Table of Contents

according to EU IFRS (in thousands of PLN)

PKPCARGO

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

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

according to EU IFRS (in thousands of PLN)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

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

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

according to EU IFRS (in thousands of PLN)

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

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

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

according to EU IFRS (in thousands of PLN)

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

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

EXPLENATORY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

1. General information

Information about the Parent Company

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

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

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

Information about the Group

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

The duration of individual Group companies is unlimited.

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

according to EU IFRS (in thousands of PLN)

1. General information (cont.)

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

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

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

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

according to EU IFRS (in thousands of PLN)

1. General information (cont.)

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

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

2. Basis for preparation of Consolidated Financial Statements

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

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

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

according to EU IFRS (in thousands of PLN)

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

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

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

Consolidation rules

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

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

The Parent Company settles business combinations using the acquisition method.

according to EU IFRS (in thousands of PLN)

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

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

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

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

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

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

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

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

3. Applied International Financial Reporting Standards platform

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

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

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

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

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

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

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

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

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

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

Impact on consolidated financial statements:

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

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

according to EU IFRS (in thousands of PLN)

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

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

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

- trade receivables will be reduced in the amount of PLN 3.3 million,
- deferred tax assets will increase in the amount of PLN 0.6 million,
- retained earnings will be reduced by the amount of PLN 2.7 million.

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

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

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

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

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

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

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

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

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

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

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

4. Adjustment of prior period errors

During transition to the EU IFRS, the Parent Company simplified valuation of investments in entities accounted for under the equity method. As a result, the value of such investments disclosed in the consolidated financial statements of the PKP CARGO Group for the financial year ended on 31 December 2016 did not reflect the Group's share in the net assets of the entities accounted for under the equity method. As at 30 June 2017, the Parent Company Management Board revalued the investments accounted for under the equity method, adjusting their value to the Group's share in their net assets. As a result, the Group adjusted retained earnings. The impact of the adjustment as at 31 December 2016 was the following:

- the value of investments accounted for under the equity method was increased by PLN 17,409 thousand;
- the value of FX differences from translation of financial statements of foreign entities was increased by PLN 524 thousand; and
- the value of retained earnings was increased by PLN 16,885 thousand.

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

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

according to EU IFRS (in thousands of PLN)

4. Adjustment of prior period errors (cont.)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 1 JANUARY 2016

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

according to EU IFRS (in thousands of PLN)

5. Revenue from sales of services and finished products

Accounting policy applied

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

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

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

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

Structure of revenue from sales of services and finished products

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

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

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

Geography

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

according to EU IFRS (in thousands of PLN)

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

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

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

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

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

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

Information on key customers

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

6. Expenses by kind

Depreciation, amortization and impairment losses

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

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

Consumption of materials and energy

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

according to EU IFRS (in thousands of PLN)

6. Expenses by kind (cont.)

External services

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

Employee benefits

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

Other expenses by kind

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

according to EU IFRS (in thousands of PLN)

7. Other income and operating expenses

Other operating revenue

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

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

Other operating expenses

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

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

according to EU IFRS (in thousands of PLN)

8. Financial income and expenses

Financial revenue

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

Financial expenses

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

9. Income tax

Accounting policy applied

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

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

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

The Tax Group

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

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

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

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

according to EU IFRS (in thousands of PLN)

9. Income tax (cont.)

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

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

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

Income tax recognized in profit / loss

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

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

Deferred income tax recognized in other comprehensive income

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

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

according to EU IFRS (in thousands of PLN)

9. Income tax (cont.)

Reconciliation of the effective tax rate

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

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

Deferred tax assets and liability

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

according to EU IFRS (in thousands of PLN)

9. Income tax (cont.)

Movements in deferred income tax

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

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

according to EU IFRS (in thousands of PLN)

9. Income tax (cont.)

Movements in deferred income tax (cont.)

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

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

Tax losses not recognized in calculation of deferred tax assets

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

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

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

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

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

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

10. Property, plant and equipment

Accounting policy applied

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

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

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

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

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

Repairs and inspections of rolling stock

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

10. Property, plant and equipment (cont.)

Accounting policy applied

Repairs and inspections of rolling stock (cont.)

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

Residual value of rolling stock

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

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

Depreciation of property, plant and equipment

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

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

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

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

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

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

according to EU IFRS (in thousands of PLN)

10. Property, plant and equipment (cont.)

Accounting policy applied

Impairment of property, plant and equipment

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

The recoverable amount is measured at the higher of following two values: fair value less cost to sell or value in use. Value in use is defined as the present value of estimated future cash flows discounted using a discount rate before tax. If the recoverable amount of a cash generating unit or individual asset is lower than its carrying amount, the latter is reduced to the recoverable amount. An impairment loss is charged to profit or loss.

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

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

Economic useful lives of fixed assets

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

Residual value of the rolling stock

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

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

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

Impairment of non-current assets

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

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

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

according to EU IFRS (in thousands of PLN)

10. Property, plant and equipment (cont.)

PKP CARGO S.A.

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

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

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

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

AWT GROUP

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

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

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

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

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

according to EU IFRS (in thousands of PLN)

10. Property, plant and equipment (cont.)

Change in the balance of property, plant and equipment

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

according to EU IFRS (in thousands of PLN)

10. Property, plant and equipment (cont.)

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

10. Property, plant and equipment (cont.)

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

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

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

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

11. Intangible assets

Accounting policy applied

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

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

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

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

according to EU IFRS (in thousands of PLN)

11 Intangible assets (cont.)

Change in the balance of intangible assets

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

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

according to EU IFRS (in thousands of PLN)

12. Investments in entities accounted for under the equity method

Accounting policy applied

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

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

Detailed information on the entities accounted for under the equity method

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

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

Investments in entities accounted for under the equity method

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

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

according to EU IFRS (in thousands of PLN)

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

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

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

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

13. Other financial assets

Accounting policy applied

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

a) Loans and receivables

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

b) Available-for-sale financial assets

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

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

according to EU IFRS (in thousands of PLN)

13. Other financial assets (cont.)

Structure of other financial assets

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

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

14. Other non-financial assets

Structure of other non-financial assets

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

according to EU IFRS (in thousands of PLN)

15. Inventories

Accounting policy applied

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

Structure of inventories

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

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

Changes in impairment losses for inventory value

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

16. Trade and other receivables

Accounting policy applied

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

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

according to EU IFRS (in thousands of PLN)

16. Trade and other receivables (cont.)

Accounting policy applied

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

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

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

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

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

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

Structure of trade and other receivables

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

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

according to EU IFRS (in thousands of PLN)

16. Trade and other receivables (cont.)

Age analysis of trade receivables

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

Changes of impairment losses for trade receivables

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

17. Cash and cash equivalents

Accounting policy applied

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

Structure of cash and cash equivalents

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

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

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

according to EU IFRS (in thousands of PLN)

18. Non-current assets classified as held for sale

Movements in assets classified as held for sale

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

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

19. Equity

Accounting policy applied

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

Share capital

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

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

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

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

Supplementary capital

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

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

according to EU IFRS (in thousands of PLN)

19. Equity (cont.)

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

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

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

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

Retained earnings

The Group's retained earnings include:

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

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

20. Earnings / (losses) per share

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

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

Basic earnings / (losses) per share

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

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

Diluted earnings / (losses) per share

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

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

according to EU IFRS (in thousands of PLN)

21. Bank loans and borrowings

Accounting policy applied

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

Structure of bank loans and borrowings

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

Summary of loan agreements

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

Parent Company

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

(1) Liability under the loan was repaid on 2 January 2018.
(2) The Loan Agreement concluded by the Parent Company with the European Bank of Reconstruction and Development earmarked for refinancing the purchase of shares in AWT B.V. was entirely repaid early on 27 March 2017.

according to EU IFRS (in thousands of PLN)

21. Bank loans and borrowings (cont.)

Subsidiaries

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

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

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

according to EU IFRS (in thousands of PLN)

21. Bank loans and borrowings (cont.)

Unused lines of credit

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

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

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

Breach of the terms and conditions of the loan agreements

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

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

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

22. Financial lease liabilities

Accounting policy applied

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

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

according to EU IFRS (in thousands of PLN)

22. Financial lease liabilities (cont.)

Structure of financial lease liabilities

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

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

23. Other financial liabilities

Structure of other financial liabilities

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

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

according to EU IFRS (in thousands of PLN)

24. Reconciliation of debt liabilities

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

Net debt

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

Debt liabilities – broken down into currencies / interest rate type

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

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

Reconciliation of debt liabilities

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

according to EU IFRS (in thousands of PLN)

24. Reconciliation of debt liabilities (cont.)

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

25. Trade and other payables

Accounting policy applied

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

Structure of trade and other payables

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

according to EU IFRS (in thousands of PLN)

26. Provisions for employee benefits

Accounting policy applied

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

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

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

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

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

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

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

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

according to EU IFRS (in thousands of PLN)

26. Provisions for employee benefits (cont.)

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

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

Liabilities related to employee benefit plans

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

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

according to EU IFRS (in thousands of PLN)

26. Provisions for employee benefits (cont.)

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

Items recognized in the result in reference to employee benefits programs

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

Actuarial (earnings) / losses

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

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

according to EU IFRS (in thousands of PLN)

26. Provisions for employee benefits (cont.)

Analysis of maturities of paid out employee benefits

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

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

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

27. Other provisions

Accounting policy applied

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

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

Structure of other provisions

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

according to EU IFRS (in thousands of PLN)

27. Other provisions (cont.)

Change to the current value of other provisions

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

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

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

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

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

Provision for land reclamation

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

Provision for onerous contracts

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

according to EU IFRS (in thousands of PLN)

27. Other provisions (cont.)

Provision for liabilities related to VAT settlements

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

Other provisions

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

28. Explanations to the cash flow statement

(Increase) / decrease in trade and other receivables

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

(Increase) / decrease in inventories

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

(Increase) / decrease in other assets

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

according to EU IFRS (in thousands of PLN)

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

Increase / (decrease) in trade and other payables

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

Increase / (decrease) in other financial liabilities

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

Other adjustments

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

Non-financial transactions

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

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

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

b) Derecognition of rolling stock

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

c) Offsetting mutual settlements

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

29. Financial instruments and principles of financial risk management

Accounting policy applied

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

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

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

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

Offsetting financial instruments

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

according to EU IFRS (in thousands of PLN)

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

Categories and classes of financial instruments

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

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

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

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

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

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

according to EU IFRS (in thousands of PLN)

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

Fair value hierarchy

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

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

Measurement methods for financial instruments carried at fair value

a) Forward foreign exchange contracts

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

b) IRS contracts

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

c) Other financial instruments

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

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

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

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

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

according to EU IFRS (in thousands of PLN)

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

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

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

(1) In the financial year ended 31 December 2017, the effect of settling cash flow hedging accounting was presented in the following items of the statement of comprehensive income:

- revenue from sales of services and finished products in the amount of PLN 8,867 thousand,
- financial expenses - interest on financial lease liabilities in the amount of PLN 916 thousand,

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

(1) In the financial year ended 31 December 2016, the effect of settling cash flow hedging accounting was presented in the following items of the statement of comprehensive income:

- revenue from sales of services and finished products in the amount of PLN 896 thousand,
- financial expenses - interest on financial lease liabilities in the amount of PLN 1,027 thousand.

according to EU IFRS (in thousands of PLN)

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

Offsetting financial assets

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

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

Offsetting financial liabilities

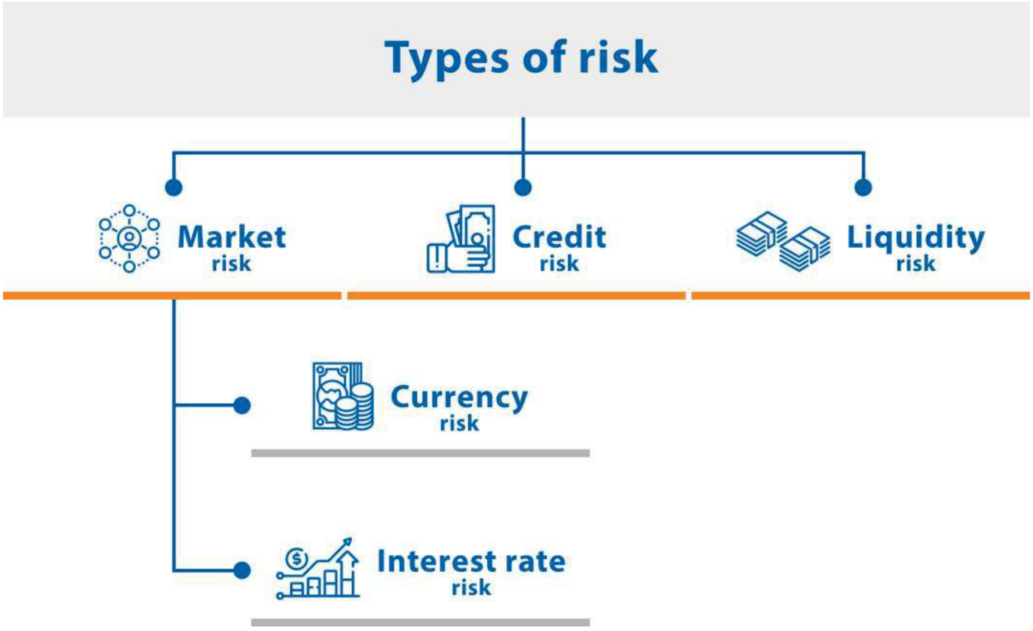
As at 31/12/2017 (audited)	Gross value of recognized financial liabilities	Gross value of recognized financial assets offset in the balance sheet	Net value of financial liabilities presented in the balance sheet	Associated values not offset in the balance sheet – provided cash collateral	Net value
Trade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

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

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

Objectives and principles of financial risk management

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



Market risk

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

Foreign exchange risk management

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

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

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

according to EU IFRS (in thousands of PLN)

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

Items in foreign currencies

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

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

according to EU IFRS (in thousands of PLN)

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

Sensitivity to FX risk

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

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

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

according to EU IFRS (in thousands of PLN)

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

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

FX forward transactions

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

List of unrealized FX forward contracts

Balance as at 31 December 2017 (audited)

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

according to EU IFRS (in thousands of PLN)

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

As at 31 December 2016 (audited)

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

Interest rate risk management

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

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

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

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

As at 31 December 2017 (audited)

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

As at 31 December 2016 (audited)

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

according to EU IFRS (in thousands of PLN)

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

Financial instruments by interest rate type

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

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

Interest rate fluctuation sensitivity

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

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

according to EU IFRS (in thousands of PLN)

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

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

Credit risk management

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

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

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

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

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

according to EU IFRS (in thousands of PLN)

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

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

Liquidity risk management

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

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

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

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

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

Equity management

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

according to EU IFRS (in thousands of PLN)

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

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

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

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

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

30. Related party transactions

Transactions with the State Treasury and its other related parties

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

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

Transactions with PKP Group related parties

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

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

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

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

according to EU IFRS (in thousands of PLN)

30. Related party transactions (cont.)

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

Loans granted to / received from related parties

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

Remunerations of key management personnel

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

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

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

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

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

according to EU IFRS (in thousands of PLN)

30. Related party transactions (cont.)

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

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

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

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

31. Operating lease agreements

Group as a lessee

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

Lease payments recognized as expense of the period

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

Future minimum lease payments under non-cancellable operating leases

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

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

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

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

according to EU IFRS (in thousands of PLN)

33. Contingent liabilities

Structure of contingent liabilities

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

Guarantees issued on the Group's order

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

Other contingent liabilities

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

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

according to EU IFRS (in thousands of PLN)

34. Collateral for repayment of liabilities

Assets constituting collateral for repayment of liabilities

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

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

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

Other collateral for repayment of liabilities

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

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

35. Subsequent events

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

36. Approval of the financial statements

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

Parent Company's Management Board

Krzysztof Mamiński
acting President of the Management Board

Grzegorz Fingas
Management Board Member

Witold Bawor
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 15 March 2018