

Conclusion of an agreement regarding acquisition by PKP CARGO S.A. of 80% shares in Advanced World Transport B.V.

Current report No. 72/2014 dated 31 December 2014

Legal basis (selected in the ESPI):

Art. 56(1)(2) of the Public Offering Act – current and periodic information

The Management Board of PKP CARGO S.A. (the “**Company**”) announces that on 30 December 2014 the Company and Zdeněk Bakala (“**ZB**”) and The Bakala Trust (“**ZBT**”) (ZB and ZBT jointly the “**Sellers**”) entered into an agreement (the “**SPA**”) regarding the acquisition by the Company of 60,000 shares (the “**Shares**”) in the share capital of Advanced World Transport B.V. with its registered office in Amsterdam (“**AWT**”). The Shares constitute 80% of all of the shares in the share capital of AWT and entitle their holder to exercise 80% of the overall number of votes at the general meeting of AWT (the “**Transaction**”).

The total purchase price for the Shares is EUR 103,200,000. The ownership of the Shares will be transferred and the price will be paid upon the satisfaction (or waiver) of the following conditions precedent: (i) the Company obtaining consents for the concentration between the Company and AWT from the respective Czech, Polish, German and Slovak anti-monopoly authorities; (ii) certain AWT Group companies obtaining confirmation from certain banks and other financial institutions financing the operations of the AWT Group that the Transaction does not breach the agreements executed with those institutions; and (iii) remedying a transfer of one share certificate issued by Advanced World Transport a.s. The SPA may be terminated if all the conditions precedent are not satisfied (or waived) before a long stop date set out in the SPA.

The SPA provides a contractual penalty of EUR 10 million which is payable if the Company fails to comply with the undertaking to acquire the shares in spite of all the conditions precedent having been satisfied (or waived). A contractual penalty of the same amount is payable to the Company if either of the Sellers fail to exercise the undertaking to sell the shares regardless of the satisfaction (or waiver) of the conditions precedent under the SPA. The Parties are not entitled to sue for damages in excess of the value of the aforementioned contractual penalty.

The Company’s claims against the Sellers under the SPA, if any, will be secured by blocking a portion of the purchase price at the escrow account. In addition, certain insurers agreed to issue a warranty insurance policies for the benefit of the Company to secure the Company claims for the breach of certain of the warranties given by the Sellers to the Company under the SPA.

Simultaneously, with the conclusion of the SPA the Company and the Sellers entered into an option agreement pursuant to which the Sellers may be entitled to receive commission in respect of commission calculated on the basis of the revenues generated by the entities from the capital group of the Company (including AWT and its subsidiaries) on the basis of new rail cargo transportation or freight forwarding contracts (or any existing contracts but applicable to new routes), if any, executed with the New World Resources Group (NWR). The agreement is conditional upon the completion under the SPA taking place. The agreement was entered into for a fixed term of 3 years, and may be extended for consecutive three year terms, unless the Company or any of the Sellers terminate it with three months’ notice.

The SPA has been classified as a material agreement since its value is greater than 10% of the Company’s equity.

Additionally, the Management Board of the Company announces that simultaneously with the SPA it concluded a shareholder agreement regarding AWT with Minezit SE (“**MSE**”), an entity which holds 20% of the shares in AWT (the “**Shareholder Agreement**”).

The Shareholder Agreement governs the rights and obligations of the Company and MSE as the shareholders of AWT, including specifically the right of MSE to demand the Company buys all the shares in AWT held by MSE (the “**Put Option**”) and the Company’s right to demand the sale by MSE of all the shares in AWT held by MSE (the “**Call Option**”). Additionally, the Shareholder Agreement grants the Company the pre-emption right with respect to the shares in AWT held by MSE in the event of the sale thereof by MSE and the tag-along right of MSE in case of the sale by the Company of its shares in AWT .

The Put Option may be exercised by the MSE in the period from 1 January 2017 to 31 December 2020 for a market price calculated in accordance with the formula provided in the Shareholder Agreement, such price depending on the consolidated EBITDA of the AWT Group and the net indebtedness of the AWT Group; however, not lower than EUR 27 million.

The Company will be entitled to exercise the Call Option in the period from 1 January 2017 to 31 December 2021 for a market price calculated in accordance with the formula provided in the Shareholder Agreement in reference to the EBITDA of the AWT Group and the net indebtedness of the AWT Group; however, the price cannot be lower than the difference between: (i) EUR 40 million; and (ii) the amount equal to all dividend and similar payments made by AWT in favour of MSE.

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The transaction constitutes an element of implementing the Company’s strategy of expansion of the Company on the European markets.

AWT and its subsidiaries (the “**AWT Group**”) are one of the largest private service companies in rail freight transport in Europe with an approximate 8% share in the rail freight transport in the Czech Republic in terms of transport operation in 2013. Additionally, the AWT Group renders services in Slovakia, Slovenia, Hungary, Poland, Germany, Rumania, Bulgaria and Croatia. In 2013, the AWT Group transported 12 million tons of goods and achieved a freight turnover of 1,539 million tkm and generated sales revenues of EUR 282 million.

The AWT Group has 2,100 employees and renders complex services mostly for large industrial plants in Central and Eastern Europe. The AWT Group specialises in the freight transport of heavy and bulk goods, including coal, steel and automobile parts.

The AWT Group manages rolling stock of 160 locomotives and 5,000 wagons. In the Czech Republic, the AWT Group has a constantly expanding open intermodal transport terminal of Ostrava-Paskov and services some 60 sidings for one of the largest industrial plants in the Czech Republic.

Legal basis:

§5, section 1.3 and §9 of the Regulation of the Minister of Finance of 19 February 2009 regarding current and interim reports published by issuers of securities and the terms and conditions of finding as equivalent the information required by the law of any non-member state (Journal of Laws 2014, item 133).