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*This document is a translation.
The Polish original should be referred to in matters of interpretation.*

Independent Auditor's Report to the General Meeting and Supervisory Board of PKP CARGO SA

Report on the Audit of the Year-end Consolidated Financial Statements

Opinion

We have audited the year-end consolidated financial statements of the group, where the parent company is PKP CARGO SA ("the Parent Company") ("the Group"), which comprise the consolidated statement of profit or loss and other comprehensive income for the period from 1 January to 31 December 2018, the consolidated statement of financial position as at 31 December 2018, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, as well as notes to the consolidated financial statements including a description of significant accounting methods and other explanations ("the consolidated financial statements").

In our opinion, the accompanying consolidated financial statements:

- give a true and fair view of the Group's financial position as at 31 December 2018, as well as of its financial result and cash flows for the year then ended, in accordance with the applicable International Financial Reporting Standards as adopted by the European Union, as well as the adopted accounting methods (policies);
- are consistent, in content and in form, with the applicable laws and regulations and with the Parent Company's Statute.

The present opinion is consistent with the additional report to the Audit Committee, which we issued on the date of this report.

Basis for Opinion

We conducted our audit in accordance with the International Standards on Auditing adopted by the National Council of Certified Auditors as National Standards on Auditing ("NSA") and in compliance with the Act on Certified Auditors, Audit Firms and on Public Supervision ("the Certified Auditors Act" - 2017 Journal of Laws, item 1089 with subsequent amendments) and Regulation (EU) No. 537/2014 of 16 April 2014 on specific requirements regarding statutory audit of public interest entities ("Regulation EU" - OJ L 158). Our responsibilities under those standards are further described in the *Responsibilities of the Auditor for the Audit of the Consolidated Financial Statements* section of this report.

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We are independent of the Group's companies in accordance with the Code of Ethics for Professional Accountants issued by the International Federation of Accountants ("the IFAC Code") and adopted by resolutions of the National Chamber of Certified Auditors, and with other ethical requirements relevant to the audit of financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IFAC Code. During the audit, the engagement partner and the audit firm remained independent of the Parent Company in accordance with the independence requirements laid down in the Certified Auditors Act and Regulation EU.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of the most significance in the audit of the consolidated financial statements for the current reporting period. They include the most significant assessed types of risks of material misstatements, including assessed types of risks of material misstatements resulting from fraud. We addressed these matters in the context of our audit of the consolidated financial statements as a whole and in forming our opinion thereon, and have summarized our response to these types of risks, and where relevant, presented our key observations relating to those risks. We do not express a separate opinion on these matters.

1. Valuation of rolling stock

Key audit matter

In its consolidated financial statements the Group lists PLN 3.997 million in rolling stock, constituting 58,7% of its assets as at 31 December 2018. The matter has been classified as a risk of material misstatement due to the high percentage of rolling stock in the Group's assets and the significant effect of management's judgment on the values of assets disclosed in the consolidated financial statements. An impairment test performed on the assets of the AWT group showed the need to write down the value of rolling stock by the amount of PLN 51,2 million, whereas an impairment test performed on the Parent Company's assets showed no impairment.

Disclosures in the financial statements

The details of the Group's accounting policies on the valuation of property, plant and equipment, including the methods used to perform impairment write downs and calculate depreciation charges, are disclosed in Note 5.1 to the consolidated financial statements.

Audit procedures performed in response to the risk

In response to the identified risk, we applied the following audit procedures:

- a) checked for changes in the Group's approach to estimating property, plant and equipment write downs, determining depreciation rates and calculating the residual value of rolling stock compared to the previous year; obtained and analyzed relevant documentation,
- b) verified the impairment tests performed by the Parent Company and the AWT group by assessing the correctness and completeness of the disclosures relating to the tests made in the consolidated financial statements and evaluating the validity of the test assumptions and final conclusions,
- c) checked if the valuation models were consistent with IAS 36 "Impairment of Assets",
- d) checked the feasibility of forecasts by comparing the realized values with the earlier forecasts,
- e) assessed the effect of subsequent events on the estimates made as at the balance sheet date.

2. Provisions for employee benefits

Key audit matter

In its consolidated financial statements as at 31 December 2018 the Group presents provisions for employee benefits in the amount of PLN 707 million, which constitutes 10,3% of its total liabilities and equity. The provisions have been classified as a key audit area due to their significant effect on the consolidated financial statements.

Disclosures in the financial statements

The Group has made disclosures relating to provisions for employee benefits in Note 7.4 to the consolidated financial statements.

Audit procedures performed in response to the risk

In response to the identified risk, we applied the following audit procedures:

- a) analyzed the reports on the actuarial valuation of the provisions for employee benefits,
- b) evaluated the credentials of the companies that prepared the actuarial valuation reports,
- c) analyzed the key assumptions used in the valuation of the provisions, including the discount rates,
- d) analyzed the effect of departures from key assumptions (discount rate, increase in wages, increased employment) on the value of the provisions,
- e) assessed the accuracy and completeness of the disclosures made in the consolidated financial statements.

3. Contingent liabilities

Key audit matter

In its consolidated financial statements the Group lists contingent liabilities relating to court proceedings resulting from claims filed against companies from the Group. The proceedings include claims filed by two vendors against the Parent Company for the payment of damage compensation in the amount of PLN 101 million for acts of unfair competition that one of the vendors alleges the Parent Company practiced in the years 2010-2015, as well as for the repayment of lost benefits, credibility and good name in connection with the non-extension of a sub-lease concluded between the Parent Company and the other vendor.

The above contingent liabilities have been classified as a key audit area due to the difficulties in assessing their future outcome and their significant effect on the financial statements.

Disclosures in the financial statements

The Group has made disclosures relating to contingent liabilities in Note 7.4 to the consolidated financial statements.

Audit procedures performed in response to the risk

Our audit procedures included:

- a) familiarizing ourselves with the current state of affairs,
- b) obtaining the standpoints of the Group's legal advisors on the risk that the outcome of the disputes will be unfavorable for the Group,
- c) assessing whether the disclosures made in the consolidated financial statements are consistent with the provisions of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

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

The Parent Company's Management is responsible for the preparation of the consolidated financial statements that give a true and fair view of the Group's financial position and financial result in accordance with International Financial Reporting Standards as adopted by the European Union, the adopted accounting methods (policies), the applicable binding regulations and the Statute. The Parent Company's Management is also responsible for such internal controls as it considers necessary to ensure that the consolidated financial statements are free from material misstatements resulting from fraud or error.

In preparing the consolidated financial statements the Parent Company's Management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, any matters related to going concern and using the going concern basis of accounting, except in situations where the Management intends to either liquidate the Group or discontinue its operations, or has no realistic alternative but to do so.

The Parent Company's Management and members of the Parent Company's Supervisory Board are required to ensure that the consolidated financial statements meet the requirements of the Accounting Act of 29 September 1994 ("the Accounting Act" - 2019 Journal of Laws, item 395 with subsequent amendments). Members of the Parent Company's Supervisory Board are responsible for overseeing the financial reporting process.

Responsibilities of the Auditor for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatements due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with NSA will always detect an existing material misstatement. Misstatements can arise from fraud or error and are considered material if it could be reasonably expected that they, individually or in the aggregate, could influence the economic decisions of users made on the basis of these consolidated financial statements.

The concept of materiality is applied by the auditor at the planning stage and when performing the audit and evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements, as well as when formulating the auditor's opinion. In view of the above, all of the opinions and statements contained in the auditor's report are expressed subject to the qualitative and quantitative level of materiality set in accordance with the applicable standards on auditing and the auditor's professional judgement.

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

Throughout an audit in accordance with NSA, we exercise professional judgement and maintain professional skepticism, as well as:

- identify and assess the risks of a material misstatement of the consolidated financial statements resulting from fraud or error, design and perform audit procedures in response to such risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting a material misstatement resulting from error, because fraud may involve collusion, forgery, deliberate omission, misrepresentation or override of internal controls;
- obtain an understanding of the internal controls relevant to the audit in order to plan our audit procedures, but not to express an opinion on the effectiveness of the Group's internal controls;
- evaluate the appropriateness of the accounting policies used and the reasonableness of the estimates and related disclosures made by the Parent Company's Management;
- conclude on the appropriateness of the Parent Company Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and contents of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group in order to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group's audit and remain solely responsible for our audit opinion.

We provide the Parent Company's Audit Committee with information about, among others, the planned scope and timing of the audit and significant audit findings, including any significant weaknesses of internal controls that we identify during our audit.

We provide the Parent Company's Audit Committee with a statement that we have complied with the relevant ethical requirements relating to independence, and that we will communicate to them all relationships and other matters that may reasonably be considered to constitute a threat to our independence, and where applicable, inform them of the related safety measures.

From the matters communicated to the Audit Committee we determined those matters that were of the most significance to the audit of the consolidated financial statements for the current reporting period and were therefore chosen as key audit matters. We describe these matters in our auditor's report, unless law or regulations prohibit their public disclosure or when, in exceptional cases, we find that a given matter should not be presented in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such information.

Other Information, Including Report on Activities

Other information comprises the report on the Group's activities for the financial year ended 31 December 2018 ("the Report on Activities") along with the Statement of Compliance with Rules of Corporate Governance and Report on Non-financial Information referred to in Article 49b par. 1 of the Accounting Act, which constitute separate sections of the Report on Activities.

Responsibilities of the Parent Company's Management and Supervisory Board

The Parent Company's Management is responsible for the preparation of Other Information in accordance with binding regulations.

The Parent Company's Management and members of its Supervisory Board are required to ensure that the Report on Activities along with its separate sections meets the requirements of the Accounting Act.

Responsibilities of the Auditor

Our opinion on the consolidated financial statements does not cover the Report on Activities. In connection with our audit of the consolidated financial statements, our responsibility is to read the Report on Activities and, in doing so, consider whether it is materially inconsistent with the consolidated financial statements or with our knowledge obtained during the audit, or otherwise appears to be materially misstated. If based on the work we have performed, we find a material misstatement of the Report on Activities, we are required to state this fact in our auditor's report. In accordance with the requirements of the Certified Auditors Act, it is also our responsibility to issue an opinion whether the Report on Activities has been prepared in accordance with binding regulations, and whether it is consistent with the information presented in the consolidated financial statements. We are also required to issue an opinion whether the Statement of Compliance with Rules of Corporate Governance contains the required information.

We received the Report on Activities prior to the issue of the present auditor's report, whereas the Annual Report will be available after this date. In the event that we find a material misstatement in the Annual Report, we are required to communicate this to the Parent Company's Supervisory Board.

Opinion on the Report on Activities

Based on the work we have performed during the audit, in our opinion the Report on Activities:

- has been prepared in accordance with Article 49 of the Accounting Act and par. 71 of the Minister's of Finance Decree of 29 March 2018 on the current and periodic information reported by the issuers of securities and on the conditions for recognizing as equally valid the information required by the regulations of a state that is not a member state (the "Current Information Decree" - 2018 Journal of Laws, item 757);
- is consistent with the information presented in the consolidated financial statements.

Furthermore, based on our knowledge obtained during the audit about the Group and its environment we have identified no material misstatements in the Report on Activities.

Opinion on the Statement of Compliance with Rules of Corporate Governance

In our opinion, the Group's Statement of Compliance with Rules of Corporate Governance contains all of the information specified in paragraph 70 section 6 par. 5 of the Current Information Decree. In addition, in our opinion, the information indicated in paragraph 70 section 6 point 5 letters c-f, h and letter l of the Decree, contained in the Statement of Compliance with Rules of Corporate Governance is consistent with the applicable regulations and with the information contained in the consolidated financial statements.

Report on Non-financial Information

In accordance with the requirements of the Certified Auditors Act we confirm that the Group has prepared the Report on Non-financial Information referred to in Article 49b par. 1 of the Accounting Act as a separate section of the Report on Activities.

We have performed no assurance work on the Report on Non-financial Information and, accordingly, do not express any assurance thereon.

Report on Other Legal and Regulatory Requirements

Declaration on the Provision of Non-audit Services

To the best of our knowledge and belief we declare that any non-audit services we have provided to the companies of the Group are consistent with the law and the regulations binding in Poland and that we have not provided any non-audit services prohibited by virtue of Article 5 par. 1 of Regulation EU and Article 136 of the of the Certified Auditors Act.

Appointment of the Auditor

We were appointed as auditors of the Group's consolidated financial statements in a resolution passed by the Parent Company's Supervisory Board on 30 June 2016. We have audited the Group's consolidated financial statements continually since the financial year ended 31 December 2016, i.e. for 3 consecutive years.

The engagement partner on the audit resulting in this independent auditor's report is Leszek Kramarczuk.

BDO spółka z ograniczoną odpowiedzialnością sp.k. with its registered office in Warsaw
entered on the list of audit firms in number **3355**

represented by the engagement partner

Signed with a qualified electronic signature

Leszek Kramarczuk
Certified Auditor No. 1920

Signed with a qualified electronic signature

Dr. André Helin
Managing Partner
Certified Auditor No. 90004

Warsaw, 20 March 2019