at the Company's current and potential investors, in 2015 representatives of PKP CARGO S.A. participated in domestic and foreign conferences and roadshows, both in Europe and in the United States, organized by professional capital market institutions. During the seven conferences and roadshows that were held in 2015, PKP CARGO S.A. representatives participated in approx. 40 meetings with investors.

In addition to group meetings for analysts and investors, the Company also held approx. 50 individual meetings, usually held in the Company's headquarters, and a number of teleconferences, on an as-needed basis, as requested by interested parties.

At the outset of 2015, PKP CARGO S.A. launched its new corporate website containing a comprehensive section for investors. The "Investor Relations" section, in order to ensure equal access to information for Polish and international investors and analysts is provided and continuously updated in two languages (Polish and English). In order to provide transparent and easy access, the section has been broken down into the following topics:

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

In 2015, the Company began distributing a monthly PKP CARGO S.A. investor relations newsletter to a group of interested analysts and investors, containing useful data, including macroeconomic, transport and market-related data, information on the Company's performance and achievements as well as a summary of last month's most important events in the life of PKP CARGO S.A.

On 15 July 2015, PKP CARGO S.A. held the first edition of the "Investor Day" targeted at stock exchange analysts and institutional investors. The event was attended by several dozen participants representing more than 20 financial institutions. During the "Investor Day", the participants visited the PKP CARGO Group's key assets located in Poznań, including the container terminal in Franowo and rolling stock repair facilities. The second part of the event consisted of a presentation on the Czech carrier AWT recently acquired by PKP CARGO S.A. and the progress of integration of the two companies.

PKP CARGO S.A.'s investor relations were also focused on individual investors. For their benefit, on 2 September 2015 the Company held a highly popular online investor chat during which questions from investors were answered by the Management Board Member in charge of Finance. Over 120 persons joined the chat and more than 500 visits by unique users were registered during the first day of its publication.

The high level of PKP CARGO S.A.'s investor relations was confirmed by the awards and recognitions received in 2015.

After merely a one-year presence on the Warsaw Stock Exchange, PKP CARGO S.A. was recognized and hit the podium of the ranking "Listed Company of the Year" in the category "Investor Relations". The award was all the more valuable as PKP CARGO S.A.'s recognition came from more than 100 professionals from the world of stock exchange and finance, and the 16th edition of the ranking was organized by the daily paper Puls Biznesu and the research institute TNS Poland.

The website "strefainwestorow.pl" recognized PKP CARGO S.A. for its communication on Twitter. In the opinion of the editors of strefainwestorow.pl, the Company is among the top five companies listed on the Warsaw Stock Exchange in terms of disseminating information about its activities among investors.

PKP CARGO S.A. was also recognized for the largest progress in its financial statements in the contest "Best Annual Report 2014" organized for the tenth time by the Institute for Accounting and Taxation.

As part of the Company's continuous efforts aimed at improving the quality of its investor services, in 2016 PKP CARGO S.A. intends to continue its activities and develop communication tools in the area of investor relations.

The table below presents a timeline demonstrating key investor relations events and activities which occurred in 2015.

Table 38 Events and activities in the area of investor relations in 2015

No	Date	Event
1	8–16 January 2015	Meetings of the Management Board with analysts and investors on PKP CARGO S.A.'s acquisition of an 80% stake in Advanced World Transport B.V.
2	20 January 2015	Participation in the conference entitled "Service, transportation and logistics sectors" – DM PKO BP (Brokerage House of PKO BP), Warsaw
3	17-18 February 2015	Roadshow in cooperation with JP Morgan and Morgan Stanley in New York City
4	12 March 2015	Publication of the Management Board's recommendations on the distribution of profit for 2014 and determination of the amount allocated for the payment of dividends
5	12 March 2015	Publication of the consolidated annual financial statements of the PKP CARGO Group for 2014 Meeting of the Management Board with analysts and investors concerning the publication of financial results for 2014
6	18-19 March 2015	Participation in the Polish Capital Market Conference, DM PKO BP (Brokerage House of PKO BP) and Warsaw Stock Exchange, London
7	13 April 2015	Extraordinary Shareholder Meeting of PKP CARGO S.A.
8	21 April 2015	Ordinary Shareholder Meeting of PKP CARGO S.A.
9	12 May 2015	Publication of the consolidated quarterly financial statements of the PKP CARGO Group for Q1 2015 Meeting of the Management Board with analysts and investors concerning the publication of financial results for Q1 2015
10	18 May 2015	Participation in the Polish Capital Markets Conference, Warsaw Stock Exchange, Ipopema, Auerbach Grayson, New York City
11	15 June 2015	Dividend record date
12	26 June 2015	Dividend payment date
13	15 July 2015	PKP CARGO Institutional Investor Day, Poznań
14	20 July 2015	Extraordinary Shareholder Meeting of PKP CARGO S.A.
15	27 August 2015	Publication of the consolidated semi-annual financial statements of the PKP CARGO Group for H1 2015 Meeting of the Management Board with analysts and investors concerning the publication of financial results for H1 2015
16	2 September 2015	Online chat with individual investors
17	29 September 2015	Extraordinary Shareholder Meeting of PKP CARGO S.A.
18	15 October 2015	Participation in the Polish Capital Markets Day, Societe Generale, Paris
19	21-23 October 2015	Roadshow in collaboration with Societe Generale, Vienna, London
20	28 October 2015	Meeting of the Management Board with analysts and investors concerning the presentation of the PKP CARGO Group's Strategy for 2016-2020
21	30 October 2015	End of the lock-up period for Employee Shares
22	12 November 2015	Publication of the consolidated quarterly financial statements of the PKP CARGO Group for Q3 2015 Meeting of the Management Board with analysts and investors concerning the publication of financial results for Q3 2015
23	17 November 2015	Meeting of the Management Board with analysts and investors on PKP CARGO's acquisition of stakes in ORLEN KolTrans and ZCP Euronaft Trzebinia
24	3-4 December 2015	Participation in the conference WOOD's Winter in Prague, WOOD & Company, Prague

10. Other information of relevance for evaluation of the employment situation, financial standing, financial results, assets and their movements as well as information of relevance for assessment of the ability of the issuer and other Group companies to pay their debts.

Other than the information presented in this Report, no other information has been identified that would be of relevance for evaluation of the employment situation, financial standing, financial results, assets or their movements or information of relevance for assessment of the ability of the issuer to pay its debts.

This Consolidated Annual Report was approved by the PKP CARGO S.A. Management Board on 17 March 2016.

……………………………………………

Maciej Libiszewski

President of the Management Board

……………………………………………

Dariusz Browarek

Management Board Member

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 2015 and the Management Board's report on the operation of the PKP CARGO Capital Group for the year 2015

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 2015, and the comparable data have been drawn up in observance of the applicable accounting standards and that they truly, reliably and clearly represent the asset-related and financial standing of the PKP CARGO Capital Group, as well as its financial result.

I also represent that the Management Board's report on the operation of the PKP CARGO Capital Group in 2014 presents a true picture of the growth, achievements and standing of the PKP CARGO Capital Group, as well as a description of the key threats and risks.

Management Board Members

Maciej Libiszewski
President of the Board

Dariusz Browarek
Board Member

Warszawa, dnia 17 March 2016

STATEMENT

of the Management Board of PKP CARGO S.A. on the choice of the entity authorized to audit Consolidated Financial Statement of the PKP CARGO Capital Group for the year ended 31 December 2015

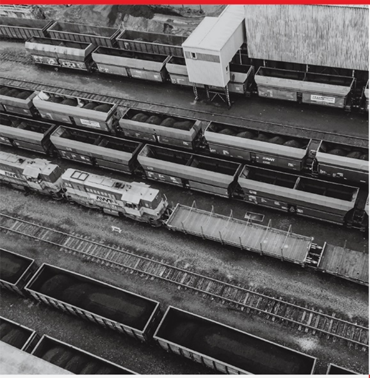
I, the undersigned, hereby represent that the entity authorized to audit annual consolidated financial statements, auditing the Consolidated Financial Statement of the PKP CARGO Capital Group for the year ended on 31 December 2015, has been appointed in observance of the rule of law, and that the said entity, as well as the certified auditors performing the audit, met the requirements that need to be fulfilled in order to issue an impartial and independent opinion on the annual consolidated financial statement audited, in line with the applicable regulations and professional standards.

Management Board Members

Maciej Libiszewski
President of the Board

Dariusz Browarek
Board Member

Warszawa, dnia 17 March 2016



pkpcargo.com

For more information on PKP CARGO please contact
Investor Relations Team

PKP CARGO S.A.
Investor Relations Team
Grójecka 17
02-021 Warsaw

tel.: +48 22 391-47-09
fax: +48 22 474-29-53
e-mail: relacje.inwestorskie@pkp-cargo.eu