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PKP CARGO Capital Group

Consolidated Annual Report for 2013

Warsaw 14 March 2014



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

Ladies and Gentlemen,

It is my pleasure to present you with an Annual Report of PKP CARGO S.A. for 2013. It is an exceptional document, as PKP CARGO S.A. for the first time after the debut on a stock exchange in October 2013 presents comprehensive information concerning the Company's results for 12 months. This document contains a number of optimistic information, which allow us to think about very interesting perspectives both for our Company and the rail transport sector as a whole.

The year 2013 was a breakthrough year for PKP CARGO S.A. We went through the process of public offering with a value of PLN 1.42 billion and successfully entered the stock exchange, which made us the first listed national rail carrier in the European Union. I treat the date of stock exchange debut as a symbol of a new opening in railway business and better perspectives for this branch in the coming years. The success of IPO of PKP CARGO S.A. reaffirms investors' confidence in the Company and is confirmed by the results achieved in 2013.

The strongest economic slowdown in years influenced the results of the Group. Moreover, we have recognized in our financial reports the effects of the signed Pact of Employee Guarantees, which lowered the operational result by about PLN 200 million. In those very demanding circumstances we generated stand-alone net profit of PLN 94,1 million, consolidated net profit of PLN 65,4 million and consolidated EBITDA margin of almost 14% (excluding the one-offs). It shows high potential of the PKP CARGO Group.

In 2013 the PKP CARGO Group transported over 114 million tons of cargoes. We maintained the status of an unquestionable leader as far as the freight volumes (49,1% share) and freight turnover (59,2%) are concerned. It gives us the position of the second largest carrier in the European Union.

However, we do not slow down. The effects of on-going investments and rolling stock modernization were strengthened by organizational changes in the Group and the Company. We merged our rolling stock companies and created Cargolok and Cargowag. It will give us the possibility to more effectively manage the modernization process, periodic check ups and rolling stock repairs. We also strengthen our broad competencies, which distinguish us from other European carriers.

The year 2013 was also a year, when strategic decisions regarding infrastructure access fees - one of the key positions in our costs – were made by the Regulator. Decrease in infrastructure fees may significantly contribute to increasing competitiveness of railway carriers in Poland, yet we constantly keep looking for further savings. At the end of 2013 we signed a profitable contract for electricity supply, which will result in cost optimization in the coming years.

We are prepared for the challenges which will be brought by the nearest future. Intensification of modernization works on railroads, which are performed by PKP Polskie Linie Kolejowe, will result in lowering commercial speed and the need to allocate increased number of employees and rolling stock. I have no doubts that the period of increased modernization works will ultimately bring effects such as higher commercial speed, similar to European standards, which will let us exploit our potential and show better results of PKP CARGO S.A. in the future.

We gain further international markets by obtaining transport safety certificates. Today the trains of PKP CARGO S.A. can operate on the territories of seven EU countries. Our solid financial condition and the status of a stock exchange listed company let us realistically think about takeovers and strategic alliances.

Our strategy for the coming years is based on four pillars: operational optimization, maintaining the leadership position in Poland, growth in interesting high-margin segments on the domestic market and strengthening international expansion.

I am convinced that the synergy resulting from joining market potential of PKP CARGO S.A., highly qualified employees and strong business relations with our customers, will result in achieving the ambitious goals - for the benefit of the Company, Shareholders, Employees, railway market and the whole Polish economy.

Adam Purwin

CEO of PKP CARGO S.A.

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Opinion and Report of the Independent Auditor Financial Year ended 31 December 2013

The opinion contains 3 pages
The supplementary report contains 14 pages
Opinion of the independent auditor
and supplementary report on the audit
of the consolidated financial statements
for the finacial year ended
31 December 2013

OPINION OF THE INDEPENDENT AUDITOR



KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. ul. Chłodna 51

00-867 Warszawa Poland Telefon +48 22 528 11 00 Fax +48 22 528 10 09 E-mail kpmg@kpmg.pl Internet www.kpmg.pl

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

OPINION OF THE INDEPENDENT AUDITOR

To the General Meeting of PKP CARGO S.A.

Opinion on the consolidated financial statements

We have audited the accompanying consolidated financial statements of the Capital Group, whose parent company is PKP CARGO S.A. with its registered office in in Warszawa, ul. Grójecka 17 ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and additional information to consolidated financial statements comprising a summary of significant accounting policies and other information and explanatory notes.

Management's and Supervisory Board's Responsibility

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

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with section 7 of the Accounting Act, National Standards on Auditing issued by the National Council of Certified Auditors and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.



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

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

Opinion

In our opinion, the accompanying consolidated financial statements of PKP CARGO S.A. Capital Group have been prepared and present fairly, in all material respects, the financial position of the Capital Group as at 31 December 2013 and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Capital Group.

Other Matters

The corresponding figures are based on the consolidated historical financial information of the Capital Group as of and for the financial years ended 31 December 2012, 31 December 2011 and 31 December 2010 prepared for the purposes of prospectus, which were audited by another auditor who expressed an unqualified opinion on those consolidated historical financial information on 30 April 2013.



Specific Comments on Other Legal and Regulatory Requirements

Report on the Capital Group's Activities

As required under the Accounting Act, we report that the Management Board's report on the activities of PKP CARGO S.A. Capital Group includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009 No. 33, item 259 with amendments) and the information is consistent with the consolidated financial statements.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. Registration No. 3546 ul. Chłodna 51 00-867 Warsaw

Signed on the Polish original

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

13 March 2014

REPORT OF THE INDEPENDENT AUDITOR



Supplementary report on the audit of the consolidated financial statements Financial Year ended 31 December 2013

The supplementary report contains 14 pages
The supplementary report on the audit of the
consolidated financial statements
for the financial year ended
31 December 2013



The supplementary report on the audit of the consolidated financial statements for the financial year ended 31 December 2013

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TRANSLATION

1. General

1.1 Identification of the Capital Group

1.1.1 Name of the Capital Group

PKP CARGO S.A. Capital Group ("Capital Group")

1.1.2 Registered office of the parent company

ul. Grójecka 17 02-021 Warszawa

1.1.3 Registration of the parent company in the National Court Register

Registration court:

District Court for the Capital City of Warsaw, XII Commercial

Department of the National Court Register

Date:

17 July 2001 r.

Registration number:

KRS 0000027702

Share capital as at

the end of reporting period:

PLN 2,166,900,750.00

1.1.4. Management of the parent company

The Management Board is responsible for management of the parent company.

As at 31 December 2013, the Management Board of the parent company was comprised of the following members:

Adam Purwin

- Member of the Management Board,

Sylwester Sigiel

- Member of the Management Board.

On 28 January 2013 Mr Wojciech Balczun- President of the Management Board- submitted a written statement of resignation from the position of the President of the Management Board.

On 5 February 2013 the Extraordinary General Meeting appointed Mr Marek Zaleśny- the Member of the Management Board – to performing the duties of the President of the Company, effective from 29 January 2013.

On 25 February 2013 the Extraordinary General Meeting appointed Mr Łukasz Boroń to the position of President of Management Board and Mr Adam Purwin to the position of Member of Management Board.

On 13 March 2013, Mr Marek Zaleśny submitted a written statement of resignation from the position of Member of the Management Board.

On 13 March 2013 the Extraordinary General Meeting appointed Mr Sylwester Sigiel to the position of Member of Management Board.

On 18 November 2013, Mr Łukasz Boroń- President of the Management Board- submitted a written statement of resignation from the position of President of the Management Board.

On 6 February 2014, in accordance with a resolution of the Supervisory Board, Mr Adam Purwin was appointed to the position of President of the Management Board.



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On 17 February 2014 Mr. Sylwester Sigiel submitted a resignation from the position of the Management Board Member. The resignation is effective from the day of a resolution of the Supervisory Board of PKP CARGO S.A. on appointment of the new Management Board Member of PKP CARGO S.A. responsible for trade matters.

1.2 Information about companies comprising the Capital Group

1.2.1 Companies included in the consolidated financial statements

As at 31 December 2013, the following companies were consolidated by the Capital Group:

Parent company:

PKP CARGO S.A.

Subsidiaries consolidated on the full consolidation basis:

- Cargosped Terminal Braniewo Sp. z o.o.,
- PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o.,
- CARGOSPED Sp. z o.o.,
- PKP CARGO TABOR Karsznice Sp. z o.o.,
- PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.,
- PKP CARGO SERVICE Sp. z o.o.,
- Przedsiębiorstwo Spedycyjne TRADE TRANS Sp. z o. o.,
- PKP CARGOWAG Sp. z o.o.,
- PKP CARGOLOK Sp. z o.o.

As part of the process of merging PKP CARGO S.A subsidiaries, on 1 October 2013 the National Register Court registered the take-over of the following subsidiaries by PKP CARGOWAG Sp. z o.o. (acquiring company):

- PKP CARGO WAGON Sp. z o.o. in Toruń
- PKP CARGO WAGON-Kraków Sp. z o.o. in Cracow
- PKP CARGO WAGON-Tarnowskie Góry Sp. z o.o. in Tarnowskie Góry
- PKP CARGO WAGON-Jaworzyna Śląska Sp. z o.o. in Jaworzyna Śląska
- PKP CARGO TABOR-Pomorski Sp. z o.o. in Tczew
- GORZÓW WAGONY Sp. z o.o. in Gorzów Wielkopolski
- WAGREM Sp. z o.o. in Kluczbork

and PKP CARGOLOK Sp. z o.o. (acquiring company) with PKP CARGO TABOR-Ostrów Wielkopolski Sp. z o.o. in Ostrów Wielkopolski. The takeover was proceeded under Article 492 § 1 of the commercial companies code, i.e. by transfer of all property from entities to acquiring companies.



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1.2.2 Entities excluded from the consolidated financial statements

As at 31 December 2013, the following subsidiaries of the Capital Group were not consolidated:

- Trade Trans Karya Sp. z o.o.,
- Transgaz S.A.,
- Trade Trans Sp. z o.o.,
- PPHU "Ukpol" Sp. z o.o.,
- CARGOTOR Sp. z o.o.,
- PKP CARGO International a.s. with registered office in Bratislava.

All of the above mentioned entities are accounted for under the equity method in the consolidated financial statements for the year ended 31 December 2013 r.

CARGOTOR Sp. z o.o. was founded on 10 October 2013 and registered in the National Court Register on 13 November 2013.

On 17 January 2014 the Extraordinary General Shareholders Meeting adopted a resolution to dissolve PKP CARGO International a.s. with its registered office in Bratislava and conduct its liquidation.

1.3 Key Certified Auditor and Audit Firm Information

1.3.1 Key Certified Auditor information

Name and surname:

Monika Bartoszewicz

Registration number:

10268

1.3.2 Audit Firm information

Name:

KPMG Audyt Spółka z ograniczoną odpowiedzialnością

sp.k.

Address of registered office:

ul. Chłodna 51, 00-867 Warsaw

Registration number:

KRS 0000339379

Registration court:

District Court for the Capital City of Warsaw in Warsaw,

XII Commercial Department of the National Court Register

NIP number: 527-26-15-362

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



The supplementary report on the audit of the consolidated financial statements for the financial year ended 31 December 2013 **TRANSLATION**

Prior period consolidated financial statements 1.4

The first consolidated historical financial information prepared in accordance with International Financial Reporting Standards as adopted by the European Union as of and for the financial years ended 31 December 2012, 31 December 2011 and 31 December 2010 for the purposes of prospectus, were audited by Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp.k. and received an unqualified opinion on 30 April 2013.

consolidated financial statements for the financial year ended 31 December 2012 prepared in accordance with the Accounting Act dated 29 September 1994 (Official Journal from 2013, item 330 with amendments) ("the Accounting Act") were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k. and received an unqualified opinion.

The consolidated financial statements for the financial year ended 31 December 2012 were approved at the General Meeting of the parent company on 8 July 2013

The consolidated financial statements for the financial year ended 31 December 2012 were submitted to the Registry Court on 12 July 2013.

1.5 Audit scope and responsibilities

This report was prepared for the General Meeting of PKP CARGO S.A. with its registered office in Warszawa, ul. Grójecka 17 and relates to the consolidated financial statements comprising: the consolidated statement of financial position at 31 December 2013, consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and additional information to the consolidated financial statements comprising a summary of significant accounting policies and other information and explanatory notes.

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

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

We audited the consolidated financial statements at the parent company during the period from 10 December 2013 to 20 December 2013 and from 17 February 2014 to 28 February 2014.

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



The supplementary report on the audit of the consolidated financial statements for the financial year ended 31 December 2013

TRANSLATION

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

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

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

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

The Key Certified Auditor and the Audit Firm fulfill the independence requirements as described in Art. 56 points 3 and 4 of the Act on Certified Auditors and their Self-Governance, Audit Firms authorized to Audit Financial Statements and Public Oversight dated 7 May 2009 (Official Journal from 2009 No. 77, item 649 with amendments).

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

1.6.1 Parent company

The separate financial statements of the parent company for the year ended 31 December 2013 were audited by KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k., certified auditor number 3546, and received an unqualified opinion.



PKP CARGO S.A. Capital Group
The supplementary report on the audit of the consolidated financial statements
for the financial year ended 31 December 2013
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1.6.2 Other consolidated entities

Entity's name	Authorised auditor	Financial year end	Type of auditor's opinion
Cargosped Terminal Braniewo Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2013	
PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o.	PKF Consult Sp. zo.o.	31 December 2013	Unqualified
CARGOSPED Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2013	Qualified with respect to unrecognition of provision for onerous contracts as at 31 December 2013 in accordance with PAS 6.
PKP CARGO TABOR – Karsznice Sp. zo.o.	Grupa Bieglych Rewidentów D&G Sp. z o.o.	31 December 2013	Unqualified
PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	Firma Biegłych Rewidentów "Mazur i Partnerzy" Sp. z o.o.	31 December 2013	Unqualified
PKP CARGO SERVICE Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2013	Unqualified
Przedsiębiorstwo Spedycyjne TRADE TRANS Sp. z o.o.	KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2013	Unqualified
PKP CARGOW AG Sp. z o.o.	Agencja Biegłych Rewidentów "Badex" Sp. zo. o.	31 December 2013	Unqualified
PKP CARGOLOK Sp. zo.o.	Biuro Biegłego Rewidenta Stefania Bukowska	31 December 2013	Unqualified



The supplementary report on the audit of the consolidated financial statements for the financial year ended 31 December 2013

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2 Financial analysis of the Capital Group

2.1 Summary analysis of the consolidated financial statements

2.1.1 Consolidated statement of financial position

SSETS	31.12.2013 PLN '000	% of total	31.12.2012 PLN '000	% of tota
Non-current assets	7 2.11 000	233613	FLN 000	asset
Property, plant and equipment	3,855,446	67.1	3,807,115	
Intangible assets	61,395	1.1		67.7
Goodwill	2,712	0.0	64,432	1.1
Investment property	1,415		2,712	0.0
Investments accounted for under equity method	38,214	0.0	1,427	0.0
Other long-term financial assets		0.7	60,514	1.1
Other long-term non-financial assets	6,090	0.1	11,751	0.2
Deferred tax assets	1,438	0.0	2,027	0.0
Total non-current assets	83,185 4,049,895	70,5	104,003	1.8
Current assets	,,,,,,,,	70.5	4,053,981	72.1
Inventory	76,041	1.3	82,155	1.5
Trade and other receivables	609,267	10.6	612,642	10.9
Income tax receivables	2,394	0.0	1,465	0.0
Other short-term financial assets	691,404	12.0	659,107	11.7
Other short-term non-financial assets	33,355	0.6	26,411	0.5
Cash and cash equivalents	263,700	4.6	188,008	3.3
Non-current assets classified as held for sale	17,560	0.3	-	3.3
Total current assets	1,693,721	29.5	1,569,788	27.9
TAL ASSETS	5,743,616	100.0	5,623,769	100.0

QUITY AND LIABILITIES	31.12.2013 PLN '000	% of total assets	31.12.2012 PLN '000	% of tota
Equity				
Share capital	2.146.004			
Share premium	2,166,901	37.7	2,889,200	51.4
Other items of equity	692,761	12.1	122,773	2.2
Retained earnings	(16,392)	(0.3)	(29,325)	(0.5
Equity attributable to the shareholders of the parent company	603,247	10.5	159,946	2.8
Equity attributable to non-controlling interest	3,446,517	60.0	3,142,594	55.9
Total equity	62,377	1.1	72,078	1.3
* *	3,508,894	61.1	3,214,672	57.2
Liabilities				
Long-term bank loans and credit facilities	121,558	2.1	102 110	2.4
Long-term finance lease liabilities and leases with purchase option	313,136	5.5	193,110 418,883	3.4
Long-term trade and other liabilities	113.688	2.0		7.4
Long-term provisions for employ ee benefits	592,923	10.3	151,779	2.7
Other long-term provisions	22,854	0.4	616,274	11.0
Deferred tax provision	2,577	0.4	85	0.0
Total non-current liabilities	1,166,736	20.3	3,041 1,383,172	0.1 24.6
Short-term bank loans and credit facilities			1,505,172	24.0
	73,217	1.3	96,202	1.7
Short-term finance lease liabilities and leases with purchase option Short-term trade and other liabilities	115,790	2.0	118,668	2.1
Short-term provisions for employee benefits	675,841	11.8	682,149	12.1
Income tax liability	176,461	3.1	100,169	1.8
Other short-term financial liabilities	244	0.0	936	0.0
Other short-term provisions	306	0.0	737	0.0
Liabilities directly related to non-current assets classified as held for sale	26,127	0.5	27,064	0.5
Total current liabilities				-
Cont Car Pert Hammides	1,067,986	18.6	1,025,925	18.2
Total liabilities	2,234,722	38.9	2,409,097	42.8
TAL EQUITY AND LIABILITIES	5,743,616	100.0	5,623,769	100.0



PKP CARGO S.A. Capital Group
The supplementary report on the audit of the consolidated financial statements
for the financial year ended 31 December 2013 TRANSLATION

2.1.2 Consolidated statement of comprehensive income

	1.01.2013 - 31.12.2013 PLN '000	% of total		% of total
CONTINUING OPERATIONS	1 L(\ 000	saies	PLN '000	sales
Sales revenue	4,553,921	94,9	5,064,161	97.9
Revenue from sales of goods and materials	163,769	3.4	95,042	1.8
Other operating revenue	79,771	1.7	14,238	0.3
Operating revenue	4,797,461	100.0	5,173,441	100.0
Operating expenses				
Depreciation/amortisation and impairment losses	(388,845)	8.1	(422,831)	8.2
Consumption of raw materials and supplies	(725,819)	15.1	(779,490)	6.2 15.1
External services	(1,580,053)	32.9	(1,814,415)	35.1
Taxes and charges	(37,912)	0.8	(38,703)	0.7
Employee benefits	(1,720,754)	35.9	(1,558,113)	30.2
Other expenses by kind	(38,042)	0.8	(58,391)	1.1
Cost of merchandise and raw materials sold	(135,670)	2.8	(63,638)	1.2
Other operating expenses	(60,181)	1.3	(93,865)	1.8
	(4,687,276)	97.7	(4,829,446)	93.4
Profit on operating activities	110,185	2.3	343,995	6.6
Financial revenue	34,333	0.7	75,690	1.4
Financial expenses	(44,209)	0.9	(59,404)	1.1
Share in the profit of equity accounted associates	(13,438)	0.3		0.0
Profit/(loss) on sales of shares in an associate	1,661	0.0	(442) (6,372)	0.1
Profit before tax	88,532	1.8	353,467	6.8
Income tax expense	(23,145)	0.5	(86,024)	1.7
Net profit on continuing operations	65,387	1.3	267,443	5.1
DISCONTINUED OPERATIONS	,	1.0	207,443	5.1
Net profit/(loss) on discontinued operations	-	-	_	_
Net profit for the financial year	65,387	1.3	267,443	5.1
OTHER COMPREHENSIVE INCOME				
The effective portion of changes in fair value of cash-flow hedging instruments	126	0.0	827	0.0
Income tax on other comprehensive income	(24)	0.0	(157)	0.0
Actuarial gains/(losses) on employee benefits after employment period	15,924	0.4	(49,966)	1.0
Income tax on other comprehensive income Total other comprehensive income for the financial year	(3,026)	0.1	9,494	0.2
	13,000	0.3	(39,802)	0.8
Total comprehensive income for the financial year	78,387	1.6	227,641	4.3
Net profit/(loss) attributable to :				
Shareholders of the parent company	5 1010			
Non-controlling interest	74,043		267,677	
1 on condoming interest	(8,656)		(234)	
Other comprehensive income attributable to:	86,977		277,605	
Shareholders of the parent company Non-controlling interest	(8,590)		36	
Earnings per share (PLN per share):				
Continuing operations (ordinary):	1.71		6.18	
Continuing operations (diluted):	1.69			
	1.09		6.18	



The supplementary report on the audit of the consolidated financial statements
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2.2 Selected financial ratios

_		2013	2012
1.	Return on sales		
	net profit x 100% revenue	1.4%	5.2%
2.	Return on equity		
	net profit x 100% equity - net profit	1.9%	9.1%
3.	Debtors' days		
	average trade receivables (gross) x 365 days revenue	52 days	49 days
4.	Debt ratio		
	liabilities x 100% equity and liabilities	38.9%	42.8%
5.	Current ratio		
	current liabilities	1.6	1.5

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





The supplementary report on the audit of the consolidated financial statements for the financial year ended 31 December 2013 TRANSLATION

3 **Detailed** report

3.1 Accounting principles

The parent company maintains current documentation describing the accounting principles applied by the Capital Group and adopted by the Management Board of the parent company.

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

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

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

Basis of preparation of the consolidated financial statements 3.2

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

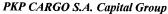
The consolidated financial statements were prepared on the basis of the consolidation documentation prepared in accordance with the requirements the Decree of the Ministry of Finance dated 25 September 2009 on principles for the preparation of consolidated financial statements of a capital group by companies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

3.3 Method of consolidation

The method of consolidation is described in note 16 of the additional information to the consolidated financial statements.

3.4 Goodwill arising on consolidation

The method of calculating goodwill arising on consolidation is described in note 3.4 of the additional information to the consolidated financial statements.





The supplementary report on the audit of the consolidated financial statements for the financial year ended 31 December 2013
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3.5 Consolidation of equity and calculation of non-controlling interest

The share capital of the Capital Group is equal to the share capital of the parent company.

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

Only equity of subsidiaries arising after the parent company obtained control of the subsidiary is included in the equity of the Capital Group.

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

3.6 Consolidation eliminations

Intercompany balances within the Capital Group were eliminated on consolidation.

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

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

3.7 Additional information to the consolidated financial statements

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



The supplementary report on the audit of the consolidated financial statements for the financial year ended 31 December 2013

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3.8 Report on the Group's activities

The Management Board's report on the activities of PKP CARGO S.A. Capital Group includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009 No. 33, item 259 with amendments and the information is consistent with the consolidated financial statements.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k. Registration No. 3546 ul. Chłodna 51 00-867 Warsaw

Signed on the Polish original

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

13 March 2014



Consolidated Financial Statements of the PKP CARGO Capital Group for the financial year ended 31 December 2013 prepared in accordance with IFRS as endorsed by the European Union

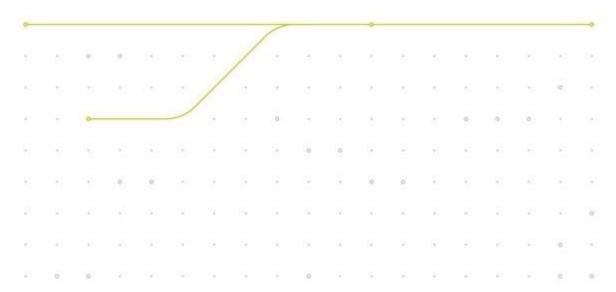




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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2013 TO 31 DECEMBER 2013

	Note	For the year ended 31 December 2013 (audited)	For the year ended 31 December 2012 (audited)
		PLN thousand	PLN thousand
Continuing operations			
Sales revenue	5	4 553 921	5 064 161
Revenue from sales of goods and materials		163 769	95 042
Other operating revenue	8.1	79 771	14 238
Total operating revenue		4 797 461	5 173 441
Depreciation/amortisation and impairment losses	12.1	388 845	422 831
Consumption of raw materials and supplies	12.2	725 819	779 490
External services	12.3	1 580 053	1 814 415
Taxes and charges		37 912	38 703
Employee benefits	12.4	1 720 754	1 558 113
Other expenses by kind		38 042	58 391
Cost of merchandise and raw materials sold		135 670	63 638
Other operating expenses	8.2	60 181	93 865
Total operating expenses		4 687 276	4 829 446
Profit on operating activities		110 185	343 995
Financial revenue	6	34 333	75 690
Financial expenses	7	44 209	59 404
Share in the profit of equity accounted associates	17	(13 438)	(442)
Profit/(loss) on sales of shares in an associate	17	1 661	(6 372)
Profit before tax		88 532	353 467
Income tax expense	9.1	23 145	86 024
Net profit on continuing operations		65 387	267 443
Discoutinged executions			
Discontinued operations Net profit/(loss) on discontinued operations	10	-	-
NET PROFIT		65 387	267 443
Net profit/(loss) attributable to:			
Shareholders of the Parent company Non-controlling interest		74 043 (8 656)	267 677 (234)
Earnings per share (PLN per share)	13		
Continuing operations (ordinary):	13.1	1,71	6,18
Continuing operations (diluted):	13.2	1,69	6,18



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2013 TO 31 DECEMBER 2013 (Cont'd.)

	Note	For the year ended 31 December 2013 (audited)	For the year ended 31 December 2012 (audited)
		PLN thousand	PLN thousand
NET PROFIT		65 387	267 443
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		102	670
The effective portion of changes in fair value of cash-flow hedging instruments		126	827
Income tax on other comprehensive income	9.2	(24)	(157)
Items not to be reclassified to profit or loss in subsequent periods		12 898	(40 472)
Actuarial gains/(losses) on employee benefits after employment period	28	15 924	(49 966)
Income tax on other comprehensive income	9.2	(3 026)	9 494
		13 000	(39 802)
TOTAL COMPREHENSIVE INCOME		78 387	227 641
Total comprehensive income attributable to:			
Shareholders of the Parent company		86 977	227 605
Non-controlling interest		(8 590)	36



CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 31 DECEMBER 2013

	Note	As at 31 December 2013 (audited)	As at 31 December 2012 (audited)
400570		PLN thousand	PLN thousand
ASSETS			
Non-current assets			
Property, plan and equipment	14	3 855 446	3 807 115
Intangible assets	15	61 395	64 432
Goodwill		2 712	2 712
Investment property		1 415	1 427
Investments accounted for under the equity method	17	38 214	60 514
Other long-term financial assets	18	6 090	11 751
Other long-term non-financial assets	19	1 438	2 027
Deferred tax assets	9.4	83 185	104 003
Total non-current assets		4 049 895	4 053 981
Current assets			
Inventory	20	76 041	82 155
Trade and other receivables	21	609 267	612 642
Income tax receivables	9.3	2 394	1 465
Other short-term financial assets	18	691 404	659 107
Other short-term non-financial assets	19	33 355	26 411
Cash and cash equivalents	31	263 700	188 008
	_	1 676 161	1 569 788
Non-current assets classified as held for sale	11	17 560	-
Total current assets		1 693 721	1 569 788
Total assets	_	5 743 616	5 623 769



CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 31 DECEMBER 2013 (cont'd.)

	Note	As at 31 December 2013 (audited)	As at 31 December 2012 (audited)
EQUITY AND LIABILITIES		PLN thousand	PLN thousand
EQUIT AND LIABILITIES			
Equity			
Share capital	22	2 166 901	2 889 200
Share Premium	22.2	692 761	122 773
Other items of equity		(16 392)	(29 325)
Retained earnings	23 _	603 247	159 946
Equity attributable to the shareholders of the Parent company		3 446 517	3 142 594
Equity attributable to non-controlling interest	23.1	62 377	72 078
Total equity		3 508 894	3 214 672
	_		
Non-current liabilities			
Long-term bank loans and credit facilities	24	121 558	193 110
Long-term finance lease liabilities and leases with purchase option	27.2	313 136	418 883
Long-term trade and other liabilities	26	113 688	151 779
Long-term provisions for employee benefits	28	592 923	616 274
Other long-term provisions Deferred tax provision	25 9.4	22 854 2 577	85
Total non-current liabilities	9.4	1 166 736	3 041 1 383 172
Total non-current liabilities	_	1 100 730	1 303 172
Current liabilities			
Short-term bank loans and credit facilities	24	73 217	96 202
Short-term finance lease liabilities and leases with purchase option	27.2	115 790	118 668
Short-term trade and other liabilities	26	675 841	682 149
Short-term provisions for employee benefits	28	176 461	100 169
Income tax liability	9.3	244	936
Other short-term financial liabilities	24.3	306	737
Other short-term provisions	25 _	26 127 1 067 986	27 064 1 025 925
Liabilities directly related to non augrent assets also ifind as hold for		1 007 900	1 025 925
Liabilities directly related to non-current assets classified as held for sale	11 _	<u>-</u> .	-
Total current liabilities		1 067 986	1 025 925
Total liabilities	_	2 234 722	2 409 097
Total equity and liabilities	_	5 743 616	5 623 769
	_		



STATEMENT OF CHANGES IN CONSOLIDATED EQUITY FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2013

STATEMENT OF CHANGES IN CONSOLIDATED EQUITY FOR THE FINANCIAL PERIOD ENDED 31 DECEMBER 2013								
	Other items of equity							
	Share capital	Share premium	Actuarial gain/loss on employee benefits after employment period	Changes in fair value of cash-flow hedging instruments	Retained earnings /(uncovered loss)	Attributable to shareholders of the Parent company	Attributable to non-controlling interest	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Balance as at 1 January 2012 (audited)	2 889 200	102 760	11 385	(639)	(87 717)	2 914 990	75 491	2 990 481
Net result for the financial year					267 677	267 677	(234)	267 443
Other net comprehensive income for the period			(40 445)	372		(40 073)	270	(39 803)
Total comprehensive income	-	-	(40 445)	372	267 677	227 604	36	227 640
Issuance of shares								
Dividend payment						-	(3 449)	(3 449)
Other changes in equity		20 013			(20 013)	-		-
Balance as at 31 December 2012 (audited)	2 889 200	122 773	(29 059)	(267)	159 947	3 142 594	72 078	3 214 672
							_	
Balance as at 1 January 2013 (audited)	2 889 200	122 773	(29 059)	(267)	159 947	3 142 594	72 078	3 214 672
Net result for the financial year			40.0		74 043	74 043	(8 656)	65 387
Other net comprehensive income for the period			12 877	57		12 934	66	13 000
Total comprehensive income	-	-	12 877	57	74 043	86 977	(8 590)	78 387
Issuance of shares	(=00.000)	117 079			500.040	117 080		117 080
Reduction of share capital	(722 300)	139 982			582 318	(4.50)		- (4.50)
Division of the Parent company		(150)				(150)	(4.444)	(150)
Dividend payment		400.040				400.046	(1 111)	(1 111)
Share based payment provision Other changes in equity		100 016 213 061			(242.064)	100 016		100 016
Balance as at 31 December 2013 (audited)	2 166 901	692 761	(16 182)	(240)	(213 061) 603 247	3 446 517	62 377	3 508 894
Dalance as at 31 December 2013 (audited)	2 100 901	092 /01	(10 102)	(210)	003 247	3 440 317	02 3//	3 300 694



CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY 2013 TO 31 DECEMBER 2013

	Note	For the year ended 31 December 2013 (audited)	For the year ended 31 December 2012 (audited)
		PLN thousand	PLN thousand
Onch flavor frame an analysis and district			
Cash flows from operating activities Gross profit/(loss) for the financial year		88 532	353 467
Adjustments:		00 332	333 401
Depreciation and amortisation of non-current assets	12.1	375 445	424 486
Impairment of assets	12.1	13 400	(1 655)
(Gain)/ Loss on disposal of property, plant and equipment and intangible assets		10 701	52 282
(Profit)/loss on investing activities		(1 646)	11 825
Exchange (gains)/losses		3 837	(34 419)
(Gains)/losses on interest, dividend		4 243	(6 753)
Share in the (profit)/loss of equity accounted associates		13 438	442
Profit/(loss) on sales of an associate		(1 661)	6 372
Other adjustments	32	116 065	(49 139)
Changes in working capital:			
(Increase)/decrease in trade and other receivables		11 733	70 860
(Increase)/decrease in inventory		6 114	11 702
(Increase)/decrease in other assets		(6 245)	19 003
Increase/(decrease) in trade and other liabilities		(4 797)	(107 647)
Increase / (decrease) in other liabilities		-	-
Increase / (decrease) in provisions		74 774	36 477
Cash flows from operating activities	•	703 933	787 303
Interest received/(paid)		3 734	3 565
Income taxes received/(paid)		(7 463)	(9 716)
Net cash provided by operating activities		700 204	781 152



CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY 2013 TO 31 DECEMBER 2013 (Cont'd.)

DEGEMBER 2010 (Gont d.)	Note	For the year ended 31 December 2013 (audited)	For the year ended 31 December 2012 (audited)
		PLN thousand	PLN thousand
Cash flows from investing activities			
Acquistion of property, plant and equipment and intangible assets		(407 432)	(627 155)
Proceeds from sale of property, plant and equipment and intangible assets		20 711	19 799
Acquisition of subsidiaries, associates and joint venture Proceeds from the sale of subsidiaries, associates and joint		(500) 9 522	(1 765) 1 500
venture Acquisition of other financial assets		9 322	-
Acquisition of subsidiary, net of acquired cash Proceeds from sale of other financial assets		- -	- -
Interest received		28 867	32 271
Dividend received Proceeds from loans granted		1 501	1 170 (50 000)
Repayment of loans granted Other proceeds/(acquisitions) on investing activities		51 851 (75 942)	528 (44 249)
Net cash (used in)/ provided by investing activities		(371 422)	(667 901)
Cash flows from financing activities			
Proceeds from issuance of shares Payments of liabilities under finance lease		- (122 552)	- (137 722)
Payments of interest under lease agreement		(15 870)	(21 440)
Proceeds from credit facilities/loans received		3 862	158 087
Repayments of credit facilities/loans received		(76 324)	(43 605)
Repayments of interest on credit facilities/loans received		(9 851) (22 076)	(12 992)
Outflow / repayment of bank overdrafts Grants received		944	-
Dividends paid to shareholders of the Parent company Dividends paid to non controlling interest		- (1 111)	(3 449)
Other inflows/(outflows) from financing activities		(10 112)	(8 616)
Net cash (used in)/ provided by financing activities		(253 090)	(69 737)
Net increase/(decrease) in cash and cash equivalents		75 692	43 514
Opening balance of cash and cash equivalents Effects of exchange differences on the balance of cash denominated in foreign currency	31	188 008	144 494
Closing balance of cash and cash equivalents	31	263 700	188 008



EXPLANATORY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS PREPARED AS AT 31 DECEMBER 2013

1. General information

1.1 Information on the Parent company

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

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

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

Management Board:

Adam Purwin - President of the Management Board

Sylwester Sigiel - Member of the Management Board, responsible for Trade Matters

Supervisory Board:

Chairman Jakub Karnowski Vice Chairman Michał Karczyński Member Milena Pacia Member Krzysztof Czarnota Member Marek Podskalny Member Artur Kawaler Member Danuta Tyszkiewicz Member Kazimierz Jamrozik Member Konrad Anuszkiewicz Member Stanisław Knaflewski Member Paweł Ruka

On 6 February 2014 the Supervisory Board of the PKP CARGO S.A. appointed Mr. Adam Purwin to the position of President of the Management Board. Adam Purwin has been a Board Member responsible for finance matters from 25 February 2013 to 5 February 2014. From 18 November 2013 he has been in charge of matters and organizional units of Company's Headquarters belonging to the competences of President of the Management Board.

On 17 Febuary 2014 Mr Sylwester Sigiel has resigned from the position of the Management Board Member responsible for trade matters. The resignation is effective from the day of a resolution of the Supervisory Board of PKP CARGO S.A. on appointment of the new Management Board Member responsible for trade matters.



The Company's shareholder's structure as at 31 December 2013:

Entity	Registered office	Number of shares	% of share capital held	% of voting rights
(4)				54 540 (
PKP S.A. ⁽¹⁾	Warsaw	22 411 844	51,71%	51,71%
ING OFE (2)	Warsaw	2 860 827	6,60%	6,60%
EBOiR (3)	London	2 286 008	5,27%	5,27%
AMPLICO OFE (4)	Warsaw	2 195 842	5,07%	5,07%
Other shareholders		13 583 494	31,35%	31,35%
Total		43 338 015	100,00%	100,00%

⁽¹⁾ In accordance with the notice sent by shareholder dated 31 October 2013

On 8 July 2013 resolution for changes in equity were adopted by the Ordinary General Shareholders Meeting. The resolutions include:

- a) increase the share capital of the Company by the amount of PLN 1 thousand (by issuing 1 share of series L) at an issue price of PLN 117.080 thousand, the difference between the issue price and the nominal value of share (in the amount of PLN 117.079 thousand) was transferred to the share premium of the Company, shares have been acquired by PKP S.A. and covered with a contribution in kind of tangible assets (real estate property),
- b) reduction of share capital by the amount of PLN 722.300 thousand by reducing the nominal value of PLN 1,000 shares at PLN 750, where the amount of PLN 582.317 thousand was allocated to cover losses from previous years (in financial statements prepared in accordance with Polish Accounting Standards "PAS") and the remaining amount of PLN 139.982 thousand was transferred to the share premium (intended to cover potential losses in future reporting periods),
- c) a share split in 1:15 ration, the nominal value of each share was changed from PLN 750 to PLN 50, all registered shares of the Company, except the registered share L series, were converted into bearer shares
- d) transfer of the profits arising from the approved financial statemens (PAS) for the year ended on 31 December 2012 in the amount of PLN 216.736 thousand to the share premium.

These changes were registered in the National Court Register on 2 October 2013.

On 28 October 2013 the resolution was adopted by Management Board of the Warsaw Stock Exchange regarding the introduction of the rights to the shares in PKP Cargo S.A. to trading on the main market of the WSE whereby it resolved to introduce as of 30 October 2013, under ordinary procedure, rights to the ordinary bearer shares in the Company to trading on the main market. As a result, the package of minority shares belonging to the current shareholder has been sold.

As at 31 December 2012, the ownership title to 1,337,100 shares of the Company was transferred to the State Treasury represented by the Finance Minister under the Agreement for Transfer of Title to Secure Loan Repayment concluded by the State Treasury represented by the Financial Minister and Polskie Koleje Państwowe S.A. in Warsaw on 12 March 2002, with subsequent amendments.

As at 31 December 2012 PKP S.A. had 100% of shares of PKP CARGO S.A. pursuant to the above agreement.

⁽²⁾ In accordance with the notice sent by shareholder dated 8 November 2013

⁽³⁾ In accordance with the notice sent by shareholder dated 5 November 2013

⁽⁴⁾ In accordance with the notice sent by shareholder dated 2 January 2014.



1.2 Information on the Capital Group

As at the reporting date the PKP CARGO Capital Group comprised of PKP CARGO S.A. as a Parent company and 15 subsidiaries. Additionally the PKP CARGO Capital Group also includes 7 associates and shares in 3 joint ventures ("Group").

Additional information about the subsidiaries and shares in associates and co-subsidiaries is presented in Notes 16 and 17.

The duration of the companies belonging to the PKP CARGO Capital Group is unlimited. On 17 January 2014 the Extraordinary General Shareholders Meeting of PKP CARGO International a.s. located in Bratislava adopted the resolution to dissolve the company.

The Company's and Capital Group companies' financial year is the calendar year.

Core business of the Company include:

- 1. Transport and storage, including:
 - a. Passenger rail transport, interurban;
 - b. Freight rail transport;
 - c. Warehousing and storage of gaseous fuels;
 - d. Warehousing and storage of other goods;
 - e. Support activities for land transport;
 - f. Cargo handling in other handling points;
 - g. Other transport agency activities;
- 2. Wholesale and retail trade; repair of motor vehicles, excluding motorcycles;
- 3. Professional, scientific and technical activities;
- 4. Construction activities;
- 5. Real estate activities;
- 6. Administrative and support service activities;
- 7. Accomodation and food service activities;
- 8. Arts, entertainment and recreation;
- 9. Other activities, including:
 - a. Repair and maintenance of other transport equipment;
 - b. Electricity, gas, steam and air conditioning supply;
 - c. Other monetary intermediation;
 - d. Other education, not classified elsewhere

1.3 Functional and presentation currency

These Consolidated Financial Statements have been prepared in the Polish zloty (PLN). The Polish zloty (PLN) is the Capital Group's functional and presentation currency. The data were presented in Consolidated Financial Statements in thousand PLN, unless more accuracy was required.



2. International Financial Reporting Standards Applied

2.1 Statement of compliance

These Consolidated Financial Statements have been prepared in accordance with the International Accounting Standards and related interpretations issued by European Commission in the form of regulations.

The Parent company keeps their accounting records in accordance with the accounting policy (principles) specified in the Accounting Act of 29 September 1994 (the "Act") as amended, and related secondary legislation ("Polish Accounting Standards") and in accordance with International Accounting Standards (IAS)/ International Financial Reporting Standards (IFRS) as endorsed by the European Union.

2.2 Status of endorsements of the Standards in the EU

During approval of these financial statements the Parent company did not apply the following standards, amendments to standards and interpretations that had been published and approved for use in the EU, but which had not yet come into force:

- IFRS 10 "Consolidated Financial Statements", applicable to the annual periods beginning on or after 1 January 2014,
- IFRS 11 "Joint Arrangements", applicable to the annual periods beginning on or after 1 January 2014,
- IFRS 12 "Disclosure of Interests in Other Entities", applicable to the annual periods beginning on or after 1 January 2014,
- IAS 27 (amended in 2011) "Separate Financial Statements", applicable to the annual periods beginning on or after 1 January 2014,
- IAS 28 (amended in 2011) "Investments in Associates and Joint Ventures", applicable to the annual periods beginning on or after 1 January 2014,
- Amendments to IAS 32 "Financial Instruments: Presentation" offsetting financial assets and financial liabilities, endorsed by the EU on 13 December 2012 (applicable to the annual periods beginning on or after 1 January 2014),
- Amendments to IAS 39 "Financial instruments: recognition and measurement" (novation of OTC derivatives and continuing designation for hedge accounting), applicable to the annual periods beginning on or after 1 January 2014
- Amendments to IAS 36 "Impairment of assets" (recoverable amount disclosures for non-financial assets), applicable to the annual periods beginning on or after 1 January 2014

The Parent company anticipates that adoption of these standards, amendments to the existing standards and interpretations would have no material impact on the Consolidated Financial Statements if they were applied by the Group as at the reporting date

2.3 Standards and interpretations issued by IASB, but not yet endorsed by the EU

At present, IFRS as endorsed by the EU, do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in the EU as at 13 March 2014:

- IFRS 9 "Financial instruments", (available for application, no mandatory effective date set)
- Amendments to IFRS 9 "Financial instruments" and IFRS 7 "Financial instruments: Disclosures", (available for application, no mandatory effective date set),
- Interpretation to IFRIC 21 "Levies", applicable to the annual periods beginning on or later 1 January 2014,



- Amendments to IAS 19 "Employee benefits" (Defined Benefit Plans: Employee Contributions), applicable to annual periods beginning on 1 July 2014,
- Improvements to IFRS for the 2010 2012, contain 8 improvements to 7 standards, with consequential amendments to other standards and interpretations, applicable to the annual periods beginning on 1 July 2014,
- **Improvements to IFRS for the 2011 2013**, contain 4 amendments to standards with consequential amendments to other standards and interpretations, applicable to the annual periods beginning on 1 July 2014,
- IFRS 14 "Regulatory Deferral Accounts", applicable to the annual periods beginning on 1 January 2016

The Parent Company anticipates that adoption of these standards, amendments to the existing standards and interpretations would have no material impact on the Consolidated Financial Statements of the Group if they were applied as at the reporting date.

3. Applied accounting principles

3.1 Going concern assumption

The Consolidated Financial Statements for the year ended 31 December 2013 were prepared under the going concern assumption. As at the date of preparation of consolidated the financial statements there were no circumstances indicating a threat to the Group's ability to continue as a going concern within 12 months from signing the financial statements.

3.2 Basis for preparation of financial statements

These Consolidated Financial Statements were prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and endorsed by the European Union (IFRS EU). The foregoing Consolidated Financial Statements were prepared on the historical cost basis except derivatives measured at fair value and non-current assets classified as held for sale.

PKP CARGO S.A. is the Parent company in the Capital Group PKP CARGO and prepares separate financial statements for the financial year ended 31 December 2013.

The Consolidated Financial Statements were prepared in Polish zloty in thousand and approved for publication by the Management Board on 13 March 2014.

3.3 Investments in subsidiaries, associates, and interests in joint ventures

The consolidated financial statements comprise separate financial statements of the Parent company and entities controlled by the Company (its subsidiaries). Control is exercised when the Group is able to manage financial and operating policy of the subsidiary to gain economic benefits from its operation.

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



If necessary, the financial statements of subsidiaries are adjusted to adapt their accounting policy to the Group's policy.

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

3.3.1 Change in interest in the Capital Group subsidiaries

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

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

3.3.2 Business combinations

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

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

- Assets and liabilities in respect of deferred tax or employee benefit agreements, which are recognised and measured
 in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee Benefits";
- Liabilities or equity instruments in respect of payment plans based on shares in the acquiree or Capital Group that are to replace the same agreements that are in force in the acquiree, which are measured in accordance with IFRS 2 "Share-based payment" as at the acquisition date (Note 29.2); and
- Assets (or groups of assets held for sale) classified as held for sale in accordance with IFRS 5 "Non-current Assets
 Held for Sale and Discontinued Operations", which are measured in accordance with that standard.

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

The Group may choose whether to measure non-controlling interest at the fair value, or at the proportionate share in the acquiree's net identifiable assets only with respect to non-controlling interests that are present ownership interests and entitle their holders to a proportionate share in the net assets of the acuiree in the event of liquidation. The measurement method is chosen separately for each acquisition. Other non-controlling interest is measured at fair value or using other method prescribed by IFRS.



If the consideration for the acquirer transfers in exchange for the acquiree includes any asset or liability resulting from a contingent consideration arrangement, the acquirer shall recognise the acquisition-date fair value of contingent consideration as part of the consideration transferred in exchange for the acquire. Changes in the fair value of the contingent consideration classified as retrospective adjustments for the measurement period with corresponding adjustments to the goodwill. Adjustments to measurement period are the result of additional information on the "measurement period" (the measurement period shall not exceed one year from the acquisition date) that the acquirer obtained after that date about facts and circumstances that existed at the acquisition date.

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

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

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

3.3.3. Investments in associates

An associate is an entity on which the Group can have significant influence and which is neither a subsidiary nor a joint venture. Significant influence is the possibility of taking part in decisions regarding the financial and operating policy of a company, which does not constitute control or joint control over such policy.

The profit/loss, assets and liabilities of associates were recognised in the Consolidated Financial Statements using the equity method except investments classified as held for sale, settled in accordance with IRFS 5 "Non-current Assets Held for sale and Discontinued Operations". In accordance with the equity method, investments in associate are initially recognised in the consolidated statement of financial position at cost and then they are recognised in the portion of the profit or loss attributable to the Group or in other comprehensive income of the associate. If the Group's share in the losses of the associate exceeds the value of its shares on that entity (long-term interest constituting part of the net value of investment in the entity), the Group ceases to recognise its shares in subsequent loss of the associate. The subsequent loss is recognised only up to the sum of legal or customary liabilities of the Group or payments made on behalf the associate.

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

IAS 39 is used for verifying whether the Group should recognise an impairment loss on investment in an associate. If necessary, the carrying amount of investment (including goodwill) is tested for impairment in accordance with IAS 36 "Impairment of Assets" as if it were an individual asset component, by comparing its recoverable amount (the higher of value in use and fair value less selling costs) with the carrying amount. Impairment losses are recognised in the carrying amount of the investment. Impairment losses are reversed in accordance with IAS 36, at amounts corresponding to the increase in the recoverable value of the investment.



After disposal of an associate, resulting in the Group loss of significant influence, the remaining interest is measured at fair value as at that date, and the value is treated as fair value at the initial recognition of an asset in accordance with IAS 39. Any differences between the initial value and carrying amount of the associate attributable to other shares and the fair value of those shares is taken into account when determining the profit or loss due to the disposal of an associate. In addition, the Group recognises all amounts previously charged to the comprehensive income of the associate in the same way as in the case of disposal of relevant assets and liabilities by that entity. Consequently, if the profit or loss previously recognised in comprehensive income is charged to the profit or loss as at the date of disposal of relevant assets and liabilities, the Group reclassifies the profit or loss from equity to the financial result (as reclassification adjustment) when significant influence on that associate is lost.

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

3.3.4. Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control whereby the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

If an entity in the Group undertakes a joint venture directly, the Group's share in the assets and liabilities jointly controlled with other parties to the joint venture is recognised in the financial statements of the relevant entity and classified in accordance with its nature. Liabilities and expenses resulting directly form interest in jointly controlled assets are recognised using the accrual method. Income on the disposal or use of the interest of the Group in products manufactured by jointly controlled assets and share in the expenses of a joint venture are recognised when it is probable that the economic benefits associated with the transaction (if they can be reliably measured) will flow to the Group.

Joint ventures in respect of establishment of a separate entity in which all parties hold interests are referred to as jointly controlled entities.

The Group recognises shares in such entities using the equity method except investments classified as held for sale, settled in accordance with IRFS 5 "Non-current Assets Held for sale and Discontinued Operations".

3.4 Goodwill

Goodwill resulting from a business acquisition is recognised at cost as at the acquisition date (see Note 3.3.2) less impairment.

For the purposes of the impairment test, goodwill is allocated to the Capital's Group individual cash generating units (or groups of such units) that should benefit from the synergy arising from the business combination.

Cash generating units, to which goodwill is allocated are tested for impairment once a year or more frequently, if impairment can be reliably determined. If the recoverable amount of a cash generating unit is lower than its carrying amount, the impairment loss is initially allocated to reduce the carrying amount of goodwill attributable to this unit; and then to other assets of the unit, proportionately to the carrying amount of individual assets of the entity. Impairment of goodwill is charged directly to profit or loss. Impairment losses on goodwill are not reversed in subsequent periods.



When a cash generating unit is sold, the goodwill attributed to that unit is included in the calculation of the income or loss on disposal.

The rules of recognising goodwill in the Group at the date of acquisition of an associate are presented in note 3.3.3.

3.5 Revenue recognition

Revenue is the fair value of economic benefits received or due in relation to sales of services, stock or goods under core business activities of the Group reduced by VAT and rebates.

3.5.2 Provision of services

If the effects of contracts to provide services can be reliably estimated, the revenue and expenses are recognised by reference to the stage of completion of a given contract as at the reporting date. The effects of contracts can be reliably estimated if all of the following conditions are met:

- a. The revenue amount can be reliably estimated;
- b. It is probable that the Group will obtain economic benefits from the contract;
- c. The stage of completion of the contract can be reliably estimated as at the balance sheet date; and
- d. The costs related to the contract and the costs of completion of the contract can be reliably estimated.

3.5.3 Interest and dividend revenue

Dividend revenue is recognised when the right to receive dividend is established (provided that it is probable that the Group will obtain economic benefits and that the revenue can be reliably estimated).

Interest revenue is recognised if it is probable that the Group will obtain economic benefits and that the revenue amount can be reliably estimated.

Revenue from interest is recognised when it is accrued (including the effective interest method, i.e. the rate discounting future cash inflows over the estimated useful life of financial instruments) against the net carrying amount of the asset at the initial recognition.

3.6 Lease

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

3.6.1 Group as a lessee

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

It is assumed that all ownership risks and rewards are transferred to the lessee if:

the lease transfers ownership of the asset to the lessee by the end of the lease term;



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

Lease payments include interest expense and a reduction of the lease liability, so that the interest rate on the outstanding liability is fixed. All costs are recognised directly in profit or loss, unless they can be directly attributed to the appropriate assets – then they are capitalised in accordance with the accounting policy of the Group in respect of borrowing costs, described in note 3.8. below. Contingent lease payments are recognised in the period when they are incurred.

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

3.7 Foreign currencies

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

3.8 Borrowing costs

Borrowing costs directly related to acquisition or manufacturing of assets requiring a longer period of time to be used are charged to the manufacturing cost of such assets until they are generally ready for commissioning or sale.

Investment income from current investment of borrowings, directly allocated to finance the acquisition or manufacture of assets, decrease the value of capitalized borrowing costs.

Other borrowing costs are charged directly to the income statement in the period when they were incurred.

3.9 Government grants

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

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

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



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

3.10 Employee benefits

Employee benefits consist of (a) costs during the employment period, i.e. salaries and wages, overheads, discounts on transportation services, benefits from to the Company's Social Benefits Fund – as short-term benefits and jubilee benefits – as long-term benefits; and (b) be costs after the employment period, i.e. retirement and disability bonuses, discounts on transportation services and benefits from the Company's Social Benefits Fund.

Pursuant to the Collective Labour Agreement and applicable laws, the Parent company and chosen Group entities provide employees with long-term benefits during their employment (jubilee bonuses) and post-employment benefits (retirement and disability bonuses, discounts on transportation services and benefits from the Company's Social Benefits Fund). The Group recognises the aforesaid benefits at the present value of a liability in its statement of financial position as at the end of the reporting period.

Long-term employee benefits and post-employment benefits are determined by an independent actuary using the actuarial method for forecasting individual benefits. The method treats each period in service as entitlement to an additional benefit amount and values each amount separately, to arrive at a liability amount which is subsequently discounted. The valuation is based on demographic assumptions regarding retirement age, future salaries growth, employee turnover and financial assumptions regarding future interest rates (in order to determine the discount rate).

Retirement and disability benefits are paid to employees who have served a specified term. Retirement and disability benefits are paid on a one-off basis upon retirement. The amounts of retirement and disability benefits and retirement and disability benefits depend on the number of years in service and average salary of each employee. The Group recognises a provision for liabilities in this respect to allocate costs to the periods which they relate to. Actuarial gains or losses, except for jubilee bonuses resulting from changes in actuarial assumptions, and differences between the actual and forecast amounts are charged to other comprehensive income. These amounts are not reclassified to the profit/loss – they are recognised as a separate item of equity.

Pursuant to the Collective Labour Agreement, provisions of Act on commercialization, restructuring and privatization of the state enterprise "Polskie Koleje Państwowe" dated 8 September 2000 (Official Journal No 84, item. 948) and Agreement on Discounts on Transport Services, the Parent company and chosen Capital Group entities has to pay for the right to a discount on transport services for employees, pensioners and individuals eligible for pre-retirement railway benefits. The value of benefits is estimated by an independent actuary using the actuarial method for forecasting individual benefits (also referred to as the method for calculation of benefits accrued during employment) at each reporting date. The liabilities presented in the statement of financial position are calculated as a part of future benefits estimated using the relief forecast.

Pursuant to the Collective Labour Agreement, provisions of Act on commercialization, restructuring and privatization of the state enterprise "Polskie Koleje Państwowe" dated 8 September 2000 r. (Official Journal No 84, item. 948) and provisions of the Act on the Company Social Benefits Fund of 4 March 1994 (Journal of laws of 1996 No. 79 item 335 as amended), the Company's Social Benefits Fund is the Capital Group's cost. The Capital Group offsets the fund's liabilities against its assets in the statement of financial position.

Employees of the Group have the right to paid vacations under the Labour Code. The Group's estimates the future short-term liabilities due to unused paid holidays at each reporting date.



3.11 Share based payments

The Parent company conducts a share based payment program settled in equity instruments (own shares) as according to IFRS 2 "Share based payments". The fair value of services received from employees as consideration for granted shares is recognised as cost ("Employee benefit costs") with a corresponding increase in equity.

3.12 Tax

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

3.12.1 Current tax

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

3.12.2. Deferred tax

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

A deferred tax liability is recognised with respect to taxable temporary differences resulting from investments in subsidiaries or associates and interests in joint ventures unless the Group can control reversal of the temporary differences and when it is likely that the temporary differences will not be reversed in the foreseeable future. A deferred tax asset resulting from temporary deductions related to such investments and shares is recognised to the extent that it is probable that taxable profits will be available against which the temporary differences can be utilised and that it is expected that the temporary differences will be reversed in the foreseeable future.

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

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

3.13 Property, plant and equipment

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

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

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



Own land is not subject to depreciation. The right to perpetual usufruct of land purchased on the secondary market is presented as land and is not depreciated.

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

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

Property, plant and equipment are derecognised upon disposal or if no economic benefits are expected from further use of the asset. Any gains or losses (calculated as a difference between possible inflows from sales and the carrying amount of the item) resulting from derecognition of the asset are charged to profit or loss for the period of derecognition.

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

Economic useful life of fixed assets for the purpose of depreciation

	2013	2012
Buildings, premises, civil and water engineering structures	from 5 to 75 years	from 5 to 75 years
Technical equipment and machinery	from 2 to 30 years	from 2 to 30 years
Vehicles	from 2 to 48 years	from 2 to 48 years
Other fixed assets	from 3 to 10 years	from 3 to 10 years

3.14 Investment property

Investment property is property held to earn rentals or for capital appreciation. In the Consolidated Statement of Financial Position investment property is presented as non-current assets in line investment property.

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

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

3.15 Intangible assets

3.15.1 Intangible assets purchased

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



3.15.3 Derecognition of intangible assets

Intangible assets are derecognised after disposal or if further use or disposal will not result in economic benefits. Any gains or losses (calculated as a difference between possible inflows from sales and the carrying amount of the item) resulting from derecognition of the asset are charged to profit or loss for the period of the derecognition.

3.16 Impairment of tangible fixed assets and intangible assets

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

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

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

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

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

3.16.1 Non-current assets held for sale

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

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

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

3.17 Inventory

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

The Group recognises impairment losses on obsolete or damaged inventory and if the net realizable value is less than the carrying amount of the inventory.



3.18 Provisions

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

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

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

3.18.1 Onerous contracts

Current liabilities arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

3.18.2 Restructuring

A provision for restructuring costs is recognised only when the Group has prepared a detailed and formal restructuring plan and communicated it or its main assumptions to those affected by it. Measurement of the restructuring provision includes only direct expenditures arising from the restructuring, i.e. amounts necessarily entailed by the restructuring and not associated with the on-going activities of the entity.

3.18.3 Customer complaints

To the best of the Group's knowledge, it recognises a provision for customer complaints against damage to cargo or incorrectly calculated freight charges or any additional fees under the freight agreement. The most frequent basis for customers' complaints in respect of transport services is loss, damage, late delivery or incorrect application of the applicable tariffs and agreements. A customer complaint is deemed as resolved on the date of a money transfer or mutual reconciliation (e.g. offset).

3.19 Financial instruments

Financial assets and liabilities are recognised when the Group becomes a party to a financial instrument contract.

Initial measurement is performed at fair value. Transaction expenses directly attributable to the acquisition or issuance of financial assets and liabilities (except financial assets and liabilities measured at fair value through profit or loss) are added to or deducted from the fair value of financial assets or liabilities on initial recognition. Transaction expenses directly attributable to the acquisition of financial assets or financial liabilities measured at fair value through profit or loss are charged directly to profit or loss.

3.20 Financial assets

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



3.20.1 Effective interest method

The effective interest rate method is a method of calculating the amortized cost of a debt instrument and allocating interest income over the relevant period of time. An effective interest rate is the exact discount rate of the estimated future cash payments (including all payments made and received, items constituting an integral part of an effective interest rate, transaction costs and other commissions and discounts) through the expected life of a debt instrument or when appropriate, over a shorter period to the net carrying amount on initial recognition.

Income is recognised on the basis of the effective interest rate of debt instruments other than financial assets measured at fair value through profit or loss.

3.20.2 Financial assets measured at fair value through profit or loss

Financial assets are classified as assets measured at fair value through profit or loss if they are held for trading or measured at fair value through profit or loss.

A financial assets is classified as held for trading, if:

- it was acquired principally for the purpose of selling in the next term;
- constitutes a part of a portfolio of financial instruments managed by the Capital Group for which there is evidence of recent and actual patern of short-term profit-taking; or
- is a derivative, except for derivative that is designated and effective hedging instrument.

A financial asset other than held for trading can be classified as measured at fair value through profit or loss at initial recognition if:

- such classification eliminates or significantly reduces incoherence of measurement or recognition under other circumstances; or
- the financial asset belongs to the group of financial assets or liabilities or to both groups managed whose result is measured at fair value in accordance with the documented risk management strategy or investments of the Group in which information on grouping assets is shared internally; or
- the financial asset is part of a contract including one or more embedded derivatives and under IAS 39 "Financial Instruments: Recognition and Measurement", the entire contract (assets or liabilities) can be classified as measured at fair value through profit or loss.

Financial assets measured at fair value through profit or loss are measured at fair value and profit and loss on remeasurement is recognised in profit or loss. Gains or losses include all dividends or interest on financial assets and is recognised in line other financial revenue or expenses in the statement of comprehensive income. The fair value is determined as described in note 29.7.

3.20.3 Investments held to maturity (HTM)

Investments held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity, which the Group intends to and is able to hold to maturity. After initial recognition, investments held to maturity are measured at amortized cost using the effective interest rate method, taking into account the impairment.



3.20.4 Financial assets available for sale (AFS)

Financial assets available for sale are non-derivative financial assets designated as available for sale or not classified as (a) loans and receivables, (b) held to maturity investments, (c) financial assets at fair value through profit or loss.

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

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

3.20.5 Loans and receivables

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

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

3.20.6 Impairment of financial assets

Financial assets except financial assets measured at fair value through profit or loss are tested for impairment at the end of each reporting period. It is deemed that assets are impaired if there are reasonable reasons to believe that the estimated cash flows have decreased as a result of an event or events after the date initial recognition of a given asset.

As regards equity investments available for sale, it is deemed that they are impaired if the fair value of the securities drops below the cost for a significant or extended period.

As regards all other financial assets, objective evidence indicating their impairment can include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, e.g. default or deliquency in interest or principal payment
- probability of bankruptcy or financial restructuring of the debtor;
- disappearance of an active market of a given financial asset as a result of financial difficulties.

As regards trade receivables and assets that have not been impaired, an additional impairment test is conducted. Objective evidence indicating impairment of a portfolio of receivables includes the Group's experience in debt collection, a higher number of overdue payments from 6 to 12 months and over 12 months in the portfolio, and noticeable changes in domestic and international economic conditions having an effect on the overdue payment of receivables.

Impairment of a financial asset measured at amortized cost is the difference between the carrying amount and the present value of the expected future cash flows discounted using the original effective interest rate.

Impairment of a financial asset measured at cost is the difference between the carrying amount and the present value of the expected future cash flows discounted using the current effective rate of return on a similar financial asset. Such impairment is not subject to reversal in the subsequent periods.

The carrying amount of a financial asset is reduced directly by the impairment loss using an impairment account.

If the amount of impairment of financial assets measured at amortized cost is reduced in the subsequent period, and the reduction can be objectively linked to the event which took place after recognition of the impairment, the impairment loss is reversed in the statement of comprehensive income to the extent corresponding to the reversal of the carrying amount of the investment as at the date of impairment.



3.20.7 Derecognition of financial assets from the statement of financial position

The Group derecognises a financial asset from the statement of financial position only when the contractual rights to the cash flows generated by that asset expire or if the asset and all risks and benefits related to that asset are transferred to another entity. If the Group neither transfers all risks and benefits resulting from ownership of an asset nor retains them, but continues exercising control over the asses transferred, it recognises the interest retained in the asset and related liabilities to be satisfied. If the Group retains all risks and benefits resulting from ownership of a transferred asset, it continues recognising that asset and secured borrowing costs under benefits received.

If an asset is completely derecognized from the statement of financial position, the difference between its carrying amount and total payment received and payable and accumulated profit or loss charged to other comprehensive income is recognised in profit or loss.

3.21 Financial liabilities and equity instruments

3.21.1 Classification: debt instruments or equity instruments

Debt and equity instruments issued by the Group are classified as financial liabilities or equity, depending on the contractual arrangements and definition of financial liability and equity instruments.

3.21.2 Financial liabilities

Financial liabilities are classified as "measured at FVTPL" or "other financial liabilities".

3.21.2.1 Financial liabilities measured at FVTPL

The category comprises financial liabilities held for trading or classified as measured at FVTPL.

A financial liability is classified as held for trading, if:

- it incurred principally for the purposes of repurchasing in the near term;
- it constitutes a part of a portfolio of financial instruments managed by the Group for which there is evidence of recent and actual patern of short-term profit-taking; or
- it is a derivative, except for derivative that is designated and end effective hedging instrument.

Financial liabilities other than financial liabilities held for trading can be classified as financial liabilities measured at FVTPL on initial recognition if:

- such classification eliminates or significantly reduces incoherence of measurement or recognition under other circumstances; or
- the financial asset belongs to the group of financial assets or liabilities or to both groups managed, whose result is measured at fair value in accordance with the documented risk management strategy or investments of the Group in which information on grouping assets is shared internally; or
- it is part of a contract including one or more embedded derivatives and under IAS 39, the entire contract (assets or liabilities) can be classified as measured at FVTPL.

Financial liabilities measured at FVTPL are measured at fair value and profit and loss on remeasurement is recognised in profit or loss. Gains or losses include all interest paid on financial liabilities and is recognised in line other financial revenue or expenses in the statement of comprehensive income. The fair value is determined as described in note 29.7.



3.21.2.2 Other financial liabilities

After initial recognition, other financial liabilities (including credit facilities and loans, trade liabilities and other liabilities) are measured at amortized cost using the effective interest rate method.

3.21.2.3 Financial guarantee agreements

A financial guarantee agreement imposes on the Group a duty of making payments offsetting the holder's loss incurred as a result of a debtor's defaulting on a payment due in respect of a given debt instrument.

Financial guarantee agreements issued by the Group are measured at fair value, and it they are not classified as measured at fair value through profit or loss, they are measured at the higher of the following:

- the amount of the contractual liability determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and
- initially recognised amount reduced, when applicable, by total amortisation charges in accordance with the revenue recognition principles.

3.21.2.4 Derecognition of financial liabilities from the statement of financial positoon

The Group derecognises financial liabilities from the statement of financial position if they are paid or if they expire. The difference between the carrying amount of derecognised financial liability and the payment made is recognised in profit or loss.



4. Material values based on professional judgment and estimates

Applying accounting principles in Group presented in note 3, the Management Board of the Parent company is obliged to make estimates, judgments and assumptions in measuring assets and liabilities. The estimates and assumptions are based on historical experience and other significant factors. Actual results may differ from the estimated values.

4.1 Professional accounting judgement

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

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

4.2 Estimation uncertainty

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

4.2.1 Economic useful life of property, plant and equipment

The Management Board of the Parent company estimates economic useful lives of particular property plant and equipment and determines depreciation rates of particular items. The estimations are based on expected economic useful lives of these assets. Depreciation rates may change in case of circumstances causing the change in expected useful life (e.g. technological changes, withdrawal from use, etc.). Consequently, the depreciation rates and the net carrying amount of non-current assets will also change.

4.2.2 Residual value of railroad fleet

The Group uses own and leased engines and wagons (railroad fleet). According to the IFRS, residual value of non-current assets should be recognised separately and it should not be depreciated as a part of the total initial value of the property plant and equipment item. Residual value has been determined based on the average price of scrap as at the date of first time adoption of IFRS by the Capital Group PKP CARGO. The value is reviewed periodically and updated in case of significant changes in prices of scrap.

4.2.3 Measurement of financial instruments

As indicated in note 29, the Group applies measurement methods based on inputs which are note based on observable market data to estimate the fair value of certain types of financial instruments. Note 29 provides all details concerning key assumptions applied in fair value measurement of financial instruments.

According to the Management Board of the Parent company measurement methods and assumptions are appropriate to measure the fair value of financial instruments.

4.2.4 Impairment of cash generating units, individual items of fixed assets and intangible assets

As according with the assumption presented in note 3.16, the Group tests property, plant and equipment and intangible assets for impairment. Key assumptions made in determining the realizable value of the asset are the analysis of impairment indicators, impairment testing model, discounting and growth rates.



4.2.5 Impairment allowances for loans granted and own receivables

The methodology applied to determine the impairment allowance is disclosed in note 3.20.6, while the information underlying the estimation of the impairment allowance is disclosed in note 21 to the Consolidated Financial Statements.

4.2.6 Impairment allowance on slow-moving and obsolete inventories

The methodology applied to determine the net realizable value of inventory is disclosed in note 3.17, while the information underlying the estimation of the impairment allowance is disclosed in note 20 to the Consolidated Financial Statements.

4.2.7 Deferred income tax

Assumptions adopted to recognise deferred tax asset are disclosed in note 3.12.2, while the calculation of the deferred tax asset and deferred tax liability has been disclosed in note 9 to the Consolidated Financial Statements.

4.2.8 Employee benefits

Key assumptions adopted to estimate provisions for employee benefits are: discount rates, remuneration growth and expected average employment period. Methods of recognizing the provision are disclosed in note 3.10, while the calculation of the provision for employee benefits is disclosed in note 28 to the Consolidated Financial Statements.

Provisions for employee benefits arising from the program of share-based payments for employee as a result of the agreement, which partially ended labor dispute, signed by the parties on 2 September 2013, were estimated by the Group as at 30 October 2013. The result of the calculation of the provision are presented in note 28.2 to the Consolidated Financial Statements.

4.2.9 Provisions

Provisions for employment termination and restructuring benefits: discount rate and other assumptions. The assumptions adopted to measure provisions for claims and litigations are disclosed in note 3.18, while the calculation of the provision is disclosed in note 25 to the Consolidated Financial Statements.

4.2.10 Classification of finance leases

The Group concludes lease agreements for fixed assets. The Management Board of the Parent company analyses the classification of such agreements as finance lease. The detailed principles of classifying lease agreements as finance lease are disclosed in note 3.6. note 27 to the consolidated financial statements presents information concerning finance lease, while the operating lease has been presented in note 34 to the Consolidated Financial Statements.



5. Operating segments

5.1 Products and services of the operating segment

The Group has not determined operating segments since it has a single products to which all services provided by it are assigned. The Group operates only in one segment - domestic and international transport of goods and providing comprehensive logistics services in the field of railway freight. Management Board of Parent company analyzes financial data in a manner in which they have been presented in these Consolidated Financial Statement.

5.2 Geographical information

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

The Group operates in one geographical area, Poland, which is its country of residence. The total revenue for all geographical areas except from Poland does not exceed 15 % of sales revenue. No other geographical area (except from Poland) exceeds ten percent of revenue from sales of services.

Below are presented Group revenues from external customers by location:

	For the year ended 31/12/2013	For the year ended 31/12/2012
	PLN thousand	PLN thousand
Poland	3 880 123	4 254 213
Germany	233 114	268 085
Czech Republic	104 050	72 806
Slovakia	100 843	176 594
Cyprus	66 196	68 794
Other countries	169 595	223 669
Total	4 553 921	5 064 161

5.3 Information about major customers

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



5.4 Structure of the sales revenue

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

	For the year ended 31/12/2013	For the year ended 31/12/2012
	PLN thousand	PLN thousand
Transport revenue and railway shipping	4 141 611	4 560 388
Revenue from other transport activities	119 143	192 497
Siding and traction revenue	189 419	181 756
Cargo revenues	31 704	32 547
Other revenue*	72 044	96 973
Total	4 553 921	5 064 161

(*)The position of other revenue for the financial year ended 31 December 2013 presents mainly revenue arising from renting of railroad fleet PLN 22.297 thousand and from repair services of railroad fleet - PLN 11.040 thousand, while for the financial year ended 31 December 2012 this position presents revenue from renting of PLN 43.714 thousand from renting of railroad fleet and revenue from repair services of railroad fleet of PLN 10.955 thousand.



6. Financial revenue

Interest revenue by class of financial instruments:	For the year ended 31/12/2013	For the year ended 31/12/2012
	PLN thousand	PLN thousand
Interest income:		
Bank deposits and accounts	28 867	35 531
Bid bonds and collateral	396	716
Loans granted	1 194	1 131
Other	726	590
	31 183	37 968
Dividends from capital investments	<u></u> _	1 170
Total interest income and dividend	31 183	39 138
Interest revenue by category of financial instruments:	For the year ended	For the year ended
interest revenue by category of financial instruments:	31/12/2013	31/12/2012
	PLN thousand	PLN thousand
Interest income:		
Financial assets available for sale		
Loans and receivables (including cash in hand and bank deposits)	30 457	37 378
Other	726	590
	31 183	37 968
Revenue from dividend earned on shares	-	1 170
Total interest income and dividend	31 183	39 138
Other financial revenue		
Gain on shares	-	-
	-	
Gains on measurement of financial assets and liabilities at FVTPL	2 160	65
Other financial revenue:		00.055
Net forex gain	-	33 053
Other Tatal financial revenue	990	3 434
Total financial revenue	34 333	75 690



7. Financial expenses

Interest expense by class of financial instruments:	For the year ended 31/12/2013	For the year ended 31/12/2012
	PLN thousand	PLN thousand
Interest expense:		
Interest on loans and overdraft facilities	9 851	12 992
Interest on liabilities under finance lease agreements	15 870	21 440
Interest on long-term liabilities	10 361	8 208
Interest on bid bonds and guarantees	256	677
Other	1 702	1 324
Total interest expense	38 040	44 641
	For the year	For the year
Interest expense by category of financial instruments:	ended 31/12/2013	ended 31/12/2012
	PLN thousand	PLN thousand
Interest expense:	T LIV thousand	i Eiv tiioasana
Financial liabilities measured at amortized cost	36 518	43 317
Other	1 522	1 324
Total interest expense	38 040	44 641
Other financial expenses		
Losses on shares:		
Recognised impairment losses on shares	_	11 825
. toolg. nood impaint of one of a co	<u>-</u> _	11 825
Losses on measurement of financial assets and liabilities at FVTPL		11 020
Other financial expenses:		
Net forex loss	3 777	-
Other financial expenses	2 392	2 938
Total financial expenses	44 209	59 404



8. Other operating revenue and expenses

8.1 Other operating revenue

	For the year ended 31/12/2013	For the year ended 31/12/2012
	PLN thousand	PLN thousand
Gains on disposal of assets:		
Gain on sales of non-current assets	4 225	626
Gains on sales of investment property	-	-
	4 225	626
Derecognised impairment losses:		
Trade receivables	5 570	9 799
Other (including interest on receivables)	3 464	1 790
	9 034	11 589
Other operating revenue:		
Return of paid fine imposed by OCCP	46 000	-
Release of provisions for the fine imposed by OCCP	9 945	-
Release of provisions for other fines	1 655	-
Interest on trade and other receivables	2 495	924
Forex gains on trade receivables and liabilities	749	-
Grants	25	34
Other	5 643	1 065
Other operating revenue total	79 771	14 238

8.2 Other operating expense

	For the year ended 31/12/2013	For the year ended 31/12/2012
	PLN thousand	PLN thousand
Losses on disposal of assets:		
Loss on sales of non-current assets	244	8
Loss on sales of investment property	-	-
	244	8
Recognised impairment losses:		
Trade receivables	10 681	10 248
Other (including on interest on receivables)	976	2 957
	11 657	13 205
Other operating expense:		
Costs of liquidation of non-current and current assets	16 311	48 523
Provisions for the fine imposed by OCCP	1 786	16 576
Provisions for other fines	21 986	5 984
Court and collection costs	781	656
Costs of transport benefits for non-employees	2 036	3 044
Interest on trade and other liabilities	1 105	38
Forex losses on trade receivables and liabilities	-	5 811
Trade receivables written off	3	20
Other	4 272	-
Other operating expense total	60 181	93 865



9. Income tax on continuing operations

9.1 Income tax recognised in profit or loss

	For the year ended 31/12/2013	For the year ended 31/12/2012
	PLN thousand	PLN thousand
Current income tax:		
Current tax expense	5 806	6 430
Adjustments recognised in the current period with respect to prior year tax	-	-
	5 806	6 430
Deferred income tax:		
Deferred tax that occurred in the reporting period	17 304	79 594
Deferred tax reclassified from equity to profit or loss	35	-
	17 339	79 594
Total tax expense on continued operations recognised in the current year	23 145	86 024

The current tax liability is calculated based on the current tax regulations in force. Pursuant to these regulations, the tax profit (loss) differs from the accounting net profit (loss) due to the exclusion of non-taxable revenue and non-tax deductible expenses and items of expenses and revenues that will never be taxable. Tax liabilities are calculated on the basis of tax rates applicable in a given financial year. The existing regulations do not assume different tax rates for future periods. The Group is subject to general income tax regulations. The Group is not a tax capital group and does not operate in a Special Economic Zone, which would change the rules of determining the tax basis with respect to general provisions. The fiscal and the reporting year are calendar years.

Reconciliation of tax profit to accounting profit:

	For the year ended 31/12/2013	For the year ended 31/12/2012
	PLN thousand	PLN thousand
Profit before tax on continuing operations	88 532	353 467
Income tax expense at 19% rate	16 821	67 158
Effect of non taxable revenues pursuant to tax regulations	(14 504)	(4 208)
Effect of non-taxdeductible costs pursuant to tax regulations	18 895	23 195
Effect of tax losses applied in the period	54	624
Effect of derecognition of impairment allowance on deferred tax asset arising from tax losses	-	586
Other	1 330	(1 331)
	22 596	86 024
Adjustments recognised in the current period with respect to prior year tax	549	<u>-</u>
Income tax expense recognised in profit on continuing operations	23 145	86 024

The tax rate used in the above reconciliation for the years 2013 and 2012 is 19%. This is the current income tax rate imposed by Polish tax regulations.



9.2 Income tax recognised in other comprehensive income

	For the year ended 31/12/2013	For the year ended 31/12/2012
	PLN thousand	PLN thousand
Deferred income tax		
Due to income and expenses recognised in other comprehensive income:		
Fair value measurement of financial instruments designated as cash flow hedges	24	157
Actuarial gains/losses on post-employment benefit plans	3 026	(9 494)
Income tax recognised in other comprehensive income	3 050	(9 337)

9.3 Income tax receivables and liabilities

	As at 31/12/2013	As at 31/12/2012 PLN thousand
	PLN thousand	
Income tax receivables		
Tax refund receivable	2 394	1 465
Income tax liabilities		
Income tax payable	244	936

9.4 Deferred tax balance

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

	As at 31/12/2013	As at 31/12/2012
	PLN thousand	PLN thousand
Deferred tax assets	83 185	104 003
Deferred tax dissels Deferred tax liabilities	(2 577)	(3 041)
Total	80 608	100 962



9.5 Deferred income tax:

For the year ended 31/12/2013	Opening balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Temporary differences resulting in items of defe	rred tax (liabilities) / a	assets		
Property, plant and equipment (including Finance Lease)	(106 471)	(48 862)	-	(155 333)
Long-term liabilities	(4 718)	1 687	-	(3 031)
Inventory - impairment allowance	4 665	(301)	-	4 364
Receivables - impairment allowance	8 234	808	-	9 042
Accrued interest on assets	(3 466)	1 093	-	(2 373)
Accrued interest on liabilities	5	(4)	-	1
Provisions for employee benefits	135 468	32 749	(3 026)	165 191
Other provisions	2 226	2 155	-	4 381
Accrued expenses	941	4 713	-	5 654
Deferred revenue	(940)	(1 725)	-	(2 665)
Unpaid employee benefits	7 150	1 898	-	9 048
Forex losses	12 487	(3 133)	-	9 354
Forex gains	(11)	5	-	(6)
Other (including hedging derivatives)	2 195	(417)	(24)	1 754
	57 765	(9 334)	(3 050)	45 381
Unused tax losses and other reliefs				
Tax losses 1)	43 197	(7 970)	-	35 227
	43 197	(7 970)		35 227
Total deferred tax assets (liabilities)	100 962	(17 304)	(3 050)	80 608

¹⁾ deferred tax asset arising from tax losses to be used in future periods consists mainly of a loss incurred by the Parent company (of PLN 182.649 thousand) that expires in 2014.



For the year ended 31 December 2012	Opening balance	Recognised in profit or loss	Recognised in other comprehensive income	Closing balance
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
- "				
Temporary differences resulting in items of defe	` ,			(406.474)
Property, plant and equipment (including Finance Lease)	(71 278)	(35 193)	-	(106 471)
Other financial assets	(1 704)	(3 014)	-	(4 718)
Inventory - impairment allowance	4 724	(59)	-	4 665
Receivables - impairment allowance	8 913	(679)	=	8 234
Accrued interest on assets	(2 057)	(1 409)	=	(3 466)
Accrued interest on liabilities	20	(15)	=	5
Provisions for employee benefits	119 674	6 300	9 494	135 468
Other provisions	1 814	412	-	2 226
Accrued expenses	1 131	(1 599)	-	(468)
Unpaid employee benefits	6 932	687	-	7 619
Forex losses	21 671	(9 184)	-	12 487
Forex gains	(440)	429	-	(11)
Other (including hedging derivatives)	448	1 904	(157)	2 195
	89 848	(41 420)	9 337	57 765
Unused tax losses and other reliefs				
Tax losses	81 371	(38 174)	-	43 197
	81 371	(38 174)	-	43 197
Total deferred tax assets (liabilities)	171 219	(79 594)	9 337	100 962

9.6 Tax losses and unused tax reliefs unrecognised in deferred tax asset

	As at 31/12/2013	
	PLN thousand	PLN thousand
As at the reporting date, the following deferred tax assets remained unrecognised:		
- Unused tax losses1)	14 885	6 466
Total	14 885	6 466

¹⁾ As at 31 December 2013 tax losses unrecognised in deferred tax asset represents mainly the tax loss of companies PKP CARGOLOK Sp. z o.o. of PLN 7.571 thousand and PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o. of PLN 3.938 thousand. As at 31 December 2012 tax loss of PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o. amounted to 4.134 PLN and represented the largest portion of the balance.



10. Discontinued operations

In 2013-2012 the Group did not discontinue any operations that would require recognition in these Consolidated Financial Statements.

11. Non-current assets classified as held for sale

As at 31 December 2013 and 31 December 2012 non-current assets classified as held for sale were as follows:

	As at 31/12/2013	As at 31/12/2012 PLN thousand
	PLN thousand	
Land held for sale	4 995	-
Buildings, premises, civil and water engineering structures	-	-
Technical equipment and machines	-	-
Vehicles	12 565	-
Other non-current assets	-	-
Other assets (including a.o. stock and shares)	-	-
Total	17 560	-
Liabilities associated with non-current assets held for sale		-

As at 31 December 2013 the Group had some redundant non-current assets and decided to sell them within next 12 months. They consisted of 77 engines which, due to technical consumption, are not in use, and 3 land properties. The engines will be sold at auctions held by the Group for the purpose of scrapping them by the purchaser. The Group is also actively seeking for buyers of land properties. Due to the fact that the estimated fair value of these land properties is lower than their carrying amount, an impairment PLN 1.494 thousand was recognised.

As at 31 December 2012 the Group did not classify any significant assets as held for sale.



12. Net result on continuing operations

Net profit for the financial year on continuing operations:

	For the year ended 31/12/2013	For the year ended 31/12/2012
	PLN thousand	PLN thousand
Net profit/ (loss) attributable to:		
Shareholders of the Parent company	74 043	267 677
Non- controlling interest	(8 656)	(234)
Net profit for the financial year on continuing operations	65 387	267 443

Net profit for the financial year on continuing operations was calculated through deducing / adding of the following items:

12.1 Depreciation/Amortisation charges and impairment losses

	For the year ended 31/12/2013	For the year ended 31/12/2012	
	PLN thousand	PLN thousand	
Depreciation of property, plant and equipment	353 182	404 207	
Amortisation of intangible assets	22 263	20 279	
Impairment losses recognised / (derecognised):			
Intangible assets	-	-	
Property, plant and equipment	11 906	(1 655)	
Assets held for sale	1 494	-	
Total depreciation/amortisation	388 845	422 831	

12.2 Consumption of raw materials and energy

	For the year ended 31/12/2013	For the year ended 31/12/2012	
	PLN thousand	PLN thousand	
Fuel consumption	223 247	260 550	
Consumption of materials	71 570	65 357	
Electricity, gas and water consumption	431 025	455 708	
Impairment losses recognised / (derecognised)	(1 574)	(255)	
Other (including physical count)	1 551	(1 870)	
Total consumption of materials and energy	725 819	779 490	



12. 3 External services

	For the year ended 31/12/2013	For the year ended 31/12/2012
	PLN thousand	PLN thousand
Access to infrastructure connections	951 434	984 519
Repair services	29 569	35 441
Rent and lease fees (real estate and railroad fleet)	156 025	193 708
Transport services	266 882	392 559
Telecommunication services	16 804	19 152
Legal, advisory and similar services	20 320	17 827
IT services	49 357	57 501
Services related to property maintenance and operation of fixed assets	37 273	38 383
Cargo services	30 404	30 182
Siding services	10 103	12 329
Other services	11 882	32 814
Total external services	1 580 053	1 814 415

12.4 Employee benefit

	For the year ended 31/12/2013	For the year ended 31/12/2012	
	PLN thousand	PLN thousand	
Salaries and wages (*)	1 290 459	1 129 813	
Costs of social insurance (**)	262 718	230 951	
Appropriation to the Company's Social Benefits Fund	32 825	35 303	
Other employee benefits during employment	35 643	42 655	
Other post-employment benefits	8 804	2 772	
Changes in provision for employee benefits	73 824	108 949	
Other employee benefit costs (***)	16 481	7 670	
Total employee benefit	1 720 754	1 558 113	

^(*) Salaries and wages for the year ended 31 December 2013 include amount of PLN 144.322 thousand and PLN 29.796 thousand representing respectively share based payments program for employees, which will be settled in shares of the Group (EGP) on the basis of the agreement signed on 2 September 2013 and cost of one-off employee bonus on the basis of the agreement signed on 22 August 2013 which partially finished the labour dispute.

^(**) Costs of social insurance for the year ended 31 December 2013 include amount of PLN 28.864 thousand and PLN 6.179 thousand representing respectively social insurance charges on employers side related to the share based payments which will be settled in shares based on the agreement signed on 2 September 2013 and to one-off employee bonus based on the agreement signed on 22 August 2013 hich finished partially labour dispute.

^(***) Other employee benefit costs for the year ended 31 December 2013 include compensation for employees of PLN 14.421 thousand who were transferred for obligatory holidays (representing 60% of salaries and wages).



13. Earnings per share

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

	For the year ended 31/12/2013	For the year ended 31/12/2012
	PLN thousand	PLN thousand
Profit on continuing operations attributable to shareholders of the Parent company	74 043	267 677
Profit on discontinued operations attributable to shareholeders of the Parent company		-
Profit used to calculate basic earnings per share on continuing operations	74 043	267 677

13.1 Basic earnings per share

	For the year ended 31/12/2013	For the year ended 31/12/2012	
	PLN	PLN	
Weighted average number of ordinary shares Basic earnings per share (PLN per share)	43 338 006	43 338 000	
On continuing operations On discontinued operations	1,71 -	6,18	

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

On 8 July 2013 the Parent company carried out a procedure involving a split of nominal value of shares at a ratio of 1:15. After the split the nominal value of one share amounts to PLN 50 (previously PLN 750). This operation did not have an impact on the value of share capital of the Parent company. In order to ensure comparability of data, the value of earnings per share for the year ended 31 December 2012 has been calculated taking into account the share split.

13.2 Diluted earnings per share

	For the year ended 31/12/2013	For the year ended 31/12/2012
	PLN	PLN
Weighted average number of ordinary shares (units) Diluted earnings per share (PLN per share)	43 821 559	43 338 000
On continuing operations	1,69	6,18
On discontinued operations	-	-



In accordance with IAS 33 the Group prepares diluted earnings per share calculation taking into account the potential shares which are issued conditionally under the incentive program - the program of share based payments (EGP) decribed in Note 28.2. The diluted number of shares was calculated as the weighted average of ordinary shares adjusted as if they were converted into shares that result in dilution of potential ordinary shares. The number of shares was estimated on the basis of the sales price of shares offered in PKP CARGO S.A public offering at the level of PLN 68 per share.

The weighted average number of shares applied in the calculation of diluted earnings per share was calculated including the additional issuance of shares on 26 July 2013 (15 additional shares on split) and taking into consideration the 1.470.807 shares that are available for the employee of the Parent company and employees of subsidiaries within the share based program EGP concluded on 2 September 2013.

14. Property, plant and equipment

Carrying amounts:	As at 31/12/2013	As at 31/12/2013
	PLN thousand	PLN thousand
Land	141 739	115 053
Buildings, premises, civil and water engineering structures	505 168	442 098
Technical equipment and machinery	134 361	134 265
Vehicles	3 034 047	3 073 169
Other fixed assets	9 935	12 057
Fixed assets under construction	30 196	30 473
Total	3 855 446	3 807 115

including finance lease:	As at 31/12/2013	As at 31/12/2013	
	PLN thousand	PLN thousand	
Technical equipment and machinery	18 895	20 745	
Vehicles	349 008	373 440	
Other fixed assets	43	557	
Fixed assets under construction	-	601	
Total	367 946	395 343	



	Land PLN	Buildings, premises, civil and water engineering structures	Technical equipment and machinery PLN	Vehicles PLN	Other fixed assets PLN	Total PLN
	thousand	thousand	thousand	thousand	thousand	thousand
Gross value						
Balance as at 1 January 2012	115 023 -	463 483 -	236 704 -	3 573 354	26 530	4 415 094
Increases						
Acquisition	59	57 729	21 655	606 384	4 933	690 760
Assuming control over an entity	-	=	=	-	-	-
finance leases	-	-	7 194	88 473	430	96 097
Contribution in kind	-	=	=	-	-	-
Other	-	3 261	3 973	22	-	7 256
Decreases	-	=	=	-	-	-
Sales	(1)	(170)	(882)	(2 099)	(233)	(3 385)
Contribution in kind	-	-	-	-	-	-
Liquidation	-	(12 494)	(2 644)	(148 686)	(563)	(164 387)
Reclassification to assets held for sale	-	-	-	-	-	-
Other	(28)		(2 115)	(625)	(310)	(3 078)
Balance as at 31 December 2012	115 053	511 809	263 885	4 116 823	30 787	5 038 357
Increases:						
Acquisition	-	27 232	20 009	282 492	3 182	332 915
Assuming control over an entity	-	-	-	-	-	-
Finance leases	-	=	5 176	4 776	-	9 952
Contribution in kind	33 866	81 601	1 608	-	5	117 080
Other	-	1 228	2 630	943	631	5 432
Decreases	-	-	-	-	-	-
Sales	-	(17 821)	(594)	(3 533)	(72)	(22 020)
Contribution in kind	-	-	-	-	-	-
Liquidation	-	(2 439)	(2 450)	(149 939)	(249)	(155 077)
Reclassification to assets held for sale	(6 489)	-	-	(15 506)	-	(21 995)
Other		(623)	319	(806)	(2 358)	(3 468)
Balance as at 31 December 2013	142 430	600 987	290 583	4 235 250	31 926	5 301 176



	Land PLN thousand	Buildings, premises, civil and water engineering structures PLN thousand	Technical equipment and machinery PLN thousand	Vehicles PLN thousand	Other fixed assets PLN thousand	Total PLN thousand
Accumulated depreciation						
Balance as at 1 January 2012		50 720	96 515	804 859	- 13 670	965 764
Increases						
Depreciation charges	=	21 665	37 040	339 740	- 5 762	404 207
Assuming control over an entity	-	-	-	-		
Other	-	568	1	2		571
Decreases						
Sales	=	(12)	(374)	(829)	- (111)	(1 326)
Contribution in kind	-	-	-	-		-
Liquidation	-	(3 228)	- (1 574)	- (101 926)	- (414)	(107 142)
Reclassification to assets held for sale	-	-	-	-		-
Other		(2)	(1 988)	(77)	- (177)	(2 244)
Balance as at 31 December 2012	<u> </u>	69 711	129 620	1 041 769	18 730	1 259 830
Increases						
Depreciation charges	-	18 822	30 755	299 197	- 4 408	353 182
Assuming control over an entity	-	-	-	-		-
Other	-	531	16	3	- 680	1 230
Decreases	-	=	-	-		
Sales	-	(3 503)	(428)	(2 605)	- (54)	(6 590)
Contribution in kind	-	-	-	-		-
Liquidation	-	(1 021)	(3 501)	(133 419)	, ,	(139 146)
Reclassification to assets held for sale	-	-	-	(2 941)		(2 941)
Other		(21)	(240)	(801)		(1 630)
Balance as at 31 December 2013		84 519	156 222	1 201 203	21 991	1 463 935



	Land PLN thousand	Buildings, premises, civil and water engineering structures PLN thousand	Technical equipment and machinery PLN thousand	Vehicles PLN thousand	Other fixed assets PLN thousand	Total PLN thousand
Accumulated impairment						
Balance as at 1 January 2012	-	-	-	3 540	-	3 540
Increases impairment recognition other	-	-	- -	-	<u>-</u>	-
Decreases	_	_	_	_	_	
impairment derecognition reclassification to assets held for sale	-	-	-	(1 655) -	-	(1 655) -
other	-	_	-	_	-	_
Balance as at 31 December 2012		-	-	1 885		1 885
Increases impairment recognition other	691	11 300	-	-	<u>-</u>	11 991
Decreases	-	-	_	-	-	
impairment derecognition reclassification to assets held for sale other	-	-	-	(1 885) -	-	(1 885) -
Balance as at 31 December 2013	- 604	44 200				- 44 004
Balance as at 31 December 2013	691	11 300				11 991

	For the year ended 31/12/2013	For the year ended 31/12/2012
Fixed assets under construction	PLN thousand	PLN thousand
Opening balance	30 473	50 275
Increases	221 210	537 624
Decreases - transfer to non-current assets	(219 498)	(557 426)
Decreases - discontinued investments	(189)	-
Closing balance	31 996	30 473

	For the year ended 31/12/2013	For the year ended 31/12/2012
Accumulated impairment	PLN thousand	PLN thousand
Opening balance		
Increases	1 800	=
Decreases		
Closing balance	1 800	

The amount of expenditures on property, plant and equipment incurred in 2013 amounted to PLN 407.432 thousand while in 2012 amounted to PLN 627.155 thousand.



14.1 Impairment recognised in the current year

In 2013, as a result of physical count a property, plant and equipment, the Group stated that some of its non-current assets had lost their usefulness because the Group ceased to use them in a business activity. This regards mainly investments in leased premises, which had been returned to their owners after agreements termination. Non-current assets were impaired to their net value. They were dedicated to liquidation. Impairment allowance amounted to PLN 11.991 thousand and was recognised in depreciation/amortisation and impairment losses.

The Group also recognised an impairment on commenced but uncompleted investment in the region of Ostaszew Toruński, due to the change in strategy of using properties located in this area. As a result an impairment allowance was recognised impairment on this investment of PLN 1.800 thousand.

As at 31 December 2012 the Group has non-current assets (engines) which were not used in business activity any longer. An impairment allowance was recognised in the amount exceeding their residual value. Indication for previously recognised impairment has ceased to exist in 2013, and as a result the Company reversed impairment allowance of PLN 1.886 thousand.

The Group has also recognised an impairment on assets classified as held for sale which are closer described in note 11.

14.2 Groups assets used as collateral

The Parent company was granted a credit facility and investment loans, that resulted in banks holding pledges on the following assets of the Parent Company:

Balance as at 31 December 2013

Investment loan of PLN 53.000 thousand, maturing on 05.10.2015

Purpose of the loan: improvement of ET22 electric engines

Collateral:

- 1. registered pledge on 9 engines up to PLN 63.600 thousand
- 2. transfer of titles arising from an insurance contract up to PLN 44.963 thousand

Investment loan of PLN 36.400 thousand, maturing on 21.03.2016

Purpose of the loan: improvement of ET22 electric engines

Collateral:

- 1. registered pledge on 10 engines up to PLN 43.680 thousand
- 2. transfer of titles arising from an insurance contract up to PLN 31.821 thousand

Investment loan of PLN 36.600 thousand maturing on 31.03.2016

Purpose of the loan: improvement of EU07 electric engines

Collateral:

- 1. registered pledge on 15 engines up to PLN 43.920 thousand
- 2. transfer of titles arising from an insurance contract up to PLN 36.794 thousand

Investment loan of PLN 39.000 thousand, maturing on 30.06.2017

Purpose of the loan: improvement of ET22 electric engines

Collateral:

- 1. registered pledge on 14 engines up to PLN 46.800 thousand
- 2. transfer of titles arising from an insurance contract up to PLN 42.322 thousand

Investment loan of PLN 16.667, maturing on 21.08.2017

Purpose of the loan: purchase of real property where the Company's registered office is located

The collateral has the form of a mortgage on the property up to PLN 20.000 thousand

Investment loan of PLN 60.000 thousand, maturing on 31.10.2017

Purpose of the loan: improvement of ST 44 diesel engines

Collateral:

- 1. registered pledge on 13 engines up to PLN 90.000 thousand
- 2. transfer of titles arising from an insurance contract up to PLN 77.235 thousand



Investment loan of PLN 49.200 thousand maturing on 31.12.2017

Purpose of the loan: improvement of ST 45 diesel engines Collateral:

- 1. registered pledge on 9 engines up to PLN 63.960 thousand
- 2. transfer of titles arising from an insurance contract up to PLN 57.379 thousand

Balance as at 31 December 2012

Investment loan of PLN 53.000 thousand, maturing on 05.10.2015

Purpose of the loan: improvement of ET22 electric engines Collateral:

- 1. registered pledge on 14 engines up to PLN 63.600 thousand
- 2. transfer of titles arising from an insurance contract up to PLN 54.903 thousand

Investment loan of PLN 36.400 thousand, maturing on 21.03.2016

Purpose of the loan: improvement of ET22 electric engines Collateral:

- 1. registered pledge on 14 engines up to PLN 43.680 thousand
- 2. transfer of titles arising from an insurance contract up to PLN 40.521 thousand

Investment loan of PLN 36.600 thousand maturing on 31.03.2016

Purpose of the loan: improvement of EU07 electric engines Collateral:

- 1. registered pledge on 21 engines up to PLN 43.920 thousand
- 2. transfer of titles arising from an insurance contract up to PLN 39.455 thousand

Investment loan of PLN 39.000 thousand, maturing on 30.06.2017

Purpose of the loan: improvement of ET22 electric engines Collateral:

- 1. registered pledge on 17 engines up to PLN 46.800 thousand
- 2. transfer of titles arising from an insurance contract up to PLN 48.122 thousand

Investment loan of PLN 16.667, maturing on 21.08.2017

Purpose of the loan: purchase of real property where the Company's registered office is located The collateral has the form of a mortgage on the property up to PLN 20.000 thousand

Investment loan of PLN 60.000 thousand, maturing on 31.10.2017

Purpose of the loan: improvement of ST 44 diesel engines Collateral:

- 1. registered pledge on 15 engines up to PLN 90.000 thousand
- 2. transfer of titles arising from an insurance contract up to PLN 85.500 thousand

Investment loan of PLN 49.200 thousand maturing on 31.12.2017

Purpose of the loan: improvement of ST 45 diesel engines Collateral:

- 1. registered pledge on 10 engines up to PLN 63.960 thousand
- 2. transfer of titles arising from an insurance contract up to PLN 64.230 thousand



Finance lease agreements (as at 31 December 2013 and 31 December 2012)

Leases concluded by the Parent company and PKP CARGO S.A. subsidiaries are usually pledged on the leased asset, Additionally lease agreements are secured with statement of submission to enforcement in the form of a notarized deed, pursuant to Article 777.1.4 and 77.1.5 of the Civil Proceedings Code, or in minor cases by a bank promissory note or receivables assignment contract.

Other assets securing liabilities of PKP CARGO Capital Group (subsidiaries)

	As at 31/12/2013	As at 31/12/2013	
	PLN thousand	PLN thousand	
Fixed assets	3 912	8 770	
Inventory	600	600	
Shares in related parties	-	8 718	
Property investment	<u> </u>	1 428	
Total assets securing payment of liabilities	4 512	19 516	

14.3. Grants to property, plant and equipment

Within the framework of the Operational Programme "Infrastructure and Environment" the Parent company signed with the Centre for EU Transport Projects (CEUTP) in Warsaw two agreements for financial support from the Cohesion Fund within the framework of the Group's investment activities. The first contract, signed on 15 October 2012, concerns construction and equipment of railway intermodal terminal at the Poznań Franowo station. As at 31 December 2013 the total expenditure incurred by the Parent company for the construction of the terminal amounted to PLN 18.828 thousand. This amount included PLN 944 thousand of grant received. The Group filed also another applications to CEUTP asking for refund of expenditures incurred of PLN 2.735 thousand. Further request will be submitted soon. Taking into account past experience and practice in the implementation of grant agreements, the Parent company has concluded that as at 31 December 2013 there is a sufficient certainty of fulfilling conditions related to the refund. Consequently, the Company will receive government subsidy in the total amount of not less than PLN 8.797 thousand. This amount was recognised as a reduction of expenditure incurred on the construction of the terminal.

The second agreement, signed on 24 October 2013, concerns purchase and supply of newly built cars series Sggrss. According to this agreement, the Parent company will receive financial support in the amount of not exceeding PLN 28.508 thousand. As at 31 December 2013 the value of investments made on this purchase amounts to PLN 11.440 thousand. On 14 January 2014 the Group filed an application to CEUTP asking for payment in the amount of PLN 3.342 thousand. Due to sufficient assurance that the Group will receive this reimbursement, the amount of grant has been recognised as a reduction of the initial value of non-current assets.

As at 31 December 2013 there were no unfulfilled conditions related to the government grants



15. Intangible assets

	As at 31/12/2013	As at 31/12/2013
Carrying amounts	PLN thousand	PLN thousand
Licenses	33 453	45 981
Intangible assets under development	27 942	18 451
	61 395	64 432

	Licenses – computer software	Intangible assets under development	Total
	PLN thousand	PLN thousand	PLN thousand
Gross value			
Balance as at 1 January 2012	87 708	8 320	96 028
Increases	123	25 484	25 607
Acquisitions in the form of business combination	-	-	-
Increases arising from internal developments	-	-	-
Putting intangible assets under construction into use	14 735	(15 353)	(618)
Increases - lease	618	-	618
Disposal or reclassification to assets classified as held for sale	(28)	-	(28)
Other	(37)	<u> </u>	(37)
Balance as at 31 December 2012	103 119	18 451	121 570
Increases	799	19 086	19 885
Acquisitions in the form of business combination	-	-	-
Increases arising from internal developments	8 919	(8 919)	-
Putting intangible assets under construction into use	-	-	-
Increases - lease	-	-	-
Disposal or reclassification to assets classified as held for sale	(15)	-	(15)
Other	(54)	(676)	(730)
Balance as at 31 December 2013	112 768	27 942	140 710



	Licenses – computer software	Intangible assets under development	Total
	PLN thousand	PLN thousand	PLN thousand
Accumulated amortisation			
Balance as at 1 January 2012	36 924	<u> </u>	36 924
Amortisation charges	20 279	-	20 279
Acquisitions in the form of business combination	-	-	
Disposal or reclassification to assets held for sale	(28)	-	(28)
Impairment charged to profit or loss	-	-	-
Derecognised impairment	-	-	-
previously charged to profit/loss	-	-	-
Other	(37)	<u> </u>	(37)
Balance as at 31 December 2012	57 138	-	57 138
Amortisation charges	22 263	-	22 263
Acquisitions in the form of business combination	-	-	-
Disposal or reclassification to assets held for sale	-	-	-
Impairment charged to profit or loss	-	-	-
Derecognised impairment	-	-	-
previously charged to profit/loss			-
Other	(86)		(86)
Balance as at 31 December 2013	79 315		79 315

For amortisation calculation purposes, the following economic useful lives have been applied for intangible assets:

Computer software licenses

from 2 years to 10 years

15.1 Significant intangible assets

The key intangible assets include licenses for integrated company management software SAP. As at 31 December 2013 the net value of software amounted to PLN 11.871 thousand (at 31 December 2012 - PLN 17.458 thousand).



16. Subsidiaries

Detailed information regarding subsidiaries as at 31 December 2013 and for previous reporting dates:

No.	Name of subsidiary	Place of ame of subsidiary Core business registration		% of interests rights held b	
NO.	Name of Substatuty	Oute Business	and operation	As at 31/12/2013	As at 31/12/2012
1	CARGOSPED Sp. z o.o.	Forwarding services, transport of aggregate as well as domestic and international intermodal transport	Warsaw	100%	100%
2	PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	Services supporting land transport, transshipment of goods, wholesale and retail sale of waste and metal scrap	Małaszewicze	100%	100%
3	PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o.	Transshipment of goods in other terminals	Żurawica	100%	100%
4	PKP CARGO SERVICE Sp. z o.o.	Siding services	Warsaw	100%	100%
5	PKP CARGO TABOR – Karsznice Sp. z oboe.	Repair and maintenance of railroad	Zduńska - Wola	100%	100%
6	PKP CARGO International a.s. with registered office in Bratislava (4)	Shipping outside of Poland	Bratislava	51%	51%
7	PS TRADE TRANS Sp. z o.o.	Shipping services	Warsaw	56%	56%
8	PKP CARGOWAG Sp. z o.o. (1)	Repair and maintenance of railroad fleet	Warsaw	100%	100%
9	PKP CARGO WAGON Sp. z o.o. (1)	Repair and maintenance of railroad fleet	Toruń	-	100%
10	PKP CARGO WAGON -Kraków Sp. z o.o. ⁽¹⁾	Repair and maintenance of railroad fleet	Cracow	-	100%
11	WAGREM Sp. z o.o (1)	Repair and maintenance of railroad fleet	Kluczbork	-	100%
12	PKP CARGO WAGON - Tarnowskie Góry Sp. z o.o. ⁽¹⁾	Repair and maintenance of railroad fleet	Tarnowskie Góry	-	100%
13	PKP CARGO WAGON – Jaworzyna Śląska Sp. z o.o. ⁽¹⁾	Repair and maintenance of railroad fleet	Jaworzyna Śląska	-	100%
14	PKP CARGO TABOR – Pomorski Sp. z o.o. ⁽¹⁾	Repair and maintenance of other transport devices	Tczew	-	100%
15	GORZÓW WAGONY Sp. z o.o. (1)	Repair and maintenance of other transport devices	Gorzów Wielkopolski	-	100%
16	PKP CARGOLOK Sp. z o.o. (2)	Repair and maintenance of railroad fleet	Warsaw	100%	100%
17	PKP CARGO TABOR – Ostrów Wielkopolski Sp. z o.o. ⁽²⁾	Repair and maintenance of railroad fleet	Ostrów Wielkopolski		100%
18	CARGOTOR Sp.z o.o. (3)	Management of logistics infrastructure including railway sidings and tracks	Warsaw	100%	-



The above entities are consolidated using the full method (beginning from the date of assuming control over an entity) except for PKP CARGO International a.s. with the registered office in Bratislava and CARGOTOR Sp. z o.o., which are accounted for under the equity method. Changes in the Capital Group regarding subsidiaries that occurred in the period covered with the Consolidated Financial Statements are described below.

- (1) On 1 October 2013 the National Register Court registered the take-over of subsidiaries by PKP CARGOWAG Sp. z o.o. (acquiring company) as part of the process of merging PKP CARGO S.A subsidiaries; below is the list of entities being taken over:
- -PKP CARGO WAGON Sp. z o.o. in Toruń
- -PKP CARGO WAGON-Kraków Sp. z o.o. in Cracow
- -PKP CARGO WAGON-Tarnowskie Góry Sp. z o.o. in Tarnowskie Góry
- -PKP CARGO WAGON-Jaworzyna Śląska Sp. z o.o. in Jaworzyna Śląska
- -PKP CARGO TABOR-Pomorski Sp. z o.o. in Tczew
- -GORZÓW WAGONY Sp. z o.o. in Gorzów Wielkopolski
- -WAGREM Sp. z o.o. in Kluczbork
- (2) and PKP CARGOLOK Sp. z o.o. (acquiring company) with PKP CARGO TABOR-OSTRÓW WIELKOPOLSKI Sp. z o.o. in Ostrów Wielkopolski. The take over was proceeded under Article 492 § 1 of the Commercial companies code, i.e. by transfer of all property from entities to acquiring companies.
- (3) CARGOTOR Sp. z o.o. was founded on 10 October 2013 and registered in the National Court Register on 13 November 2013.
- ⁽⁴⁾ On 17 January 2014 the Extraordinary General Shareholders Meeting adopted a resolution and decided to dissolve the Company and conduct its liquidation.

Information on the companies which are indirectly dependent (belonging to PS Trade Trans Sp. z o.o.), which are accounted for the Consolidated Financial Statements under the equity method are as follows:

	Name of subsidiary	Core business	Place of registration and operation		d voting rights held (nominal value)
			As at 31/12/2013	As at 31/12/2012	
19	Trade Trans Karya Sp. z o.o.	Transshipment of goods, customs depot	Lublin	60,3%	60,3%
20	Transgaz S.A.	Transport agency	Zalesie k. Małaszewicz	64,0%	64,0%
21	Trade Trans Finance Sp. z o.o.	Financial settlements	Warsaw	100,0%	100,0%
22	PPHU "Ukpol" Sp. z o.o.	Transshipment of goods, customs depot	Werchrata	75,0%	75,0%

Information on the companies, indirectly dependent (belonging to Cargosped Sp. z o.o.) which are accounted for the Consolidated Financial Statements under the equity methodare as follow:



	Name of subsidiary	Core business	Place of registration and operation	% of interests and by the Group	d voting rights held (nominal value)
				As at 31/12/2013	As at 31/12/2012
23	Cargosped Terminal Braniewo Sp. o.o.	Transshipment of goods, customs depot	Braniewo	100,0%	100,0%

17. Investments in subsidiaries and associates accounted for under the equity method

	For the year ended 31/12/2013	For the year ended 31/12/2012
	PLN thousand	PLN thousand
Opening balance	60 514	67 063
Purchase of shares	500	1 811
Sales of shares / liquidation of the company	(7 861)	(7 872)
Share in profit/(loss) of investments accounted for under the equity method	3 386	(442)
Impairment allowance on shares in companies accounted for the equity method	(16 824)	-
Changes in equity arising from dividend payment	(1 501)	(46)
Reclassification of shares to non-current assets held for sale	-	-
Closing balance	38 214	60 514

In 2013 the Group sold shares in associate and generated revenue of PLN 9.455 thousand. Including the value of the shares sold, it resulted in a gain of PLN 1.673 thousand. Additionally, the Group liquidated shares in an associate, realizing a loss of PLN 12 thousand.

In 2012 the Group sold shares in two associates and generated revenue of PLN 1.500 thousand. Including the value of the shares sold, it resulted in a loss of PLN 6.372 thousand.

Below please find summary of the financial data of the Group's associates and subsidiaries:

	As at 31/12/2013	As at 31/12/2013
	PLN thousand	PLN thousand
Total assets	209 860	309 654
Total liabilities	90 700	139 085
Net assets ¹⁾	119 160	170 569
Group's interests in net assets of associates	58 206	44 880
Total revenue	311 914	560 244
Total profit for the reporting period	4 320	9
Group's share in the profit of associates	3 386	(442)
Group's share in comprehensive income of associates	3 386	(442)

¹⁾ Data calculated as the sum of subsequent net assets of all affiliates and subsidaries of the Group accounted for under equity method.



17.1. Detailed Information on entities accounted for under the equity method

Name of entity measured with equity method	% of interests ar held by th		Carrying amount of assets		
Tame of only measured min equity measure	As at 31/12/2013	As at 31/12/2012	As at 31/12/2013	As at 31/12/2012	
	%	%	PLN	PLN	
Zakład Przewozów i Spedycji SPEDKOKS Sp. z o.o. 1)	-	49,0	-	7 147	
COSCO POLAND Sp. z o.o.	20,0	20,0	1 128	1 146	
Pol – Rail S.r.l	35,7	35,7	5 740	5 670	
PKP CARGO INTERNATIONAL a.s. 2)	51,0	51,0	-	2 560	
CNR CARGO WAGON Sp. z o.o. 3)	ı	50,0	-	236	
CARGOTOR Sp. z o.o. 4)	100,0	-	3 103	-	
Cargosped Składy Celne Sp. z o.o.	50,0	50,0	-	-	
Terminale Przeładunkowe Sławków – Medyka Sp. z o.o.	27,8	27,8	21 000	21 136	
Trade Trans Karya Sp. z o.o.	33,5	33,5	334	536	
Transgaz S.A.	35,5	35,5	3 990	3 945	
Trade Trans Finance Sp. z o.o.	55,6	55,6	529	663	
PPHU "Ukpol" Sp. z o.o. 5)	41,7	41,7	-	1 631	
Rail Cargo Spedition GmbH	20,9	20,9	869	1 223	
Rentrans Cargo Sp. z o.o. (Szczecin)	14,7	13,3	1 075	749	
TI Ferest Cargo Service sp. z o.o. (Rail Cargo Service Sp. z o.o. Wrocław)	11,1	11,1	160	170	
SC TRADE TRANS TERMINAL SRL 5)	13,2	19,4	-	13 344	
Gdański Terminal Kontenerowy S.A. 6)	41,9	24,1	286	358	
TOTAL			38 214	60 514	

¹⁾ Shares of SPEDKOKS Sp. z o.o. belonging to PKP CARGO S.A. (49%) were sold on 25 October 2013.

The Group had no interests in joint operations in the above disclosed periods.

²⁾ On 17 January 2014 the Extraordinary General Shareholders Meeting adopted a resolution and decided to dissolve the Company and conduct its liquidation, therefore, the Parent company has recognised an additional impairment allowance on shares in the amount of PLN 2.450 thousand.

³⁾ CNR CARGO WAGON Sp. z o.o. was removed from National Court Register on 2 December 2013.

⁴⁾ CARGOTOR Sp. z o.o. was founded on 10 October 2013 and registered in the National Court Register on 13 November 2013.

⁵⁾ On 31 December 2013 the Group decided to recognise an impairment allowance related to owned shares in PPHU "Ukpol" Sp. z o.o. and SC TRADE TRANS TERMINAL SRL and write down their values to 0, respectively. The value of impairment allowance at the reporting date amounts to PLN 14.373 thousand.

⁶⁾ In 2013, Gdański Terminal Kontenerowy S.A. has acquired own shares from majority shareholders in order to retire them. As a result of the redemption participation in the equity of PKP Cargo Group has increased to 41,9%.



18. Other financial assets

	As at 31/12/2013	As at 31/12/2012
	PLN thousand	PLN thousand
Derivatives designated and used as hedges, recognised at fair value (positive measurement of derivatives)		
Interest-rate swap (IRS)	-	-
Currency swap	-	-
Currency forwards and spots	2 387	532
FRA	-	-
Other	<u> </u>	<u>-</u>
	2 387	532
Investments available for sale		
Shares in Polish entities	6 020	6 020
Shares in foreign entities	9	9
	6 029	6 029
Loans and receivables recognised at amortized cost		
Loans granted to related parties	-	50 659
Loans granted to third parties	5 044	5 683
Deposits from 3 months to 1 year	604 420	607 955
Receivables form EGP ¹⁾	79 614	-
	689 078	664 297
Total	697 494	670 858
Current assets	691 404	659 107
Non-current assets	6 090	11 751
	697 494	670 858

Financial assets available for sale financial assets are measured at historical cost reduced by impairment and include mainly shares in companies with no active market, whose fair value cannot be reliably measured.

For the year ended 31 December 2013 the Group did not recognise any additional impairment allowance related to other financial assets representing investments in companies' shares. As at 31 December 2013 the impairment allowance amounts to PLN 11.824 thousand.

For the year ended 31 December 2012 the Group recognised an impairment allowance related to other financial assets representing investments in companies' shares. The impairment allowance amounted to PLN 11.824 thousand and decreased the net value of this position to PLN 6.029 thousand.

In 2013 the PKP CARGO Capital Group has not granted any loans.

In December 2012, PKP CARGO S.A. granted a loan to an entity from PKP S.A. Group in the amount of PLN 50,000 thousand maturing at 31 May 2013. The loans were concluded on the arm's length basis. The aforementioned loan was repaid in 2013.

¹⁾ The amount of PLN 79.614 thousand represents the value of cash paid by PKP CARGO S.A. and its subsidiaries related to Employee Guarantee Program to the entitled employees' accounts at a brokerage house as payment for the acquisition of the shares by entitled employees. The share based payment cost on this transaction was incurred by Group companies, which were obliged to pay for the shares of PKP CARGO S.A. granted to employees of subsidiaries. Cash transferred to the brokerage



house will be returned to PKP CARGO S.A. as the time of registration of the Company's share capital increase as a payment for employee shares.

19. Other non-financial assets

	As at 31/12/2013	As at 31/12/2013	
	PLN thousand	PLN thousand	
Advances for purchase of fixed assets	1 059	1 107	
Prepayments	33 240	26 423	
Other	494	908	
Total	34 793	28 438	
Current assets	33 355	26 411	
Non-current assets	1 438	2 027	
Total	34 793	28 438	

The most significant items of prepayments for external services are: costs of IT services (of PLN 7.148 thousand as at 31 December 2013 and PLN 9.726 thousand as at 31 December 2012), prepaid rents (of PLN 2.648 thousand as at 31 December 2013 and PLN 3.452 thousand as at 31 December 2012), prepaid transport benefits for employees (of PLN 9.750 thousand as at 31 December 2013, there nil as at 31 December 2012).

20. Inventory

	As at 31/12/2013	As at 31/12/2013	
	PLN thousand	PLN thousand	
Materials	92 258	104 151	
Semi-finished products	2 045	531	
Finished products	-	-	
Goods	4 742	2 053	
Impairment loss (-)	(23 004)	(24 580)	
Net inventories	76 041	82 155	

Changes in the impairment of inventories

	For the year ended 31/12/2013	For the year ended 31/12/2012
	PLN thousand	PLN thousand
Opening balance	24 580	24 869
Recognised impairment	18 686	10 309
Derecognised	(20 262)	(10 598)
Used	· · · · · · · · · · · · · · · · · · ·	-
Closing balance	23 004	24 580



In 2013 impairment allowance recognition concerned the following items: spare parts for railroad fleet, steel and colour scrap and other recoveries from non-current assets liquidation. Derecognition concerned the following items: consumption and regeneration of spare parts for railway fleet and sale of scrap.

In 2012 impairment allowance recognition concerned the following items: spare parts for railroad fleet, steel and colour scrap. Derecognition concerned the following items: consumption and regeneration of spare parts for railway fleet and sale of scrap.

21. Trade and other receivables

	As at 31/12/2013	As at 31/12/2013
	PLN thousand	PLN thousand
Trade receivables	678 839	674 517
Impairment allowance for receivables	(102 511)	(87 214)
Total	576 328	587 303
Receivables from sales of non-financial non-current assets	29	81
Settlements under public law (excluding CIT)	14 636	19 857
Guarantee, deposits and bid bonds	999	649
Receivables from co-financing agreements	10 782	-
Other settlements	6 493	4 752
Total	609 267	612 642

21.1 Trade receivables

The Group conducts sales to business partners with a deferred payment. According to the Group's policy the deferred payment is acceptable for clients with a good financial standing and positive cooperation history. Further, in order to minimize the risk of trade receivables turning into bad debts, the Group accepts collateral from its clients, among others in the form of: bank/insurance guarantees, contract assignment, lock on bank accounts and promissory notes.

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

The Group recognises impairment allowance for receivables up to the amount that is not covered by guarantees or other collateral and in relation to amounts questioned by debtors overdue, in the amount of reliably estimated impairment allowance for doubtful receivables.

Prior to commencing cooperation with a new client on a deferred payment terms, the Group evaluates its creditworthiness. The evaluation is performed as well for the long-term clients of the Group. who are subject to such evaluation at least once a year. Trade receivables presented below include amounts overdue at the end of the reporting period, for which no impairment allowance was recognised, since no material changes in the quality of the debt (including accrued interest) occurred and therefore they are still considered collectible because they regard customers with a good history of cooperation.



The aging analysis of overdue receivables, for which no impairment allowance was recognised

Trade receivables	As at 31/12/2013	As at 31/12/2013
	PLN thousand	PLN thousand
Current receivables Overdue receivables	512 439	521 363
Up to 90 days	62 339	63 282
From 91 to 365 days	932	2 384
Over 365 days	618	274
Total	576 328	587 303
Average debt age (days)	44	41

Change in impairment allowance for doubtful debt

Trade receivables	For the year ended 31/12/2013	For the year ended 31/12/2012
	PLN thousand	PLN thousand
Opening balance	87 214	74 092
Recognised impairment allowance for receivables	48 018	47 409
Used during the year	(2 957)	(4 182)
Derecognised impairment allowance	(29 764)	(30 105)
Interest expense		
Closing balance	102 511	87 214

As part of the impairment policy, the Group evaluates the collectability of receivables from debtors who are bankrupt or liquidated, who are a subject of composition agreements proceedings or reconciliatory proceedings, who question the receivables balance or whose receivables are vindicated in court.



22. Share capital

	As at 31/12/2013	As at 31/12/2013
	PLN thousand	PLN thousand
Share capital consists of: Ordinary shares, fully paid and registered Ordinary shares, fully paid and not registered	2 166 901 -	2 889 200 -
Total share capital	2 166 901	2 889 200

As at 31 December 2013 share capital consisted of ordinary shares with the nominal value of PLN 50 each, while as at 31 December 2012 share capital consisted of ordinary shares with the nominal value of PLN 1.000 each.

22.1 Ordinary shares fully covered with capital

	Number of shares	Share capital
	units	PLN thousand
As at 31 December 2011	2 889 200	2 889 200
no changes	-	-
As at 31 December 2012	2 889 200	2 889 200
issue of shares - registered on 2 October 2013	1	1
reduction of share capital - registered on 2 October 2013	-	(722 300)
Share capital after changes Other changes:	2 889 201	2 166 901
share split 1:15 - registered on 2 October 2013	43 338 015	2 166 901
As at 31 December 2013	43 338 015	2 166 901

During the financial year covered in these Consolidated Financial Statements ended 31 December 2013, the following changes in the Parent company's share capital took places:

- On 8 July 2013 Ordinary General Shareholders Meeting of PKP CARGO S.A. decided to increase the Company's share capital by PLN 1.000,00 (through issue of 1 share L series) issue price amounted to PLN 117.080 thousand, the difference between issue price and nominal price (PLN 117.079 thousand) was transferred to Company's share premium. This share was acquired by PKP S.A. and covered with contribution in-kind (real estate property).
- On 8 July 2013 Ordinary General Shareholders Meeting of PKP CARGO S.A. decided to decrease the Company's share capital by PLN 722.300 thousand (through reduction nominal value of one share from PLN 1.000 to PLN 750). The amount of PLN 582.317 thousand was allocated to cover losses from previous years (in financial statements prepared in accordance with PAS), the amount of PLN 139.982 thousand was transferred to share premium (intended to cover potential losses in future reporting periods).



- On 8 July 2013 Ordinary General Shareholders Meeting of PKP Cargo S.A decided to split Company's shares in a ratio of 1:15 (one to fifteen) by establishing a new nominal value of one Company's share (PLN 50 instead of PLN 750) and a proportional increase of the total number of Company's shares each share with nominal value of PLN 750 was exchanged for 15 shares with nominal value of PLN 50 each. As a result of this split, the Company's share capital is divided into 43.338.015 shares.
- On 8 July 2013 Ordinary General Shareholders Meeting of PKP CARGO S.A. decided to merge series of shares. As a result of the adopted resolution all series of Company's shares, except for series L, were consolidated by the designation of a new series A. Designation of series L was changed now it's called series B. As a result of this change, the Company's share capital is divided into 43.338.000 ordinary bearer shares series A and 15 ordinary inscribed shares series B.

Above changes were registered in the National Court Register on 2 October 2013.

On 28 October 2013 the Management Board of Stock Exchange in Warsaw S.A. decided to admit shares of PKP CARGO S.A. to trading on the main market of the Warsaw Stock Exchange. On 30 October 2013 the Company's shares were introduced to trading on the main market on a regular basis. As a result of this transaction a minority stake of the previous owner was sold.

Fully covered ordinary shares with nominal value of PLN 50 are equivalent to one vote at the shareholders' meeting and are entitled to the dividend.

22.2 Share Premium

	As at 31/12/2013	As at 31/12/2012
	PLN thousand	PLN thousand
Share premium, including:	692 761	122 773
Agio	175 741	58 662
Profit appropriation (statutory)	36 497	19 158
Profit appropriation (above the statutory minimum)	240 526	44 953
Capital created from shares redemption	139 982	-
Share-based payment provision	100 015	-

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

Amounts included in the share premium are not distributable except from those arising from profit generated by the Parent company, reduced by statutory appropriations for loss coverage (pursuant to Article 396 of the Code of Commercial Companies).



During the financial year covered by this Consolidated Financial Statements ended 31 December 2013, the following changes in the share premium took places:

	Agio PLN thousand	Profit appropriations (statutory PLN thousand	Profit appropriation (above the statutory minimum) PLN thousand	Capital created from shares redemption PLN thousand	Share- based payment provision PLN thousand	Total PLN thousand
As at 31 December 2011	58 661	19 158	24 941			102 760
Issue of shares Transfer of financial results for 2011	1 -	-	- 20 012	-	-	- 20 012
As at 31 December 2012	58 662	19 158	44 953			122 773
Issue of shares series L Reduction of share capital Transfer of financial results for 2012 (*)	117 079 - -	- - 17 339	- - 200 574	- 139 982 -	- - -	117 079 139 982 217 913
Transfer of subsidiaries' losses for the year 2012 (**)	-	-	(4 851)	-	-	(4 851)
Share-based payment provision Division of the Parent Company	-	-	(150)	-	100 015 -	100 015 (150)
As at 31 December 2013	175 741	36 497	240 526	139 982	100 015	692 761

^(*) result for the year 2012 arising from the financial statements prepared in accordance with PAS.

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

Profit appropriation made in order to cover losses in accordance with Article 396 of the Code of Commercial Companies to cover losses of future years.

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

The share-based payment results from Employee Guarantee Programme (EGP). On 2 September 2013 the Management Board of PKP CARGO S.A. and trade unions signed an agreement on the Employment Guarantee Program (EGP). The Parent company's employees and the employees of the PKP CARGO S.A Group will receive a share based payment. The estimated total cost of these benefits together with social insurance cost related to these benefits for PKP CARGO S.A. employees equals to PLN 156.919 thousand, of which PLN 90.622 thousand relates to share based payment provision recognised in a share premium. Additionally the share based payment provision of PLN 9.392 thousand was recognised in a share premium that

^(**) Cover of losses for the year 2012 resulting from the separate financial statements of PKP CARGO S.A. subsidiaries.



relates to value of benefits expected to be granted to employees of the entities belonging to PKP CARGO Group. Employee benefits are disclosed in Note 28.2.

On the basis of the Resolution of the General Shareholders Meeting dated on 18 October 2013 there was a division of PKP CARGO S.A. by separating part of the Company's assets and transferring them to a newly created Company Windykacja Kolejowa Sp. z o.o. The division was made in accordance with Article 529 § 1 point 4) of the Code of Commercial Companies (transfer of part of the assets to a new company in exchange for 3.000 of its shares with a total value of PLN 150 thousand, fully covered by PKP S.A.) The division was made by reduction of the share premium of PKP CARGO S.A. Company Windykacja Kolejowa will be focused on investigation of any claims for damages and other related claims entitled to PKP CARGO S.A. as a railway operator, that regard potential damages incurred as a result of application of excessive rates for access to the railway infrastructure, as well as investigation of other claims between PKP CARGO S.A. and State Treasury or local government units.

23. Retained earnings and dividends

	As at 31/12/2013_	As at 31/12/2012
	PLN thousand	PLN thousand
Retained earnings	603 247	159 946
	For the year ended 31/12/2013	For the year ended 31/12/2012
	PLN thousand	PLN thousand
Opening balance	159 946	(87 718)
Net result for the financial year	74 043	267 677
Transfer to supplementary capital	(217 912)	(20 013)
Cover losses from previous years	4 852	-
Reduction of the share capital	582 318	
Closing balance	603 247	159 946

As at 31 December 2013 there was no limitation on dividend payout except of the limitation described in note 22.2.

23.1 Non-controlling interest

	For the year ended 31/12/2013	For the year ended 31/12/2012	
	PLN thousand	PLN thousand	
Opening balance	72 078	75 491	
Share in comprehensive income during the financial year	(8 590)	36	
Dividend paid on non-controlling interest	(1 111)	(3 449)	
Closing balance	62 377	72 078	



24. Credit facilities and loans received

	As at 31/12/2013	As at 31/12/2012
	PLN thousand	PLN thousand
Credit facilities and loans - measured at amortized cost		
Overdraft facilities	9 147	30 792
Bank loans- pledged on assets	183 833	258 307
Borrowings from other entities	1 795	213
Total	194 775	289 312
Current liabilities	73 217	96 202
Non-current liabilities	121 558	193 110
Total	194 775	289 312

Pledges on Group's assets related to loans received are disclosed in note 14.2

24.1 Summary of loan and borrowings agreements

Investment loans agreements in the Group were signed mainly to finance the modernization of engines, to finance the purchase of real estate and to modernize transshipment terminals. The reference rate for loan agreements is WIBOR 1M and 3M plus margin. The agreements are signed for the period of maximum 5 years. Repayment is made in PLN. Investment loan agreements are secured by a registered pledge on the subject of financing which is gradually released after payment of specific amount of money. Loan for the purchase of real estate is secured by the mortgage.



24.1 Summary of loan agreements - continued

Below please find summary of other bank loans taken by the Group (companies consolidated with the full method):

As at 31/12/2013 (Parent company)

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in currency	Contractual amount in PLN thousand	Liability in PLN thousand
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	05.10.2015	Registered pledge on the electric engines ET22 which is gradually released after payment of specific amount of money.	53 000	53 000	19 180
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	21.03.2016	Registered pledge on the electric engines ET22 which is gradually released after payment of specific amount of money.	36 400	36 400	16 270
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.03.2016	Registered pledge on the electric engines EU07 which is gradually released after payment of specific amount of money.	36 600	36 600	20 138
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Registered pledge on the electric engines ET22 which is gradually released after payment of specific amount of money.	39 000	39 000	29 658
Investment loan	Bank Millennium S.A.	PLN	WIBOR 3M + margin	21.08.2017	Mortgage to the amount of PLN 20.000 thousand.	16 667	16 667	12 219
Investment loan	FM Bank PBP S.A.	PLN	WIBOR 1M + margin	31.10.2017	Registered pledge on the diesel engines ST44 which is gradually released after payment of specific amount of money.	60 000	60 000	38 562
Investment loan	Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2017	Registered pledge on the diesel engines ST45 which is gradually released after payment of specific amount of money.	49 200	49 200	39 360
						Total		175 387

On 3 December 2013 the Parent company signed a loan agreement with the European Investment Bank based in Luxembourg for the credit facility up to PLN 200.000 thousand. This loan is dedicated for investments in the railway fleet. The Company can use this credit facility within 24 months from the date of signing the contract. The repayment period will be adjusted to the depreciation period of the fixed asset financed, however cannot be longer than 15 years. As at 31 December 2013 the Parent company has not exercised the option to use the credit facility.



As at 31/12/2013 (subsidiaries)

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in currency	Contractua I amount in PLN thousand	Liability in PLN thousand
Overdraft facilities	Pekao S.A.	PLN	WIBOR 1M +margin	30.06.2014	1) Transfer of receivables, 2) Authorization to charge bank accounts, 3) Statement of submission to enforcement,	15 000	15 000	7 772
Overdraft facilities	CITI Handlowy	PLN	WIBOR 1M +margin	30.01.2015	Transfer of receivables in amount of PLN 30,000 thousand.	20 000	20 000	294
Loan	BGŻ Leasing Sp. z o.o.	PLN	WIBOR 1M +margin	15.03.2015	Transfer of ownership, registered pledge on company's assets.	88	88	40
Investment loan	Pekao S.A.	PLN	WIBOR 1M +margin	30.06.2015	1) Transfer of receivables, 2) Authorization to charge bank accounts, 3) Statement of submission to enforcement, 4) Registered pledge	7 600	7 600	1 573
Loan	BGŻ Leasing Sp. z o.o.	PLN	WIBOR 1M +margin	15.08.2015	Transfer of ownership registered pledge on company's assets.	186	186	69
Investment loan	Pekao S.A.	PLN	WIBOR 1M +margin	31.12.2015	1) Transfer of receivables, 2) Authorization to charge bank accounts, 3) Statement of submission to enforcement, 4) Registered pledge.	18 400	18 400	5 076
Overdraft facilities	PKO BP S.A.	PLN	WIBOR 1M +margin	15.04.2016	Capped mortgage in amount of PLN 700 thousand, Pledge on inventories PLN 600 thousand.	1 300	1 300	1 080
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.09.2016	Surety of PKP CARGO S.A. up to PLN 1,048 thousand.	911	911	498
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.10.2016	Surety of PKP CARGO S.A. up to PLN 1,380 thousand with submission to enforcement by the guarantor.	1 200	1 200	703
Investment loan	mBank S.A	PLN	WIBOR 1M + margin	30.06.2017	Surety of PKP CARGO S.A. up to PLN 1,028 thousand.	767	767	597
Loan	WFOŚIGW Łódź	PLN	2,5% (fixed interest rate)	10.03.2024	Blank promissory notes, Non-revocable authorization to charge bank accounts, Surety of PKP CARGO S.A.	1 500	1 500	1 686
	1	1	1	1	<u>, - "</u>	Total		19 388



As at 31/12/2012 (Parent company)

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in currency	Contractual amount in PLN thousand	Liability in PLN thousand
Investment loan	BRE Bank S.A.	PLN	WIBOR 1M + margin	05.10.2015	Registered pledge on the electric engines ET22 which is gradually released after payment of specific amount of money	53 000	53 000	29 860
Investment loan	BRE Bank S.A.	PLN	WIBOR 1M + margin	21.03.2016	Registered pledge on the electric engines ET22 which is gradually released after payment of specific amount of money	36 400	36 400	23 590
Investment loan	BRE Bank S.A.	PLN	WIBOR 1M + margin	31.03.2016	Registered pledge on the electric engines EU07 which is gradually released after payment of specific amount of money	36 600	36 600	29 089
Investment loan	BRE Bank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Registered pledge on the electric engines ET22 which is gradually released after payment of specific amount of money	39 000	39 000	38 143
Investment loan	Bank Millennium S.A.	PLN	WIBOR 3M + margin	21.08.2017	Mortgage to the amount of PLN 20.000 thousand.	16 667	16 667	15 555
Investment loan	Polski Bank Przedsiębiorczości S.A.	PLN	WIBOR 1M + margin	31.10.2017	Registered pledge on the diesel engines ST44 which is gradually released after payment of specific amount of money.	60 000	60 000	49 683
Investment loan	Bank Polska Kasa Opieki S.A.	PLN	WIBOR 1M + margin	31.12.2017	Registered pledge on the diesel engines ST45 which is gradually released after payment of specific amount of money.	49 200	49 200	49 200
	ı		ı		/	Total		235 120



As at 31/12/2012 (subsidiaries)

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in currency	Contractual amount in PLN thousand	Liability in PLN thousand
Loan 2206/10/BG	BGŻ Leasing Sp. z o.o.	PLN	WIBOR 1M+ margin	15.02.2013	Transfer of ownership, registered pledge on company's assets.	364	364	107
Overdraft facilities	PKO BP ELBLĄG	PLN	WIBOR 1M + margin	15.04.2013	Capped mortgage	700	700	649
Overdraft facilities	Pekao S.A.	PLN	WIBOR 1M + margin	30.06.2013	1) Authorization to charge current accounts of the debtor maintained by the Bank, 2) Statement of submission to enforcement up to PLN 37.5 million, 3) transfer of contractual receivables.	25 000	25 000	18 976
Overdraft facilities	CITI Handlowy	PLN	WIBOR 1M + margin	05.07.2013	Statement of submission to enforcement up to PLN 24 million, Transfer of contractual/billed receivables.	20 000	20 000	11 166
Loan 3565/10/BG	BGŻ Leasing Sp. z o.o.	PLN	WIBOR 1M+ margin	15.09.2013	Transfer of ownership, registered pledge on company's assets	52	52	69
Loan 6333/12/BG	BGŻ Leasing Sp. z o.o.	PLN	WIBOR 1M+ margin	15.03.2015	Transfer of ownership, registered pledge on company's assets	88	88	23
Investment loan	Pekao S.A.	PLN	WIBOR 1M + margin	30.06.2015	1) Transfer of receivables, 2) Authorization to charge bank accounts, 3) Statement of submission to enforcement, 4) Registered pledge.	7 600	7 600	2 621
Loan 3159/10/BG	BGŻ Leasing Sp. z o.o.	PLN	WIBOR 1M+ margin	15.08.2015	Transfer of ownership, registered pledge on company's assets	186	186	15
Investment loan	Pekao SA	PLN	WIBOR 1M + margin	31.12.2015	1) Transfer of receivables, 2) Authorization to charge bank accounts, 3) Statement of submission to enforcement, 4) Registered pledge.	18 400	18 400	7 613
Investment loan	BRE Bank SA	PLN	WIBOR 1M + margin	30.09.2016	Surety of PKP CARGO S.A. up to PLN 1,048 thousand.	911	911	679
Investment loan	BRE Bank S.A.	PLN	WIBOR 1M + margin	31.10.2016	Surety of PKP CARGO S.A. up to 1,380 thousand with submission to enforcement by the guarantor.	1 200	1 200	952
Investment loan	BRE BANK SA	PLN	WIBOR 1M + margin	30.06.2017	Surety of PKP CARGO S.A. up to PLN 1,028 thousand.	894	894	767
Investment loan	BGK	PLN	WIBOR 3M + margin	31.08.2020	Pledge on shares, CTB surety, blanket mortgage, assignment of machines, ordinary mortgage	13 626	13 626	10 555
						Total		54 192



24.2 Events of default in loan agreements

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

24.3 Other financial liabilities

	As at 31/12/2013	As at 31/12/2012
	PLN thousand	PLN thousand
Derivatives designated and used as collateral, measured at fair value (negative measurement of derivatives)		
Interest-rate swap (IRS)	306	737
Total	306	737
Current liabilities Non-current liabilities	306	737 -
Total	306	737

25. Other provisions

	As at 31/12/2013	As at 31/12/2012
	PLN thousand	PLN thousand
Provision for the fine imposed by OCCP	22 778	16 576
Other provisions	26 203	10 573
Total	48 981	27 149
Short-term provisions	26 127	27 064
Long-term provisions	22 854	85
Total	48 981	27 149



Other provisions	Provision for the fine imposed by OCCP	Other	Total
	PLN thousand	PLN thousand	PLN thousand
As at 1 January 2012	60 362	12 878	73 240
Provisions recognised	16 576	5 050	21 626
Derecognised	-	(4 778)	(4 778)
Used	(60 362)	(2 577)	(62 939)
Interest expense	_ _	<u> </u>	<u> </u>
As at 31 December 2012	16 576	10 573	27 149
Provisions recognised	16 148	20 432	36 580
Derecognised	(9 946)	(2 871)	(12 817)
Used	-	(1 931)	(1 931)
Interest expense	<u> </u>		
As at 31 December 2013	22 778	26 203	48 981

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

The provision represents a fine in the amount of PLN 16.576 thousand imposed on 31 December 2012 by Office of Competition and Consumer Protection. The Parent company was accused of blocking the possibility of compete with shipping companies belonging to PKP CARGO Capital Group. On 17 January 2013 the Parent company submitted an appeal to District Court in Warsaw - Court of Competition and Consumer Protection. PKP CARGO S.A. filed, inter alia, for change of the contested decision as a whole (the Company denied using such practices). The OCCP's decision is unlawful. As a result of recalculation of the provision for known and quantifiable risk related to OCCP's proceedings, the Group derecognised the provision in the amount of PLN 9.945 thousand.

The Parent company recognised the provision for fine imposed by Office of Competition and Consumer Protection (on the basis of the Decision no DOK-4/2012 dated on 26 July 2012) in the amount of PLN 1.786 thousand, related to delay in implementation of the OCCP's President's decision dated on 31 December 2004 concerning unjustified differentiation of discounts in the carriage of coal. On 10 August 2012 the Parent company filed an appeal to district Court in Warsaw - Court of Competition and Consumer Protection. OCCP's decision is unlawful. As at 31 December 2013 the Group recalculated potential risk related to OCCP's proceedings and recognised the provision in the amount of fine imposed

On 3 October 2013 the Supreme Court rescinded the judgements of District Court in Warsaw - Court of Competition and Consumer Protection (dismissal of the Company's appeal from the decision no DOK-3/2009) and Court of Appeal in Warsaw (dismissal of Parent company's appeal from the District Court's judgement). As a result, Office for Competition and Customer Protection returned the fine paid by Group in the amount of PLN 60.362 thousand. Taking into account, that the Supreme Court referred the matter back to the court of first instance, the Group reestimated the fine which can be imposed once again by OCCP. As at 31 December 2013 the value of newly recognised provision amounts to PLN 14.362 thousand

Other provisions

According to the Management Board of the Parent company, the amount of other provisions as at 31 December 2013 represents the best estimation of probable payment. If any penalties are imposed, their value is dependent on the future events with uncertain result. Consequently, the amount of provisions may vary in future periods.



26. Trade and other liabilities

	As at 31/12/2013	As at 31/12/2012
	PLN thousand	PLN thousand
Trade liabilities	266 864	305 399
Accruals	23 305	9 667
Liabilities due to purchase of non-financial non-current assets	203 866	243 450
Liabilities related to securities (deposits)	32 279	26 287
Capital settlement – redemption of shares	-	-
State liabilities	124 784	112 326
Settlements with employees	82 332	83 673
Other liabilities	4 341	6 210
VAT liabilities	51 758	46 916
Total	789 529	833 928
Current liabilities	675 841	682 149
Non-current liabilities	113 688	151 779
Total	789 529	833 928

The average turnover of Group's trade liabilities is 30 days from the invoice receipt date. Seldom, agreements are concluded with the payment deadline exceeding 30 days, but then the Group is not charged with statutory interest for payment delay over 30 days in light of provisions of the Act on payment deadlines in commercial transactions dated 12 June 2003 (Law Journal of 8 August 2003). Over last three years, the Group paid its liabilities within the contractual deadlines.

Long-term liabilities include in particular installments regarding the purchase (improvements of property, plant and equipment). They are made in accordance with pre-defined payment schedules.

27. Short- and long-term finance lease liabilities and leases with purchase option

27.1 General terms of lease

The Group uses cargo wagons, transshipment devices, technical equipment facilities, computer hardware, cars and engines under finance leases. The leases are concluded for 3 to 10 years. The Group may buy the leased equipment for the amount equivalent to its residual value at the end of lease term. EURIBOR 1M, 3M, 6M is the reference rate for contracts denominated in EUR, LIBOR 6M CHF is the reference rate for those denominated in CHF, and WIBOR 1M and 3M is the reference rate for those denominated in PLN.



27.2 Lease liabilities

	Minimum Lea	se Payments	
	As at 31/12/2013	As at 31/12/2012	
	PLN thousand	PLN thousand	
Up to one year	129 093	135 963	
Over one year, up to five years	280 892	363 510	
Over five years	61 434	93 574	
	471 419	593 047	
Less future lease charges	(42 493)	(55 496)	
Present value of minimum lease payments	428 926	537 551	

	Present value of paym	
	As at 31/12/2013	As at 31/12/2012
	PLN thousand	PLN thousand
Up to one year	115 790	118 668
Over one year, up to five years	255 250	326 729
Over five years	57 886_	92 154
Present value of minimum lease payments	428 926	537 551

	As at 31/12/2013	As at 31/12/2012
	PLN thousand	PLN thousand
Included in the financial statements under:		
Short-term liabilities due to finance lease and leases with purchase option	115 790	118 668
Long-term liabilities due to finance lease and leases with purchase option	313 136	418 883
Total	428 926	537 551
	720 020	007 001



28. Employee benefits

The actuarial valuation was based on the following assumptions:

Measurement as at

	31/12/2013	31/12/2012
	%	%
Discount rates	4,00	3,80
The average annual increase assumed for the basis of calculation of the provision for retirement benefits and jubilee bonuses	1,50	1,50
Assumed increase in the price of benefit entitlement The average annual increase assumed for the basis of calculation	1,5 – 3,6	1,5 – 3,6
of the Provision for Social Benefit Fund	3,60	3,60
Weighted average employee mobility ratio	2,50	2,50
Inflation (annual)	2,50	2,50

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

	For the year ended 31/12/2013	For the year ended 31/12/2012
	PLN thousand	PLN thousand
Post-employment defined benefit plans	_	
 retirement benefits 	10 846	11 338
 appropriations to the Social Benefit Fund for pensioners 	8 184	12 289
 transport benefits 	1 196	(26 393)
Other long-term employee benefits		
- jubilee bonuses	40 253	104 093
Short-term benefits		
 other employee benefits 	13 345	6 226
Total change in employee benefit plans	73 824	107 553
 provision for Employment Guarantees Program (PGP) - recognised in profit or loss in the position of salaries and wages and cost of social 		
insurance	73 171	
Total	146 995	107 553



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

	For the year ended 31/12/2013	For the year ended 31/12/2012
Post-employment defined benefit plans	PLN thousand	PLN thousand
- retirement benefits	- 4 198	32 004
 appropriations to the Social Benefit Fund for pensioners 	(16 996)	33 786
 transport benefits 	(3 126)	(15 824)
Total	(15 924)	49 966

Amount recognised in the Consolidated Statement of Financial Position in relation to Group's liabilities arising from employee benefit plans:

	As at 31/12/2013	As at 31/12/2012
	PLN thousand	PLN thousand
Post employment defined benefit plans		
Post-employment defined benefit plans - retirement benefits	148 188	152 401
appropriations to the Social Benefit Fund for pensioners	145 039	162 177
- transport benefits	36 232	40 627
Other long-term employee benefits	55 252	
- jubilee bonuses	329 546	337 374
Short-term benefits	_	_
 other employee benefits (unused holidays/ bonuses) 	37 208	23 864
 provision for Employment Guarantees Program (PGP) 	73 171	-
T (1)	700.004	740.440
Total	769 384	716 443
including:		
- long-term	592 923	616 274
short-term	176 461	100 169



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

	For the year ended 31/12/2013	For the year ended 31/12/2012
	PLN thousand	PLN thousand
Opening balance of defined benefit plan liabilities	716 443	633 874
Current service cost	94 271	27 932
Other employee benefits	13 345	6 226
Past service cost vested	85	926
Interest expense	23 511	31 031
Actuarial losses/ (gains) - post-employment benefits	(15 924)	49 966
Actuarial losses/ (gains) - other long term employee benefits	15 812	76 905
Benefits paid	(78 886)	(74 950)
Plan reduction / modification	727	(35 467)
Closing balance of defined benefit plan liabilities	769 384	716 443

Actuarial (gains)/ losses incurred in 2013 arising from:

	changes in demographic assumptions	demographic financial	
	PLN thousand	PLN thousand	PLN thousand
Actuarial (gains)/ losses - post-employment benefits			
 retirement benefits 	3 914	284	4 198
 appropriations to the Social Benefit Fund for pensioners 	(14 259)	(2 737)	(16 996)
- transport benefits	(2 207)	(919)	(3 126)
Actuarial (gains)/ losses - other long term employee benefits			
– jubilee bonuses	15 662	150	15 812
Total	3 110	(3 222)	(112)

Actuarial (gains)/ losses incurred in 2012 arising from:

	changes in demographic assumptions	changes in financial assumptions	Total
	PLN thousand	PLN thousand	PLN thousand
Actuarial (gains)/ losses - post-employment benefits			
- retirement benefits	(9 776)	40 291	30 515
- appropriations to the Social Benefit Fund for pensioners	(3 874)	39 069	35 195
 transport benefits 	(22 718)	6 974	(15 744)
Actuarial (gains)/ losses - other long term employee benefits			
– jubilee bonuses	12 493	64 412	76 905
Total	(23 875)	150 746	126 871

Weighted average period of employee benefits amounts to 13,71 years for jubilee bonuses, 7,74 years for retirement benefits, 15,12 years for disability benefits, 36,81 years for social benefits and 39,26 years for transport benefits.



28.1 Sensitivity analysis of employee benefit

Presented below is an analysis of sensitivity of balances of provisions for employee benefits as at 31 December 2013 and 31 December 2012 for key assumptions underlying actuarial valuation. Key assumptions include: discount rate, pay increase ratio, employee mobility ratio.

		Discount rate Pay increase		ase ratio	Employee m	obility ratio	
	As at 31/12/2013 PLN thousand	+0,5%	-0,5%	+0,5%	-0,5%	+0,5%	-0,5%
Jubilee benefits	329 546	(8 432)	8 812	8 953	(8 693)	(9 153)	9 406
Retirement benefits	144 331	(4 980)	5 270	5 361	(5 120)	(5 400)	5 526
Disability benefits	3 857	(83)	86	88	(86)	(89)	92
COMPANY'S SOCIAL BENEFIT FUND	145 039	(7 929)	8 761	8 753	(7 996)	(1 367)	1 429
Transport benefits	36 232	(2 084)	2 304	2 328	(2 196)	(494)	525
Total	659 005	(23 508)	25 233	25 483	(24 091)	(16 503)	16 978

		Discount rate Pay increase ratio		Discount rate Pay increase ratio Employee mobility ratio		obility ratio	
	As at 31/12/2013 PLN thousand	+0,5%	-0,5%	+0,5%	-0,5%	+0,5%	-0,5%
Jubilee benefits	337 374	(8 559)	9 331	9 448	(8 923)	(9 418)	9 873
Retirement benefits	148 480	(4 993)	5 516	5 586	(5 204)	(5 508)	5 858
Disability benefits	3 921	(83)	90	92	(87)	(92)	96
COMPANY'S SOCIAL BENEFIT FUND	162 177	(9 085)	10 067	10 036	(9 144)	(783)	846
Transport benefits	40 627	(2 365)	2 620	2 641	(2 405)	(265)	286
Total	692 579	(25 085)	27 624	27 803	(25 763)	(16 066)	16 959



28.2 Employee benefits- share based payments

In 2013 the Parent company has concluded a share based payment transaction in an equity settled instruments.

On 2 September 2013 an agreement was concluded between the Management Board of Parent company and trade unions on subject of the Employment Guarantees Program (PGP). According to the agreement employees of Parent company and employees of entities belonging to PKP CARGO Capital Group will receive a one-off share based payment settled in shares. The right to a share based payment was granted to the employees, who at the time of the conclusion of the agreement were employed in the Parent company or in PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o., PKP CARGO Centrum Logistyczne Medyka – Żurawica Sp. z o.o., PKP CARGO Tabor – Karsznice Sp. z o.o., PKP CARGOWAG Sp. z o.o. and PKP CARGOLOK Sp. z o.o. with an exception of Management Board Members of Parent company and members of the management boards of subsidiaries included in the share based program. The vesting condition for a share based payment was an initial public offering of PKP CARGO S.A. shares on a WSE market.

The value of one-off bonus for entitled employees is dependent on their seniority in the railways sector and amounts to:

- a) from 5 to 15 years 0,8 average salary in the Group,
- b) from 15 to 30 years 1,2 average salary in the Group,
- c) above 30 years 1,8 average salary in the Group,

less the national insurance contribution, an advance for PIT and other deductions. One-off bonus will be paid in shares of new issue at the Parent company. In order to finance the acquisition of shares, the PKP CARGO Capital Group will grant a cash bonus to entitled employees, which can be used exclusively to cover the purchase of employee shares.

The number of employee shares will be equal to the quotient of the amount of one-off bonus and the sales price of the Parent company's shares offered by PKP S.A in public offer, i.e. PLN 68 per share. It is estimated that the maximum number of shares to be issued under Employment Guarantees Program amounts to 1.470.807 shares. The difference between one-off employee bonus and the number of granted shares multiplied by share price will be settled in cash.

In order to realize this employees' entitlement the Parent company will increase its share capital by issuing new shares, excluding pre-emptive rights. Entitled employees can sign up for shares until 28 February 2014.

Employee shares may not be sold within 2 years from the date of the first listing of the new shares. However, employee shares will participate in the dividend. The expiration date of this limitation is 30 October 2015.

The estimated total cost of these benefits together with social insurance cost related to these benefits equals to PLN 173,186 thousand, of which PLN 100,015 thousand relates to share based payment provision that will be paid to employees of PKP CARGO S.A. and employees of subsidiaries recognised in a share premium. The amount of PLN 73,171 thousand is the provision recognised in short-term provisions for employee benefits and relates to social insurance costs paid by PKP CARGO SA and the amount of social insurance costs and personal income tax which the Capital Group PKP CARGO will cover on behalf of eligible employees.



Amount related to Employment Guarantees Program recognised in the Consolidated Statement of Financial Position:

	As at 31/12/2013	As at 31/12/2012
	PLN thousand	PLN thousand
Share premium including:	100 015	-
Share premium (provision for share based payments granted to employees of PKP CARGO S.A.) Share premium (provision for share based payments granted to employees of subsidiaries)	90 623 9 392	-
Short-term employee benefits Total	73 171 173 186	

Amounts related to Employment Guarantees Program recognised in profit or loss in the **Consolidated Statement of Comprehensive Income**:

	For the year ended 31/12/2013	For the year ended 31/12/2012	
	PLN thousand	PLN thousand	
Employee benefits - salaries and wages	144 322	-	
Employee benefits - cost of social insurance	28 864	-	
Total	173 186		

There were no share based payments in the PKP CARGO Capital Group in 2012.



29. Financial instruments

29.1 Financial risk management objectives and principles

In the years covered by Consolidated Financial Statements , PKP CARGO Capital Group was exposed to the following financial risk types:

- a) Liquidity risk
- b) Market risk, including:
 - Currency risk
 - Interest rate risk
- c) Credit risk

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

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

According to the adopted financial risk policy, the Group concluded in 2013 currency forward transactions for EUR/PLN currency pair. No hedging transactions were applied for EUR/CHF since their exchange rate was stable (it was treated as a natural hedging). The Group used spot transactions for EUR/CHF currency pair.

The subsidiary Trade Trans Sp. z o.o. subsidiary implemented the hedge accounting. To manage the currency risk the company uses financial instruments, primarily the NDF currency forward sales transactions. In addition to securing foreign currency transactions the company also uses a variable rate security for their investment loans. For that, the company concludes the IRS type transactions on interest rate.

Details of liquidity, currency, interest rate and credit risk management are presented in notes 29.6., 29.3., 29.4. and 29.5. respectively.

29.1.1 Financial leverage ratio

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



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

	As at31/12/2013_	As at 31/12/2012	
	PLN thousand	PLN thousand	
Debt (i) Cash and cash equivalents	2 234 722 263 700	2 409 097 188 008	
Net debt	1 971 022	2 221 089	
Balance sheet total	5 743 616	5 623 769	
Net debt to balance sheet total	34%	39%	

(i) Debt includes both short- and long-term debt.

Capital management is performed at the Capital Group level to protect the Group's ability to continue its operations as a going concern.

29.2 Categories and classes of financial instruments

Financial instruments by category	As at 31/12/2013	As at 31/12/2012
	PLN thousand	PLN thousand
Financial assets		
Financial assets measured at fair value through profit or loss	2 224	65
Hedging instruments	163	467
Financial assets held to maturity	-	-
Financial assets available for sale	-	-
Loans and receivables	1 529 135	1 439 689
Total assets by category	1 531 522	1 440 221
Financial liabilities		
Financial liabilities measured at fair value through profit or loss	-	-
Liabilities arising from derivatives designated as hedges: hedge accounting	306	737
Financial liabilities measured at amortized cost	688 810	847 828
Hedging instruments	-	-
Liabilities excluded from IAS 39 (finance lease)	428 926	537 551
Total liabilities by category	1 118 042	1 386 116



Financial instruments by classes	As at 31/12/2013	As at 31/12/2012
	PLN thousand	PLN thousand
Trade receivables	576 328	587 303
Receivables from sales of non-current assets	29	81
Loans granted	5 044	56 342
Receivables related to EGP	79 614	-
Bank deposits	604 420	607 955
Cash	263 700	188 008
Assets from measurement of derivatives and embedded derivatives including:		
Derivatives designated as fair value hedges	-	-
Derivatives designated as cash flow hedges	163	467
Derivatives held for trading	2 224	65
Total financial assets	1 531 522	1 440 221
Debt securities issued	<u>-</u>	_
Credit facilities and loans	194 775	289 312
Trade liabilities	290 169	315 066
Liabilities arising from purchase of non-current assets	203 866	243 450
Finance leases	428 926	537 551
Measurement of derivatives and embedded derivatives, including		
Derivatives designated as fair value hedges	_	_
Derivatives designated as cash flow hedges	306	737
Derivatives held for trading	-	-
Financial liabilities total	1 118 042	1 386 116



29.3 Currency risk management

In the period covered by these Consolidated Financial Statements, the Group was exposed in 2013 to currency risk related to receivables, cash and liabilities. The Group's receivables denominated in foreign currencies, while liabilities denominated in foreign currencies mostly related to finance lease liabilities short and long form.

Financial revenue (forex gains) and expenses (forex losses) are recognised as a result of balance sheet valuation of receivables and liabilities denominated in foreign currencies and settlements of amounts receivable and payable denominated in foreign currencies. Financial revenue and expenses change over the year due to exchange rate fluctuations.

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

Unrealized forex differences on lease liabilities of Group arise from the necessary measurement as at the reporting date of the financial statements and as at the due date of payment of individual lease installments during the financial year.

The average monthly amount of short-term receivables denominated in foreign currencies (mostly in EUR) approximates to EUR 15 million, and for those denominated in CHF, CHF 0.3 million. Receivables from international freight accounts for a significant portion of short-term receivables. Cash flows in EUR were partially hedged by concluded term transactions, for the remaining part a natural hedging was applied.

Cash denominated in foreign currencies deposited at bank accounts resulted from proceeds/payments mismatch. Since the proceeds exceed payments, the Group generates a permanent surplus in EUR, whose average monthly amount to approximately EUR 6 million.

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

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

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

	Asse	ets	Liabili	Liabilities				
	As at 31/12/2013			As at 31/12/2012				
	PLN thousand	PLN thousand	PLN thousand	PLN thousand				
USD	965	14 889	2 565	2 085				
EUR	79 589	145 868	202 708	259 656				
CHF	744	2 327	123 204	180 667				
CZK		-	811	3 584				
SEK	-	-	-	-				
Other	96	623	247	124				



29.3.1 Currency risk sensitivity

In the presented periods PKP CARGO Capital Group was exposed in 2013 and 2012 to currency risk, both in relation to its receivables and payables. Group's receivables denominated in foreign currencies included current amounts, while liabilities denominated in foreign currencies are mostly related to short- and long-term leases.

Extended maturity of lease liabilities denominated in EUR and CHF decides on their key contribution to financial revenue and expenses and on material fluctuations of the Company's performance on the level of financial revenue and expenses on unrealized forex differences. Below is disclosed a gross effect (before tax) of the sensitivity analysis.

As at 31 December 2013		Currency risk		Currency risk		Currency risk		Currency risk		Currency risk	
Financial statements item	Carrying amount in PLN thousand	USD/PLN		EUR/PLN		CHF/PLN		CZK/PLN		RUB/PLN	
		Impact on profit or loss		Impact on profit or loss		Impact on profit or loss		Impact on profit or loss		Impact on profit or loss	
		+15%	-15%	+8%	-8%	+25%	-25%	+7%	-7%	+10%	-10%
ASSETS											
Trade and other receivables	70 609	89	(89)	5 540	(5 540)	185	(185)	-	-	-	-
Other short-term financial assets	-	-	-	-	-	-	-	-	-	_	-
Cash and cash equivalents	10 785	71	(71)	827	(827)	1	(1)	6	(6)	8	(8)
EQUITY AND LIABILITIES											
Non-current liabilities											
Long-term credit facilities and loans		_						_			_
Long-term liabilities due to finance lease and lease agreements with a purchase option	203 001	-	-	(10 904)	10 904	(16 677)	16 677	-	-	-	-
Current liabilities											
Short-term credit facilities and loans Short-term liabilities due to finance lease and lease agreements with a purchase	-	-	-	-	-	-	-	-	-	-	-
option	95 604	-	-	(3 467)	3 467	(13 066)	13 066	-	-	-	-
Trade and other liabilities	30 930	(383)	383	(1 878)	1 878	(1 058)	1 058	(57)	57	-	-
Total gross effect		(223)	223	(9 882)	9 882	(30 615)	30 615	(51)	51	8	(8)



As at 31 December 2012		Currency risk		Currency risk		Currency risk		Currency risk		Currency risk	
Financial statements item	Carrying amount in PLN thousand	USD/PLN Impact on profit or loss		EUR/PLN Impact on profit or loss		CHF/PLN Impact on profit or loss		CZK/PLN Impact on profit or loss		RUB/PLN Impact on profit or loss	
		ASSETS									
Trade and other receivables Other short-term financial assets	138 250 -	622	(622)	10 517	(10 517)	578	(578)	-	-	-	-
Cash and cash equivalents	25 457	382	(382)	1 808	(1 808)	4	(4)	-	-	-	-
EQUITY AND LIABILITIES											
Non-current liabilities											
Long-term credit facilities and loans											
Long-term liabilities due to finance lease and lease agreements with a purchase option	296 086	-	-	(14 160)	14 160	(29 772)	29 772			-	-
Current liabilities											
Short-term credit facilities and loans Short-term liabilities due to finance lease and lease agreements with a purchase											
option Trade and other liabilities	99 470 50 560	(242)	313	(3 660)	3 660	(13 431)	13 431	(254)	251	-	-
Trade and other liabilities	00000	(313)	313	(2 953)	2 953	(1 963)	1 963	(251)	251	-	
Total gross effect		691	(691)	(8 448)	8 448	(44 584)	44 584	(251)	251	_	-



29.3.2 Currency forward transactions

In 2013 and 2012 the PKP CARGO Capital Group for the purposes of currency risk management used the currency forward contracts. In 2013 and 2012 the Group hedged its surplus amounts denominated in EUR with PLN/EUR forward transactions. Details of the currency risk management are presented in note 29.3.

The following table presents details of unrealized currency forward transactions as at 31 December 2013 and 31 December 2012:

As at 31 December 2013:

Entity	Transaction type	Number of open transactions	Transaction date	Settlement date	Currency pairs	Base currency amount	Floating currency amount	Fair value
BZ WBK	forward	22	05.2013 - 11.2013	01.2014 - 09.2014	EUR/PLN	6 750	28 801	603
mBANK	forward	16	06.2013 - 11.2013	01.2014 - 11.2014	EUR/PLN	6 400	27 777	1 000
Millennium	forward	6	11.2013	05.2014 - 07.2014	EUR/PLN	1 800	7 612	63
Pekao	forward	24	07.2013 - 11.2013	01.2014 - 10.2014	EUR/PLN	5 400	23 167	516
RCB	forward	6	11.2013	08.2014 - 10.2014	EUR/PLN	1 800	7 641	42
			22 150	94 998	2 224			

As at 31 December 2012:

Entity	Transaction type	Number of open transactions	Transaction date	Settlement date	Currency pairs	Base currency amount	Floating currency amount	Fair value *
BRE Bank	forward	3	10.2012	01.2013 - 03.2013	EUR/PLN	900	3 768	65
	Total						3 768	65

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



29.3.3 Hedge accounting applied in the currency risk management

In order to present effects of hedging transactions in accordance with their economic nature the hedge accounting was implemented in the Group (in Trade Trans Sp. z o.o). In the currency risk management process the Group uses financial instruments (primarily the NDF currency forward sales transactions).

As at the reporting date the Group has open forward transactions hedging revenues from sale denominated in foreign currencies. Following a hedge effectiveness test, measurement of the following NDF was charged to the Group's equity.

As at 31 December 2013:

Entity	Transaction type	Number of open transactions	Transaction date	Settlement date	Currency pairs	Base currency amount	Floating currency amount	Fair value *
CITI Handlowy	forward	1	01.2013	01.2014	EUR/PLN	500	2 074	48
Bank PEKAO S.A.	forward	7	01.2013 - 05.2013	01.2014 - 05.2014	EUR/PLN	1 630	6 760	115
	Total							163

As at 31 December 2012:

Entity	Transaction type	Number of open transactions	Transaction date	Settlement date	Currency pairs	Base currency amount	Floating currency amount	Fair value
CITI Handlowy	forward	1	05.2012	01.2013	EUR/PLN	150	613	28
Bank PEKAO S.A.	forward	9	01.2012 - 05.2012	01.2013 - 03.2013	EUR/PLN	2 390	9 771	439
		Total				2 540	10 384	467

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



29.4 Interest rate risk management

The majority of financial investments conducted in Group in 2013 and 2013 relate to bank deposits, that were concluded for the period ranging from a few days to seven months depending on liquidity needs of the Group. Interest on deposits denominated in PLN was ranging from 1.90% to 4.60% (depending on the deposit term). The average weighted interest rate of term deposits in 2013 amounted to 3.10 % in comparison to 5.92% in 2012.

Further, the Group is exposed to the risk of fluctuating cash flows arising from interest on bank loans and floating rate based leases. Interest on finance lease liabilities amounted to PLN 15,870 thousand in 2013 and PLN 21,440 thousand in 2012. Interest on leases was accrued in line with reference rates increased by the creditor's margin. EURIBOR 1M, 3M, 6M is the reference rate for contracts denominated in EUR, while LIBOR 6M CHF is the reference rate for those denominated in CHF.

Interest rate risk in leases is realized by revaluation of lease installments over the period of one month, three months and six months, depending on a contract. Interest on loan liabilities paid in 2013 amounted to PLN 9,851 thousand and in 2012 – PLN 12,992 thousand. Interest on loan agreements was calculated at WIBOR 1M and WIBOR 3M reference rate increased by the bank's margin. Interest rate risk in loan agreements is realized by revaluation of loan installments on a monthly basis.

Furthermore, according to the applied financial risk management policy, the Parent entity has concluded in 2013 interest rate risk management transactions so-called IRS. As the external financing that is based on floating interest rates the Parent company concluded IRS transactions for credit risk exposure related to capital repayments held in the period until 31.12.2013 in order to secure fluctuations in interest rates of the loans denominated in PLN. As at the reporting date all IRS contracts has already been settled by the Parent company.

29.4.1 Sensitivity to interest rate fluctuations

The above sensitivity analyses were based on the exposure of other financial instruments to interest rate risk as at the reporting date. In case of liabilities with floating interest rate, for the purpose of analysis the amount outstanding as at the reporting date was assumed as outstanding for the entire year. In the internal interest rate risk reports for key members of management, positive and negative deviations are used, about 100 basis points in the case of interest rates based on WIBOR and 70 basis points for all other interest rates. The following table presents the management's assessment of probable changes in interest rates.

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



29.4.1 Sensitivity to interest rate fluctuations (cont.)

As at 31.12.2013	Interest rate risk	Interest rate risk		Interest	rate risk	Interest rate risk	
Financial statements item	Carrying amount in PLN	WIBOR Impact on profit or loss		EURIBOR Impact on profit or loss		LIBOR Impact on profit or loss	
	thousand	impact on pi	0111 01 1033	impact on p	10111 01 1033	impact on p	10111 01 1033
		+ 100 pb	- 100 pb	+ 70 pb	- 70 pb	+ 70 pb	- 70 pb
ASSETS							
Long-term other financial assets							
Trade and other receivables	61	1	(1)	-	-	-	-
Other short-term financial assets	-	-	-	-	-	-	-
	689 017	6 890	(6 890)	=	=	-	-
Cash and cash equivalents	263 700	1 643	(1 643)	36	(36)	-	-
EQUITY AND LIABILITIES							
Non-current liabilities							
Long-term credit facilities and loans	121 558	(1 216)	1 216	ı	-	-	_
Long-term liabilities due to finance lease and lease agreements with a purchase		` ,					
option	313 137	(1 087)	1 087	(797)	797	(467)	467
Current liabilities							
Short-term credit facilities and loans	73 217	(732)	732	-	-	-	-
Long-term liabilities due to finance lease and lease agreements with a purchase							
option	115 790	(190)	190	(273)	273	(366)	366
Trade and other liabilities	_	-	_	-	-	_	_
Total gross effect		5 308	(5 308)	(1 034)	1 034	(833)	833



As at 31.12.2012	Interest rate risk	Interest r	ate risk	Interest	rate risk	Interest rate risk	
Financial statements item	Carrying amount in PLN	WIBOR Impact on profit or loss		EURIBOR Impact on profit or loss		LIBOR Impact on profit or loss	
	thousand	+ 100 pb	- 100 pb	+ 70 pb	+ 70 pb	+ 70 pb	- 70 pb
ASSETS							
Long-term other financial assets	5 684	57	(57)	-	-		
Trade and other receivables	_	J. 1	(0.7)	_	_		
Other short-term financial assets	608 576	6 086	(6 086)	_	_		
Cash and cash equivalents	177 025	1 661	(1 661)	75	(75)		
EQUITY AND LIABILITIES	020		(1.00.)		()		
Non-current liabilities							
Long-term credit facilities and loans	193 110	(1 931)	1 931	-	_	_	_
Long-term liabilities due to finance lease and lease agreements with a purchase		(,					
option	418 883	(1 252)	1 252	(1 333)	1 333	(953)	953
Current liabilities							
Short-term credit facilities and loans	96 202	(962)	962	-	-	-	-
Long-term liabilities due to finance lease and lease agreements with a purchase				45			
option	118 668	(191)	191	(392)	392	(406)	406
Trade and other liabilities							
Total gross effect		3 468	(3 468)	(1 650)	1 650	(1 359)	1 359



29.4.2. Open interest rate

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

These transactions hedge the floating interest rate on investment loans into fixed. The group transactions value is PLN 25,000 thousand. Following a hedge effectiveness test, measurement of the following IRS was charged to the Group's equity.

As at 31 December 2013:

Entity	Transaction type	Transaction date	Beginning of period	End of period	Nominal amount	Amount payable	Amount receivable	Fair value
PEKAO SA	IRS	31-10-2006	2013-12-31	31-12-2015	10 880	5,24%	WIBOR 1M + margin	(503)
CITI HANDLOWY	IRS	09-04-2013	2013-12-31	01-05-2018	74 776	3,33%	WIBOR 1M + margin	197
				•			Total	(306)
							including positive	197
							including negative	(503)

As at 31 December 2012:

Entity	Transaction type	Transaction date	Beginning of period	End of period	Nominal amount	Amount payable	Amount receivable	Fair value
PEKAO SA	IRS	31-10-2006	31-12-2012	31-01-2013	10 880	5,24%	WIBOR 1M + margin	(737)
							Total	(737)
							including positive	-
							including negative	(737)

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



29.5 Credit risk management

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

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

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

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

The maximum exposure to credit risk is represented by balance of trade and other receivables, cash and other financial assets. This exposure is limited by the securities established for the Group's benefit (in the form of, inter alia, bank / insurance guarantees, guarantee deposits).

29.6 Liquidity risk management

The Group may be exposed to liquidity risk arising from the relationship between current assets and net short-term liabilities (those without relevant provisions). The current ratio as at 31 December 2013 and 31 December 2012 is presented below. In order to ensure additional sources of funds necessary to maintain short-term liquidity, the Group used an overdraft facility. Additionally, in order to ensure long-term liquidity, the Group used investment loans and leases (to fund property, plant and equipment). Details are presented in note 14.2.

	As at 31/12/2013	
	PLN thousand	PLN thousand
Current accets		
Current assets	1 676 161	1 569 788
Current liabilities	1 067 986	1 025 925
Short-term provisions for employee benefits	(176 461)	(100 169)
Other short-term provisions	(26 127)	(27 064)
Current liabilities, net	865 398	898 692
Current ratio	1,94	1,75



29.6.1 Available borrowings

	As at 31/12/2013	As at 31/12/2012
	PLN thousand	PLN thousand
Unsecured overdraft facilities payable at request:		
Utilized	-	-
Not utilized	100 000	100 000
	100 000	100 000
Unsecured bill discount facility (monitored on an annual basis): Utilized Not utilized	<u>-</u>	<u>-</u>
Coours book overdretter		
Secure bank overdrafts: Utilized	9 850	30 792
Not utilized	27 153	20 108
TVOT GAINESG	37 003	50 900
Secured loans with different maturities of up to 2013, subject of extension under existing cor Utilized Not utilized		10 234 15 766 26 000

On 3 December 2013 the Parent company signed a loan agreement with the European Investment Bank based in Luxembourg for the credit facility up to PLN 200.000 thousand. This loan is dedicated for investments in the railway fleet. The Parent Company can use this credit facility within 24 months from the date of signing the contract. The repayment period will be adjusted to the depreciation period of the fixed asset financed, however cannot be longer than 15 years. As at 31 December 2013 the Parent company has not exercised the option to use the credit facility.



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

31 December 2013	Below 3 months	From 3 to 12 months	From 1 year to 5 years	Above	Total
	PLN	PLN	PLN	PLN	PLN
	thousand	thousand	thousand	thousand	thousand
Interest-bearing credit facilities and loans	26 727	51 984	126 798	_	205 509
Trade liabilities	289 366	242	561	-	290 169
Liabilities due to purchase of property, plant					
and equipment	59 582	38 386	121 274	-	219 242
Finance lease liabilities	36 077	93 016	280 892	61 434	471 419
Other financial liabilities	306				306
Total	412 058	183 628	529 525	61 434	1 186 645

31 December 2012	Below 3 months	From 3 to 12 months	From 1 year to 5 years	Above	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Interest-bearing credit facilities and loans	50 449	58 205	209 125	2 868	320 647
Trade liabilities Liabilities due to purchase of property, plant	314 307	322	437	-	315 066
and equipment	20 386	46 305	165 848	126	232 665
Finance lease liabilities	32 947	96 440	345 781	117 879	593 047
Other financial liabilities	737				737
Total	418 826	201 272	721 191	120 873	1 462 162



29.7 Fair value of financial instruments

According to the Management Board of the Parent company, carrying amounts of financial assets and liabilities recognised in the Consolidated Financial Statements approximate their fair values. The following table compares the carrying amount with fair value and explains which items lack fair value data.

As at 31/12/2013		Level 1	Level 2	Level 3
	Carrying amount		Fair value	
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Financial assets				
Loans and receivables:	1 531 522		1 531 522	
Trade receivables	576 328	-	576 328	
Receivables from sales of non-current assets	29	-	29	-
Loans granted	5 044	-	5 044	-
EGP receivables	79 614	-	79 614	-
Financial instruments - forwards 1)	2 224	-	2 224	-
Derivatives - cash flow hedges ²⁾	163	-	163	-
Bank deposits	604 420	-	604 420	-
Cash	263 700	-	263 700	-
Financial liabilities				
Financial liabilities measured at amortised cost:	689 116		689 116	
Credit facilities and loans	194 775	-	194 775	-
Trade liabilities	290 169	-	290 169	-
Liabilities arising from purchase of non-current assets	203 866	-	203 866	-
Derivatives - cash flow hedges ²⁾	306	-	306	-
Finance lease liabilities 3)	428 926		428 926	



As at 31/12/2012		Level 1	Level 2	Level 3
	Carrying amount		Fair value	
		PLN	PLN	PLN
	PLN thousand	thousand	thousand	thousand
Financial assets				
Loans and receivables:	1 440 221		1 440 221	
Trade receivables	587 303	-	587 303	-
Receivables from sales of non-current assets	81	-	81	-
Loans granted	56 342	-	56 342	-
Financial instruments - forwards 1)	65	-	65	-
Derivatives - cash flow hedges ²⁾	467	-	467	-
Bank deposits	607 955	-	607 955	-
Cash	188 008	-	188 008	-
Financial liabilities				
Financial liabilities measured at amortised cost:	848 565		848 565	
Credit facilities and loans	289 312	-	289 312	-
Trade liabilities	315 066	-	315 066	-
Liabilities arising from purchase of non-current assets	243 450	-	243 450	-
Derivatives - cash flow hedges 2)	737	-	737	-
Finance lease liabilities 3)	537 551		537 551	

¹⁾ Fair value of currency forwards is based on discounted future cash flows on concluded transactions calculated based on the difference between the forward and transaction price. The forward price is calculated based on the fixing of the National Bank of Poland and the curve implied by FX Swap transactions. It is located at level 2 of the fair value hierarchy.

²⁾ Fair value of hedges is based on discounted future cash flows on concluded transactions calculated based on the difference between the forward and transaction price. Fair value is calculated and discounted by bank based on WIBOR 1 M. It is located at level 2 of the fair value hierarchy.

³⁾ The fair value of lease liabilities is determined in accordance with the analysis of discounted cash flows.



30. Related party transactions

Transactions between the Parent company and its subsidiaries have been eliminated on consolidation and are not disclosed in this note. Detailed information on transactions between the Group and other related parties are disclosed below.

30.1 Commercial transactions

In the period covered by these Consolidated Financial Statements entities belonging to the Group entered into the following commercial transactions with related parties:

_		Year	2013	
_	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Parent company (PKP S.A.)	23 402	94 970	22 447	7 961
Subsidiaries / Co-subsidiaries	17 141	27 810	2 515	375
Associates / Co-subsidiaries	9 620	-	-	3
Other related parties from PKP S.A. Group	99 655	1 575 968	9 565	124 353

		Year 2012			
	Sales to related parties	Purchases from related parties	Receivables from related parties	Liabilities to related parties	
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	
Parent company (PKP S.A.)	1 317	101 788	1 292	10 490	
Subsidiaries / Co-subsidiaries	15	-	1	-	
Associates / Co-subsidiaries	67 595	69	2 908	42	
Other related parties from PKP S.A. Group	97 673	1 606 450	10 817	136 451	

The Group's cost generating transactions with Parent company (PKP S.A.) include in particular lease of property, media supply and occupational health care services.

Sales transactions concluded within PKP CARGO Capital Group (transactions with subsidiaries accounted for under equity method and associates) included transport of goods, lease of machinery and equipment, sub-lease of real estate property, maintenance of railroad fleet. Purchase transactions included among others maintenance and repair of railroad fleet, shipping services, cargo services, intermodal transport services.



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

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

In addition to commercial transactions PKP CARGO S.A. is granting a sureties to subsidiaries to secure i.a. repayment of custom tax, secure a loan or credit facility or finance lease agreement. The value of granted sureties as at the respective reporting dates amounted to PLN 24.951 thousand as at 31 December 2013 and PLN 31.950 thousand as at 31 December 2012.

As at 31 December 2013, impairment allowance on trade receivables from related parties in PKP S.A. Group amounted to PLN 2,500 thousand. As at 31 December 2012, impairment allowance on trade receivables from other related parties in PKP S.A. Group amounted to PLN 2,300 thousand.

30.2 Loans granted to / received from related parties

	As at 31/12/2013 PLN thousand	As at 31/12/2012 PLN thousand
Loans granted to related parties Loans received from related parties Loan granted to members of the management board	- - -	50 000 - -
	-	50 000

In December 2012, the Parent company granted a loan to an entity from PKP S.A. Group in the amount of PLN 50,000 thousand maturing at 31 May 2013. The aforementioned loan were granted on arm's length term. The loan was repaid in 2013.

30.3 Remuneration of executive management

	For the year ended 31/12/2013	For the year ended 31/12/2012
Remuneration of Members of the Parent company Management Board in the financial year:	PLN thousand	PLN thousand
Short-term benefits	1 909	1 892
Post-employment benefits	-	-
Other long-term benefits	-	-
Share-based payments	-	-
Employment termination benefits	896	270
Total	2 805	2 162



	For the year ended 31/12/2013	For the year ended 31/12/2012
Remuneration of Members of the Parent company Supervisory Board in the financial year:	PLN thousand	PLN thousand
Short-term benefits	332	329
Post-employment benefits	-	-
Other long-term benefits	-	-
Share-based payments	-	-
Employment termination benefits Total	332	329
Total	332	323
	For the year	For the year
	ended 31/12/2013	ended 31/12/2012
Remuneration of Parent company's other executive management (Proxies, Managing Directors) in the financial year:	PLN thousand	PLN thousand
Short-term benefits	665	353
Post-employment benefits	-	-
Other long-term benefits	-	20
Share-based payments	-	-
Employment termination benefits	-	-
Total	665	373
	For the year	For the year
	ended 31/12/2013	ended 31/12/2012
Remuneration of Members of the subsidiaries Management Board in the financial year:	PLN thousand	PLN thousand
Short-term benefits	6 760	7 178
Post-employment benefits	-	79
Other long-term benefits	17	56
Share-based payments	-	-
Employment termination benefits	153	27
Total	6 930	7 340



	For the year ended 31/12/2013	For the year ended 31/12/2012
Remuneration of Members of the subsidiaries Supervisory Board in the financial year:	PLN thousand	PLN thousand
Short-term benefits	1 918	2 666
Post-employment benefits	-	-
Other long-term benefits	-	-
Share-based payments	-	-
Employment termination benefits	-	-
Total	1 918	2 666

During 2013 and 2012 Members of Management Board and Supervisory Board of the Parent company and subsidiaries of the PKP CARGO Capital Group did not conclude any purchase or sale transactions as well as did not grant nor receive any loans or guarantees.

31. Cand cash equivalents

For the purpose of preparation of the statement of cash flows, cash and cash equivalents consist of cash in hand and cash at bank, including bank deposits up to 3 months maturity. Cash and cash equivalents recognised in the statement of cash flows at the end of the financial year reconciles to the financial statement items as follows:

	For the year ended 31/12/2013	For the year ended 31/12/2012	
	PLN thousand	PLN thousand	
Cash in hand and at bank	82 738	83 202	
Bank deposits up to 3 months	180 962	104 806	
Total	263 700	188 008	
Cash and cash equivalents classified as held for sale	-	_	
Total	263 700	188 008	

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

	For the year ended 31/12/2013	For the year ended 31/12/2012
	PLN thousand	PLN thousand
Actuarial gains/(losses) recognised in the statement of comprehensive income	15 924	(49 966)
The effective part of gains / (losses) on the hedging instruments in a cash flow hedge	126	827
Change in provisions for Employment Guarantees Program	100 015	-
Total other adjustments	116 065	(49 139)



33. Non-monetary transactions

In 2013 the Parent company increased its share capital. New shares has been acquired by PKP S.A. and covered by contributions in kind to property, plant and equipment of a total amount of PLN 117.080 thousand. Changes in share capital of the Parent company were registered in the National Court Register on 2 October 2013.

In 2012, the Group did not make any significant non-cash transactions in investing and financing activities, which are not reflected in the cash flow statement.

34. Operating lease agreements

34.1 Group as a lessee

34.1.1 Terms of lease

Operating lease agreements regard in particular railroad engines. The agreements were concluded for the period of three years and denominated in EUR. In addition, the note included concluded in March 2010 by the Parent company a lease agreement regarding office property in Katowice at Al. Korfantego 138 for the period of five years, and concluded by subsidiaries of the lease and the lease of office space, warehouses, yards and tracks.

34.1.2 Payments recognised in expenses

	For the year ended 31/12/2013	For the year ended 31/12/2012 PLN thousand
	PLN thousand	
Minimum lease payments Contingent lease payments	24 681	27 281 -
Amounts received for sub-lease	24 681	27 281

34.1.3 Commitments regarding non-cancellable operating leases

	As at 31/12/2013	As at 31/12/2012
	PLN thousand	PLN thousand
Up to 1 year	13 977	23 677
1 year – 5 years	18 632	14 519
Over 5 years	14 975	8 960
	47 584	47 156



35. Commitments to incur expenses

In May 2013 the Parent company concluded an agreement with a counterparty regarding overhaul of 30 SM-48 series diesel engines, under which as at reporting date 2 engines were modernized. Due to the change in the investment strategy regarding modernization of railroad vehicles, the deadline for the remaining part of the agreement was postponed and according to the new schedule will commence in February 2014 and finish in February 2016. The future value of the liabilities as at 31 December 2013 will range from PLN 167.3 million to PLN 170.0 million, depending on fulfillment of specific technical conditions.

In September 2013 the Parent company concluded an agreement with a contractor for the execution and delivery of 330 newly built Sggrss series container wagons. The realization of the agreement is currently executed and as at the reporting date 40 wagons were put in use. The future value of the liabilities as at 31 December 2013 will amount to PLN 102.6 million. The schedule assumes delivery of all wagons until September 2014. For the implementation of this project the Parent company will be granted a funding under the Operational Programme "Infrastructure and Environment", in a total amount not exceeding PLN 28.5 million.

The Parent company also conducts investment in the IT area, carrying out two contracts with a contractor for the supply and implementation of an Integrated System supporting management of railroad vehicles, as well as the Corporate Data Warehouse. The investments should finish by the end of 2016. The future value of obligations under both agreements amounts to approximately PLN 11.5 million.

As at 31 December 2013 the subsidiaries PKP CARGO SA did not have significant obligations to incur expenditure.

As at 31 December 2012 the Parent company realized an agreement for the modernization of 100 SM-42 diesel engines. The value of liabilities related to the contract amounted to PLN 12,5 million. The subsidiaries PKP CARGO SA did not have significant obligations to incur expenditure.

36. Contingent liabilities

36.1 Contingent liabilities

	As at 31/12/2013	As at 31/12/2012
	PLN	PLN
	thousand	thousand
Sureties granted to subsidiaries (i)	24 951	31 951
Guarantees issued on request of PKP Cargo Group (ii)	47 539	34 898
Proceedings carried out by OCCP (iii)	9 945	1 786
Other contingent liabilities (iv)	35 802	74 600
Total	118 237	143 235

(i) Sureties and guarantees granted to Group subsidiaries

As at 31 December 2013 the following valid sureties were granted by the Parent company: PKP Cargo Service Sp. z o.o. (surety regarding a multi-currency credit facility agreement), PKP CARGOWAG Sp. z o.o. (surety regarding an operating lease and credit agreement), PKP CARGOLOK Sp. z o.o. (surety regarding two investment loans), PKP Cargo Tabor Karsznice Sp. z o.o. (surety regarding a loan agreement).

As at 31 December 2012 the following valid sureties were granted by the Parent company: to PKP Cargo Service Sp. z o.o. (endorsement regarding the payment of customs debt and surety regarding a multi-currency credit facility agreement), Gorzów Wagony Sp. z o.o. (currently CARGOWAG Sp. z o.o.- surety regarding an operating lease), PKP Cargo Tabor Ostrów Wielkopolski sp. z o.o. (currently CARGOLOK Sp. z o.o.- surety regarding two investment loans), PKP Cargo Tabor Pomorski Sp. z o.o. (currently CARGOWAG Sp. z o.o. surety regarding a credit agreement).



(ii) Guarantees issued by banks on request of PKP CARGO Capital Group

As at 31 December 2013 a number of guarantees issued by banks at the Group's request to counterparties were effective. The guarantees included bid bonds (worth PLN 2,500 thousand) and performance bonds (worth PLN 42,070 thousand) and payment guarantees (worth PLN 2,969 thousand).

As at 31 December 2012, guarantees issued by banks at the Parent company's request to counterparties were effective. The guarantees included bid bonds (of PLN 12,392 thousand) and performance bonds (of PLN 22,506 thousand).

(iii) Proceedings conducted by the OCCP

As at 31 December 2013 the Group recognises as a contingent liability a portion of provision for the Office of Competition and Consumer Protection (PLN 9,945,thousand) that was not recognised in provisions. In case of unfavourable settlement of the case, the Group will be obliged to recognised the cost of provision.

As at 31 December 2012 the Group recognised contingent liability related to the fine imposed on the Parent company of PLN 1.786 thousand for a 1 570 days delay in executing the decision of the President of the Office of Competition and Consumer Protection (DOK 142/04 dated 31 December 2004) regarding unjustified differences in discounts on coal transport services. On 10 August 2012 the Parent company appealed against the decision of the President of OCCP to the Court of Competition and Consumer Protection in Warsaw. As at 31 December 2012 the Group has not recognised provision for the fine as assessed that the merit and potential payment risk were remote. As at 31 December 2013 the Group performed further reassessment of the risk related to OCCP proceeding and as a result recognised the provision in the amount of imposed fine.

(iv) Other contingent liabilities

Other liabilities include mainly conducted by the subsidiary PS Trade Trans Sp. z o.o. guarantee agreements with recourse with the right to insurance companies. As at 31 December 2013 the total value of the PS Trade Trans Sp. z o.o. contracts with insurance companies amounted to PLN 35,050 thousand, while as at 31 December 2012, the total value amounted to PLN 74,600 thousand.

37. Events after reporting date

On 9 January 2014 PKP CARGO S.A. and the companies of the PKP SA Group signed an agreement for the cash management for the indefinite period of time. The agreement enables granting loans by the parties of the agreement having a positive cash balance to the parties with deficiencies in cash balances, The purpose of this agreement is to decrease the financial costs of participating borrowers and increase the financial revenues of participating lenders. PKP CARGO is acting under this agreement solely as a lender. The participating borrowers have submitted statements of submission to enforcement in the form of a notarized deed, pursuant to Article 777 of the Civil Proceedings Code.

On 15 January 2014 the Management Board of PKP CARGO S.A. has approved the results of the negotiations on terms of the operating lease of 8 multi-system engines dedicated for international transport services for the years 2014-2016. As a result of these negotiations, PKP CARGO SA will enter into a commitment of a total gross value not exceeding EUR 14,854 thousand. The duration of the lease s is two years from the date of acquisition of engines by PKP CARGO SA with an option to extend for another year. Incurred commitment will cover the cost of lease of these locomotives and their ongoing maintenance costs. Consent to the commitment has been granted by the Supervisory Board of PKP CARGO SA on 21 January 2014.

On 17 January 2014 the decision to liquidate PKP CARGO International a.s. with its seat in Bratislava was made, the information is disclosed in note 16.

On 17 February 2014 Mr. Sylwester Sigiel has resigned from the position of the Management Board Member responsible for trade matters, information is disclosed in note 1.1.



On 28 February 2014 the subscription for employee shares which will be granted to employees under Employment Guarantee Program (EGP) was finalized. Meanwhile in January 2014 the Company transferred additional cash of PLN 9.853 thousand to the accounts of eligible employees in the brokerage house as a payment for the acquisition of shares by eligible employees. The total value of all payments made by PKP CARGO S.A. and its subsidiaries by the end of February 2014 amounted to PLN 99.901 thousand. The information of the EGP is disclosed in note 29.2, while receivables from EGP are disclosed in note 18. On 2 October 2013 the Extraordinary Shareholders Meeting of PKP CARGO S.A. took a resolution on increase of PKP CARGO S.A. share capital through issuance of series C shares (shares granted to eligible employees under EGP), exclusion of pre-emptive rights of current shareholders and creation of share premium to finance the issuance of series C shares. In order to implement the resolution of the Extraordinary Shareholders Meeting dated 7 March 2014, the Management Board of the Parent company adopted a resolution on the allocation of ordinary registered series C shares of PKP CARGO S.A. of a nominal value of PLN 50 each ("Employee Shares") under the public offering, resulting in share based payment of 1.448.902 shares. The effects of the allocation of share based payments to employees will be presented in the subsequent reporting periods.

38. Approval of the financial statements

These Consolidated Financial Statements were approved for publication by the Management Board of the Parent company on 13 March 2014.

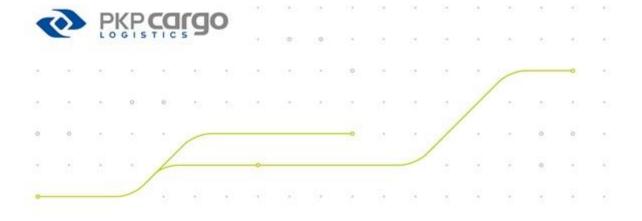


Management Board of the Company

Adam Purwin	President of the
Addin I di Wili	Management Board

Sylwester Sigiel Member of the Management Board

Warsaw, 13 March 2014



MANAGEMENT BOARD'S REPORT ON THE ACTIVITIES OF PKP CARGO CAPITAL GROUP IN 2013

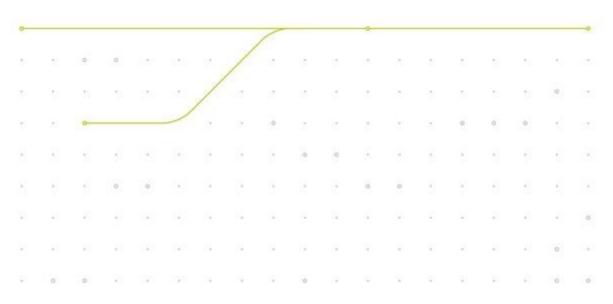


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1 Selected financial data of PKP CARGO GROUP

Table 1 Selected financial data

SELECTED FINANCIAL DATA PKP CARGO GROUP	in PLN th 2013 r.	ousands 2012 r.	in EUR thousands 2013 r. 2012 r.		
Operating revenue	4,797,461	5,173,441	1,139,276	1,239,563	
Profit (loss) on operating activities	110,185	343,995	26,166	82,422	
Profit (loss) before tax	88,532	353,467	21,024	84,691	
Net profit on continuing operations	65,387	267,443	15,528	64,080	
Total comprehensive income attributable to shareholders of the Parent company	86,977	227,605	20,655	54,534	
Earnings per share	1.71	6.18	0.36	1.48	
Diluted earnings per share	1.69	6.18	0.35	1.48	
Net cash flows from operating activities	700,204	781,152	166,281	187,165	
Cash flows from investing activities	-371,422	-667,901	-88,203	-160,030	
Cash flows from financing activities	-253,090	-69,737	-60,103	-16,709	
Change in cash and cash equivalents	75,692	43,514	17,975	10,426	
	2013-12-31	2012-12-31	2013-12-31	2012-12-31	
Non-current assets	4,049,895	4,053,981	976,537	991,630	
Current assets	1,676,161	1,569,788	404,167	383,980	
Non-current assets held for sale	17,560	-	4,234	-	
Share capital	2,166,901	2,889,200	522,497	706,717	
Equity attributable to the shereholders of the Parent company	3,446,517	3,142,594	831,047	768,699	
Equity attributable to non –controlling interest	62,377	72,078	15,041	17,631	
Non-current liabilities	1,166,736	1,383,172	281,331	338,333	
Current liabilities	1,067,986	1,025,925	257,520	250,948	
Weighted average number of shares	43,338,006	43,338,000	43,338,006	43,338,000	
Weighted average number of shares in calculation of diluted earnings	43,821,559	43,338,000	43,821,559	43,338,000	

Source: Consolidated Financial Statements of PKP CARGO Capital Group for the year ended 31 December 2013 prepared in accordance with IFRS EU

In order to convert items comprised by the Consolidated Financial Statements there were used the following average exchange rates against the euro established by the Polish National Bank:

- the exchange rate established by the Polish National Bank ("NBP") in effect on the last day of the reporting period: 31.12.2013 4.1472 PLN/EUR, 31.12.2012 4.0882 PLN/EUR,
- the exchange rate being the arithmetic mean of the average NBP exchange rates on the last day of each month of years: 01.01 31.12.2013 4.211 PLN/EUR, 01.01 31.12.2012 4.1736 PLN/EUR.

2 Synthetic presentation of PKP CARGO GROUP

According to the data of the Office of Rail Transportation ("UTK"), PKP CARGO Group is the largest rail freight operator in Poland and the second largest rail freight operator in the EU in terms of freight moved in 2012 (according to Eurostat data). PKP CARGO Group expands the territorial coverage of its operations, taking advantage of the opportunities offered by the liberalisation of the European rail freight market. Currently the Parent company, PKP CARGO S.A. holds safety certificates allowing it to provide independent rail freight services in Slovakia, the Czech Republic, Austria, Belgium, Hungary and the Netherlands.

In addition to rail freight services PKP CARGO Group offers its customers the additional services mentioned below, related to rail freight services:

- intermodal services;
- freight forwarding (domestic and international);
- terminals (transloading and storage of goods at the interface of broad and standard gauge tracks on the Eastern border of Poland, and in other key locations in Poland);
- siding services.

The PKP CARGO Group is also involved in rolling stock maintenance and repair.

On October 30th 2013 the Parent company was first listed on the Warsaw Stock Exchange (WSE), which was the foremost and unexampled event in PKP CARGO Group's history. The Company's initial public offering of PLN 1.42 bn was the largest public offering in Poland from the beginning of 2013 and the first successful placement of shares of a national rail freight carrier in the European Union. The historical opening of listing of stock of the first listed company of the PKP Group stood at PLN 80.20, which represented an increase of approx. 18% against the selling price in public offering, i.e. PLN 68 per share.

Upon successful completion of the IPO process, the shareholding structure of the Company diversified. The shareholders of the Company as at the date of financial statements approval: PKP S.A. 51.7%; ING OFE 6.6%; EBRD 5.3%; Amplico OFE 5.1%; other shareholders 31.3%.



Figure 1 Listings of PKP CARGO S.A. stock 30.10.2013 - 28.02.2014

Source: WSE listing - The Company

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¹ For the purposes of this Report:

^{• &}quot;Group", PKP CARGO Group" or "Group of companies" means PKP CARGO S.A. and its subsidiaries jointly,

^{• &}quot;Company", "Parent company" mean PKP CARGO S.A. solely.

2.1 Organisation of the PKP CARGO Group

As at 31 December 2013, in addition to the PKP CARGO S.A., the PKP CARGO Group was composed of 15 subsidiary companies, including 10 direct subsidiaries² and 5 indirect subsidiaries. The subsidiaries are involved in forwarding, logistic, transloading services, wagon and locomotive repair and siding operations.

Consolidation for the purposes of the annual Financial Statements includes PKP CARGO S.A. and 9 subsidiaries consolidated by the full consolidation method:

- 1. PKP CARGO SERVICE Sp. z o.o.
- 2. "PKP CARGOWAG" Sp. z o.o.
- 3. "PKP CARGOLOK" Sp. z o.o.
- 4. "PKP CARGO TABOR KARSZNICE" Sp. z o.o.
- 5. "PKP CARGO Centrum Logistyczne Małaszewicze" Sp. z o.o.
- 6. PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o.
- 7. "Cargosped" Sp. z o.o.
- 8. "Przedsiębiorstwo Spedycyjne TRADE TRANS" Sp. z o.o. (PS TRADE TRANS Sp. z o.o.)
- 9. Cargosped Terminal Braniewo Sp. z o.o. (direct subsidiary of PKP CARGO S.A.)³.

The Group's other entities, presented in Note 17.1 to the Consolidated Financial Statements for the year ended 31 December 2013 prepared in accordance with IFRS EU, are valued using the equity method.⁴

Shown below is a brief overview of the companies included in consolidated financial statements using the full consolidation method.

PKP CARGO S.A.

The Parent company was established under Article 14 of the Act of 8 September 2000 on the commercialisation, restructuring and privatisation of the state-owned enterprise "Polskie Koleje Państwowe". On 17 July 2001, the joint-stock company under the name of PKP CARGO Spółka Akcyjna was incorporated and established and registered by the District Court in Katowice, VIII Commercial Department of the National Court Register under KRS number 0000027702. Following a change of the registered office of the Company as of 7 October 2002, to Warsaw, ul. Grójecka 17, the incorporation files have been kept by the District Court for the Capital City of Warsaw, XII Commercial Department of the National Court Register. Since its inception, the Company has existed as a member of the PKP Group. The primary object of business of the Company is the domestic and international rail freight.

PKP CARGO SERVICE Sp. z o.o. with its registered office in Warsaw

PKP CARGO SERVICE Sp. z o. o. was established as Agencje Celne PKP CARGO sp. z o.o. on 11 July 2002 by PKP CARGO S.A. The company started operations on 1 December 2002. For the purposes of siding operations, the so-called "execution areas" are set up in locations where the company's siding operations are concentrated. The Company's core business includes comprehensive siding operation services as well as rail freight operations. PKP CARGO SERVICE also carries on offloading/trucking operations supporting rail forwarding.

"PKP CARGOWAG" Sp. z o.o. with its registered office in Warsaw

"PKP CARGOWAG" Sp. z o.o. was registered until 27 February 2013 under the name of PKP CARGO WAGON-SZCZECIN Sp. z o.o. As of 1 October 2013, the merger of eight wagon companies took place, with "PKP CARGOWAG" sp. z o.o. acting as acquirer. The core business of the company consists of freight wagon repair and maintenance services and physical decommissioning of freight wagons The company focuses on wagon repairs performed within the PKP CARGO Group.

² The Group's structure includes companies which are not included in full consolidation , i.e. CARGOTOR Sp. z o.o. (due to its registration on 13 November 2013 and a relatively small scale of operations during the period covered by the report) and PKP CARGO CFL INTERNATIONAL S.A. (due to an insignificant scale of business)

³ Owing to the size of operations of Cargosped Terminal Braniewo Sp. z o.o. it is included in full consolidation irrespective of the fact that it is a direct subsidiary.

⁴ Except PKP CARGO CFL INTERNATIONAL S.A. due to a small scale of operations.

"PKP CARGOLOK" Sp. z o.o. with its registered office in Warsaw

"PKP CARGOLOK" Sp. z o.o. with its registered office in Warsaw was registered until 1 March 2013 under the name of PKP CARGO TABOR-CZERWIEŃSK Sp. z o.o. The company was established on 28 April 2009. As of 1 October 2013, the merger of two locomotive companies took place, with "PKP CARGOLOK" sp. z o.o. acting as acquirer. The core business of the company consists of rolling stock repair and maintenance services, in particular periodic repairs of electric and diesel traction vehicles.

"PKP CARGO TABOR KARSZNICE" Sp. z o.o.

"PKP CARGO TABOR KARSZNICE" Sp. z o.o. was established on 1 December 2009. The company provides comprehensive services including the repair of roiling stock, electric machines and wheelsets, physical decommissioning of wagons and locomotives and the provision of traction and wagon rolling stock weighing and adjustment services at the Tesnan diagnostic station.

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

"PKP CARGO Centrum Logistyczne Małaszewicze" Sp. z o.o. was established on 22 February 2010. The object of the company's business is comprehensive cargo handling - transloading, storage, sorting, packaging, crushing and a range of other associated border services. "PKP CARGO Centrum Logistyczne Małaszewicze" is a logistic centre equipped with terminals designed for the transloading of all bulk and piece goods.

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

PKP CARGO Centrum Logistyczne Medyka - Żurawica Sp. z o.o. was established on 5 January 2011. The company has been operating since 1 February 2011. The object of the company's business is comprehensive cargo handling - transloading, storage, sorting, packaging, crushing and a range of other associated border services. The company has the advantage of using of gauge switching systems, mainly in the transport of dangerous goods and the transloading of off-gauge goods which require specialist transloading equipment.

"Cargosped" Sp. z o.o.

"Cargosped" Sp. z o. o. was established on 29 February 2000. In 2005, PKP CARGO S.A. received a contribution in kind from PKP S.A. in the form of 100% shares in "Cargosped" Sp. z o.o.. The company's core business consists of freight forwarding and logistic services, both local and international, involving in particular rail freight and related logistic services.

As part of the operational optimisation of freight forwarding companies in the PKP CARGO Group, the company specialises in the transport of aggregates and intermodal transport. In addition, the company provides terminal handling services, including the use of its own terminals

PS TRADE TRANS Sp. z o. o.

PS TRADE TRANS Sp. z o.o. was established on 8 March 1990. The company's core business consists of freight forwarding and logistic services, both local and international. The Company provides comprehensive logistic services with the use of rail, road, sea and inland water transport, arranging carriage, transloading, stockpiling, storage, preparation for market and distribution. The company also provides full customs services to PKP CARGO Group customers.

Cargosped Terminal Braniewo Sp. z o. o.

Cargosped Terminal Braniewo Sp. z o. o. has been part of the PKP CARGO Group since January 2010, when it was acquired by "Cargosped" Sp. z o. o.. The company's core business areas consist of transloading of various goods and trading in coal.

The company is a direct importer of Russian coal. It deals with wholesale and retail of the commodity.

2.2 Organisational structure of the Parent company

The Management Board of the Parent company performs its responsibilities with the assistance of the organisational units reporting to it and their subunits.

The following organisational units are established within the organisational structure of the PKP CARGO S.A.:

- The Head Office of the Company, which consists of offices headed by respective directors. The directors are supervised by Managing Directors;
- Divisions performing the Company's tasks in the specific areas of the country. The operations of a Division are organised into business areas managed by the Division Director and Deputy Directors. The Directors of Divisions report to the Management Board.

There are 5 Managing Directors in the organisational structure of the Company: Managing Director - Chief Resource Management Officer, Managing Director - Chief Maintenance Officer, Managing Director - Chief Financial Officer, Managing Director - Chief Operations and Process Optimisation Officer, Managing Director - Chief Sales Officer, who are in charge of the respective Head Office Departments. The Managing Directors report directly to the Management Board.

Head Office

The basic responsibilities of the Head Office include supporting the activities of the Management Board involving strategic and operational management, and the management of the Company's affairs in relations with customers and counterparties, administration and coordination of the transport process.

Departments of the Head Office are organisational units reporting to the Chief Executive Officer or to respective members of the Management Board through Managing Directors exercising supervision over specific business areas and the Company's organisational units.

Divisions

The basic tasks of the Divisions are to organise and perform the supply of cargo in compliance with contracts concluded, with the use of the rail freight process, transloading, storage, transport with the use of other carriers' vehicles, traction services supporting the Company's freight operations, rental of traction vehicle s, repair of own rolling stock and provision of repair services, maintenance of plant and machinery and shop facilities, and the implementation of the Company's objectives related to service marketing and sales, in particular with regard to sales to smaller customers.

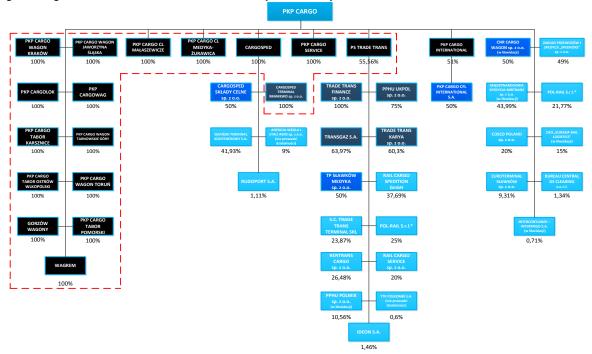
Divisions are managed by Division Directors who also represent them in external relations. Directors are authorised to perform *de jure* activities within the limits and in the basis of a power of attorney granted to them by the Management Board.

Representation of the Company abroad

The Company has no representative offices abroad, but under a framework agreement made with PKP S.A. on the representation of the Company in international organisations through representative offices of PKP S.A. abroad and cooperation in the border freight handling, the Company is represented abroad by representative offices of PKP S.A. In addition, PS TRADE TRANS Sp. z o.o. has its representative office in Moscow which is used by the Parent company.

2.3 Structure of the PKP CARGO Group

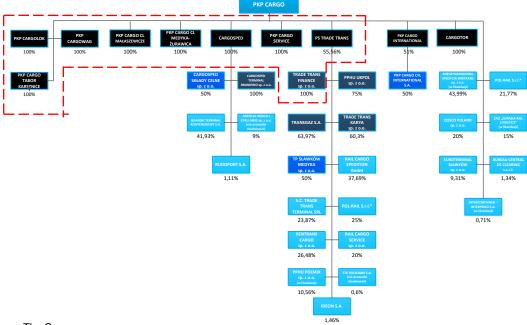
As at 30 September 2013, i.e. at the end of the third quarter of 2013, the Group structure was as follows: (changes in the Group structure before that date are described in the Prospectus and in the periodic report). *Figure 2 Organisation Chart of the PKP CARGO Group as at 30 September 2013.*



*The Group's share in Pol-Rail S.r.l. totals 46.77%, of which PS TRADE TRANS Sp. z o. o. holds 25% and the Company holds 21.77%. An additional 3.23% of shares is held by KTF VIAFER S.A. under liquidation, a member of the PKP Group. Source: The Company

The chart below shows the structure of the PKP CARGO Group as at the end of 2013, i.e. as at 31 December 2013:

Figure 3 Organisation Chart of the PKP CARGO Group as at 31 December 2013.



Source: The Company.

2.4 Consequences of changes in the structure of PKP CARGO Group

During 2013, changes took place involving the sale/acquisition by PKP CARGO S.A. of shares in related undertakings and transformations (mergers and liquidations resulting in the removal of the companies from the KRS register), as a result of which as at 31 December 2013. PKP CARGO S.A. held directly more than 50% of shares in 10 subsidiaries, and in 7 entities it held states not exceeding 50%.

2.4.1 Division of the Parent company

On 20 August 2013, the Management Board adopted a plan for the division of the PKP CARGO S.A. (amended on 2 September 2013) under Article 529 § 1 (4) of the Commercial Companies Code), i.e. by transferring a part of the Company's assets to a newly established company Windykacja Kolejowa sp. z o.o. for the company's shares issued in connection with the division. The division plan was disclosed to the public on the Company's website on 5 September 2013. On 18 October 2013, the Extraordinary General Meeting passed a resolution to divide the Company. According to the division plan, all shares in the newly established company were taken by then the sole shareholder, i.e. PKP S.A. This means that parties acquiring shares in the Company and not entitled to take any shares in the company Windykacja Kolejowa sp. z o.o. in connection with the division. In accordance with the Commercial Companies Code, the date of unbundling is the date of entry of Windykacja Kolejowa sp. z o.o. in the KRS business register. The relevant application was filed with KRS on 23 October 2013. The division was registered in KRS on 2 December 2013.

According to the division plan, as part of the division project, fixed assets (office equipment), office machines and equipment, software and a passenger car were transferred to Windykacja Kolejowa sp. z o.o., as well as all compensation claims and related other claims available to PKP CARGO S.A. against the State Treasury of the Republic of Poland or PKP PLK in connection with the incorrect implementation in national legislation of Directive 2001/14/EC, available to the Company as rail carrier for the period ending 14 December 2013. The assets spun off in the division process and related operations formed an organised part of business.

In line with the division plan, the division of the Company was effected without reducing its share capital and without amending the Articles of Association, with the use of the supplementary capital.

2.4.2 Reorganisation of the PKP CARGO Group

The continued reorganisation of the Group is aimed to simplify its organisational structure. The reorganisation process is based on the disposal of shares in certain companies unrelated to the Group's core business and the streamlining of the structure of the Group by merging entities with the same object of business. The measures taken will reduce administration costs, improve Group management and integrate the Group's different business areas.

As part of the reorganisation of the Group in 2013:

- The merger of some of the rolling stock companies took place (under Article 492 § 1 of the Commercial Companies Code, i.e. by transferring all assets of the acquired companies to the acquiring company). As of 1 October 2013, the merger was registered in the KRS register of:
 - "PKP CARGOWAG" Sp. z o.o. (acquiring company) with the 7 subsidiaries listed below (acquired companies):
 - PKP CARGO WAGON Sp. z o.o.,
 - PKP CARGO WAGON-KRAKÓW Sp. z o.o.,
 - PKP CARGO WAGON-TARNOWSKIE GÓRY Sp. z o.o.,
 - PKP CARGO WAGON-JAWORZYNA ŚLĄSKA Sp. z o.o.,
 - PKP CARGO TABOR-POMORSKI Sp. z o.o.,
 - GORZÓW WAGONY Sp. z o.o.,
 - WAGREM Sp. z o.o.

As a result of the above merger, 7 acquired companies were dissolved and the share capital of the acquiring company was increased to PLN 71,637,000. The owner of all shares in "PKP CARGOWAG" Sp. z o.o. is PKP CARGO S.A., which also exercises all rights attached to those shares.

• "PKP CARGOLOK" Sp. z o.o. (acquiring company) and "PKP CARGO TABOR-OSTRÓW WIELKOPOLSKI" Sp. z o.o. (acquired company).

As a result of the above merger, the acquired company was dissolved and the share capital of the acquiring company was increased to PLN 18,138,000. The owner of all shares in "PKP CARGOLOK" Sp. z o.o. is PKP CARGO S.A., which also exercises all rights attached to those shares.

- 2. Shares in the following companies have been sold:
 - Transport and Forwarding Division (Zakład Przewozów i Spedycji) "SPEDKOKS" Sp. z o.o. with its registered office in Dąbrowa Górnicza

PKP CARGO S.A. sold 1,094 shares in ZPiS "SPEDKOKS" Sp. z o.o. with its registered office in Dąbrowa Górnicza representing 48.99% of the share capital of the company for the total amount of PLN 9.5 m.

• Kolejowa Oficyna Wydawnicza Sp. z o. o. (KOW Sp. z o. o.) with its registered office in Warsaw PKP CARGO S.A. sold its shareholding in KOW Sp. z o.o. with its registered office in Warsaw, i.e. 750 shares representing 6.25% of the share capital for the total price of PLN 37,500.

3. The company CARGOTOR sp. z o.o. was established, with its registered office in Warsaw

On 10 October 2013, ⁵ CARGOTOR Sp. z o.o. was established, a company registered in the business register on 13 November 2013. The share capital of the new entity is PLN 500,000 and the owner of all shares in CARGOTOR Sp. z o.o. is PKP CARGO S.A. The object of business of the new entity (resulting from the decision of the UTK President of 28 May 2013) is the management of the logistic / service infrastructure in the form of railway sidings and tracks and the provision of access to the infrastructure for rail carriers on commercial terms. In particular, the entity is responsible for the correct maintenance of the infrastructure entrusted to it to guarantee safe carriage of freight by rail.

Moreover, in 2013 the liquidation took place of CNR CARGO WAGON Sp. z o.o., which was set up for a fixed term ending 15 May 2013 by:

- a. PKP CARGO S.A. with its registered office in Warsaw 50% of shares,
- b. Jinan Railway Vehicles Equipment Co. Ltd. with its registered office in Jinan, China 50% of shares

PKP CARGO S.A. contributed to the share capital the amount of PLN 1 m.

On 22 November 2013, the Shareholders' Meeting passed a resolution to approve the company liquidation balance sheet. On 2 December 2013, the company was removed from the KRS register.

During the Extraordinary General Meeting of PKP CARGO International a. s. with its registered office in Bratislava, which was held on 17 January 2014, a resolution was passed to dissolve the company and initiate liquidation proceedings. PKP CARGO S.A. holds 51% of shares in the share company of the above company.

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⁵ PKP CARGO S.A. became aware of the registration on 14 November 2013 after the publication of an interim report

2.5 Information on organisational or equity links of PKP CARGO S.A. with other entities

Presented below is a summary of all shares held by PKP CARGO S.A. as at 31 December 2013.

Table 2 Entities in which PKP CARGO S.A. holds shares as at 31 December 2013

No	NAME OF COMPANY	LOCATION	SHARE CAPITAL	TOTAL NUMBER OF SHARES	NOMINAL VALUE OF 1 SHARE	NUMBER OF SHARES HELD BY PKP CARGO	% SHARE OF PKP CARGO IN SHARE CAPITAL
1.	PKP CARGO SERVICE Sp. z o.o.	Warsaw	PLN 30,827,000	61,654	PLN 500	61,654	100%
2.	"PKP CARGOWAG" Sp. z o.o.	Warsaw	PLN 71,637,000	71,637	PLN 1,000	71,637	100%
3.	"PKP CARGOLOK" sp. z o.o.	Warsaw	PLN 18,138,000	18,138	PLN 1,000	18,138	100%
4.	"PKP CARGO TABOR KARSZNICE" Sp. z o.o. "PKP CARGO Centrum	Zduńska Wola	PLN 16,450,000	16,450	PLN 1,000	16,450	100%
5.	Logistyczne Małaszewicze" Sp. z o.o.	Małaszewicze	PLN 54,016,000	54,016	PLN 1,000	54,016	100%
6.	PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o.	Żurawica	PLN 11,675,000	11,675	PLN 1,000	11,675	100%
7.	"Cargosped" Sp. z o.o.	Warsaw	PLN 12,969,000	12,969	PLN 1,000	12,969	100%
8.	CARGOTOR Sp. z o.o.	Warsaw	PLN 500,000	500	PLN 1,000	500	100%
9.	Przedsiębiorstwo Spedycyjne TRADE TRANS Sp. z o.o.	Warsaw	PLN 16,000,000	1,440	PLN 10,000	800	55.56%
10.	PKP CARGO International a.s.	Bratislava, Slovakia	EUR 1,000,000	1,000	EUR 1,000	510	51%
11.	Międzynarodowa Spedycja MIRTRANS Sp. z o.o	Gdynia	PLN 1,114,000	557	PLN 2,000	245	43.99%
12.	"POL-RAIL Societa' a responsabilita' limitata"	Rome, Italy	EUR 2,000,000	unequal shares	shares of different value	1 share of EUR 435,443	21.77%
13.	COSCO POLAND Sp. z o.o.	Gdynia	PLN 250,000	100	PLN 2,500	20.	20%
14.	ZAO "Eurasia Rail Logistics"	Moscow, Russia					15%
15.	"EUROTERMINAL SŁAWKÓW" Sp. z o.o.	Sławków	PLN 182,479,000	PLN 3,649,580	PLN 50	340,000	9.32%
16.	Bureau Central de Clearing s.c.r.l.	Brussels, Belgium	EUR 111,750	149	EUR 750	2	1.34%
	Intercontainer-Interfrigo SA.	Brussels, Belgium					0.71%

Source: The Company

The list of all subsidiaries and associates is presented in Notes 16-17 to the Consolidated Financial Statements for the year ended 31 December 2013 prepared in accordance with IFRS EU.

2.6 Changes in the basic management rules of PKP CARGO Group and the Parent company

The changes in the PKP CARGO Group and the Parent company basic management rules in 2013 were related to the planned IPO of PKP CARGO S.A. in the Warsaw Stock Exchange. To this end, amendments were made to the Articles of Association of the Parent company concerning the operation rules and powers of the different governing bodies.

The organisation and operation rules of the General Meeting were adjusted to an increased number of shareholders, and its powers were limited to the most crucial matters, while at the same the powers of the Supervisory Board and the Management Board of the Company were increased.

The number of members of the Supervisory Board was increased and now ranges between 11 and 13, with the proviso that at least 2 Board members must meet the criterion of independence. The Company's employees have the right to appoint and dismiss 3 other their representatives on the Supervisory Board. The Supervisory Board appoints the Audit Committee and the Appointment Committee, and may also set up other dedicated committees. In accordance with the Articles of Association, the Supervisory Board exercises on-going supervision over all areas of its activity and it is updated on a regular basis (at least quarterly) by the Management Board on significant developments in the Company's business. The powers conferred by the Articles allow the Supervisory Board to give consent regarding matters of significant importance to the Company's business.

The Management Board may have between 1 and 5 members, with one member of the Management Board being selected by the Supervisory Board from among candidates proposed by the employees of the Company. The position of President of the Management Board was strengthened by conferring on him powers to manage the Management Board, act solely on behalf of the Company or make proposals to the Supervisory Board to approve the Rules of Procedure of the Management Board.

Simultaneously with the amendments to the Articles, changes were implemented in the organisation of the Head Office of the Company and its management rules. During the period between 1 October and 17 December 2013, a new Head Office organisation concept was developed and implemented. Some of the offices were consolidated, while other offices were divided, and some office exchanged their powers. The changes are intended to increase the effectiveness of management of the Company's different business areas.

At the same time, the Management Board identified the areas in which the members of the Management Board are to be supported in the management of the different business areas by Managing Directors - Chief Officers, strengthening the additional management level this way. Prior to the implementation of the changes, the work of members of the Management Board was supported by two Managing Directors - Chief Officers, one in the business unit reporting to the President of the Management Board, and the other initially in the business area reporting to the President of the Management Board and the Member of the Management Board for Commercial Affairs, and subsequently only in the business unit of the Member of the Management Board for Commercial Affairs. Currently, there are 5 Managing Directors - Chief Officers operating in the Company who supervise the business areas entrusted to them and the departments of the Head Office of the Company in all management areas. Only a small number of business areas remain under the direct supervision of the members of the Management Board.

3 Business profile of PKP CARGO Group

3.1 Description of the main products

3.1.1 Freight carried

Rail freight is the main service provided by PKP CARGO Group. both in Poland and abroad, i.e. in countries with licences obtained - Germany, the Czech Republic, Slovakia, Austria, Belgium, the Netherlands and Hungary.

Commodity segments

The Group operates a diversified fleet which allows any type of commodity to be carried, in particular solid fuels, aggregates and building materials, metals and ores, timber and agricultural produce, as well as chemical products and liquid fuels, dangerous and off-gauge goods. The Group also offers niche transport services on local routes.

The processes taking place in 2013 in the Polish and European economy strongly affected the size and structure of the entire rail freight market in Poland, including the performance of PKP CARGO Group⁶, which in 2013 carried 114.4 m tons, i.e. 2% less than in 2012. The decline was attributable mainly to smaller volumes of aggregates and building materials carried.

⁶ In 2013 PKP CARGO S.A. carried 113.4 m tons of goods, and PKP CARGO SERVICE Sp. z o.o. carried 1.0 m tons, which represents freight turnover of 29,982 m tkm and 192.9 m tkm respectively.

The basic commodity segment transported by the Group consists of solid fuels, including mainly hard coal. The transport of solid fuels in terms of freight turnover showed a dynamic upward trend in 2013 (+17%). The share of solid fuels in the volume carried was 53% in 2013 and 49% in 2012. The share in freight turnover was 44% and 39%, respectively. The higher increase in share in terms of frieght turnover than in terms of volume was a consequence of the extension of distances of solid fuel transport resulting from an increase coal transport to sea ports.

The second largest segment of commodities carried by PKP CARGO Group consists of aggregates and building materials. The transport of aggregates and building materials was less stable than the transport of solid fuels, and its share in freight turnover was 18% and 22% in 2013 and 2012, respectively. The decline in freight turnover in this group by 15% resulted from substantial delays in the commencement of infrastructural investments in 2013 in Poland due to a long winter and late award of contracts under tendering procedures.

The third largest segment of goods carried by PKP CARGO Group consists of metals and ores and its share in freight turnover reached 14% in 2013 and 13% in 2012. Transport volume in this group increased in 2013 by 14% compared with the same period of 2012. Worse results in the market segment regarding metal transport attributable, among other things, to stagnation in steel markets and reduced production of metals by some of the Group's customers, were offset by growth in ore transport. In 2013, the Group acquired contracts for ore transport, which were not completed in previous years, from ports to mills situated in Poland, the Czech Republic and Slovakia. In 2013, customers' decisions to change the directions of procurement provided an opportunity to operate transport services characterised by long transport distances, especially for transit transport between the ports and the southern boundary of Poland.

In 2013, the average transport distance was 263 km, and it was 10 km, i.e. 4% longer than that reported in 2012. The greatest increase in the average transport distance in 2013 took place in metal and ore transport (15% up).

Solid fuels are characterised by a relatively small average transport distance, which results from the location of power plants and heat generating plants which are the main buyers of coal, predominantly in southern and central Poland, i.e. relatively close to hard coal mines. In 2013 – mainly due to an increase in export-bound transport of coal to ports – the average transport distance in this segment was 222 km, i.e. 22 km more than in the previous year.

The transport of aggregates and building materials is characterised by a relatively high average distance. This results from the fact that aggregates and building materials are transported mainly from their acquisition regions situated mostly in the southern regions of Poland, to different locations in Poland, where they are used for the implementation of infrastructural projects. In 2013, the average transport distance in this segment was 280 km, i.e. 6 km less than in the previous year.

The intermodal transport segment is also characterised by relatively long transport distances. The average transport distance in 2013 was 377 km, i.e. 41 km less than in the previous year. Long transport distances result from the specific nature of intermodal transport which is used mainly for long-haul transport with the use of multiple transport modes (rail, road and sea), and the Company often performs the transport of intermodal transport units (ITUs) across Poland as part of their long-haul transport.

Table 3 PKP CARGO Group freight turnover in 2012- 2013

	2013	2012	Absolute change	% change	Q4 2013	Q4 2012	Absolute change	% change	2013	2012	Q4 2013	Q4 2012
		(million tkm)								share in t	otal (%)	
Solid fuels ¹	13,301	11,384	1,917	17%	3,293	3,177	116	4 %	44%	39%	42%	41%
of which hard coal	11,849	10,044	1,805	18%	2,918	2,884	34	1%	39%	34%	37%	37%
Aggregates and building materials ²	5,540	6,498	-958	-15%	1,619	1,618	1	0%	18%	22%	20%	21%
Metals and ores ³	4,365	3,843	522	14%	1,219	893	326	37%	14%	13%	15%	12%
Chemical products ⁴	1,676	2,134	-458	-21%	411	495	-84	-17%	6%	7%	5%	6%
Liquid fuels ⁵	796	867	-71	-8%	199	215	-16	-7%	3%	3%	3%	3%
Timber and agricultural produce ⁶	1,689	1,769	-80	-5%	497	529	-32	-6%	6%	6%	6%	7%
Intermodal transport	1,835	2,178	-343	-16%	466	563	-97	-17%	6%	7%	6%	7%
Other ⁷	883	894	-11	-1%	215	230	-15	-7%	3%	3%	3%	3%
Total	30,085	29,567	518	2%	7,919	7,720	199	3,0%	100%	100%	100%	100%

Source: The Company.

Table 4 PKP CARGO Group freight volume in 2012- 2013

	2013	2012	Absolute change	% change	Q4 2013	Q4 2012	Absolute change	% change	2013	2012	Q4 2013	Q4 2012
		(thous. tons)								share in t	total (%)	
Solid fuels ¹	59,954	57,039	2,915	5%	15,998	15,362	636	4%	53%	49%	52%	50%
of which hard coal	54,969	52,111	2,858	5%	14,750	14,169	581	4%	48%	45%	48%	46%
Aggregates and building materials ²	19,820	22,712	-2,892	-13%	5,718	5,829	-111	-2%	17%	20%	19%	19%
Metals and ores ³	13,730	13,923	-193	-1%	3,589	3,295	294	9%	12%	12%	12%	11%
Chemical products ⁴	5,868	6,730	-862	-13%	1,451	1,588	-137	-9%	5%	6%	5%	5%
Liquid fuels ⁵	3,013	3,569	-556	-16%	745	887	-142	-16%	3%	3%	2%	3%
Timber and agricultural produce ⁶	4,416	4,673	-257	-5%	1,309	1,438	-129	-9%	4%	4%	4%	5%
Intermodal transport	4,866	5,212	-346	-7%	1,259	1,400	-141	-10%	4%	4%	4%	5%
Other ⁷	2,779	2,881	-101	-4%	709	766	-57	-7%	2%	2%	2%	2%
Total	114,446	116,739	-2,293	-2%	30,778	30,565	213	1%	100%	100%	100%	100%

Source: The Company.

Table 5 PKP CARGO Group average distance in 2012- 2013

	2013	2012	Absolute change	% change	Q4 2013	Q4 2012	Absolute change	% change
		Кт						
Solid fuels ¹	222	200	22	11%	206	207	-1	0%
of which hard coal	216	193	23	12%	198	204	-6	-3%
Aggregates and building materials ²	280	286	-6	-2%	283	278	5	2%
Metals and ores ³	318	276	42	15%	340	271	69	25%
Chemical products ⁴	286	317	-31	-10%	283	312	-29	-9%
Liquid fuels⁵	264	243	21	9%	267	242	25	10%
Timber and agricultural produce ⁶	382	379	3	1%	380	368	12	3%
Intermodal transport	377	418	-41	-10%	370	402	-32	-8%
Other ⁷	317	310	7	2%	303	299	4	1%
Total	263	253	10,0	4%	257	253	4	2%

Source: The Company.

¹ Includes hard coal, coke and lignite.

² Includes all types of stone, sand, brick and cement.

³ Includes ores and pyrites, metals and metal products.

⁴ Includes artificial fertilizers and other chemical products.

⁵ Includes crude oil and petroleum products.

 $^{^{6}\,}$ Includes corn, potatoes, sugar beet, other agricultural produce, timber and timber products.

⁷ Includes ferry transport and other freight.

Table 6 PKP CARGO Group freight turnover in 2012- 2013 by transport nature

	2013	2012	Absolute change	% change	Q4 2013	Q4 2012	Absolute change	% change	2013	2012	Q4 2013	Q4 2012
		(million tkm)								share in t	otal (%)	
Domestic	14,811	15,433	-622	-4%	4,219	3,935	284	7%	49%	52%	53%	51%
Export	7,777	6,723	1,054	16%	1,524	1,910	-386	-20%	26%	23%	19%	25%
Import	4,932	4,937	-5	0%	1,510	1,314	196	15%	16%	17%	19%	17%
Transit	2,565	2,474	91	4%	666	561	105	19%	9%	8%	9%	7%
Total	30,085	29,567	518	2%	7,919	7,720	199	3%	100%	100%	100%	100%

Source: The Company.

Table 7 PKP CARGO Group volume in 2012- 2013 by transport nature

	2013	2012	Absolute change	% change	Q4 2013	Q4 2012	Absolute change	% change	2013	2012	Q4 2013	Q4 2012
		(thous. tons)								share in	total (%)	
Domestic	69,326	71,942	-2,616	-4%	19,120	18,522	598	3%	61%	62%	62%	61%
Export	22,204	20,250	1,954	10%	4,909	5,525	-616	-11%	19%	17%	16%	18%
Import	18,846	20,482	-1,636	-8%	5,658	5,560	98	2%	16%	18%	18%	18%
Transit	4,070	4,065	5	0%	1,091	958	133	14%	4%	3%	4%	3%
Total	114,446	116,739	-2,293	-2%	30,778	30,565	213	1%	100%	100%	100%	100%

Source: The Company.

Table 8 PKP CARGO Group average distance in 2012- 2013 by transport nature

	2013	2012	Absolute change	% change	Q4 2013	Q4 2012	Absolute change	% change
		Km						
Domestic	214	215	-1	0%	221	212	9	4%
Export	350	332	18	5%	310	346	-36	-10%
Import	262	241	21	9%	267	236	31	13%
Transit	630	609	21	3%	610	586	26	4%
Total	263	253	10	4%	257	253	4	2%

Source: The Company.

Directions of transport

The share of domestic freight in freight turnover of PKP CARGO Group stood at a level close the total freight share in international transport and accounted for 49% and 52% in 2013 and 2012, respectively. The decline in the share of internal freight was mainly the result of a drop (by 15%) in freight volume of aggregates and construction materials, which are mainly transported on domestic routes.

During the whole year 2013, the share of international freight in freight turnover increased to 51% compared with 48% in the same period of 2012, owing to a dynamic growth in export hard coal freight.

For the above reason, 2013 saw a major increase in the share of exports, which reached 26% compared with 23% in the same period of 2012.

3.1.2 Information on sales markets - position of PKP CARGO Group in the freight market in Poland (according to UTK data)

Intermodal competition

According to the latest GUS data concerning the Polish transport market⁷, in 2012 a total of 1.84 billion tons of goods were carried in Poland by all transport modes, with freight turnover of 325.8 billion tkm.

The share of automotive transport in freight volume at the end of 2012 was 84.0%. The share of rail has been decreasing steadily at the end of 2012 it was 12.5%. In many commodity groups automotive transport is substitutive to rail transport, and therefore it poses a constant threat to rail.

The technological/organisational development of rail companies witnessed in the recent years and the European Union's declaration of a policy promoting this mode of transport (including especially support to intermodal transport) creates prerequisites for the development of the rail freight sector and shifting a part of cargo carried by road to rail.

Competition in branch

According to the UTK, in 2013 rail carried 233.2 million tons of goods, i.e. 0.8% more than in 2012. The first five months of the year saw a considerable deterioration of the economic situation, which translated into the performance of the rail sector which was then 3.2% weaker than a year before. From June 2013 the rail freight market started to slowly catch up and 10 months later broke even compared with 2012.

In terms of freight turnover, in 2013 rail carried nearly 50.9 bn tkm. It was 3.7% more than in 2012. Detailed data on the volumes carries in the rail freight market in 2013 is shown in the charts below.



Figure 4 Volume of rail freight in Poland in each month of 2012-2013

Source: UTK

⁷GUS Transport operation results 2012 - latest statistical data on the Polish transport market

Figure 5 Rail freight turnover in Poland in each month of 2012-2013

Source: UTK

Market shares

Both in terms of freight volume and freight turnover, PKP CARGO Group remains a leader in rail freight in Poland. The largest market players among rail operators are: DB Schenker Group, CTL Group and Lotos Kolej. The carriers, together with the PKP CARGO Group, hold about 80% of the rail freight market in Poland. The influence of the other (smaller) firms on the whole market is not significant. As at 31 December 2013, active rail freight licences were held by 83 entities, of which 60 enterprises (2013 data) actually performed the services.

In 2013, after a weak first quarter (decrease in share), PKP CARGO Group was restoring its market position to hold, at the end of the year:

- in terms of freight volume carried, a 49.1% market share (50.5% in 2012),
- in terms of freight turnover, a 59.2% market share (60.3% in 2012).

2013 saw a decline in market shares (in terms of volume) for the Group's main competitors - DB Schenker and Lotos Kolej.

In intermodal competition in the freight market, a significant role is played by freight companies belonging to producer-owned groups, which are characterised by very high demand for rail transport. Owing to such companies, the entities cover a part of demand for transport services (e.g. Orlen) or all such demand and at the same time providing such services to companies outside their group (e.g. Lotos). This way, entities that used to be major customers of PKP CARGO Group have become its competitors.

In response to the market situation, PKP CARGO Group has been implementing a programme aimed at improving and expanding the commercial offer, improving the quality of the services provided, strengthening the relationships with existing Customers and establishing cooperation with new business partners. The Group pays great attention to the attractiveness of the offer (e.g. the capability to fulfil the needs of large customers, which requires a sufficiently large number of specialised wagons and good organisation of freight). The Group provides a full range of freight services, including trainload freight and dispersed freight involving wagonloads or wagon groups. Some distributed freight was carried for large customers, for whom normally trainload services are provided, while wagonload or wagon group freight complements the customer's comprehensive service offer. The comprehensiveness of the offer is becoming an increasing strength of PKP CARGO Group.

Seeking to offset the negative impact of truck competition, PKP CARGO Group has transformed into a logistic operator, offering customers a comprehensive service covering a broad and continuously enhanced catalogue of services (including e.g. comprehensive operation of sidings owned by the Group's customers). Major development prospects are also believed to be open to freight services outside the country. Therefore, within the Group the Parent company obtains additional licences authorising it to perform independent freight services in other countries.

3.1.3 Seasonal and cyclical nature of business

Demand for coal, liquid fuels, aggregates and construction materials is an important factor affecting rail freight in Poland. Demand for these goods is subject to seasonal fluctuations. For example, the demand for transport of coal (which accounted for 39% of the PKP CARGO Group rail freight turnover in 2013) is strong in autumn and weaker in winter, because power plants and CHP plants, which are the largest consumers of coal in Poland,

purchase coal in autumn, before the heating season starts. In addition, the demand for transport of aggregates and construction materials (which accounted for approximately 18% of Group's freight turnover in Poland in 2013) is lower in winter due to planned downtime in construction projects in Poland. In October 2013, i.e. at the peak of the Company's transport activity, the Company moved 45% more cargo than in February, when freight volumes were the lowest in 2013.

In 2013, the slowdown in the transport of aggregates and construction materials was particularly felt in the first quarter of 2013. There was a dynamic acceleration in this segment in the third quarter of 2013. The last quarter again saw a slowdown in freight compared with the corresponding periods of 2012.

3.1.4 Other services

In addition to operations strictly involving freight, PKP CARGO Group willing to provide a comprehensive offer to its customers, has decided to draw on the Group's resources to also provide a variety of transport related services, including siding services which involve the formation of trains, shunting services using its own rolling stock and third-party rolling stock, rail traffic management on sidings, personnel services using employees who supply siding services and freight. Sidings operated by the Group are the property of third parties and usually link manufacturing plants of the Group's customers with the main rail network. The main entity which provides such services is PKP CARGO SERVICE Sp. z o.o..

As part of the comprehensive railway siding operation services, PKP CARGO SERVICE Sp. z o.o. provides the customers with shunting services for railway sidings, railway traffic management on sidings, manning of positions related to rail traffic management on sidings, lease of rolling stock, diagnosis, maintenance and routine operational maintenance of the railway infrastructure, preparation of siding operation rules, commercial handling of consignments dispatched for transport, and periodic training of employees. As part of its siding services, PKP CARGO SERVICE Sp. z o.o. has been developing its business also in the field of repair, overhaul and current maintenance of rail infrastructure.

PKP CARGO SERVICE Sp. z o.o. provides its services to enterprises operating in the mining industry, aggregate quarries, power plants, CHP plants, operating a total of 31 railway sidings. Since the beginning of 2013, 11 sidings have been acquired for operation.

The PKP CARGO Group also performs traction services, i.e. services consisting in the provision of a traction vehicle to the customer together with personnel necessary to perform rail freight or ensuring the readiness of such vehicles e.g. to haul repair or rescue trains, etc. For traction services, the Group uses periodical surpluses of its traction vehicles and locomotive crews. This business area can also include the provision of traction vehicles (locomotives without locomotive crews).

PKP CARGO Group also carries on transloading activities based on conventional and intermodal transloading terminals which belong to subsidiaries, namely PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o. o., PKP CARGO Centrum Logistyczne Medyka-Żurawica, PS Trade Trans Sp. z o.o. and Cargosped Sp. z o.o..

Conventional terminals are used basically for the transloading of a variety of goods. The dominating commodities are coal, crude oil and oil processed products, chemicals, metals and metal products, timber, wood chips, fertilizers, ores and cars. Because of the specific nature of handling various goods, there are specialized terminals, e.g. designed for the transloading of oil processed products, artificial fertilizers, etc. PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o. o. is the only company to operate its own defrosting plant and a gauge switching terminal for cargo handling in non-transloading transport. In 2013, the largest number of transloading operations were performed at terminals owned by PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o. o..

The transloading of intermodal transport units (ITUs) is performed at six intermodal terminals, four of which are managed by Cargosped Sp. z o.o., one is operated by PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o., and a new container terminal in Poznań Franowo is operated by PKP CARGO S.A. The main construction works on the terminal were completed in December 2013. The terminal has been put into service in 2014 and its operations are planned to develop during the year. In addition the logistic centre PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o. o. is equipped with a transloading station designed for ITU handling.

Maintenance of the PKP CARGO Group's rolling stock is performed by repair units operated by the Parent company Divisions and by its subsidiaries. The PKP CARGO Group's rolling stock maintenance facilities are adapted to the Group's needs and have qualifications to repair wagons and electric locomotives at all maintenance levels P1 - P5 and to repair diesel locomotives at level P1 - P4.

The amount of repair and periodic inspections carried out at various intervals are based on cycles prescribed by the Maintenance System Documentation (DSU) approved by the Office of Rail Transportation (UTK) and the quantity of the rolling stock maintained as technically operational, in accordance with the transport demand. In addition to scheduled activities, the repair centres which operate in the PKP CARGO Group carry out running repairs of the rolling stock aimed at eliminating defects found in the rolling stock in the course of operation. The number of running repairs of the rolling stock depends on the rail freight turnover.

In addition, the Group repairs electrical machines and carriage wheelsets which undergo regeneration (periodic repair and replacement of rims or monoblock wheel replacement). PKP CARGO TABOR - KARSZNICE Sp. z o.o. is entity competent for repair of the most important components: electrical machines and wheelsets. This company provides the full range of repair services for electrical machines operated in the locomotives of the PKP CARGO Group. With the investment process carried out in Karsznice, with the purchase of specialised machinery and equipment in the recent years (the most important being a hydraulic press, carousel turning shop) this company developed competencies in full regeneration of wheelsets for freight railway carriages. During nine months of 2013, the number of completed regenerations of wheelsets in Karsznice increased by nearly three times compared to the same period of the previous year.

As part of excess capacities outside core business, i.e. maintenance and repair of the rolling stock being used by the Group, the rolling stock belonging to third parties is also repaired.

It is worth noting that in 2013 the PKP CARGO Group performed 13 periodical repairs and 233 periodical inspections of locomotives, 247 periodical repairs of railway carriages, as well as 71 repairs of electrical machines for third-party owners of the rolling stock. That led to the Group's sales growth in the external market.

3.2 Employment information

Presented below are data on changes in employment levels in PKP CARGO Group in 2012-2013.

The table below shows the number of persons employed at the Group as at the specified dates.

Table 9 Employment as at the end of year at PKP CARGO Group

	Number of persons employed as at:					
Description	31.12.2012	31.12.2013	Change 2013-2012			
Company	23,670	22,480	-1,190			
Subsidiaries	3,957	3,965	8			
Group	27,627	26,445	-1,182			

Source: The Company.

The tables below show the average employment levels at the Group in 2012 and 2013.

Table 10 Average employment at PKP CARGO Group in 2012 and 2013.

		•					
	average	average		average	average		
B 1.0	employment	employment	Change	employment	employment	Change	
Description	in FTEs	in FTEs	2013-2012	in persons	in persons	2013-2012	
	2012	2013		2012	2013		
Company	24,127.6	22,710.6	-1,417.0	24,131.1	22,713.1	-1,418.0	
Subsidiaries	4, 036.2	3,880.7	- 155.5	4,062.4	3,902.4	- 160.0	
Group	28,163.8	26,591.3	-1,572.5	28,193.5	26,615.5	- 1,578.0	

Source: The Company.

The table below shows the employment structure at PKP CARGO Group broken down into non-manual workers and manual workers as the at specified dates.

Table 11 Employment structure at PKP CARGO Group in 2012 and 2013

	Number	of persons employed a	s at:
Description	31.12.2012	31.12.2013	Change 2013-2012
Non-manual workers	5,786	5,553	- 233
Manual workers	21,841	20,892	- 949
locomotive crew personnel	5,057	4,842	-215
shunting crew personnel	2,439	2,402	-37
rolling stock maintenance and repair personnel	5,342	5,246	- 96
train dispatching personnel	2,377	2,399	22
others*	6,626	6,003	- 623
Total:	27,627	26,445	-1,182

Source: The Company.

In 2013, the number of employees at Group decreased by 1,182 basically in consequence of termination of contracts of employment on retirement. The decrease in employment concerned, to a large extent, job positions of lesser significance to the Group's operational activities, i.e. other manual workers (623 persons) and non-manual workers (233 persons). The average employment at the Group was lower than in 2012 by 1,572 full-time equivalents (FTUs) caused by the decrease in employment described above and layoffs under Article 54 of the Act of 8 September 2000 on the commercialisation, restructuring and privatisation of the state enterprise Polskie Koleje Państwowe in connection to the reduced work volume in the first half of 2013.

Employment decrease was notified practically in all companies of the Group but one, i.e. PKP CARGO SERVICE Sp. z o.o., in which in 2013 employment significantly increased in order to match capacity to the constantly growing volume of railway siding operation services provided.

In 2013 the average number of full-time equivalents released from the obligation to perform work for the Parent company amounted to 587, in comparison to 124 in 2012.

3.3 Investing activities of PKP CARGO Group

3.3.1 Capital expenditure

The capital expenditure on property, plant and equipment and intangible assets incurred in 2013 amounted to PLN 363.5 m, i.e. 44.4% of that reported in 2012. The capex was financed with the Group's own funds in the amount of PLN 352.1 m, leased assets of PLN 9.0 m, bank credits PLN 1.5 m, and PLN 0.9 m of EU funds. PKP CARGO S.A. expects the amount of PLN 10.8 m incurred so far out of its own resources to be refinanced from EU funds. The above amount results from the performance of contracts for the construction of the container terminal Poznań Franowo and the purchase of 330 container platforms.

In 2013, the PKP CARGO Group did not incur any foreign capital expenditure.

A detailed summary of the PKP CARGO Group capital expenditure in 2013 and a comparison with the 2012 performance are shown in the table below.

^{*} Includes, in particular, the following employee categories: freight booking, technical inspection, transloading, equipment maintenance, and warehouse personnel.

Table 12 Capital expenditure on property, plant and equipment and intangible assets as incurred by the Company in

2013 (PLN thousands)

No	Type of investment	2012	2013	Change 2013-2012
1	Investment construction	54,273	43,432	-10,842
2	Locomotive upgrades, of which:	362,115	23,345	-338,770
2.1	Locomotive upgrades component	54,009	5,350	-48,659
3	Locomotive repair component (periodic repair)	49,593	41,889	-7,704
4	Wagon purchases, of which:	81,845	18,280	-63,564
4.1	Wagon purchase component	2,556	1,755	-802
5	Wagon repair component (periodic repair)	194,286	189,122	-5,164
6	Plant and machinery	21,591	11,301	-10,290
7	Data, Communication, technology	44,836	34,193	-10,643
8	Other	9,490	1,917	-7,573
	Total	818,028	363,477	-454,550

Source: The Company.

Rolling stock investment

The main investment projects executed in 2013 covered especially the upgrading and periodic repairs as well as rolling stock purchases. In total, the amount of PLN 272.7, representing 72.4% of total capital expenditure, was spent on the upgrading and purchases of rolling stock and periodic repairs (repair components). Those funds were used to upgrade:

- 4 x SM42 locomotives
- 2 x SM48 locomotives
- 1 x EU07 locomotive

executed:

- 76 capitalized periodic repair of locomotives (components),
- 8,266 capitalized wagon repairs (components).

In addition, 40 wagons were purchased for container transport and 48 normal design coal hopper cars.

According to IAS, capital expenditure includes capitalized costs - of periodic repairs of the rolling stock. The quantities of periodic repairs performed in the respective periods results from the cycles specified in the DSU approved by the UTK, and the quantities of rolling stock maintained in good repair in accordance with transport demand. The table below presents periodic repairs of rolling stock used by PKP CARGO Group.

Table 13 Period repairs of rolling stock in 2012 and 2013

Periodic repairs of rolling stock used by PKP CARGO Group	2012	2013	Change 2013 - 2012
Periodic repairs of locomotives	97	76	-21
Periodic repairs of wagons ⁸	8,781	8,266	-515

Source: The Company.

Investment construction

In 2013, investments related to real estate involved capital expenditure of PLN 43.4 m.

As part of those operations, outlays were made on: construction of the Poznań Franowo container terminal., construction of container fuel stations for the amount of PLN 3.0 m, expansion and upgrading of the PKP CARGO S.A. Head Office building in Warsaw, and the upgrading of maintenance/repair facilities.

⁸ In addition, in 2013, 13 periodic repairs of wagons intended solely for military purposes were completed in-house, which were not activated due to the fact that they were financed by MON.

Other investments in property, plant and equipment and intangible assets

In addition to the investments mentioned above, in 2013 the Group completed investment projects related to the equipment of facilities, upgrading of plant and machinery, the purchase of intangible assets and low-value fixed assets. The total value of those outlays was PLN 47.4 m.

Capital investments

In addition to capital expenditure on property, plant and equipment and intangible assets in 2013, outlays were made as part of capital investments in the amount of PLN 0.5 m for the acquisition of 100% of shares in CARGOTOR Sp. z o.o.. The investments were financed with own funds.

3.3.2 Assessment of the feasibility of investment projects, including capital investments, compared with the amount of funds in hand, taking into account possible structural changes in the financing of those activities

The positive operating cash flow generated in 2013 covered a large majority of the PKP CARGO Group capital expenditure and financial expenditure.

The Group effectively manages the cash turnover cycle by matching due dates for receivables and liabilities. In order to secure potential risk of short-term cash shortage, the Parent Company signed an overdraft agreement with a limit of PLN 100 m. The same solution is adopted in some companies of PKP CARGO Group.

The effective management of the Group's finance is supported by its internal policy of financial risk management which allows for the optimisation of the maturities and categories of investment instruments and the liquidity provision level. Cash surpluses generated by the Group were invested in fixed-interest bank deposits with maturities of mainly from a few to 6 months. Decisions on bank deposits are based on the maximisation of the rate of return and on-going assessment of the financial standing of banks. The structure of assets, including cash and short-term investments, secured the Group's capability to pay their liabilities when due.

In order to optimize the current financial situation of the PKP CARGO Group, within the Group a cash pooling mechanism was implemented, which enabled it to reduce costs incurred in connection with the use of short-term external financing sources and to maximise revenue based on surplus cash available.

In the second half of 2013, the Parent company entered into a bank guarantee limit agreement under which a guarantee can be issued in favour of any company of the PKP CARGO Group, which reduced the costs incurred in connection with guarantees acquired and made it possible to obtain guarantees irrespective of the financial condition of the company concerned.

In compliance to the policy adopted by the Parent company, the Company's maximum debt must not exceed 60% of the balance sheet total. In the reporting period, debt did not threat an ability to continue as a going concern or ability to pay liabilities when due.

In 2013, the Group was fully capable of paying its liabilities when due.

It is worth noting that PKP CARGO Group has the capability to finance its investment projects both using the existing and planned operating cash surplus and the undisbursed EIB credit facility (the credit agreement was concluded at 3 December 2013 by the Parent company) in the amount of PLN 200 m, and based on new credit facilities and investment loans. The acceptable financial ratios agreed with strategic borrowers make it possible to significantly increase the scale of financing investment projects with the use of external funds without the risk of default on the existing credit agreements.

4 Current financial and economic situation of PKP CARGO Group

4.1 Assessment of factors and extraordinary events with a significant impact on the activities and financial results of PKP CARGO Group

The foremost and unprecedented event in the history of PKP CARGO Group in 2013 was the Parent company's IPO on the Warsaw Stock Exchange.

On 30 October 2013, PKP CARGO S.A. was first listed on the Warsaw Stock Exchange (WSE). The Company's IPO with a value of PLN 1.42 bn was the largest public offering in Poland from the beginning of 2013, as well as the first successfully placed offering of a national freight carrier in the European Union. The historical opening of listing of stock of the first listed company of the PKP Group stood at PLN 80.20, which represented an increase of approx. 18% against the selling price in public offering, i.e. PLN 68 per share. The listed company status, which provides PKP CARGO S.A. with additional capabilities of capital acquisition for development and increases its credibility as a business partner, will be helpful continuing the restructuring of the Group and consolidation of its position in the Polish market, and continuing expansion in foreign markets.

As with other entities controlled by the State Treasury, the IPO was preceded by long negotiations with social partners, in consequence of which the following were signed:

- Agreement partly ending the collective dispute of 10 June 2013 between the Trade Unions and PKP CARGO S.A. ("Agreement") - on 22 August 2013,
- Employment Guarantee Pact ("EGP") on 2 September 2013 and Pacts in five companies from the PKP CARGO Group – three repair companies and two logistic centres.

Based on the above documents, the PKP CARGO Group included in the 2013 results cost in the total amount of PLN 209.2 m resulting from the payment of a one-time discretionary bonus in the average amount of PLN 1,300 gross per person and a one-time benefit/bonus to finance the acquisition of employee shares.

In addition, the following took place in 2013:

- 1. Shares were taken in the increased share capital of the Parent company through private subscription in exchange for a contribution in kind made by PKP S.A. with its registered office in Warsaw, with a total value of PLN 117,080,467.00, which consisted mainly of the rights of perpetual usufruct of properties and land including the ownership of buildings, plant and machinery situated on the premises. The contribution is not an organised part of business. The event was described in explanatory note No 22 to the Consolidated Financial Statements for the year ended 31 December 2013.
- 2. On 8 July 2013, the Ordinary General Meeting of Shareholders of PKP CARGO S.A. passed resolutions resulting in changes in share capital and the structure of equity of PKP CARGO S.A. On 18 October 2013, the Ordinary General Meeting of Shareholders of PKP CARGO S.A. took a decision to divide the Company PKP CARGO S.A. by transferring a part of the assets of PKP CARGO S.A. to the company Windykacja Kolejowa Sp. z o.o., as a result of which the share capital of the PKP CARGO S.A. was decreased by PLN 150 k. The change was described in explanatory note No 22 to the Consolidated Financial Statements for the year ended 31 December 2013.
- 3. On 3 October 2013, the Supreme Court overruled the rulings of the District Court in Warsaw and the Appeal Court which revoked decision No DOK-3/2009 against PKP CARGO S.A. and the appeal against the ruling of the Appeal Court. In consequence of the above, the Office of Competition and Consumer Protection returned to PKP CARGO S.A. the amount of penalty paid in the amount of PLN 60,362 k. The event was described in explanatory note No 25 to the Consolidated Financial Statements for the year ended 31 December 2013.
- 4. On 10 December 2013, an agreement on cash management in the PKP CARGO Group was signed, under which PKP CARGO S.A. is the Principal Holder. The agreement sets forth individual liquidity limits and allows the effective cash management.
- 5. As of 31 December 2013 PS Trade Trans Sp. z o.o. recognized impairment loss of shares in PPHU "Ukpol" Sp. z o.o. and in SC TRADE TRANS TERMINAL SRL in the total amount of PLN 15 m.

4.2 Key economic and financial figures

4.2.1 Statement of comprehensive income

In 2013 the PKP CARGO Group's operating revenue was 7.3% lower, and operating expenses were reduced by only 2.9% owing to the fact that the results were reduced by the cost of EGP and the Agreement in the total amount of PLN 209.2 m. The lower rate of cost reduction than the scale of drop in Group's operating revenue, translated into profit on operating activities in 2013 amounted to PLN 233.8 m, i.e. 68% less than in 2012. Net profit decreased by PLN 202.1 m, i.e. by 75.6% year to year.

The basic economic and financial results in 2013 are shown in the table below.

Table 14 The PKP CARGO Group's results in 2013 compared with 2012 (PLN thousands)

No.	Description	2012	2013	Change 2013-2012	Change rate 2013/2012
1	2	3	4	5=4-3	6=(4-3)/3
1	Total operating revenue	5,173,441	4,797,461	-375,980	-7.3%
2	Total operating expenses	4,829,446	4,687,276	-142,170	-2.9%
3	Profit on operating activities	343,995	110,185	-233,810	-68.0%
4	Financial revenue	75,690	34,333	-41,357	-54.6%
5	Financial expenses	59,404	44,209	-15,195	-25.6%
6	Share in the profit of equity accounted associates	-442	-13,438	-12,996	-
7	Profit(loss) on sales of shares in an associate	-6,372	1,661	8,033	-
8	Profit before tax	353,467	88,532	-264,935	-75.0%
9	Income tax expense	86,024	23,145	-62,879	-73.1%
10	Net profit on continuing operations	267,443	65,387	-202,056	-75.6%
11	Profit/loss on discontinued operations	0	0	0	-
12	NET PROFIT	267,443	65,387	-202,056	-75.6%

Source: Consolidated Financial Statements for the year ended 31 December 2013 prepared in accordance with IFRS EU.

After eliminating one-time events impact on costs in the amount of PLN 209.2 m, the decrease of operating revenues (7.3%) will correspond with the decrease of operating expenses (7.3%).

Operating revenue

The largest share in operating revenue of PKP CARGO Group have sales revenue, which accounted for 94.9% and 97.9% of operating revenues in 2013 and 2012, respectively. The remainder of the operating revenue consists of revenue from the sales of goods and materials, which include, among others, sales of steel and iron scrap, as well as other operating revenue, including, among others, sales of fixed assets, changes in impairments, receivables and interest on receivables, a change in provisions for liabilities and return of penalties paid.

Sales revenues decreased in comparison to the previous year by PLN 510.2 m, i.e. by 10.1% and reached the level of PLN 4,553.9 m in 2013. The decrease mainly resulted from lower revenue from freight operations and forwarding services, representing 90.9% of sales revenue.

In 2013 PKP CARGO Group saw a decline in revenue per tonne-kilometre (calculated as the ratio of total sales revenue to domestic freight turnover), which amounted to PLN 0.151 against PLN 0.171 in 2012. In the case of freight revenue and forwarding services themselves, the drop was PLN 0.138 in 2013 against PLN 0.154 in 2012.

The decrease in sales revenue per tkm resulted from very keen competition in the market and a change in freight structure. 2013 was characterised by a significant increase in long-haul export-bound freight of coal, which is characterised by lower unit revenue. It is worth mentioning, that in 2013 the siding and traction revenues increased by 4.2% as a result of development of the comprehensive siding services provided by PKP CARGO SERVICE Sp. z o.o.

Revenue from the sales of goods and materials of PKP CARGO Group increased by PLN 68.7 m, i.e. 72.3%, with the decline of this item in the Parent company by PLN 5.5 m, i.e. 8.8%. The increase resulted mainly from the sales of materials, including coal, building materials and other items by the Group (mainly by PS TRADE TRANS Sp. z o.o. in the first half of 2013 as a complementary service to transport). Revenue from the sales of goods and materials of PS TRADE TRANS Sp. z o.o. amounted to almost PLN 76.0 m in 2013, and cost of purchase of goods and materials recognized in the operating cost amounted to PLN 75.0 m.

In 2013, other operating revenue of PKP CARGO Group increased by PLN 65.5 m, i.e. by 460.3% to the level of PLN 79.8 m. The above growth resulted mainly from the beneficial to the Parent company litigation concerning decision No DOK-3/2009, which imposed the penalty of PLN 60.4 m on PKP CARGO S.A.. On 3 October 2013, the Supreme Court overruled the rulings of the District Court in Warsaw, the Competition and Consumer Protection Court Protection Court and the Appeal Court in Warsaw, which dismissed the appeal of PKP CARGO S.A. against decision No DOK-3/2009 and the appeal against the ruling of the Appeal Court. Consequently, the Office of Consumer and Competition Protection (UOKiK) returned the penalty amount previously paid by PKP CARGO S.A. Owing to the fact that the matter was referred by the Supreme Court for reconsideration to the court of first instance, the Company estimated the provision for penalty that UOKiK may against impose for the practices described in decision DOK-3/2009. The difference between the above-mentioned penalty value and the value of the newly established provision reached PLN 46 m and it was included in other operating revenue. In addition, the changes were reported in the structure of other operating revenue - decrease in interest on trade receivables to the advantage of other items, i.e. reversal of other provisions amounted to PLN 11.6 m, profit on the disposal of fixed assets of PLN 4.2 m.

Table 15 The PKP CARGO Group's operating revenue in 2013 compared with 2012 (PLN thousands)

No.	Description	2012	2013	Change 2013-2012	Change rate 2013/2012
1	2	3	4	5=4-3	6=(4-3)/3
1	Sales revenue, of which:	5,064,161	4,553,921	-510,240	-10.1%
1.1	Freight revenue and railway forwarding	4,560,388	4,141,611	-418,777	-9.2%
2	Revenue from the sales of goods and materials	95,042	163,769	68,727	72.3%
3	Other operating revenue	14,238	79,771	65,533	460.3%
4	Total operating revenue	5,173,441	4,797,461	-375,980	-7.3%

Source: Consolidated Financial Statements for the year ended 31 December 2013 prepared in accordance IFRS EU.

In 2013, the revenue of none of the PKP CARGO Group's customers exceeded 10% of the total revenue from the sale of goods and materials in accordance with Note 5.3 to the IFRS Consolidated Financial Statements.

Operating expenses

In 2013, operating expenses of PKP CARGO Group dropped by PLN 142.2 m, i.e. by 2.9%, to PLN 4,687.3 m from PLN 4,829.4 m in 2012. The relatively small decrease in expenses resulted from the fact that the costs of employee benefits included one-off events / costs resulting from the EGP and the Agreement for the total amount of PLN 209.2 m.

Apart from the costs of employee benefits which increased by PLN 162.6 m, i.e. by 10.4% compared to 2012, the only increased category of operating expenses was cost of merchandise and raw materials sold (by PLN 72.0 m, i.e. 113,2% year to year). Cost of merchandise and raw materials sold increased in 2013 due to the transactions of PS TRADE TRANS Sp. z o.o. described above.

The decrease in the costs of depreciation/amortisation and impairment losses by PLN 34.0 m, i.e. by 8.0%, to PLN 388.8 m, was mainly caused by the drop in the costs of depreciation of property, plant and equipment due to fewer periodic repairs of the rolling stock performed in 2012-2013. The depreciation of property, plant and equipment for that period of time declined by PLN 51.0 m, i.e. by 12.6 %.

Reduction in the consumption of raw materials and supplies by PLN 53.7 m, i.e. by 6.9% to PLN 725.8 m in 2013 was mainly due to the decrease in fuel consumption and consumption of electricity, gas and water. In 2013, the cost of fuel consumption decreased by PLN 37.3 m, i.e. by 14.3%, as the result of: more effective management transport processes, reflected in lower freight/operation turnover for diesel stock with an increase in freight turnover, optimisation of the use of locomotives, reduction of unit fuel consumption costs, in particular owing to an increase in share of upgraded diesel locomotives, introduction of a monitoring system, and a decrease in liquid fuel prices. The cost of electricity, gas and water decreased in 2013 by PLN 24.7 m, i.e. by 5.4%. This decrease was due both to lower consumption of traction power and decrease in average prices of traction power. During the analysed period, an increase was witnessed in the consumption of materials by PLN 6.2 m, i.e. by 9.5%, mainly due to the installation of monobloc wheelsets on wagons.

In 2013, the external services decreased by PLN 234.4 m, i.e. by 12.9%. The decrease resulted mainly from a decrease in costs of:

- transport services decline by PLN 125.7 m, i.e. 32.0%
- rents and fees for the use of real property and the rolling stock decline by PLN 37.7 m, i.e. 19.5%
- access to lines of infrastructural managers decline by PLN 33.1 m, i.e. 3.4%

Material decrease of costs was also notified in other expenses by kind and other operating expenses. Other expenses by kind decreased by PLN 20.3 m, i.e. by 34,9%, the latter by PLN 33.7 m, i.e. by 35.9%. Within other operating expenses the highest decline was notified in current and non-current assets liquidation, which were lower by PLN 32.2 m in 2013, i.e. by 66.4% than in 2012.

Table 16 The PKP CARGO Group's operating expenses in 2013 compared with 2012 (PLN thousands)

No.	Description	2012	2013	Change 2013-2012	Change rate 2013/2012
1	2	3	4	5=4-3	6=(4-3)/3
1	Depreciation/ Amortisation and impairment losses	422,831	388,845	-33,986	-8.0%
2	Consumption of raw materials and supplies	779,490	725,819	-53,671	-6.9%
3	External services	1,814,415	1,580,053	-234,362	-12.9%
4	Taxes and charges	38,703	37,912	-791	-2.0%
5	Employee benefits	1,558,113	1,720,754	162,641	10.4%
6	Other expenses by kind	58,391	38,042	-20,349	-34.9%
7	Cost of merchandise and raw materials sold	63,638	135,670	72,032	113.2%
8	Other operating expenses	93,865	60,181	-33,684	-35.9%
9	Total operating expenses	4,829,446	4,687,276	-142,170	-2.9%

Source: Consolidated Financial Statements for the year ended 31 December 2013 prepared in accordance with IFRS EU. .

Presented below is information on leading suppliers to whom the Parent company incurred expenses in 2013 exceeding 10% of the total revenue from sales of services and sales of goods and materials.

Table 17 Amount of purchases from leading suppliers of PKP CARGO Group (PLN thousands)

definition of dependence	Supply value for 2013 (net)	Name of Supplier
rail infrastructure	932,610.9	PKP PLK S.A.
electricity, traction fuel	549,309.2	PKP Energetyka S.A.

Source: Consolidated Financial Statements for the year ended 31 December 2013 prepared in accordance with IFRS EU.

Profit on operating activities

As a result of the aforementioned changes in operating revenue and expenses, profit on operating activities of PKP CARGO Group decreased by PLN 233.8 m, i.e. by 68.0%, to PLN 110.2 m in 2013. The decrease in the profit on operating activities was due to operating revenue lower by about 7.3%, which was not compensated by

the decrease in the operating expenses of 2.9%, mainly due to one-off cost events as described above (EGP & Agreement).

EBITDA

Profit on operating activities increased by depreciation/amortisation and impairment losses, defined as EBITDA, decreased as a result of the events described above by PLN 267.8 m, i.e. by 34.9%, to PLN 499.0 m in 2013.

Financial activities

In 2013, PKP CARGO Group recorded a loss on financial activities of PLN 21.7 m, thus compared with the same period of 2012, the result on financial activities deteriorated by PLN 31.1 m, with the positive result of the Parent company financial activity amounted to PLN 7.5 m.

Financial revenue dropped by PLN 41.4 m in 2013, i.e. by 54.6%, mainly attributable to a significant reduction, by PLN 33.1 m, in the net profit on exchange differences. Additionally in 2013 there was a decrease in interest revenue by PLN 6.8 m owing to a decrease in market interest rates.

Financial expenses also decreased in 2013 and were lower by PLN 15.2 m, i.e. 25.6% than in 2012, however the decline rate was lower than financial revenue. Apart from loss on exchange differences amounted to PLN 3.8 m in 2013, the Group recorded:

- a decrease in interest cost by PLN 6.6 m, including interest on credits by PLN 3.1 m, interest on leasing liabilities by PLN 5.6 m, with an increase of interest on long-term liabilities by PLN 2.2 m,
- decrease in the loss on shares by PLN 11.8 m (in 2012, impairment included e.g. shares in POLZUG Intermodal GmbH and Euroterminal Sławków).

In the share in the profit of equity accounted associates in 2013, the PKP CARGO Group recognized impairment on shares in PPHU "Ukpol" Sp. z o.o. and SC TRADE TRANS TERMINAL SRL, and in the category profit/(loss) on sales of shares in an associate a profit on sales of ZPiS SPEDKOKS Sp. z o.o. shares was recognized.

Table 18 The PKP CARGO Group's financial activities in 2013 compared with 2012 (PLN thousands)

No.	Description	2012	2013	Change 2013-2012	Change rate 2013/2012
1	2	3	4	<i>5</i> = <i>4</i> -3	6=(4-3)/3
1.	Financial revenue	75,690	34,333	-41,357	-54.6%
2.	Financial expenses	59,404	44,209	-15,195	-25.6%
3.	Share in the profit of equity accounted	-442	-13,438	-12,996	-
4.	Profit/(loss) on sales of shares in an associate	-6,372	1,661	8,033	-
	Result on financial activities	9,472	-21,653	-31,125	-328.6%

Source: Consolidated Financial Statements for the year ended 31 December 2013 prepared in accordance with IFRS EU.

Profit before tax

In 2013, profit before tax decreased by PLN 264.9 m, i.e. by 75.0%, to PLN 88.5 m. The decrease in profit before tax was both due to the decrease in the profit on operating activities charged with the cost of one-off events, as well as the profit on financial activities being lower than in 2012.

Income tax expense

In 2013, PKP CARGO Group reported income tax expense of PLN 23.1 m, of which current income tax was PLN 5.8 m, while deferred income tax was PLN 17.3 m.

Net profit

In 2013, net profit decreased by PLN 202.1 m, i.e. by 75.6%, and PKP CARGO Group reported a profit of PLN 65.4 m.

4.2.2 Characteristics of the structure of assets and liabilities

ASSETS

Table 19 Horizontal and vertical analysis of assets (PLN thousands)

Table 13 Horizontal and Vertical analysis of a	31	31				
Description	December 2012	December 2013	Asset structure		Change 20	013/2012
			31 December 2012	31 December 2013		
ASSETS						
Non-current assets						
Property, plant and equipment	3,807,115	3,855,446	67.7%	67.1%	48,331	1.3%
Intangible assets	64,432	61,395	1.1%	1.1%	(3,037)	-4.7%
Goodwill	2,712	2,712	0.1%	0.0%	-	0.0%
Investment property	1,427	1,415	0.0%	0.0%	(12)	-0.8%
Investments accounted for under the equity method	60,514	38,214	1.1%	0.7%	(22,300)	-36.9%
Other long-term financial assets	11,751	6,090	0.2%	0.1%	(5,661)	-48.2%
Other long-term non-financial assets	2,027	1,438	0.0%	0.0%	(589)	-29.1%
Deferred tax assets	104,003	83,185	1.9%	1.5%	(20,818)	-20.0%
Total non-current assets	4,053,981	4,049,895	72.1%	70.5%	(4,086)	-0.10%
Current assets						
Inventories	82,155	76,041	1.5%	1.3%	(6,114)	-7.4%
Trade and other receivables	612,642	609,267	10.9%	10.6%	(3,375)	-0.6%
Income tax receivables	1,465	2,394	0.0%	0.0%	929	63.4%
Other short-term financial assets	659,107	691,404	11.7%	12.1%	32,297	4.9%
Other short-term non-financial assets	26,411	33,355	0.5%	0.6%	6,944	26.3%
Cash and cash equivalents	188,008	263,700	3.3%	4.6%	75,692	40.3%
	1,569,788	1,676,161	27.9%	29.2%	106,374	6.8%
Non-current assets held for sale	-	17,560	0.0%	0.3%	17,560	100.0%
Total current assets	1,569,788	1,693,721	27.9%	29.5%	123,933	7.9%
Total assets	5,623,769	5,743,616	100.0%	100.0%	119,847	2.1%

Source: Consolidated Financial Statements for the year ended 31 December 2013 prepared in accordance with IFRS EU.

Non-current assets

The largest share in the structure of PKP CARGO Group's assets is held by non-current assets, which represented 67.1% of total assets at the end of 2013 compared with 67.7% in 2012. The decline of share of this balance-sheet item, despite the fact that it increased year-on-year by PLN 48.3 m, is due to a greater rate of growth in current assets, in particular cash and cash equivalents, than non-current assets.

The increase in property, plant and equipment results from investment outlays incurred by PKP CARGO Group in 2013, contributions in kind obtained from PKP S.A. and depreciation write-offs, as well as the disposal and liquidation of assets.

The most significant items determining the level of property, plant and equipment include the acquisition by PKP CARGO S.A., by way of contribution in kind, of land, buildings and structures, plant and machinery as well as other fixed assets with a total value of PLN 117.1 m, PKP CARGO Group capital expenditure property, plant and equipment (see the description in the section on capital expenditure) at PLN 344.6 with depreciation of property, plant and equipment at PLN 353.2 m and impairments at PLN 11.9 m.

Other non-current assets represent 3.4% of the balance sheet total as at the end of 2013 against 4.4% in 2012. The highest decrease relates to the following items: Investments measured using the equity method by PLN 22.3 m, i.e. 36.9% in connection with the disposal of ZPiS SPDEKOKS Sp. z o.o., and provision for impairment of shares in PPHU "Ukpol" Sp. z o.o. and SC TRADE TRANS TERMINAL SRL and writing them off till nil, as well as

the item Deferred tax assets – decline by PLN 20.8 m, i.e. by 20%, among others in connection with the application of the tax loss brought forward.

Current assets

PKP CARGO Group's current assets without non-current assets held for sale accounted for 29.2% of the balance sheet total in 2013, in comparison to 27.9% year before. The share of Group's current assets was greater at the end of 2013 than of the Parent company accounting for 27.2% in 2013 and 24.7% year before.

Inventories decreased by 7.4%, i.e. by PLN 6.1 m, due to reduced level of spare parts in the process of optimisation of PKP CARGO Group. A slight percentage decline was recorded in the item Trade and other receivables by 0.6%, i.e. by PLN 3.4 m, despite the disclosure in the balance sheet at 31 December 2013 of receivables under subsidy agreements in the amount of PLN 10.8 m⁹.

In 2013, the current assets that increased are cash and cash equivalents, which increased by 40.3%, i.e. PLN 75.7 m and it's share in the balance sheet total increased from 3.3% in 2012 to 4.6% in 2013. Cash has been generated as part of the current operations with relatively low level of credits taken (PLN 3.9 m) due to unthreatened liquidity situation. Additionally in 2013 Other short-term financial assets increased in connection to disclosure the receivables resulted from EPG¹⁰.

⁹ Subsidising the purchase of 330 platforms and construction of the Franowo terminal.

¹⁰ The amount of PLN 79.6 m represents the cash paid by PKP CARGO S.A. and subsidiaries comprised by EGP to the accounts of entitled employees provided in the brokerage house, as a payment for the shares by entitled employees.

EQUITY AND LIABILITIES

Table 20 Horizontal and vertical analysis of liabilities and equity (PLN thousands)

Description	31 December 2012	31 December 2013	Structure of liabilities Cha		Change	2013/2012
			31 December 2012	31 December 2013		
SHAREHOLDERS' EQUITY AND LIABILITIES						
Equity						
Share capital	2,889,200	2,166,901	51.4%	37.7%	(722,299)	-25.0%
Share premium	122,773	692,761	2.2%	12.1%	569,988	464.3%
Other items of equity	(29,325)	(16,392)	-0.5%	-0.3%	12,933	-44.1%
Retained earnings / (Uncovered losses)	159,946	603,247	2.8%	10.5%	443,301	277.2%
Equity attributable to the shareholders of the Parent company	3,142,594	3,446,517	55.9%	60.0%	303,923	9.7%
Equity attributable to non-controlling interests	72,078	62,377	1.3%	1.1%	(9,701)	-13.5%
Total equity	3,214,672	3,508,894	57.2%	61.1%	294,222	9.2%
Non-current liabilities						
Long-term bank loans and credit facilities	193,110	121,558	3.4%	2.1%	(71,552)	-37.1%
Long-term finance lease liabilities and leases with purchase option	418,883	313,136	7.4%	5.4%	(105,747)	-25.2%
Long-term trade and other liabilities	151,779	113,688	2.7%	2.0%	(38,091)	-25.1%
Long-term provisions for employee benefits	616,274	592,923	11.0%	10.3%	(23,351)	-3.8%
Other long-term provisions	85	22,854	0.0%	0.4%	22,769	26,786.9%
Deferred tax provision	3,041	2,577	0.1%	0.1%	(464)	-15.3%
Total non-current liabilities	1,383,172	1,166,736	24.6%	20.3%	(216,436)	-15.6%
Current liabilities						
Short-term bank loans and credit facilities	96,202	73,217	1.7%	1.3%	(22,985)	-23.9%
Short-term finance lease liabilities and leases with purchase option	118,668	115,790	2.1%	2.0%	(2,878)	-2.4%
Trade and other receivables	682,149	675,841	12.1%	11.7%	(6,308)	-0.9%
Short-term provisions for employee benefits	100,169	176,461	1.8%	3.1%	76,292	76.2%
Income tax liability	936	244	0.0%	0.0%	(692)	-73.9%
Other short-term financial liabilities	737	306	0.0%	0.0%	(431)	-58.4%
Other short-term provisions	27,064	26,127	0.5%	0.5%	(937)	-3.5%
	1,025,925	1,067,986	18.2%	18.6%	42,061	4.1%
Liabilities related directly to non-current assets classified as held for sale	-	-	0.0%	0.0%	-	-
Total non-current liabilities	1,025,925	1,067,986	18.2%	18.6%	42,061	4.1%
Total liabilities	2,409,097	2,234,722	42.8%	38.9%	(174,375)	-7.2%
Total liabilities and equity	5 623 769	5 743 616	100.0%	100.0%	119,847	2.1%

Source: Consolidated Financial Statements for the year ended 31 December 2013 prepared in accordance with IFRS EU.

The balance sheet total of PKP CARGO Group increased by PLN 119.8 m in 2013, i.e. by 2.1% in comparison to 2012. That increase resulted from the growth of equity by PLN 294.2 m in 2013, i.e. by 9.2% and growth of the

level of currentliabilities by PLN 42.1 m, i.e. by 4.1%, together with the decrease of the non-current liabilities by PLN 216.4 m, i.e. by 15.6% due to a good liquidity situation of the Group in 2013. The share of external capital in financing the activity accounted for 38.9% in 2013, in comparison to 42.8% year before.

Equity

The changes that took place in the Group's equity were mainly related to the Parent company preparations for the IPO which took place on 30 October 2013. Share capital was decreased by PLN 722.3 m, i.e. by 25%, and the share premium was raised by almost PLN 570 m, resulting in the increase of the share of the share premium in the balance sheet total by more than 10 p.p., from 2.2% in 2012 to 12.1% in 2013.

The final level of the share capital of PKP CARGO Group was influenced by the General Meeting decisions of PKP CARGO S.A. on 8 July 2013. Detailed information on decisions of the General Meeting are described in detail in Note No 22 to the Consolidated Financial Statements for the year ended 31 December 2013 prepared in accordance with IFRS EU.

The decrease in the share capital of the Company, in consequence the PKP CARGO Group, contributed, as described above, both to share premium and retained profits / uncovered losses. The latter item increased in 2013 also owing to the net profit generated in 2013 in the amount of PLN 65.4 m. That resulted in the raise of the share of retained earnings in the balance-sheet total from 2.8% in 2012 to 10.5% in 2013.

Non-current liabilities

Only one item of non-current liabilities showed growth in 2013, i.e. Other long-term provisions, which increased by PLN 22.8 m, however its share was minor and at the end of 2013 accounted for 0.4% only in the balance sheet total. The rest of the items decreased in 2013, mainly long-term bank loans and credit facilities – by PLN 71.6 m, i.e. by 37.1% and long-term finance lease liabilities and leases with purchase– by PLN 105.7 m, i.e. by 25.2%. All the long-term bank loans and credits facilities, leas contracts and trade contract with deferred payment terms were paid as scheduled.

Current liabilities

The current liabilities of PKP CARGO Group increased insignificantly in 2013, i.e. by PLN 42.1 m. The current liabilities items were reduced in 2013. The increase was only reported in short-term provisions for employee benefits by PLN 76.3 m, i.e. 76.2%, which was attributable to the EGP. The highest decrease was reported in short-term bank loans and credit facilities, by almost PLN 23 m, i.e. by 23.9%.

4.3 Selected financial and operating ratios

Table21 Selected financial and operating ratios

Description	2012	2013	Change 2013-2012	Change rate 2013/2012
EBITDA margin ¹¹	14.8	10.4	-4.4	-29.7%
Net profit margin ¹²	5.2	1.4	-3.8	-73.1%
Net financial debt ratio to EBITDA ¹³	-0.03	-0.66	-0.63	-
ROA ¹⁴	4.8	1.1	-3.7	-77.1%
ROE ¹⁵	8.3	1.9	-6.4	-77.1%
Average distance covered by 1 locomotive (km per day) ¹⁶	249.3	251.8	2.5	1.0%
Average gross train tonnage per operating locomotive (in tons) ¹⁷	1,369.5	1,465.0	95.5	7.0%
Average working time of locomotives (hours per day) ¹⁸	14.8	15.3	0.5	3.4%
freight turnover per employee (000s tkm/employee) ¹⁹	1,049.8	1,131.4	81.6	7.8%

Source: The Company.

The values of the financial and operating ratios in 2013 were affected by disclosure, in the item Employees benefits, the on-off events costs resulted from EGP and Agreement described above. The total amount of those costs were estimated at PLN 209.2 m, decreasing the profits at EBITDA level.

Due to lower freight volumes, pricing pressure and the costs described above, both the EBITDA margin and the net profit margin are lower in 2013 than in 2012, by 4.4 p.p. and 3.8 p.p respectively.

ROA ratio was lower in 2013 than in 2012 by 3.7 p.p., and ROE by 6.4 p.p. respectively. Deterioration of those ratio in comparison to 2012 was caused by lower net profit by 75.6% together with both the increase of the balance sheet total and equity value.

It should be emphasized that ratio of net financial debt ratio to EBITDA in 2013, the same as in 2012, recorded negative value due to the surplus of cash and cash equivalents and other short-term financial assets over financial liabilities in the amount of PLN 331.1 m and PLN 19.5 m in 2013 and 2012 respectively.

In terms of the key operational ratios, owing to the ongoing optimisation process, the following were reached 2013 compared with 2012:

 increase in the average daily distance covered by locomotives by 2.5 km/day from 249.3 km/day to 251.8 km/day,

¹¹ Calculated as the quotient of profit operating activities increased by depreciation/amortisation and impairment losses, by total operating revenue*100.

¹² Calculated as the quotient of profit after tax and total operating revenue*100.

¹³ Calculated as the quotient of net financial debt (which is the sum of (i) long-term bank loans and credit facilities and; (ii) short-term bank loans and credit facilities, (iii) long-term finance lease liabilities and leases with purchase; (iv) short-term finance lease liabilities and leases with purchase option; and (v) other short-term financial liabilities less (i) cash and cash equivalents; and (ii) other short-term financial assets) and EBITDA (profit on operating activities increased by depreciation/amortisation and impairment losses).

¹⁴ Calculated as the quotient of profit after tax and total assets*100.

¹⁵ Calculated as the quotient of profit after tax and equity*100.

¹⁶ Calculated as the quotient of vehicle-kilometres (i.e. the distance covered by PKP CARGO S.A. vehicles in a given period) and vehicle-days (i.e. the product of the number of active vehicles and the number of calendar days in a given period)

¹⁷ Calculated as the quotient of gross-tonne-kilometres and train-kilometres in train performance for locomotives running PKP CARGO S.A. trains (in paired running or pushed in a given period).

¹⁸ Calculated as the quotient of vehicle-hours (i.e. the number of hours of work of PKP CARGO S.A. vehicles in a given period) and vehicle-days (i.e. the product of active vehicles and the number of calendar days in a given period).

¹⁹ Calculated as the quotient of freight turnover of the Group by average employment (in FTEs) in a given time period.

- increase in the average gross train weight per locomotive from 1,369.5 tons, i.e. by 95.5 tons to 1,465.0 tons.
- increase in the average working time of locomotives from 14.8 hrs/day to 15.3 hrs/day, i.e. by 0.5 hrs/day,
- increase in freight turnover per employee from 1,049.8 k tkm/employee to 1,131.4 k tkm/employee, i.e. by 81.6 k tkm/employee.

4.4 Explanation of differences between financial results and result forecasts

PKP CARGO Group and the Parent company did not publish financial forecasts under § 5 (1) (25) of the Regulation of the Minister of Finance of 19 February 2019 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country may be recognised as equivalent current and periodic information provided by issuers of securities and on conditions, (Journal of Laws of 2014, item 133) of 27 June 2013, concerning the results in 2013.

4.5 Information on productive assets

4.5.1 Rolling stock

The main components of the PKP CARGO Group's productive assets are wagons and traction stock. No major changes took place during 2013 regarding the traction stock. The Company increased by 1 unit the number of locomotives used under operating lease contracts. In addition, two SM48 locomotives were upgraded, adjusting them to train service and re-classifying to the ST48 series. In the case of wagons, the main reason for the reduction in number was scrapping due to poor state of repair resulting in a complete loss capability for further operation. As for the wagons only the increase in the number of Type S wagons was reported in 2013, as a result of supply of 40 platforms under a contract signed on 25 September 2013, co-financed by the EU. The number of stock in the rest types of the rolling stock decreased, despite the acquisition of 48 coal carriages Type E by PKP CARGO SERVICE Sp. z o.o..

Presented below are data on the quantities of PKP CARGO Group stock in units by stock type and ownership structure and age of the stock used.

Table 22 Structure of locomotives used by PKP CARGO Group in 2012 – 2013 by traction type and ownership

Description	31 December 2012	31 December 2013	Change from beginning of year
diesel locomotives	1,298	1,298	0
electric locomotives	1,161	1,162	1
Total	2,459	2,460	1
own locomotives (also under financial lease)	2,450	2,450	0
locomotives under operating lease or rented	9	10	1
Total	2,459	2,460	1

Source: The Company.

Table 23 Structure of locomotives used by PKP CARGO Group in 2012 - 2013 by series

Description	31 December 2012	31 December 2013	Change from beginning of year
ET22 series	838	838	0
ET41, ET42 series	194	194	0
SM42 series	724	724	0
SM31, SM48 series	201	199	-2
Other series	502	505	3
Total	2,459	2,460	1

Source: The Company.

Table 24 Age structure of locomotives used by PKP CARGO Group in 2012 – 2013

Description	31 December 2012	31 December 2013	Change from beginning of year
up to 20 years	289	302	13
21 to 25 years	180	70	-110
more than 26 years	1 990	2 088	98
Total:	2,459	2,460	1

Source: The Company.

Table 25 Ownership structure of wagons used by PKP CARGO Group in 2012 – 2013

Description	31 December 2012	31 December 2013	Change from beginning of year
own wagons (also under financial leases)	64,087	63,021	-1,066
wagons under operating lease or rented	87	84	-3
Total	64.174	63.105	-1.069

Source: The Company.

Table 26 Age structure of wagons used by PKP CARGO Group in 2012 – 2013

Description	31 December 2012	31 December 2013	Change from beginning of year
up to 20 years	9,874	9,840	-34
21 to 25 years	9,630	3,249	-6,381
more than 26 years	44,670	50,016	5,346
Total:	64,174	63,105	-1,069

Source: The Company.

Table 27 Structure of railway wagons used by PKP CARGO Group in 2012 - 2013 by series

Description	31 December 2012	31 December 2013	Change from beginning of year
Type E - normal design coal hopper cars	36,399	35,896	-503
Type F – special design coal hopper cars	9,975	9,820	-155
Type S - special design platforms	4,994	5,027	33
Type G - normal design covered wagons	2,607	2,441	-166
Type H - special design covered wagons	1,898	1,898	0
Other types	8,301	8,023	-278
Total	64,174	63,105	-1,069

Source: The Company.

4.5.2 Real property

In the freight process real property plays a significant role, having regard to the need to guarantee the availability of appropriate maintenance and repair facilities.

Most of the real properties used by the PKP CARGO Group are held under lease and rental contracts.

The PKP CARGO Group used at the end of 2013:

- 1. Land 750.6 ha, including: 71.2% leased;
- 2. Buildings and rooms 689,518.3 m², including: 64.9% leased

The decrease in leased property results from:

- 1. The optimisation of repair facilities and other leased and rented properties.
- 2. The contribution in kind of PLN 117.1 m received.

4.6 Information on credit and loan agreements entered into and terminated in the financial year

The Parent company concluded:

- On 3 June 2013, an overdraft agreement which allows for a maximum debit balance on the current account of PLN 100 m. The overdraft facility is available for a period of 12 months since the contract date
- On 3 December 2013, an investment loan agreement with the European Investment for a facility up to PLN 200 m intended to finance rolling rock investment. The facility will be available for 24 months from the date of the agreement. The maturity of the loan will be aligned with the depreciation period of the relevant fixed asset, but will not exceed 15 years.

PS TRADE TRANS Sp. z o.o. concluded:

• On 5 August 2013 a overdraft agreement to PLN 20 m. The overdraft facility is available for a period of 18 months since the contract date.

Other credit agreements in force in 2013 of PKP CARGO Group are described in the Note No 24 to the Consolidated Financial Statements for the year ended at 31 December 2013 prepared in accordance with IFRS EU.

The reference rate for loan agreements is 1M and 3M WIBOR plus margin.

In 2013, none of the credit/loan agreements was terminated.

4.7 Information on loans granted, mainly to related parties

In 2013, PKP CARGO S.A. granted loans only to PKP CARGO Group members in the total amount of PLN 5.0 million.

- "PKP CARGOLOK" Sp. z o.o. 3 loans of respectively PLN 0.3 million, 0.7 million, and 1.4 million, with maturity dates of, respectively 30/09/2014, 31/10/2014 and 31/05/2016,
- "Cargosped" Sp. z o. o. loan in the amount of PLN 2.6 million with the maturity date until 31/03/2015.

The loans were granted on market terms (namely WIBOR 1M + margin).

In 2013, the remaining companies from the PKP CARGO Group did not grant any loans.

The loans granted within the PKP CARGO Group are subject to elimination under standard consolidation procedures.

4.8 Information on sureties and guarantees granted, mainly to related parties

In 2013, the Parent company granted to subsidiaries 4 property sureties for the total amount of PLN 20.0 m.

In 2013 subsidiary companies did not grant any property sureties.

In 2013, banks granted bank guarantees on request of the Parent company to counterparties for the total amount of PLN 18.6 m. As at 31 December 2013, the Parent company had bank guarantees issued to counterparties for the total amount of PLN 32.9 m.

4.9 Description of significant off-balance sheet items

As at 31 December 2013 the PKP CARGO Group had guarantees and sureties granted for the total amount of PLN 72.9 m. The amount consisted of:

- guarantees and sureties granted to subsidiaries in favor of third parties in the amount of PLN 24.9 m,
- guarantees and sureties related to third parties liabilities issued during current course of operations, regarding guarantee due execution of the contract, customs guarantee, deposit and payment guarantees in the total amount of PLN 47.5 m.

Additional information regarding off-balance sheet items of PKP CARGO Group are described in the Note No 36 to the Consolidated Financial Statements for the year ended 31 December 2013 prepared in accordance with IFRS EU.

4.10 Financial instruments - risk management policies applied and instruments, objectives and methods of risk management

In 2013, the Group did not record any significant disruptions in cash flow or loss of financial liquidity.

The rules for the management of market risk are followed by designated organisational units under the supervision of the Management Board of the Parent company. The management of financial risk at PKP CARGO Group is based on strategies developed, with the partial use of derivative instruments (SPOT currency contracts, FORWARD currency contracts and IRS interest rate swaps), which are used solely to hedge the risk of changes in balance-sheet values and the risk of changes in cash flow.

In 2013, the Parent company did not apply hedge accounting. However the hedge accounting was implemented by PS TRADE TRANS Sp. z o.o.. In order to manage the foreign exchange risk the company used financial instruments, first of all FORWARD forex contracts, as well as hedging variable interest rates as a hedge of interest rate fluctuations for his investment credits in PLN. The interest rate swaps (IRS contracts) were concluded.

4.11 Expected financial situation of PKP CARGO Group

PKP CARGO Group has full payment and credit capacity. This means the Group has the capability to fulfil its payment obligations in a timely manner and to possess and generate surpluses from operating activities which allow all liabilities to be paid when due. The Parent company has funds available in the overdraft facility linked to its cash-pooling structure, which it can manage as demand for funds changes, as well as available overdraft limits of subsidiary companies. The Group meets the covenants of credit/loan agreements under which it has the capability to increase the scale of its financial obligations when such need arises.

In the opinion of borrowers of strategic significance, the financial standing of PKP CARGO Group is high and there are no threats or risk of deterioration of the standing in future.

5 Significant risk factors and threats and actions the Group made or intends to undertake against them

Among the key risk factors characteristic of PKP CARGO Group and of rail freight, i.e. the sector in which the Group operates, the following should be pointed out:

- risk factors related to macroeconomic conditions,
- risk factors related to the Polish rail freight sector,
- risk factors related to the activities of the PKP CARGO Group,
- risk arising from legal disputes to which the Group is a party,
- · financial risks.

Described below in detail are the different risk factors.

It should be noted that this report describes significant risks and not all potential risks that PKP CARGO Group may face in the course of its operations.

5.1 Risk factors related to macroeconomic conditions

The activities of the PKP CARGO Group was and can still be exposed to negative impact arising from the deterioration of the macroeconomic situation.

PKP CARGO Group carries on activities in a sector that undergoes cyclic changes and is positively correlated with economic growth and the macroeconomic situation, and long-term fluctuations witnessed in the whole economy in terms of production and trade have a strong impact on it. In particular, the dynamics of rail freight turnover in Poland is characterised by positive correlation with the GDP.

The global crisis which started in 2008 and the subsequent debt crisis affecting some countries of the Euro area triggered recession in many developed economies. Many economies considered as emerging markets, including Poland, experienced a substantial slowdown of economic growth. Those conditions resulted in a decrease in industrial production, leading to a lower demand for rail freight services. Following a recovery of the Polish economy in 2011 and consequently growth in the rail freight market, 2012 was another year of slowdown. What is more, the following quarters saw a decreasing rate of change in GDP. The Polish economy entered 2013 continuing to slow down. The quarterly GDP growth rate in Q1 2013 was 0.5%. From Q2, the Polish economy started to slowly pick up. The quarterly rate of change in GDP was 0.8%, 1.9% and 2.7% in Q2-4 2013. According to preliminary data published by the Central Statistical Office ("GUS"), Poland's Gross Domestic Product increased during 2013 by 1.6%, compared with 1.9% in 2012.

Following a slowdown in the first half-year, the rail freight market picked up in the second half together with the whole economy, which translated into an overall growth relative to 2012, as described in the section concerning the development prospects and information on sales markets.

PKP CARGO Group derives most of its revenue from rail freight operations. The majority of freight turnover involves freight moved domestically, with a significant proportion of freight turnover in Poland being attributable to export and transit. Consequently, the market situation in Poland and in other countries which are Poland's main trading partners was and will be crucial to the operations and financial results of the Group. The GDP slowdown in Poland, in countries which are Poland's main trading partners or in other countries which are the Group's potential markets for business, may have an adverse impact on demand for services provided by the Group.

5.2 Risk factors related to the Polish rail freight sector

The operational results of PKP CARGO Group are largely dependent on the charges incurred for access to rail infrastructure. The costs incurred for PKP PLK services in the recent years ranged above 20% of operating costs. The level of infrastructure access charges in Poland was and still is relatively high, in particular compared with other EU member states. Rail infrastructure access charges are calculated by PKP PLK and are subject to approval by the UTK President. In its sentence of 30 May 2013, the European Court of Justice (ECJ) ruled that Poland had breached Directive 2001/14/EC on the allocation of railway infrastructure capacity e.g. by making it possible to include in the calculation of charges for the use of railway infrastructure, which fall beyond the

definition of costs that the manager incurs directly as a result of transport services. This means that the ECJ decided that the method of calculation of railway infrastructure access charges was inconsistent with the EU laws, which should have a direct impact on the reduction of the cost of those charges. On 16 April 2013, the UTK President refused approval of charges for access to railway infrastructure in the amount proposed by PKP PLK for an annual period starting on 15 December 2013, i.e. 3.7% higher than in the previous timetable. Subsequently, in connection with the above ECJ sentence, on 17 September 2013, the Management Board of PKP PLK adopted a draft new pricelist of infrastructure access fees for a period starting on 15 December 2013. Accordingly, as communicated by PKP PLK, the average network fee was reduced by 20.4%.

The pricelist for the 2013/2014 timetable was approved by the UTK President's Decision No DRRK-WKL-9110-11/2013 of 8 November 2013.

It should be borne in mind that after the reduction access to the infrastructure is still expensive in Poland and forms a substantial cost item in rail transport. Consequently, any increase in charges for access to rail infrastructure may have an adverse impact on the pricing policy and on investment plans of all rail carriers, and hence it may cause a decrease in the competitiveness of rail compared with automotive transport.

The activities of PKP CARGO Group depend on the condition of railway infrastructure, which is still inefficient compared with the railway infrastructure of other, more developed EU member states, such as Germany and France. While the railway network is dense in large area of the country, railway lines, especially those used by freight carriers, are of low quality. Only recently, investing started in Poland in the modernisation of the railway infrastructure with a view to improving quality standards.

In its operations, PKP CARGO Group uses mainly railway lines which are owned and managed by PKP PLK, a company controlled by the State Treasury. Owing to the unsatisfactory state of repair, which results mainly from many years of neglect in the upgrading and maintenance of railway lines, the commercial speed limit on railway lines managed by PKP PLK and the capacity of those lines are low. The average commercial speed of freight trains in Poland is 2 times lower than the EU average. This results in a greater demand for personnel and the need to hold, maintain and service a greater quantity of rolling stock to be able to perform freight services.

There is no assurance that the railway line modernisation projects currently in progress will be completed on schedule and that the funds allocated for their implementation will be sufficient or utilised in an effective manner. Delays in the modernisation of railway lines may constrain efforts aimed to increase the number of connections offered, reduce goods delivery times, and improve the quality of services provided by the PKO CARGO Group, and may also reduce the ability to maintain the competitive position, especially in the light of major investments in the Polish expressway and motorway network. Moreover, owing to the railway line modernisation projects in progress, the number of detours may increase. Detours may result in additional delays for which PKP PLK does not pay any compensation and which require additional involvement of freight personnel. In addition, collective disputes at PKP PLK may result in interruptions in the operation of the railway system in Poland and lead to delays in the performance of transport services. PKP PLK may also take, any time, a unilateral decision to close specific railway lines. In such a case, carriers may be unable to provide services to some of their customers who may choose to switch from rail to e.g. road transport.

At the time of publication of the Prospectus, PKP CARGO Group pointed out the limitation of the inflow of EU funds as a potential risk. The risk was largely curtailed, as on 19 November 2013, after many months of negotiations and disputes with the EU member states' governments, the European Parliament adopted a new long-term budget for the 2014-2020. The budget provides for expenditure of EUR 960 bn in liabilities and more than EUR 908 bn in actual payments. For the first time, the EU Multiannual Financial Framework will provide for a smaller budget than the previous ones. However, Poland will receive about EUR 4.5 bn more than in 2007-2013 and will be the largest beneficiary of the EU funds. The amount of EUR 105.8 bn is envisaged for Poland, including EUR 72.9 for the cohesion policy and EUR 28.5 for the agricultural policy during seven years. As a result of the conversion from fixed to current prices, the amount increased by approximately 13 % and amounts to 82.3 billion euros. In addition, Poland would get more than 252 million to support unemployed youth.

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²⁰ http://www.forbes.pl/parlament-europejski-przyjal-budzet-na-lata-2014-2020,artykuly,166753,1,1.html

²¹ http://www.mir.gov.pl/fundusze/fundusze_europejskie_2014_2020/strony/start.aspx

It should be kept in mind, however, that each reduction of the EU funds allocated to Poland under the EU financial perspective for a subsequent period or incomplete or inefficient utilisation of such funds may contribute to the reduction of demand for the services of the PKP CARGO Group.

The rail freight market in Poland is one of the most competitive markets in the EU. Owing to the liberalisation of regulations governing rail freight, new entities are emerging in the market which make efforts to take over some customers, including customers of PKP CARGO Group. While the Group maintains a significant position in the Polish market, other carriers also have substantial market shares. The future may see both greater competition from entities already operating in the Polish market and holding significant resources, and from completely new entities.

Intermodal transport is a fast-developing transport segment in Poland. The rolling stock currently held by the Group is not capable of satisfying its customers' needs related to intermodal transport. The investing activities of PKP CARGO Group (involving, among other things, the construction of the Poznań Franowo container terminal and the purchase of container platforms) may be insufficient to maintain the market share.

Rail freight activities are subject to a changing regulatory regime which is influenced not only by Polish, but mainly by EU policies.

The rolling stock used in rail transport must meet applicable standards and requirements which may change over time. Therefore, it is possible that technical obstacles will arise in future to the use of PKP CARGO Group rolling stock. There is also a risk of new regulations being implemented, which will force rail operators to upgrade their rolling stock. (e.g. through the equipment of wagons or locomotives with additional devices) or changes to the stock maintenance schedule (e.g. by reducing the time between obligatory inspections). The imposition of an international ban on the use of banded wheels on wagons has been considered for some time. There are plans to introduce a possible six-year transition period for the replacement of wheelsets on wagons in order to eliminate banded wheels and replace them with monobloc wheels. Almost 80% of wagons owned by PKP CARGO Group are equipped with banded wheelsets. If the use of this type of wheelsets is banned, the Group may be forced to incur high costs of replacing wagon wheelsets with monobloc wheelsets in order to maintain the number of wagons currently being used for the purposes of international transport.

In the field of environmental protection as well as technical and safety regulations, frequent changes occur, in particular with regard to the requirements of the EU law applicable to the Group's activities. Failure to comply with any environmental protection regulations, technical or safety regulations may result in the imposition of substantial penalties on rail carriers. The implementation of Directive 2012/34/EU establishing a single European railway area (implementation should take place by 16 June 2015) may result in the differentiation of infrastructure access charges depending e.g. on noise levels emitted by vehicles or the installation of the on-board European Train Control System (ETCS). Consequently, rail freight carriers using older stock may be forced to incur higher charges for access to railway infrastructure.

Rail are exposed to the risk of accidents and train derailing. The Supreme Audit Office gave a negative opinion on how railway traffic safety is ensured by PKP PLK. After years of neglect and underinvestment, railway lines, crossings and stations in Poland are in a poor state of repair. In addition, failures are often repaired with a long delay (up to 24 months). The emergency rules of procedure developed by PKP PLK are found by the Supreme Audit Office to be insufficient and provide a low level protection from accidents. A serious rail accident or train derailing, in particular in connection with a special or dangerous cargo may result in damage to part of rolling stock and disturb the provision of services, and make the PKP CARGO Group liable for damages arising from such an accident. In the case of events of a disastrous nature, there a risk of a rapid increase in insurance premiums in respect of some or all risks covered, and some types of insurance may become unavailable in future. Any negative publications concerning any accident or train derailing may also have a detrimental impact on reputation and on the evaluation of the attractiveness of services provided by PKP CARGO Group.

5.3 Risk factors related to the activities of the PKP CARGO Group

The customer base of the PKP CARGO Group is highly dependent on a limited number of industrial groups and their suppliers owing to substantial concentration. However, the revenue of none of the customers exceeded 10% of the total revenue from the sale of goods and materials in 2013, and among suppliers only PKP PLK and PKP Energetyka exceeded the 10% threshold, as described the section concerning the results of the PKP CARGO Group's operations.

The majority of key customers use the services of the PKP CARGO Group to transport goods (such a coal, chemicals and liquid fuels, aggregates and building materials). While long-term contracts are made with some of those customers, and some of those contracts define guaranteed order volumes, it cannot be assured that the Group will retain its customers in future or that in the case they are lost it will not be easy to substitute them with other customers to whom it will provide services on comparable terms or with whom it will enter into contracts for goods in similar volumes, if this happens at all.

In addition, the business may be affected by structural changes in the activities of key customers that may lead to the establishment or development by some customers of their own rail freight subsidiaries.

The increase in the use of environmentally-friendly energy sources and new solutions used in the manufacture of steel may cause a decline in demand for coal which is one of the key commodities carried by PKP CARGO Group.

The strategy of PKP CARGO Group includes development e.g. through acquisitions. The implementation of such a strategy involves specific risks arising in particular from the question of identification of the appropriate acquisition target, the need to perform the operational, legal and financial due diligence analysis of the entity to be acquired, overstatement of its price, and hence payment of a price in excess of market value, incurring a risk much higher than expected, related to financing and operating costs, and the disclosure of liabilities higher than expected or previously undisclosed. Acquisition expenses may have a strong impact on cash flows.

Moreover, owing to business concentration regulations and the significant market position of PKP CARGO Group in the rail freight market in Poland, there is a significant risk that it will be possible to obtain from the President of UOKiK or other competent authority relevant consents necessary to conduct effective acquisitions in Poland, or such consents may be subject to meeting commitments that are economically unviable. In such a case, PKP CARGO Group may be forced to undertake potential acquisitions only abroad.

Difficulties may also be faced in integrating the acquired entities with its own enterprises and in ensuring their optimal management.

The Parent company is considered as an entity that has a dominant position in the rail freight market in Poland, and is hence subject to strict supervision under competition protection laws. If competent bodies dealing with competition and consumers consider that any of the companies of the PKP CARGO Group has abused its dominant position, they may order that restrictive practices be ceased or impose sanctions including monetary penalties on relevant companies of the Group. (in principle, up to 10% of revenue generated in the year preceding the year in which the penalty was imposed). In the past, penalties were imposed on the PKP CARGO S.A. several times by the President of UOKiK.

Transport activities are regulated activities and they require licences and other administrative decisions. PKP CARGO Group holds a number of licences authorising it to perform rail freight services, as well as safety certificates which are necessary to carry on operations in Poland and abroad, in particular rail freight licences, rail passenger transport licences, safety certificates Part A for Poland and safety certificates Part B for Poland, Germany, the Czech Republic, Slovakia, Austria, Belgium, Hungary and the Netherlands. The revocation, suspension or non-renewal of such licences and certificates may render the provision of transport services impossible.

In connection with applicable international agreements (governmental and at railway organisation level, i.e. SMGS Agreements and RIV Agreements) the Parent company is the only Polish rail carrier mentioned in the above agreements as an entity authorised to contact the Russian, Ukrainian and Belarusian railways (for the coordination of freight or settlement of wagon charges). The admission of other carrier to contacts with the abovementioned railways would require an amendment to those agreements, which is a time-consuming process and requires the consent of all signatories. Consequently, other rail carriers perform freight operations across the

eastern border with the use of the Group's services or on their own if they manage to enter into a bilateral agreement. The most important service performed by the Group in the eastern border region involves the collection of goods from the eastern railways and their delivery to the relevant transloading stations/terminals on the Polish side. The organisation of freight on the eastern border was the object of interest of the UTK President who has not initiated any formal proceedings into the matter so far. As a temporary measure, the Dominant entity was obliged by the UTK President to prepare a service that would enable other domestic carriers to carry on operations at the interface of the broad and standard-gauge railway systems. The opportunity to provide various forms of activity in the border region may lead to a reduced interest in the services currently being performed by the Group, and the new services may fail to generate revenue at the level of the services currently provided.

In order to remain a competitive railway employer and to satisfy the expectations of the trade unions, PKP CARGO Group may be forced to increase their employees' wages quicker than used to be the case in the past or to pay additional incentive bonuses.

Moreover, in 2014-2018, the Group may be forced to substitute a significant number of its highly-qualified personnel (mainly train drivers) owing to their retirement. If the Group is unable to substitute its employees (mainly key personnel), it may be forced to increase wages in order to attract employees available in the market or incur additional costs related to the training of unqualified employees.

The rolling stock PKP CARGO Group is relatively old. Having regards to the scale of operations, in future the Group may be forced to significantly increase the scope of repairs and maintenance of wagons.

Rising electricity and diesel oil prices may increase the costs of PKP CARGO Group, which may have an adverse impact on the Group's profitability ratios.

5.4 Risk arising from legal disputes to which the PKP CARGO Group is a party

The nature of the activities of PKP CARGO Group exposes it to a certain number of small-scale litigations and other legal proceedings. Litigations that are relatively insignificant on their own may be combined with disputes brought on the basis of similar facts, owing to which the combined risk may be significant to its operations.

Currently, none of the companies of the PKP CARGO Group is a party to any proceedings representing a value of 10% of the Group's equity. The section "Judicial proceedings" presents information on judicial and administrative proceedings, in compliance with the principle of keeping investors well informed about the situation of the PKP CARGO Group.

5.5 Financial risks

The following risk categories occurred and still occur in the PKP CARGO Group:

- · liquidity risk,
- market risk,
 - o foreign exchange risk,
 - o interest rate risk,
- credit risk.

Liquidity risk

The Group is exposed to liquidity risk arising from the relationship of current assets to short-term liabilities. As at 31 December 2013 and 31 December 2012, the current liquidity ratio was 1.94 and 1.75, respectively. In order to ensure an additional source of funds necessary to secure its financial liquidity, the Group used an overdraft facility, investment loans and leases. In order to optimise financial costs, the PKP CARGO Group operates a cash-pooling system comprising 9 subsidiaries as at 31 December 2013.

Market risk

The Group is exposed to market risks related to changes in foreign exchange rates and interest rates. The objective of the market risk management process is to limit any undesirable impact of market risk factors on cash flows and results in short-term and medium-term perspective. The Group manages market risks arising from the above factors based on internal procedures which defined the rules for the measurement of each exposure, their parameters and time horizon.

The rules for the management of market risk are followed by designated organisational units under the supervision of the Management Board of the Parent company. Market risk management is based on designed strategies, with partial use of derivative instruments. Derivative instruments are used solely to hedge the risk of changes in balance-sheet values and the risk of changes in cash flow. Transactions are made only with reliable partners approved for participation in transactions by applying internal procedures and signing relevant documents.

Foreign exchange risk

In 2013, PKP CARGO Group was exposed to foreign exchange risk arising from receivables, cash and payables. The Group's receivables expressed in foreign currencies are short-term receivables (up to 1 month), while payables expressed in foreign currencies are mostly amounts due under short and long-term leases.

In respect of the balance-sheet valuation of receivables and payables expressed in foreign currencies, as well as the settlement of accounts in foreign currencies, financial revenues arise both on the receivables and payables side (positive exchange differences) as well as financial costs (negative exchange differences). Financial revenue and cost values fluctuate during the year, which is due to changes in exchange rates.

Owing to their long maturities, short and long-term lease payables denominated in EUR and in CHF have the largest share in financial revenue and costs, and cause volatility in the Company's result at the level of financial costs and revenue in respect of unrealised exchange differences.

Short-term receivables expressed in foreign currencies (mainly EUR) stand at the average monthly level of approx. EUR 15 m and in CHF 0,3 m The considerable part of short-term receivables consists of revenue in respect of international freight accounts.

Cash in foreign currencies deposited in bank accounts results from the maturity mismatch between inflows and outflows, and due to the surplus of inflows over outflows generate a permanent surplus in EUR.

In the long term, the valuation risk equals the risk of change in the value of cash flows, and therefore the Group's cash flows are subject to hedging.

Partial hedging is provided for the EUR/PLN rate owing to the fact that revenue from sales in EUR is partly offset by costs in the same currency. For the CHF/PLN exchange rate, natural hedging occurs to a limited extent. The purpose of foreign exchange hedging by the Group is to hedge net exposure to change in value in PLN.

In compliance with the Financial Risk Management Policy in force, the FX risk hedging transactions was used in 2013 for the currency pair EUR/PLN. Owing to a fixed exchange rate for the pair EUR/CHF, no foreign exchange hedging transactions were used. Spot foreign exchange transactions for the currency pair EUR/CHF were used too.

To hedge FX risk forward contracts were used in 2013. In 2013, the PKP CARGO Group hedged through forward contracts. As at 31 December 2013 PKP CARGO Group had outstanding forward contract in the amount of PLN 95 m.

Interest rate risk

The majority of main financial investments made by the Group in 2013 consisted of bank overnight deposits and term deposits, which were placed for a period of several days to approx. 6 months, depending on the Group's liquidity needs.

Moreover, the Group is exposed to the risk of volatility of cash flow in respect of interest rate on bank loans and leases based on variable interest rates. The value of interest on lease in 2013 amounted to PLN 15.9 m. Interest were accrued at reference rates increased by the financing party's margin. The reference rate for contracts

denominated in EUR is 1M, 3M, 6M EURIBOR, and for contracts denominated in CHF – 6M CHF LIBOR. The interest rate risk for lease contract is realised through the value adjustment of lease instalments for 1 month, 3 month and 6 month periods, depending on the contract. The value of interest on credit obligations paid in 2013 was PLN 9.9 m. Interest on loan agreements was charged at the 1M WIBOR and 3 M WIBOR reference rate increased by the bank margin. The interest rate risk for loan agreements is realised through the value adjustment of loan instalments on a monthly basis.

At the same time, in compliance with the Financial Risk Management Policy in force in the Group, two companies of the Group used interest rate swaps (IRS contracts). Owing to external financing based on variable interest rates, the Parent company concluded IRS contracts to hedge interest rate fluctuations for PLN loans, owing to the highest interest rate risk up to 100% of credit exposure for principal instalments with maturities up to 31 December 2013.

The Parent companyhad no outstanding IRS contracts as at 31 December 2013.

PS TRADE TRANS Sp. z o.o. due to external financing based on variable interest rates concluded IRS contracts to hedge interest rate fluctuations for PLN loans in arranged in line with the principal instalments payment schedule. As for the lease contracts – in 2013 there was a hedge (via IRS contract as well) of the growth of interest rates related to lease contract for 210 wagons Type TALNS. As at the balance sheet date PS TRADE TRANSE Sp. z o.o. had open position on IRS contracts.

Credit risk

Carrying on commercial activities, the Group sells services to economic operators with a deferred payment period, owing to which the risk may arise of no payment being received from counterparties for completed services. In order to minimise credit risk, the Group manages risk through the relevant customer credit rating procedure. The rating is performed for all customers who are granted the benefit of deferred payment period. As part of the internal policy, a deferred payment period is applied conditional on the counterparty's acceptable condition and positive relationship experience.

Counterparty receivables are monitored on a regular basis. If any overdue receivables occur, the provision of services is stopped and collection procedures are triggered in compliance with the applicable procedures.

The concentration of risks related to trade receivables is limited owing to a large number of counterparties with trade credit, distributed across different sectors of the economy. Besides, in order to reduce the risk of non-recovery of trade receivables, the Group receives security interests from its customers in forms such as bank/insurance guarantees, assignments of rights under contracts, holds placed on bank accounts and bills of exchange.

The credit risk related to cash and bank deposits is considered to be low. All entities in which free cash is invested operate in the financial sector.

The maximal credit risk exposure is represented by the balances of trade and other receivables, cash and other financial assets. The exposure is limited by the pledges in favour of the Group (in the form of bank/ insurance guarantees, deposits), which value amounted to PLN 6.8 m at the balance sheet date.

6 Development prospects of PKP CARGO Group

6.1 Significant development factors for PKP CARGO Group

According to the Central Statistical Office (GUS) data, 232.6 m tons of cargo were carried in 2013 (0.8% more than a year before). In international transport, freight volume increased by approx. 6% (which included an increase in export freight by approx. 16% and transit freight by approx. 5%; whereas the freight volume for imported cargo decreased by approx. 2%). Volumes carried in internal transport were lower by approx. 1% compared with 2012.

Given the fact that freight transport is characterised by correlation with the GDP, it should be expected that the signals of economic recovery witnessed in the market and the forecasted GDP values for the Polish economy are harbingers of improvement in the condition of rail freight in 2014.

In the subsequent quarters of 2013 the economic growth rate in Poland was gradually improving. The economic slowdown witnessed in the second of 2012 continued into the first part of 2013. Q3 and 4 saw the consolidation of positive tendencies in many areas, initiated in the previous months, but the GDP growth for the whole year 2013 was slightly slower than in 2012. According to a preliminary GUS estimate, the GDP increased in real terms in 2013 by 1.6% year on year (compared with 1.9% growth in 2012).

According to preliminary estimates, total industrial production sold increase in 2013 by 2.1% (compared with an increase of 0.5% a year before), whereas total construction and assembly production was about 11% lower in 2013 than a year before (compared with a drop of 6.3% in 2012). Construction and assembly production was lower than a years earlier in all construction areas, with the steepest decrease recorded in enterprises carrying out mainly works involved in the construction of civil engineering projects. In the structure of construction and assembly production, the share of specialised works increased compared with 2012, whereas the share of construction of civil engineering structures and, to a small extent, buildings decreased.

In 2013, an increase in production sold compared with the previous year was reported in 23 (of 34) industry sectors representing a 63.2% share in the total value of production sold.

According to the GUS preliminary data, in 2013 the rate of growth in foreign commodity trade was smaller than a year before. As a result of an increase in exports by 5.8% and a stable imports, the negative total trade balance improved.

In 2013, the share of developed countries (including EU countries) in the geographical structure of exports decreased year on year, with a substantial increase in importance of the developing countries. However, the share of the Central and Eastern European countries did not change. In imports, an increase was reported in the share of developed (including EU member states) and developing countries, and a decrease in the share of the CEE countries.

The value of export in trading with Germany increased by 5.2% year on year to PLN 159.6 bn, and imports - by 0.8% to PLN 139.3 bn.

Germany's share in total trading changed slightly: it decreased from 25.1% in 2012 to 25.0%, and in imports in increased from 21.3% to 21.5%.

The trading partners ranked as follows in exports, after Germany: United Kingdom (6.5%), Czech Republic (6.2%), France (5.6%), Russia (5.3%), Italy (4.3%), Netherlands (4.0%), Ukraine (2.8%), Sweden (2.7%) and Slovakia (2.6%), and in imports – Russia (12.3%), China (9.4%), Italy (5.2%), Netherlands (3.9%), France (3.8%), Czech Republic (3.7%), United States (2.7%), United Kingdom (2.6%) and Belgium (2.3%). Shown below are forecasts of the economic situation in Poland in 2014 as assumed by experts from different institutions monitoring the development of global and European economy. The experts envisage that the Polish GDP rate will accelerate in 2014 and will range between approx. 2.7% and 2.9%.

Table 28 GDP growth forecast in Poland (in %)

GDP growth forecasts in Poland (in %)	2013	2014	2015
IBnGR - The Gdańsk Institute for Market Economics ²²	1.6	2.8	3.5
European Commission ²³	1.3	2.9	2.9
EBRD - European Bank for Reconstruction and Development ²⁴	1.2	2.7	-
OECD - Organization for Economic Cooperation and Development ²⁵	1.4	2.7	3.3

Source: The Company.

The factors determining economic growth in Poland in the coming years include, among other things, the development of the economic situation of trade partners. The European Commission's forecasts for the economy of Germany, Poland's largest trade partner, provide for a GDP increase of 1.7% in 2014. According to estimates, in 2013 the GDP increase in Germany was 0.4%.

In general, in economists' opinion, 2014 will be a year of recovery in the global and Polish economy.

As early as 2013, slow improvement was seen in the outlook of the European economy. Following the GDP growth reported from the first quarter of 2013, the economy started picking up in the second quarter. According to estimated data of the European Commission as of February 2014, a change in GDP is expected in 2013 at 0.1% in the EU and -0.4% in the Euro area. According to a spring forecast, the corresponding GDP values stood at -0.1% for the EU and -0.5% in the Euro area. On the other hand, forecasts for 2014 refer to a GDP increase in the EU at 1.5% and 1.2% for the Euro area.

Also the global economy starts to rebound, 5 years after the global financial crisis. The World Bank experts envisage that in 2014 economic growth will reach 3.2%, i.e. 0.8 p.p. more than in the previous year. Growth is to accelerate not only in the emerging markets, but also in the Western countries.

Having regard to the above, it should be expected that 2014 will be beneficial for rail transport modes in Poland.

The entry into force of the new PKP PLK pricelist, which provides for positive changes in railway infrastructure access charges is also not without significance to all participants of the railway transport market. The new PKP PLK pricelist seems to be an important step forward towards the long-anticipated approximation of charges with those in force in Western Europe, which may consequently contribute to a desirable increase in the share of rail transport in the transport market.

Owing to the liberalisation of the European market, Poland's involvement as a transit country in trading with other European states becomes increasingly important to freight carriers.

What is also important is the migration of volumes from Western European ports to the Baltic Sea Ports, which translates into a dynamic development of Polish parts and their growing involvement, especially in intermodal freight.

Given the fact that PKP CARGO Group performs rail freight operations in eight EY member states, the Group's business is also affected by the development of the interoperability of the European transport network, owing to which rail transport has the chance to become much more competitive on international routes.

Work is currently in progress on the Fourth Railway Package. With regard to rail interoperability and safety regulations, it is of key importance to precisely define the competence of the different bodies, including e.g. with regard to issuing safety certificates, authorisations for placing railway vehicles in service and rules governing mutual cooperation. In the longer run, work is planned on other components of the Fourth Railway Package, concerning the opening of national passenger transport markets and unbundling, i.e. structural separation of transport infrastructure and operations. It is estimated that the Fourth Railway Package will significantly affect the legal situation of Polish enterprises of the railway sector.

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²² acc. to "Status and forecast of economic situation" of 5 February 2014,Kwartalne Prognozy Makroekonomiczne No 81

²³ acc. to European Economic Forecast, Winter 2014

²⁴ acc. to Regional Economic Prospects in EBRD, January 2014

²⁵ acc. to OECD Economic Outlook, No. 94 (November 2013)

Work is in progress on a draft regulation on the Shft2Rail project which provides for the establishment of a public-private partnership which is to manage a research and innovation programme aimed to support the development and improvement of the quality of railway services in Europe.

As part of the European railway network being established, work is progress on the functioning of transport corridors 5 (RFC 5) and 8 (RFC 8) crossing the territory of Poland, concerning carriers' requirements and needs regarding railway infrastructure to be included in the freight corridor network.

6.2 Overview of the PKP CARGO Group's policy in development directions

Given the environment in which the PKP CARGO Group operate, they intend to consistently implement the Strategy adopted. The key objective is to maintain the leading position of rail freight carrier in Poland by taking advantage of new opportunities, further improvement of operating efficiency, and the development of operations outside Poland.

The PKP CARGO Group will pursue activities to maintain the position of the largest rail freight carrier in Poland and to maintain its market share. The Group holds an appropriate position to maintain a leading market share, taking into account the versatility of the services offered, and the strong, long-established relationships with key customers as well as the number and structure of rolling stock. The PKP CARGO Group intends to concentrate on rail freight of solid fuels, metals and ores, aggregates and building materials, chemicals and intermodal freight. The Group intends to establish new and continue developing the existing relations with customers in order to acquire new orders, both in Poland and abroad, which will be possible owing to a continuous improvement of the quality of customer service.

The restructuring of the business is planned to continue through the optimisation of logistic processes, employment structure, change in the Group structure, and a further development of IT solutions. The PKP CARGO Group intends to continue the optimisation of improvement of logistics and the management of freight processes with a view to improving operating efficiency. The improvement of efficiency of rolling stock use is intended to be achieved, among other things, by increasing the average train weight, improving the average wagon turnover, and the optimisation of the number of rolling stock units used in freight operations. In addition, the optimisation of costs is planned, including rolling stock maintenance costs and fuel costs, owing to the upgrading of locomotives, as well as the optimisation of rolling stock processes. Cutting the cost of property maintenance and rental expenses through the termination of certain rental agreements and sales of some properties. Increase in operating efficiency will also be achieved by improving the utilisation of human resources through the re-allocation of personnel in the Group's companies. Cost optimisation and organisational measures as well as the cooperation between companies will make it possible to take advantage of synergies existing between business areas and to increase the capabilities arising from the economies of scale. The key objective of restructuring and optimising measures is to optimise the operational cost of the entire Group, and hence to improve the competitiveness of operations.

The development of operations is also planned in growing segments of the market in Poland, such as intermodal transport, as well as expansion by taking over other entities in attractive market segments in Poland, in which the PKP CARGO Group has a relatively low share. It is planned to develop intermodal services in order to maintain its leading position in the segment, mainly through a dedicated entity, i.e. Cargosped Sp. z o.o.. Development in the intermodal segment will be organic owing to the utilisation of the Group's assets such as terminals, platform wagons for container transport, and semi-trailers. Opportunities will also be analysed of expansion in attractive segments, such as transport of petrochemicals. Owing to a strong financial position, takeovers of other entities can be considered.

Expansion is planned to continue in foreign markets in Central and Eastern Europe and in Western Europe. The PKP CARGO Group intends to concentrate its efforts on the development of freight in Germany, the Czech Republic, in Slovakia, Austria, Hungary, Belgium and the Netherlands, by expanding commercial and operating capabilities in order to acquire new customers. Apart from organic growth in foreign markets and the development of freight operations in West-East and North-South transport corridors, PKP CARGO Group intends to develop through takeovers and entering into strategic alliances with other rail carriers abroad. In the long-term, PKP CARGO Group intends to become a major player in the neighbouring markets.

7 Other information and statements

7.1 Information on shares in PKP CARGO S.A.

7.1.1 Issue of securities and utilisation of funds derived from the issue

In 2013, no issue, redemption or repayment of debt securities took place at PKP CARGO S.A. On 8 July 2013, the General Meeting of Shareholders took a decision to increase the share capital of the Company by the amount of PLN 1,000 by issuing 1 Series L share with issue price of PLN 117.1 m. The issue price was covered with a contribution in kind, and the share premium was allocated to the supplementary capital. The registration of the issue and other changes to equity made on 8 July 2013 took place on 2 October 2013.

On 30 October 2013, PKP S.A. disposed of a part of shares in PKP CARGO S.A. under the IPO. With regard to shares intended for employees, the Company finances their acquisition by granting employees additional compensation in the form of privatisation bonus, the amount of which will be offset against the Company's receivables in respect of payment for shares.

7.1.2 Information of agreements known to PKP CARGO S.A. as a result of which changes may take place in the proportion of shares held by the existing shareholders

PKP CARGO S.A. is not aware of any agreements made by the existing shareholders as a result of which changes may take place in future in the proportion of shares held.

7.1.3 Treasury shares held by the Company

PKP CARGO S.A. did not and does not have any treasury shares.

7.1.4 Information on the employee share programme control system

According to the *Employment Guarantee Pact and the Agreement on Employee and Social Guarantees for employees of the Companies of the PKP CARGO Group* signed on 2 September 2013 by the Management Board of PKP CARGO S.A. and the trade unions operating within its structures, employees of PKP CARGO S.A. and five subsidiaries gained employment guarantees and acquired the entitlement to a one-off monetary benefit (privatisation bonus) on the terms and conditions set forth in the EGP.

Zgodnie z podpisanym w dniu 2 września 2013 r. przez Zarząd Spółki i działające w jej strukturach związki zawodowe *Paktem Gwarancji Pracowniczych Umową dotyczącą Gwarancji Pracowniczych i Socjalnych dla pracowników zatrudnionych przez Zakłady PKP CARGO S.A. oraz dla pracowników zatrudnionych przez Spółki Grupy PKP CARGO pracownicy PKP CARGO S.A. i pięciu spółek zależnych zyskali gwarancje zatrudnienia oraz nabyli prawo do jednorazowego świadczenia pieniężnego (premii prywatyzacyjnej) na zasadach ustalonych w PGP.*

EGP, apart from PKP CARGO S.A. were adopted by the following subsidiaries:

- "PKP CARGOWAG" Sp. z o.o.,
- "PKP CARGOLOK" Sp. z o.o.,
- "PKP CARGO TABOR KARSZNICE" Sp. z o.o.,
- "PKP CARGO Centrum Logistyczne Małaszewicze" Sp. z o.o.,
- PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o.

The benefit takes the form of an employee share programme, as the EGP parties agreed that it would be paid in Series C shares with a ban on disposal for a period of two years from the date of first listing. According to the Information Memorandum related to the public offering of Series C shares, subscriptions for PKP CARGO S.A. employee shares started on 2 December 2013. Eligible employees could subscribe for employee shares until 28 February 2014. The subscriptions were made by:

• 22,146 (99,8 %) of eligible PKP CARGO S.A. employees

• 2,395 (99,9%) of eligible employees of subsidiaries.

On 7 March 2014 the Management Board of PKP CARGO S.A. passed resolution on allotment of 1,448,902 shares to employees.

The programme is managed by the Brokerage House of PKO Bank Polski.

In addition, 15% of the funds derived by PKP S.A. from the sale of shares in PKP CARGO S.A. was allocated to the PKP Employee Ownership Fund under the Act of 8 September 2000 on the commercialisation, restructuring and privatisation of the state-owned enterprise "Polskie Koleje Państwowe".

7.2 Significant agreements for activities of PKP CARGO Group ²⁶

7.2.1 Significant agreements concluded in 2013

Electricity sale and distribution agreement made on 30 January 2013 between the Parent company and PKP Energetyka S.A. set forth the rules for selling traction power and the provision of power distribution services for the purposes freight operations with the use of electric traction, and for trains operated by third parties with the use of the Company's electric locomotives. The agreement set forth the amount of contract power in the accounting period and the forecast consumption of traction power.

In accordance with the agreement, the Parent company incurred the following charges to PKP Energetyka S.A.:

- charge for traction power consumed by different categories of the Parent company's trains, at the
 electricity prices specified in the offer of PKP Energetyka S.A., which also contained conditions for
 changing the prices,
- charge for the management of billing, separately for each train category, according to the PKP Energetyka S.A. pricelist.
- charges for distribution services at prices and rates in accordance with the applicable tariff approved by the President of the Energy Regulatory Authority (including the quality charge, transitional charge, fixed network charge, variable network charge and subscription charge), and

charge for exceeding contract power.

PKP Energetyka S.A. was obliged to supply traction power in a continuous and reliable manner while maintaining voltage quality standards at the point of supply.

Agreement on the provision of access to railway infrastructure for the transport of goods under the 2012/2013 train timetable was made on 5 February 2013 between Parent company and PKP PLK.

The object of the agreement was the provision to the Parent company by PKP PLK of access to railway lines and sections managed by PKP PLK for the operation of services by the Parent company in accordance with the 2012/2013 train timetable., The agreement was binding on the parties during effective period of the timetable from 9 December 2012 to 14 December 2013. The agreement specified the exact train routes, but the Parent company had the right to waive a route allocated to it. It was also possible to change the parameters of the route assigned by using a different type of traction vehicle and by increasing the gross train weight.

Under the agreement, PKP PLK provided core services involving the minimum access to railway infrastructure, i.e. the preparation of an annual timetable in consultation with the Parent company, ensuring access to railway infrastructure according to allocated train routes, provision of access to traction network equipment, traffic management and operation, and the provision of information on train runs on the Parent company's demand.

In addition, PKP PLK provides basic services for access to equipment related to train operation, and a range of additional services including the provision of support in connection with non-standard cargo and the preparation and operation of additional trains.

 $^{^{26}}$ With a value exceeding 10% of equity the issuer (in case of PKP CARGO S.A. PLN 336 m)

Dodatkowo PKP PLK świadczyła usługi podstawowe dostępu do urządzeń związanych z obsługą pociągów oraz szereg usług dodatkowych obejmujących zapewnianie wsparcia w związku z niestandardowymi ładunkami i przygotowywaniem oraz przejazdem pociągów dodatkowych.

<u>Diesel oil sale agreement</u> between the Parent company and PKP Energetyka S.A. concerning the sale of 37,680 m³ of diesel oil annually and of the total quantity of 301,440 m³ for the entire term of the agreement, signed on 27 February 2013. The agreement is effective until 31 December 2020. The Parent company has the right to increase the total volume of diesel oil by not more than 20% or to reduce it by not more than 15%. The minimum monthly diesel oil turnover at specific locations can be reduced solely as a result of (i) reduction of freight turnover; (ii) change in the organisation freight; (iii) change in the traction used; (iv) locomotive upgrades; (v) other extraordinary circumstances beyond the Company's control, affecting the level of demand for diesel oil.

The net price equals the selling price of diesel oil agreed between the diesel oil supplier and his suppliers, increased by an agreed margin.

On 26 November 2013, the <u>electricity and distribution services agreement</u> was made between the Parent company and PKP Energetyka S.A. for the years 2014-2016, effective from 1 January 2014 to 31 December 2016. The agreement may be extended for additional periods by written declaration of intent by the Parent company sent to PKP Energetyka S.A. by 20 June of the year preceding the year for which the agreement is extended.

The selling price of electricity for the Parent company is calculated in accordance with the formula agreed for the years 2014-2016. The agreement defines the situations where the electricity selling price may change on the terms set forth in the agreement. The purchase of a part of the expected consumption of traction and non-traction power is delivered by PKP Energetyka S.A. within its purchase portfolio. The part will amount to 65% in 2014, 15% in 2015 and 0% in 2016. The remaining part of the expected consumption will be purchased by the supplier on the basis of purchase orders for products offered on the Polish Power Exchange (Towarowa Giełda Energii S.A.).

7.2.2 Significant agreement concluded after the reporting date

On 11 February 2014, the <u>agreement on the provision of access to railway infrastructure</u> for the transport of goods under the 2013/2014 train timetable was made between PKP CARGO S.A. and PKP PLK. The agreement binds the parties from 15 December 2013 till 13 December 2014.

The object of the agreement is the provision to the Parent companyby infrastructure manager of railway lines and sections managed by PKP PLK for the operation of services by the Dominant entity in accordance with the 2013/2014 train timetable. Under the agreement, PKP PLK provided basic services involving the minimum access to railway infrastructure, i.e. the preparation of an annual timetable in consultation with the Parent company, ensuring access to railway infrastructure according to allocated train routes, provision of access to traction network equipment, traffic management and operation, and the provision of information on train runs on the Parent company's demand, as well as basic services involving the provision of access to facilities related to train handling as well as a number of additional services including support in connection with non-standard cargo and the preparation and allocation of additional trains.

Charges for the use of railway infrastructure are calculated on the basis of the Pricelist of unit charges for the use of railway infrastructure managed by PKP PLK, effective from 15 December 2013, approved by the UTK President's Decision No DRRK-WKL-9110-11/2013 of 8 November 2013 and the provisions of the Rules of Procedure for the allocation of train routes and the use of allocated train routes by licensed rail carriers in accordance with the 2013/2014 train timetable.

7.3 Other significant transactions with related parties

None of companies of the PKP CARGO Group did not conclude any transaction in 2013 with related parties on terms other than at arm's length. No such transactions were concluded also after the reporting date.

7.4 Judicial and administrative proceedings

PKP CARGO S.A. nor the company of the Group is not a party to any proceedings representing a value of 10% of the Parent company's equity. Presented below is information on judicial and administrative proceedings to which the Group's companies are parties, based on the principle of keeping investors well informed about the situation of the Group.

Judging the status of pending proceedings and expected outcome, the consolidated financial statements reflects best estimates for reserves the Group might recognize (details are presented in the note No 25 to the Consolidated Financial Statements for the year ended 31 December 2013 prepared in accordance with IFRS EU.

7.4.1 Initiated judicial proceedings

- A statement of claim filed by CTL Logistics sp. z o.o. for the payment of damages in respect of incorrect operation of the billing system at PKP CARGO S.A., in 2002, for the amount of PLN 18,435,324.33. On 12 September 2013, the statement of claim was delivered. On 8 November 2013, a reply to the statement of claim was given. Currently, the Court has appointed additional dates for the parties to submit further pleadings.
- 2. Statement of claim in bankruptcy proceedings for Dolnośląskie Surowce Skalne S.A. (original statement of claim: PLN 7,213,632.00; supplementary statement: PLN 43,264.88). The bankruptcy trustee refused to admit the original claim in whole. After an objection was filed on 14 June 2013, the Court gave a decision allowing the objection as to the amount of PLN 112,337.75. With regard to the remainder, the objection was dismissed. On 9 July 2013, a complaint was filed against the conduct of the judge commissioner. As at 31 December 2013, the complaint had not been examined. On 1 October 2013, a note was published in the MSIG journal on the drawing up of a 3rd supplementary list of claims, which did not recognise the supplementary claim for PLN 43,264.88 submitted by PKP CARGO S.A. On 15 October 2013, a complaint was filed with regard to the aforesaid. The complaint was dismissed on 10 December 2013. A complaint was filed against the conduct of the judge commissioner. The complaint was not examined.
- 3. Statement of claim date 23 December 2011 by PKP CARGO S.A. against DB Schenker Rail Romania for the payment of remuneration in the amount of EUR 1.7 m for the stay of PKP CARGO S.A.'s own wagon in the territory of Romania. The case was referred for examination in Romania. Sent an official request for payment to opposite entity.

In addition, PKP CARGO S.A. is a party to judicial proceedings in connection with decisions issued by the President of UOKiK imposing monetary penalties on the PKP CARGO S.A. for the abuse of dominant position. These are:

- Monetary penalty in the amount of PLN 60,362,071.69 imposed by decision of the President of UOKIK No DOK-3/2009 of 7 July 2009. By sentence of the Supreme Court of 3 October 2013, file No III SK 67/12, sentences of the courts of first and second instance were revoked. In connection with that, the President of UOKiK returned to PKP CARGO S.A. the monetary penalty paid. The date of trial was fixed by the Antimonopoly Court at 17 March 2014.
- 2. Appeal of PKP CARGO S.A. against Decision of the President of UOKiK No RWR 44/2012 of 31 December 2012. The above decision ascertained the abuse by PKP CARGO S.A. of its dominant position in the domestic rail freight market by preventing the development of conditions necessary for the existence or development of competition, consisting in acting so as to make it difficult for the firm Majkoltrans sp. z o.o. to compete with forwarding companies belonging to the PKP CARGO Group, and consequently the President of UOKiK imposed a monetary penalty on the company in the amount of PLN 16,575,676.95. On 26 June 2013, PKP CARGO S.A. filed a reply with the Antimonopoly Court to a letter from the President of UOKIK requesting a change of the decision in its entirety by declaring that the alleged practice was not applied. The decision of UOKiK is pending appeal. No date of trial fixed by the Antimonopoly Court.
- Appeal of PKP CARGO S.A. against Decision of the President of UOKiK No DOK-4/2012 of 26 July 2012. In the decision concerned, the President of UOKiK ascertained a delay in the execution of the Decision of the President of UOKiK No DOK 142/04 of 31 December 2004 and imposed a monetary

penalty in this respect in the amount of PLN 1,785,557.65. No date of trial fixed by the Antimonopoly Court.

7.4.2 Administrative proceedings initiated

- 1. In March 2013, UOKiK initiated an inquiry concerning a preliminary determination whether in connection with the rules for the provision of access to railway infrastructure and the rules for the provision of rail freight services, in particular the pricing policy applied by PKP CARGO S.A., breach of the provisions of the Act of 16 February 2007 on the protection of competition and consumers may have been committed. UOKIK referred questions relating to the inquiry and instructed that information and explanations be provided. PKP CARGO S.A. submitted the requested information.
- 2. On 28 May 2013, the UTK President issued a decision stating that PKP CARGO S.A. had breached a railway regulation, i.e. Article 5 (3) of the Act on railway transport, consisting in the combination by PKP CARGO S.A. of rail freight activities with the actual performance of functions assigned to the railway infrastructure manager. The UTK President allowed the period until 31 December 2013 to remedy the irregularities identified. PKP CARGO S.A. established CARGOTOR Sp. z o.o. to comply with the UTK President decision, despite the fact that the matter was not finally resolved at the company level. On 12 June 2013, PKP CARGO S.A. filed a petition with the UTK. President requesting reconsideration of the case. The re-opened proceedings ended on 31 December 2013 with UTK President decision supporting his previous decision of 28 of May 2013, including the deadline for its execution before 31 December 2013. Both decisions has not imposed any monetary penalties on PKP CARGO S.A. On 14 February 2014 PKP CARGO S.A. filed a claim to the Regional Administrative Court in Warsaw against the UTK President decision in its entirety.
- 3. In 2012, the European Commission initiated an inquiry into alleged uncompetitive conduct of PKP CARGO S.A. in providing railway services in Poland. So far, the European Commission has sent in one letter requesting information. On 21 September 2012, PKP CARGO S.A. submitted the requested information. At the same time, the company informed the European Commission that the scope of the proceedings largely overlaps with the subject matter of the inquiry conducted by the UTK, which is the Polish railway transport regulator.
- 4. On 30 December 2013, PKP CARGO S.A. received a letter from the UOKIK branch in Wrocław stating that an inquiry had been initiated with a view to determining whether activities of PKP CARGO S.A. in relation to the company Majkoltrans may be in breach of the Act of 16 February 2007 on the protection of competition and consumers (Journal of Laws No 50, item 331, as amended), in particular its Article 9. On 3 February 2014 Company responded to the letter mentioned above.

7.4.3 Call for mediation

A call for mediation was filed on 23 December 2013 by PKP CARGO S.A. with PKP PLK with regard to coal stealing from trains. The value of the claim is PLN 4,285,100.00.

7.5 Major achievements in research and development

PKP CARGO Group conducts research and development work together with experts in the broad-based railway engineering. The issued dealt with in 2013 included:

- Completion of Stage 1 of operational testing the wear and tear of Type K composite brake shoe inserts and
 monobloc wheelsets. Based on the test results, new requirements were introduced in the maintenance system
 consisting in the use of an optimum wheel profile, which will make it possible to reduce the were and tear of
 wheelsets owing to a lower frequency of wheel re-profiling.
- 2. Work on the implementation of the HADIAG/L diagnostic station intended for testing the pneumatic component of locomotive brake systems.
 - The station will be used during inspections and repairs of locomotives in accordance with Maintenance System Documents (MSDs). The purpose of the tests was the experimental determination of the capability to meet requirements applicable to rolling stock under current regulations and the verification of assumptions

made in software. An optimised testing programme made it possible to reduce the measurement times and to ensure repeatability of results, as confirmed by test reports from different divisions.

3. The implementation of the induction hardening method for locomotive wheelset rims at PKP CARGO S.A. The stations were installed in the Company's Northern and Eastern Units. The implementation of the locomotive wheelset rim hardening method is aimed to enhance their durability and extend service life.

7.6 Information on natural environment issues

In accordance with the applicable regulatory provisions, charges for the use of the natural environment are paid to the competent authorities in prescribed terms.

7.7 Significant events

The most important event for the Group in 2013 was the PKP CARGO S.A. IPO on the Warsaw Stock Exchange on 30 October 2013. The PKP CARGO S.A. IPO with a value of PLN 1.42 bn was the largest public offering in Poland from the beginning of 2013, as well as the first successfully placed offering of a national freight carrier in the European Union. The historical opening of listing of stock of the first listed company of the PKP Group stood at PLN 80.20, which represented an increase of approx. 18% against the selling price in public offering, i.e. PLN 68 per share. The listed company status, which provides PKP CARGO S.A. with additional capabilities for capital acquisition for development and increases its credibility as a business partner, will be helpful continuing the restructuring of the Company and consolidation of its position in the Polish market, and continuing expansion in foreign markets.

Other events of the financial year, which were significant for PKP CARGO Group are listed below in chronological order:

- In May 2013, the Parent company signed a contract for modernisation of 30 Series SM48 diesel locomotives. According to the schedule, modernisation of the locomotives is to be completed by 2016.
- In May 2013, PKP CARGO S.A. received the safety certificate, Part B issued by NHK Hungarian counterpart of the UTK.
- On 29 May 2013, by decision of the UTK President, PKP CARGO S.A. received the Entity in Charge of Maintenance (ECM) certificate for freight wagons. Operating freight services in Europe with the use of their own fleet of fright wagons, the Company is simultaneously in charge of their maintenance in a proper state of repair. PKP CARGO S.A. is one of few enterprises in Poland to be ECM certified.
- In its sentence of 30 May 2013, the European Court of Justice (ECJ) ruled that Poland had breached Directive 2001/14/EC on the allocation of railway infrastructure capacity e.g. by making it possible to include in the calculation of charges for the use of railway infrastructure, which fall beyond the definition of costs that the manager incurs directly as a result of transport services. The ECJ decided that the method of calculation of railway infrastructure access charges was inconsistent with the EU laws. The ECJ sentence resulted in PKP PLK work on the new and decreased pricelist for the train timetable for 2013/2014, which is described below.
- On 22 August 2013 an agreement partially terminating the collective dispute of 10 June 2013 was signed between the trade unions and PKP CARGO S.A. As part of the Agreement, the Company committed itself to pay a one-time discretionary bonus in the average amount of PLN 1,300 gross, and to sign the EGP in the agreed form. The EGP itself was signed on 2 September 2013. Employees of the Parent company and employees of the rolling stock companies of the Group will receive a one-off benefit from the PGP, in the form of shares
- On 1 October 2013, 8 wagon repair subsidiaries and 2 locomotive repair subsidiaries merged as part of the reorganisation and optimisation of the structure of the PKO CARGO Group.
- As of the beginning of October 2013, PKP CARGO S.A. made available to its customers a system for
 electronic management of the bill of lading at www.pkp-cargo.pl. The implementation of the electronic bill
 of lading started a gradual substitution of paper documents related to the transport process with its
 electronic version, as well as process changes. The Company's customers may dispatch cargo via the

website or by exporting a file from their own systems to the PKP CARGO S.A. system. The website prepared for the management of the electronic bill of lading will be developed and will serve customers in future to use other, successively implemented e-services, such as a wagon order or e-Invoice.

- On 24 October 2013, the Parent companysigned an agreement for the co-financing with UE funds of the project titled "Purchase and supply of new 80' platform wagons for container transport". Under the project, PKP CARGO S.A. will purchase 330 Sggrss 80' container platforms under the agreement made on 25 September 2013 with the contractor selected through the open procedure Europejskie Konsorcjum Kolejowe Wagon sp. z o.o. The net value of the wagon supply contract is PLN 94.9 m. The maximum value of co-financing to the project under the Operational Programme Infrastructure and Environment will be PLN 28.5 m.
- On 8 November 2013, the UTK President issued Decision No DRRK-WKL-9110-11/2013 approving unit rates of charges for access and use of PKP PLK railway infrastructure by licensed rail carriers. The average network rate for the 2013/2014 train timetable is reduced by PLN 2.29/train-km, i.e. by 20.4% in relation to the rate applicable under the 2012/2013 timetable - from PLN 11.21/train-km to PLN 8.92/train-km.
- On 26 November 2013, the PKP CARGO S.A. received the safety certificate, Part B issued by Inspectie Leefomgeving en Transport the Dutch counterpart of the UTK.
- On 2 December 2013, the division of PKP CARGO S.A. was registered under Article 529 § 1 (4), i.e. by transferring a part of the Company's assets to a newly established company. The division was effected without decreasing the share capital of the Company. The newly entity established entity is Windykacja Kolejowa sp. z o.o. The activities of Windykacja Kolejowa Sp. z o.o. will focus on enforcing any claims for damages and related other claims available to PKP CARGO S.A. as railway carrier regarding potential damages for excessively high railway infrastructure access charges.
- On 3 December 2013, the PKP CARGO S.A. entered into an investment loan agreement with the European Investment Bank up to the amount of PLN 200 m intended for rolling stock investments. The facility will be available for 24 months from the date of the agreement. The maturity of the loan will be aligned with the depreciation period of the relevant fixed asset, but will not exceed 15 years.
- On 18 December 2013, the container terminal at the Poznań Franowo station was put into service. Co-financing was granted for the construction of the container terminal from the Cohesion Fund under the Operational Programme Infrastructure and Environment under co-financing agreement No POIS.07.04.00-00-001/10 of 15 October 2012. On 24 October 2013, Annex No POIS.07.04.00-00-001/10-01 was signed. According to its contents, the total project value is PLN 25.9 m, and the co-finance portion amounts to PLN 9.4 m.
- On 28 February 2014, subscriptions for employee stocks in PKP CARGO S.A. ended. The total number
 of 24,541 entitled employees of PKP CARGO Group signed up. On 7 March 2014, the Management
 Board of PKP CARGO S.A. adopted a resolution on allocating ordinary registered stocks of the C series
 of the Parent Entity in the amount of 1,448,902 pieces

7.8 Information on the remuneration of management and supervisory personnel at PKP CARGO S.A.

7.8.1 Value of remuneration and additional benefits

Table 29 Costs incurred by PKP CARGO S.A. in respect of remuneration and additional benefits of Management Board members in 2013 (PLN)

Surname and first name	2013
Wojciech Balczun	534,600
Łukasz Boroń	499,764
Adam Purwin	461,308
Sylwester Sigiel	459,154
Marek Zaleśny	849,924
Total	2,804,749

Source: The Company.

Table 30 Costs incurred by PKP CARGO S.A. in respect of remuneration and additional benefits of members

of the Supervisory Board in 2013 (PLN)

Surname and first name	2013
Konrad Anuszkiewicz	3,455
Krzysztof Czarnota	41,110
Piotr Fidos	37,655
Kazimierz Jamrozik	41,110
Michał Karczyński	41,110
Jakub Karnowski	0
Artur Kawaler	41,110
Stanisław Knaflewski	3,455
Milena Pacia	37,828
Marek Podskalny	41,110
Paweł Ruka	3,455
Danuta Tyszkiewicz	37,655
Jerzy Wronka	3,282
Total Source: The Company	332,331

Source: The Company.

The table above presents only the remuneration for a Member of the Supervisory Board of PKP CARGO S.A.

In July 2013, Sylwester Sigel received an annual reward for 2012 in the amount of PLN 45,087.87 for acting as the President of the Management Board of PKP CARGO Centrum Logistyczne Małaszewicze" Sp. z o.o.

Other persons managing / supervising PKP CARGO S.A. during their term in the company's governing bodies in 2013 did not receive remunerations or rewards due to performing functions in the management of subsidiaries.

7.8.2 Agreements made between PKP CARGO S.A. and managers, providing for compensation in the event of their resignation or vacation of office for no important reason or where their dismissal place in consequence of company amalgamation by takeover

The members of the Management Board of PKP CARGO S.A. are employed under management contracts. The rules for compensation in the event of resignation or dismissal from a position for no important reason are set forth in the Management Board Member Management Contract.

Compensation amounts paid to Management Board Members who filed resignations in 2013 are shown in the previous section.

7.9 Principles for the preparation of the annual consolidated financial statements and information on the entity authorised to audit financial statements

The consolidated financial statements of PKP CARGO Group for the year ended 31 December 2013 were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Committee and approved by the European Union.

The financial statements of the companies of PKP CARGO Group were drawn up in accordance with the Polish Accounting Standards (specified in the Accounting Act of 29 September 1994 and related secondary legislation). The consolidated financial statements contain adjustments which were not included in the accounting records of the Group companies, the purpose of which was to ensure compliance of the consolidated financial statements with IFRS.

The consolidated financial statements of PKP CARGO Group have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future. As at the date of preparation of the financial statements, no circumstances were found to exist indicative of a threat to the continuation of business by the Group for a period of at least 12 months after the date of the financial statements.

The accounting principles (accounting policy) applied in preparing the consolidated financial statements are presented in explanatory notes No 3 and 4 to the Consolidated Financial Statements of PKP CARGO Group for the financial year ended 31 December 2013.

By Resolution 1272/V/2013 of the Supervisory Board of PKP CARGO S.A. of 17 December 2013, the company KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Warsaw at ul. Chłodna 51, registered under number 3546, was appointed as the entity authorised to audit the financial statements of PKP CARGO S.A. for the years 2013 - 2015. The contract was concluded on 31 January 2014 for the period of its performance.

The statutory financial statements for the year ended 31 December 2012 have been prepared in accordance with the Polish Accounting Standards (specified on the Accounting Act of 29 September 1994 and regulations issued under the Act). By Resolution 1148/V/2012 of the Supervisory Board of PKP CARGO S.A. of 28 November 2012, the company KPMG Audyt Spółka z ograniczoną odpowiedzialnością spółka komandytowa with its registered office in Warsaw at ul. Chłodna 51, registered under number 3546, was appointed as the entity authorised to audit the financial statements of PKP CARGO S.A. for 2012. The contract was concluded on 4 December 2012 for the period of its performance.

Table 31 Remuneration, entity authorised to audit financial statements (PLN)

Description	Year ended 31 December 2013	Year ended 31 December 2012 (PSR)
Obligatory audit of the financial statements	129,200	151,000
Obligatory audit of the consolidated financial statements	9,500	20,000
Obligatory audits of the separate financial statements of subsidiaries	217,200	285,500
Other attestation services	1,160,187	129,000
Tax consulting services	0	0
Other services	15,000	0_

Source: The Company.

- a) review of the first half of 2013 and for the third quarter of 2013. , including:
- PLN 185,000 salary for a review of the separate and consolidated financial statements for the first half of 2013
- PLN 40,000 consideration for the review of the consolidated financial statements for the third quarter of 2013 PKP CARGO S.A. entered into an agreement with Deloitte Polska Spółka z o.o., Spółka komandytowa,
- b) audit of the separate and consolidated financial statements in accordance with IFRS for the 3 periods of 2010, 2011 and 2012:
- PLN 40,000 for audit of the separate financial statements,
- PLN 80,000 for the audit of the consolidated financial statements

PKP CARGO S.A. entered into an agreement with Deloitte Polska Spółka z o.o., Spółka komandytowa

- c) works related to the preparation of a public offering remuneration in the amount of PLN 304,057
- d) preparation of comfort Letter remuneration in the amount of PLN 628,280.

PKP CARGO S.A. entered into an agreement with Deloitte Polska Spółka z o.o., Spółka komandytowa

e) verification of group report - PLN 2,850 for (year 2013) PLN 9,000 (year 2012)

PKP CARGO S.A. entered into an agreement with KPMG Audyt Spółka z ograniczoną odpowiedzialnością Sp.k.

7.10 Corporate Governance Statement

Acting in compliance with the § 91 (5) (4) of the Regulation of the Minister of Finance of 19 February 2019 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a third country (Journal of Laws of 2014, item 133) of 27 June 2013, the Management Board of the Company presents the Statement on the application of corporate governance principles in 2013.

7.10.1 Identification of the set of corporate governance standards adopted by PKP CARGO S.A. and the locations where the text of these principles is available publicly

During the period from the admission of PKP CARGO S.A. shares to public trading, i.e. from 28 October 2013, PKP CARGO S.A. has been governed by the corporate governance standards described in the document The Best Practices of WSE Listed Companies ("Best Practices"), forming Appendix to Resolution of the WSE Supervisory Board No 12/1170/2007 of 4 July 2007, as amended by the following resolutions of the WSE Supervisory Board: No 17/1249/2010 of 19 May 2010 (entered into force on 1 July 2010), No 15/1282/2011 of 31 August 2011 (entered into force on 1 January 2012), No 20/1287/2011 of 19 October 2011 (entered into force on 1 January 2012) and No 19/1307/2012 of 21 November 2012, which entered into force on 1 January 2013.

The text of the Best Practices governing PKP CARGO S.A. is available on the GPW website at (http://www.corp-gov.gpw.pl).

^{*}As part of the other attestation services are included remuneration for :

7.10.2 The extent to which PKP CARGO S.A. deviated from the provisions of the corporate governance standards, identification of those provisions and explanation of the reasons for such deviation

By Resolution No 502/2013 of 23 October 2013, the Management Board adopted all the corporate governance standards arising from the Best Practices, with the exception of: (i) the provisions of Part I of Recommendation 9 whereby PKP CARGO S.A. is required to ensure a balanced share of men and women in performing management and supervisory functions and (ii) the provisions of Part III of Recommendation 6, until the composition of the Supervisory Board is complemented with persons meeting the criterion of independence.

Moreover, on 21 November 2013, PKP CARGO S.A. transmitted via the EBI (Electronic Information Base) system interim report No 2/2013, containing information on the deviation from the application of the corporate governance standards contained in: (i) Part IV of Recommendation 10 which provides that shareholders must ensure the opportunity for shareholders to participate in the general meeting with the use of electronic communication channels and (ii) Part II of Recommendation 1 (9a) which concerns the posting on the corporate website of a record of the general meeting in audio or video format.

7.10.2.1 Recommendation concerning the balanced share of women in performing management and supervisory functions

PKP CARGO S.A. does not ensure the balanced share of women and men in the Management Board and the Supervisory Board. PKP CARGO S.A. supports the above recommendation, but a decision on the composition of the Supervisory Board is taken by shareholders at the General Meeting, and members of Management Board are appointed in compliance with the rules set forth in the Articles of Association. PKP CARGO S.A. pursues a policy according to which PKP CARGO S.A. employs competent, creative persons with relevant professional experience and education without applying the criterion of gender.

7.10.2.2 Recommendation concerning the independence of Supervisory Board members

Implementing the provisions of Part III of Recommendation 6 of the "Best Practices" referring to the criterion of independence from the Company and any entities significantly related to the Company, which ought to be met by at least members of the Supervisory Board, on 17 December 2013, the Extraordinary General Meeting ("EGM") of Shareholders passed Resolution No 66/2013 and Resolution No 67/2013, complementing the composition of the Supervisory Board by two members who meet the a/m criterion of independence.

The newly appointed Supervisory Board members, Mr Paweł Ruka and Mr Stanisław Knaflewski, submitted declarations to PKP CARGO S.A. to the effect that they meet the independence criteria defined in: (i) Appendix II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (2005/162/WE), (ii) Article 86 (5) of the Act of 7 May 2009 on certified auditors and their self-government, entities authorised to audit financial statements and public supervision, and (iii) § 21 Articles of Association.

7.10.2.3 Information on non-application in 2013 of the principle contained in Part IV of Recommendation 10 of the Best Practices

The decision not to apply the principle which provides that PKP CARGO S.A. should ensure, among other things, "real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting", was taken because of risks of a legal and organisational/technical nature which may affect the correct progress of the general meeting while shareholders are provided with such a communication channel.

In the PKP CARGO S.A. Management Board's opinion, the rules for participation in general meetings enable the shareholders to effectively exercise all rights attaching to shares and secure the interests of all shareholders.

7.10.2.4 Information on non-application in 2013 of the principle contained in Part II of Recommendation 1 (9a) of the Best Practices

In the PKP CARGO S.A. Management Board's opinion, non-application of the principle concerning the posting by PKP CARGO S.A. on its corporate website of a record of a general meeting in audio or video format does not affect the reliability of the Company's information policy or the completeness of significant information furnished to the Shareholder by PKP CARGO S.A..

7.10.3 Total number and nominal value of PKP CARGO S.A. shares, their possession by persons supervising and managing the Company, and shareholders holding major shareholdings

Proprietary status of the Company shares and share/stocks in entities affiliated with the Company, held by persons managing and supervising the Company, as of 13 March 2014 i.e. publication date of this report and as of 14 November 2013 i.e. publication date of quarterly report for 3Q2013 was as follows:

Table 32 Proprietary status of the Company shares and share/stocks in affiliated entities - managing persons

Name and surname	PKP CA	PKP CARGO S.A. shares Share/sto		stocks in entities affiliated with PKP CARGO S.A.	
Number		total par value (PLN)	Number	total par value (PLN)	
		as of 13.03.2014			
Adam Purwin	245	12 250	0	0	
Sylwester Sigiel	0	-	0	0	
		as of 14.11.2013			
Adam Purwin	245	12 250	0	0	
Sylwester Sigiel	0	-	0	0	
Łukasz Boroń	245	12 250	0	0	

Source: the Company

Table 33 Proprietary status of the Company shares and share/stocks in affiliated entities – supervising persons

Name and surname	me PKP CARGO S.A. shares		Share/stocks	in entities affiliated with PKP CARGO S.A.
	Number	total par value (PLN)	Number	total par value (PLN)
		as of 13.03.2014		
Krzysztof Czarnota	70	3 500	0	0
Kazimierz Jamrozik	70	3 500	0	0
Michał Karczyński	0	-	0	0
Jakub Karnowski	503	25 150	0	0
Artur Kawaler	0	-	0	0
Milena Pacia	0	-	0	0
Marek Podskalny	70	3 500	0	0
Danuta Tyszkiewicz	0	-	0	0
Paweł Ruka	0	-	0	0
Konrad Anuszkiewicz	0	-	0	0
Stanisław Knaflewski	0	-	0	0
		as of 14.11.2013		
Krzysztof Czarnota	0	-	0	0
Kazimierz Jamrozik	0	-	0	0
Michał Karczyński	0	-	0	0
Jakub Karnowski	245	12 250	0	0
Artur Kawaler	0	-	0	0
Milena Pacia	0	-	0	0
Marek Podskalny	0	-	0	0
Danuta Tyszkiewicz	0	-	0	0
Piotr Fidos	67	3 350	0	0

Source: the Company

The table below shows the shareholders holding, as at 31 December 2013 and as at the date of preparation of these statements, directly or indirectly large shareholdings in PKP CARGO S.A.

Table 34 List of shareholders holding substantial holdings of PKP CARGO S.A. shares as at date of the financial statements approval

Shareholder	Number of shares	Percentage share in share capital	Number of votes	Percentage share in the total number of votes at GM
PKP S.A. ²⁷	22,411,844	51.7%	22,411,844	51.7%
ING OFE 28	2,860,827	6.6%	2,860,827	6.6%
EBOiR ²⁹	2,286,008	5.3%	2,286,008	5.3%
AMPLICO OFE30	2,195,842	5.1%	2,195,842	5.1%
Other shareholders	13,583,494	31.3%	13,583,494	31.3%

Source: The Company.

7.10.4 Special control rights of holders of securities

The securities of PKP CARGO S.A. do not confer any special control rights on any shareholder.

7.10.5 Indication of all restrictions in the exercise of voting rights

The right to participate in the General Meeting and the voting right

The shareholder exercises the voting right at General Meetings. According to the Commercial Companies Code, the Company's shareholders may participate in the General Meeting and exercise their voting rights in person or by proxy. A shareholder of the Company intending to participate in the General Meeting by proxy must grant a power of proxy in writing or in electronic form. A form containing the model power of proxy is included by the Company in the notice to convene the General Meeting. In addition, the granting of the power of proxy in electronic form must be notified to the Company with the use of the means of electronic communication stated in the notice to convene the General Meeting. The Company takes appropriate measures to identify the shareholder of the Company and the proxy in order to authenticate the power of proxy granted in electronic form. A detailed description of the authentication of the power of proxy granted in electronic form contains the text of the notice to convene the General Meeting.

The Company's shareholder holding Shares recorded in more than one securities account may establish separate proxies to exercise rights attaching to Shares recorded in each account.

If the proxy representing the shareholder at the General Meeting is a member of the Management Board, member of the Supervisory Board, liquidator, employee of the Company or member of its governing bodies or employee of the Company's subsidiary company or cooperative, the power of proxy must provide for representation at one General Meeting only. The proxy is obliged to disclose to a shareholder of the Company any circumstances indicative of the existence or the possibility of arising of a conflict of interest. In such a case, the granting of a subproxy is unacceptable. The proxy referred to above votes in accordance with the instructions given by the shareholder of the Company.

According to § 11 (2) of the Articles of Association each Share carries on one vote at the General Meeting. The Articles of Association restricts the voting rights of shareholders (acting individually or jointly as shareholders being dominant or subsidiary entities) holding more than 10% of the total voting rights at the General Meeting and prohibits the exercise by such shareholders more than 10% of the total voting rights at the General Meeting, with the proviso that the above restriction does not apply to the shareholders who, on the day the General Meeting passes a resolution imposing such restrictions, are authorised to exercise voting rights (also as user) attaching to shares representing more than 10% of the total number of voting rights existing in the Company - hence the restriction does not apply only to PKP S.A.

²⁷ In accordance with notice sent in by shareholder on 31 Oct 2013

²⁸ In accordance with notice sent in by shareholder on 8 Nov 2013

²⁹ In accordance with notice sent in by shareholder on 5 Nov 2013

 $^{^{}m 30}$ In accordance with notice sent in by shareholder on 2 Jan 2014

According to the provisions of the Article of Association, the restriction of voting rights of shareholders representing more than 10% of total shares in the Company does not expire after the disposal of all shares by PKP S.A., which is not subject to the above restriction. Consequently the restriction of a voting right potentially makes it difficult for a single investor to gain control over the Company even if the share of PKP S.A. in the Company's share capital decreases to nil.

A shareholder of the Company may not, in person or by proxy, or as a proxy of another person, vote on resolutions concerning his liability to the Company on any account, including the granting of discharge or relieving of any obligation to the Company or a dispute between the shareholder and the Company. The above restriction does not apply to voting through a shareholder of the Company as proxy of another shareholder in adopting resolutions concerning himself, referred to above.

7.10.6 Indication of all restrictions on the transfer of ownership of securities

Statutory restrictions of the marketability of shares

The Public Offering Act, the Act on Trading in Financial Instruments and the Commercial Companies Code provide, among other things, for the following restrictions on the marketability of shares:

- the obligation to notify KNF and the Company rests on anyone who: (i) has reached or exceeded 5%, 10%, 15%, 20%, 25%, 33%, 33¹/₃%, 50%, 75% or 90% of the total number of voting rights in a public company; (ii) held at least 5%, 10%, 15%, 20%, 25%, 33%, 33¹/₃%, 50%, 75% or 90% of the total number of voting rights in that company, and, as a result of the reduction of such share, has reached 5%, 10%, 15%, 20%, 25%, 33%, 33¹/₃%, 50%, 75% or 90%, respectively, or less of the total number of voting rights; (iii) has changed the existing holding above 10% of the total number of voting rights by at least 2% of the total voting rights in a public company whose share are admitted to trading on the official stock market (as at the date of the Prospectus, the primary WSE market is such a market; (iv) has changed the share held so far of more than 33% of the total number of voting rights in a public company by at least 1% of total voting rights;
- the obligation to publish a call for subscription for the sale or exchange of share in the case of: (i) acquisition of shares carrying more than 10% or 5% of the total voting rights at the General Meeting, (ii) exceeding the threshold of 33% of total voting rights at the General Meeting, (iii) exceeding the threshold of 66% of total voting rights at the General Meeting;
- a ban on the acquisition or disposal, for one's own or third-party's account, of financial instruments based on confidential information;
- a ban on the acquisition or disposal of financial instruments during the continuance of a closed period by the persons specified in the Act on Trading in Financial Instruments;
- the dominant company, within the meaning of Article 4 (1) (4) of the Commercial Companies Act, has the
 obligation to notify a subsidiary company about the arising or cessation of dominance relationship within two
 weeks of the arising of such relationship, failing which the exercise of voting rights attaching to shares of a
 dominant company representing more than 33% of the share capital of the subsidiary will be terminated.

Apart from the above, there are no other statutory restrictions on the marketability of the Company's shares.

Contractual restrictions of the marketability of shares

Contractual restriction of the marketability of shares concerns shares taken by eligible employees in connection with the right granted to them under EGP. Each eligible employee subscribing for shares is required to sign an agreement restricting the marketability of shares for a period of 2 years from the IPO of the Company on the WSE, i.e. until 30 October 2015. A subscription submitted without signing the above agreement would be null and void, and the eligible employee would lose his entitlement to the privatisation bonus, and consequently also shares. The disposal or charging or shares or any rights attaching to shares before 30 October 2015 will be ineffective to the Company and may render the employee liable for damages.

As per the conditional agreement on guaranteeing subscription of Institutional Investors following the principles of investment underwriting in public offering of PKP CARGO S.A. stocks (Underwriting Agreement, hereinafter

"Offering Guarantee Agreement") concluded on 8 October 2013 between PKP S.A. and PKP CARGO S.A. and the following entities:

- 1. Goldman Sachs International,
- 2. Morgan Stanley & Co. International plc,
- 3. Powszechna Kasa Oszczędności Bank Polski S.A. also acting through its branch: Powszechna Kasa Oszczędności Bank Polski S.A. Branch Dom Maklerski PKO Banku Polskiego w Warszawie),
- 4. Dom Inwestycyjny Investors S.A.,
- 5. IPOPEMA Securities S.A.,
- 6. Mercurius Dom Maklerski Sp. z o.o.,
- 7. Raiffeisen Centrobank AG,
- 8. UniCredit Bank AG, London Branch,
- 9. UniCredit Bank Austria AG,
- 10. UniCredit CAIB Poland S.A.,

hereinafter jointly referred to as "Offering Managers", the Company and PKP S.A. will be subject to a contractual limit on the transferability of stocks and issue of stocks, namely:

- 1. PKP S.A. will commit itself towards the Offering Managers that from the closing date of the Offering Guarantee Agreement until the end of the 180 day period since the day of first quotation of the Company's stocks on WSE, it will not execute any other transactions that may lead to issuance, offer for sale or issuance, sale or disposing of Company's securities similar to the securities being the Object of the Offering without the written consent of the Global Coordinators (which will not be unreasonably withheld or delayed). The aforementioned restriction does not apply to selling stocks by PKP S.A. in response to exchange and tender offers of Company stocks to a strategic investor for a price not lower than the one in the Offering.
- 2. PKP S.A. will commit itself towards the Offering Managers that from the closing date of the Offering Guarantee Agreement until the end of the 180 day period since the day of first quotation of the Company's stocks on WSE, it will not execute any other transactions that may lead to issuance, offer for sale or issuance, sale or disposing of Company's securities similar to the securities being the Object of the Offering without the written consent of the Global Coordinators (which will not be unreasonably withheld or delayed).

7.10.7 Description of the rules concerning the appointment and dismissal of managers and their rights, in particular the right to take a decision on the issue or redemption of shares

Appointment of Members of the Management Board

The Management Board consists of one to five members, including the President of the Management Board. Members of the Management Board are appointed for a joint three-year term of office. The President of the Management Board and other Members of the Management Board are appointed on the terms set forth in the Articles of Association and in the Rules on the appointment of Members of the Management Board.

The appointment of Members of the Management Board takes place following a qualification procedure solely from among candidates taking part in the qualification procedure who have obtained a positive opinion of the recruitment adviser. The qualification procedure for a Member of the Management Board is prepared and organised by a professional HR consulting firm appointed by resolution of the Supervisory Board of PKP CARGO S.A. Participating in the procedure for the appointment of Management Board Members is the Nomination Committee which exercises ongoing supervision over the qualification procedure for the position of Member of the Management Board, and over the evaluation and appointment of Members of the Management Board.

The Supervisory Board also selects one Member of the Management from among candidates proposed by employees of the Company. This power is vested in connection with Article 4 (4) of the Act of 8 September 2000 on the commercialisation, restructuring and privatisation of PKP and the provisions of EGP. The candidate should have higher education, at least 5 years' work experience with the PKP Group, and have a clean criminal record. The Rules for the election of candidates for employee's representative on the Management Board are adopted by

the Supervisory Board. Failure to appoint a representative of employees to the Management Board is without prejudice to the appointment of the Management Board and effective adoption of resolution by the Board.

Mandates of the President of the Management Board and of other Members of the Management Board expire at the date of the General Meeting approving the financial statements and the Management Board's report on the activities of the Company for the last full financial year of the term of office. The President of the Management Board and other Members of the Management Board may file a written resignation of the position held, submitting it to the Company with a copy for the Supervisory Board for information.

According to § 18 and § 25 (3) (2) of the Articles of Association, the Management Board Of PKO CARGO S.A. is authorised, with the consent of the Supervisory Board, on the terms laid down in the Commercial Companies Code, to pay the shareholders advances on account of dividend planned for the end of the financial year.

Managers do not have any rights to make decisions on the issue or redemption of shares.

7.10.8 Rules for the amendment of the Articles of Association of PKP CARGO S.A.

An amendment of the Articles of Association requires a resolution of the General Meeting passed by absolute majority of votes. Moreover, the passing of a resolution on the amendment of § 14 (6), § 26 (3) or (4) and § 27 (7) of the Articles requires a Resolution of the General Meeting passed by the majority of four-fifths of votes in the presence of shareholders representing three-fourths of the Company's share capital.

Amendments to the Articles are effected subject to their approval by the General Meeting and their registration by the competent court. The Supervisory Board is authorised under §25 (3) (11) to agree consolidated wording of the Articles of Association after the court decision on registration becomes final.

Amendments made to the Articles in 2013:

- On 14 February 2013, the Extraordinary General Meeting of PKP CARGO adopted Resolution No 5/2013 on the amendment of the Articles of Association. The amendments contained in the resolution concerned the addition of the object of business of the Company. The Extraordinary General Meeting adopted a consolidated text of the Articles of Association. The amendments made were registered by the District Court for the Capital City of Warsaw.
- On 8 July 2013, the Ordinary General Meeting of PKP CARGO S.A. passed Resolution No 1/2013 on the
 amendment of the Articles of Association of the Company. The amendments contained in the resolution
 concerned an increase in the share capital through the issue of Series L shares and the revocation of
 shareholder's subscription rights.
- On 8 July 2013, the Ordinary General Meeting of PKP CARGO S.A. passed Resolution No 4/2013 on amendments to the Articles of Association. The amendments contained in the resolution concerned a change in the structure of equity, including the reduction of share capital and the setting up of a capital reserve.
- On 8 July 2013, the Ordinary General Meeting of PKP CARGO S.A. passed Resolution No 5/2013 on amendments to the Articles of Association. The amendments contained in the resolution concerned the division of registered shares into bearer shares and the consolidation of share series.
- On 2 October 2013, the Extraordinary General Meeting of PKP CARGO S.A. passed Resolution No 55/2013 on amendments to the Articles of Association. The Extraordinary General Meeting adopted a consolidated text of the Articles of Association. The amendments made were registered by the District Court for the Capital City of Warsaw.
- On 18 October 2013, the Extraordinary General Meeting of PKP CARGO S.A. passed Resolution No 61/2013
 on amendments to the Articles of Association. The amendments contained in the resolution concerned
 changes in the rules for the appointment of Members of the Management Board of the Company PKP
 CARGO S.A. and the appointment of the Nomination Committee. The Extraordinary General Meeting
 adopted a consolidated text of the Articles of Association. The amendments made were registered by the
 District Court for the Capital City of Warsaw.

7.10.9 Procedures of the General Meeting and its essential powers, and description of shareholders' rights and the method of their exercise, in particular rules arising from the Rules of Procedure of the General Meeting if such Rules of Procedure exist, unless such information arise directly from the provisions of law

The General Meeting of the Company operates under the Commercial Companies Code, the Articles of Association (in particular, §§ 10-13) and the Rules of Procedure of the General Meeting. Shareholders have the right to participate and exercise voting rights at the General Meeting in person or by proxy.

The General Meeting is valid irrespective of the number of shares represented.

Resolutions of the General Meeting are passed by ordinary majority, except resolutions for the adoption of which the provisions of the Commercial Companies Code or the Articles of Association provide for more stringent requirements for a resolution to be passed, with the proviso that the passing of a resolution to amend § 14 (6), § 26 (3) or (4) and § 27 (7) of the Articles of Association requires a Resolution of the General Meeting passed by the majority of four-fifths of votes in the presence of shareholders representing three-fourths of the share capital of the Company.

Voting at the General Meeting is open. Voting by ballot is held in elections and on motions for dismissal of members of the Company's governing bodies or the Company's liquidators, or on calling them to account, as well as in other personnel-related matters. Besides, voting by ballot must be held if request by even one of the shareholders present or represented at the General Meeting.

According to the Rules of Procedure of the General Meeting, both open and secret voting can be performed with the use of electronic devices, subject to consent of the General Meeting. The General Meeting may pass a resolution to waive secret voting in matters related to the selection of a committee appointed by the General Meeting.

Deliberations of the General Meeting are conducted by the Chair who takes care of its efficient progress in accordance with the agenda of the meeting adopted. The Chair resolves rules-of-the-house matters. Without the General Meeting's consent it is not allowed to remove or change the sequence of items on the agenda.

The General Meeting of PKP CARGO S.A. is opened by the Chair of the General Meeting appointed by the Management Board. If the President of the Management Board does not designate the Chair of the General Meeting before the appointed meeting commencement time, the provisions of Article 409 §1 of the Commercial Companies Code will apply, after which the Chair of the meeting will be selected from among the persons authorised to participate in the meeting. The Chair of the General Meeting will be elected by absolute majority of votes cast in secret ballot.

The Extraordinary General Meeting may be convened by a shareholder whose share in total votes in the Company exceeds 33%. IN such a case the shareholder convening the Extraordinary General Meeting designates the Chair of the General Meeting.

The General Meeting adopts the Rules of Procedure of the General Meeting, defining in detail the manner in which the debate will be held. The draft Rules of Procedure of the General Meeting is proposed by the Management Board. Participation in the General Meeting is allowed with the use of electronic communication channels provided that the notice to convene a given General Meeting provides information of such option.

7.10.10 Composition and changes in composition during the last financial year and description of the activities of management, supervisory or administration bodies of PKP CARGO S.A. and their committees

MANAGEMENT BOARD

The Management Board of PKP CARGO S.A. with its registered office in Warsaw operates under the applicable laws and regulations, in particular:

1) The Act of 15 September 2000 - Commercial Companies Code (Journal of Laws No. 94, item 1037, as amended);

- 2) The Act of 8 September 2000 on the commercialisation, restructuring and privatisation of the state-owned enterprise "Polskie Koleje Państwowe" (Journal of Laws No 84, item 948, as amended)
- 3) The Articles of Association of PKP CARGO S.A.
- 4) The Rules of Procedure of the Management Board of PKP CARGO S.A. adopted by Resolution No 491/2013 of the Management Board of PKP CARGO S.A. of 16 October 2013.
- 5) Other internal regulations.

Powers of the Management Board

The Management Board manages the affairs and assets of the Company and represents it in relations with third parties. The remit of the Management Board includes all activities which are not reserved for the General Meeting and the Supervisory Board of the Company. Resolutions of the Management Board are passed by absolute majority of votes of those present at the meeting, with at least a half of the number of Members of the Management Board attending. Declarations of intent may be made by the President of the Management Board acting solely or two Members of the Management Board acting jointly or a Member of the Management Board acting jointly with a commercial attorney.

Procedures of the Management Board

Detailed procedures of the Management Board are described in the Rules of Procedure of the Management Board. The Rules of Procedure are adopted by the Management Board and approved by the Supervisory Board. According to the provisions of the Management Board, the Management Board takes decisions in the form of resolutions. Resolutions of the Management Board of passed by absolute majority of those present, with at least half of the Members of the Management Board attending, and can be passed only if all Members of the Management Board have been duly informed about the Management Board meeting. According to the Rules of Procedure, in the case of an equal number of votes "for" and "against", including any abstentions, the President of the Management Board has the casting vote. Meetings of the Management Board are held at least once a week.

According to the Rules of Procedure of the Management Board, in the event of conflict of interests between the Company and a member of the Management Board, spouse, relative by consanguinity or affinity (up to the second degree) or other person to whom the Management Board member is personally related, the member of the Management Board should immediately inform the other Members of the Management Board of such conflict, and in the case of the President of the Management Board also the Supervisory Board, and refrain from participating in the discussion and from voting on a resolution on a matter involving a conflict of interests, and may demand that this be recorded in the minutes of the meeting of the Management Board.

Table 35 Composition of the Management Board of PKP CARGO S.A. for the reporting period from 1 January 2013 to the date of consolidated financial statements approval

No.	Surname and first name	Role served	Period of service	in the role
NO.	Surname and mist hame		from	to
1	Wojciech Balczun	President of the Management	29.01.2008; 02.07.2012 -	28.01.2013
		Board - Chief Executive Officer;	new term of office	(resignation)
		since 1 June 2008 - President of		
		the Management Board		
2	Marek Zaleśny	Member of the Management	12.02.2009; 02.07.2012 -	13.03.2013
		Board, Commerce**Sales**	new term of office	(resignation)
3	Łukasz Boroń	Member of the Management	02.07.2012	24.02.2013
		Board, Finance		
		President of the Management	25.02.2013	18.11.2013
		Board		(resignation)
4	Adam Purwin	Member of the Management	25.02.2013	5.02.2014
		Board, Finance	6.02.2014	to date
		President of the Management		
		Board		
5	Sylwester Sigiel	Member of the Management	13.03.2013	to date
		Board, Commerce**Sales**		

Source: The Company

On 6 February 2014, the Supervisory Board of the Company, having conducted a qualification process, appointed Mr Adam Purwin as President of the Management Board of PKP CARGO S.A..

On 17 February 2014, Mr Sylwester Sigiel resigned from his position as Member of the Management Board for Commerce**Sales**, effective at the date of adoption of a resolution by the Supervisory Board to appoint a new Member of the Management Board for Commerce**Sales**.

On 26 February 2014, the Supervisory Board of PKP CARGO S.A. passed a resolution to initiate the qualification procedure for the following positions:

- Member of the Management Board for Finance,
- Member of the Management Board for Operations,
- · Member of the Management Board for Sales,
- Representative of employees on the Management Board of PKP CARGO S.A.

The qualification procedure is conducted under the Rules of Procedure for the appointment of Members of the Management Board of PKP CARGO Spółka Akcyjna and the Rules of Procedure for the election of candidates for employees' representative to the Management Board of PKP CARGO S.A. and the appointment of employees' representatives to the Supervisory Board of PKP CARGO S.A. and the procedure for their dismissal.

The completion of the recruitment procedure was planned for the end of March/ beginning of April 2014.

The internal allocation of responsibilities and the roles served by the Management Board members in 2013 were as follows:

- President of the Management Board the responsibilities of the President of the Management Board include the management of the work of the Management Board and the current activities of the Company and, in particular, matters related to:
- support to the Management Board and other bodies of the Company,
- legal services and organisation of management,
- promotion,
- · information and communication technology,
- internal control and audit,
- security,
- corporate governance,
- strategy,
- · human resource management,
- · rolling stock,
- technical support.

The special powers of the President of the Management Board include the performance of defence-related responsibilities in the Company resulting from regulations on the general defence obligation.

- 2) Member of the Management Board for Finance performs responsibilities on behalf of PKP CARGO S.A. arising from regulations on accounting, taxes and insurance. In particular, the following issues fall within the remit of this position:
 - accounting and taxes,
 - finance and settlement,
 - planning and analyses,
 - · materials management and administration,
 - · real property management,
 - purchasing and project execution.
- 3) Member of the Management Board for Sales the following issues fall within the remit of this position:
 - sales policy,
 - selling freight services and serving strategic customers,
 - logistics.
 - sales coordination of freight services and regional customer service,
 - dispatching,

- · organisation of the freight process,
- · freight management,
- international issues,
- special freight.

Commercial powers of attorney granted and revoked.

In 2013, joint commercial powers of attorney were in effect for:

- Mr Ireneusz Wasilewski Resolution of the Management Board No 324/2012 adopted by the Management Board of PKP CARGO S.A. on 17.07.2012,
- Mr Witold Bawor Resolution of the Management Board No 325/2012 adopted by the Management Board of PKP CARGO S.A. on 17.07.2012.
- Mr Daniel Ryczek Resolution of the Management Board No 326/2012 adopted by the Management Board of PKP CARGO S.A. on 17.07.2012. Mr Daniel Ryczek's commercial power of attorney was revoked on 09.04.2013.

and in 2013 joint commercial power of attorney was granted to:

- Mr Grzegorz Kiczmachowski Resolution of the Management Board No 585/2013 adopted by the Management Board of PKP CARGO S.A. on 05.12.2013,
- Mr Wojciech Derda Resolution of the Management Board No 586/2013 adopted by the Management Board of PKP CARGO S.A. on 05.12.2013.

SUPERVISORY BOARD

According to the Articles of Association of PKP CARGO S.A. (Resolution No 62/2013 of the Extraordinary General Meeting of PKP CARGO S.A. with its registered office in Warsaw of 18 October 2013) The Supervisory Board consists of 11 to 13 members (including the Chair and Deputy Chair of the Supervisory Board) appointed for a joint term of office. The Supervisory Board is appointed and dismissed by the General Meeting, subject to the provisions of § 19 (2) and (3) of the Articles of Association of PKP CARGO S.A..

Table 36 Composition of the Supervisory Board of PKP CARGO S.A. for the period from 1 January 2013 to the date of consolidated financial statements approval

No	Surname and first name Role served	Role served	Period of service in the role		
No.	Surname and first name	Role Served	From	to	
1	Jakub Karnowski	Chair of the Supervisory Board	24.05.2012 1.02.2010 r.; 28.07.2011 r. (appointed	to date	
2	Michał Karczyński	Deputy Chair of the Supervisory Board	as Deputy Chair); 24.05.2012 r for 5th term; 24.10.2012 r. (appointed as Deputy Chair)	to date	
3	Milena Pacia	Member of the Supervisory Board	25.02.2013	to date	
4	Artur Kawaler	Member of the Supervisory Board	16.08.2007; 24.05.2012 - for 5th term,	to date	
5	Jerzy Wronka	Member of the Supervisory Board	15.02.2008; 24.05.2012 - for 5th term	25.02.2013	
6	Danuta Tyszkiewicz	Member of the Supervisory Board	21.07.2011 r.; 24.05.2012 - for 5th term	to date	
7	Krzysztof Czarnota	Member of the Supervisory Board	6.07.2006; 24.05.2012 - for 5th term	to date	
8	Marek Podskalny	Member of the Supervisory Board	6.07.2006; 24.05.2012 - for 5th term	to date	
9	Kazimierz Jamrozik	Member of the Supervisory Board	24.05.2012	to date	
10	Piotr Fidos	Member of the Supervisory Board	19.10.2012	12.12.2013 (resigned)	
11	Konrad Anuszkiewicz	Member of the Supervisory Board	13.12.2013	to date	
12	Stanisław Knaflewski	Member of the Supervisory Board	17.12.2013	to date	
13	Paweł Ruka	Member of the Supervisory Board	17.12.2013	to date	

Source: The Company

AUDIT COMMITTE OF THE SUPERVISORY BOARD

The Audit Committee of PKP CARGO S.A. is appointed by the Supervisory Board of PKP CARGO S.A. It is composed of three members of the Supervisory Board, including at least two members of the Supervisory Board meeting the criteria of independence and appointed in the manner described in § 20 and 21 of the Articles of Association. Members of the Committee are appointed for a period corresponding to the duration of the term of office of the Supervisory Board. The responsibilities of the Audit Committee include, in particular: supervision of the organisational unit dealing with internal audit, monitoring the financial reporting process, monitoring financial audit activities, monitoring the independence of the certified auditor and the entity authorised to audit financial statements, recommending to the Supervisory Board the entity authorised to audit financial statements for the purposes of auditing the Company's accounts, etc..

Table 37 Composition of the Audit Committee of the Supervisory Board of PKP CARGO S.A. for the reporting period

from 1 January 2013 to the date of consolidated financial statements approval

		or consonated maneral statements appro	Period of service in the role	
No.	Surname and first name	Role served	from	to
1	Artur Kawaler	Committee Chair	21.09.2012	06.02.2014
2	Jerzy Wronka	Committee Member	21.09.2012	26.02.2013
3	Milena Pacia	Committee Member	26.02.2013	06.02.2014
4	Piotr Fidos	Committee Member	24.10.2012	12.12.2013
5	Paweł Ruka	Committee Chair	6.02.2014	to date
6	Stanisław Knaflewski	Committee Member	6.02.2014	to date
7	Konrad Anuszkiewicz	Committee Member	6.02.2014	to date

Source: The Company.

NOMINATION COMMITTEE

The Nomination Committee is appointed by the Supervisory Board of PKP CARGO S.A. It is composed of three members of the Supervisory Board, including at least one member of the Supervisory Board meeting the criteria of independence and appointed in the manner described in § 20 and 21 of the Articles of Association. Members of the Committee are appointed for a period corresponding to the duration of the term of office of the Supervisory Board. The Nomination Committee organises and exercises ongoing supervision over the qualification procedures for Management Board positions and over the process of assessment and appointment of Members of the Management Board.

Table 38 Composition of the Nomination Committee of the Supervisory Board of PKP CARGO S.A. for the reporting period from 1 January 2013 to the date of consolidated financial statements approval

No. Surname and first name		Role served	Period of service	in the role
NO.	Surname and mist mame	Role Selveu	from	to
1	Stanisław Knaflewski	Committee Chair	17.12.2013	to date
2	Jakub Karnowski	Committee Member	17.12.2013	to date
3	Milena Pacia	Committee Member	17.12.2013	to date

Source: The Company.

7.10.11 Features of internal control and risk management systems related to the financial reporting process

The internal control and risk management system at PKP CARGO Group related to the preparation of consolidated financial statements prepared in accordance with IFRS EU is implemented based on the following components:

- Book closing and financial statement authorisation procedures: Internal procedures have been implemented at the Parent company and subsidiaries for the closing of periods, defining the timescales and responsibilities of offices for the different record-keeping areas; financial statements are subjected to internal check procedures for completeness and integrity, IFRS consolidation packages are signed by the Management Boards of subsidiaries, and the consolidated financial statements are appropriately authorised and signed by the Management Board of the Parent company.
- Audit Committee Supervision: Within the Supervisory Board, of PKP CARGO S.A., the Audit Committee
 has been established, which supervises the preparation of financial statements, the financial audit
 process, and analyses and monitors interim and year-end financial data of the Company and the Group
 in compliance with the applicable laws and regulations.
- Uniform consolidation packages for subsidiary companies: a uniform model was adopted of IFRS
 reporting packages prepared by subsidiary companies for the purposes of the consolidated financial
 statements as well as uniform IFRS accounting principles; subsidiary companies prepare IFRS reporting
 packages taking into account differences between the Polish Accounting Principles and the IFRS.
- Audit and review of financial statements: Annual consolidated financial statements are audited by the
 certified auditor, semi-annual consolidated financial statements are reviewed by the certified auditor;
 opinions and reports on those documents are attached to approved and published financial statements.



REPRESENTATION

of the Management Board related to the annual consolidated financial statement's conformity with the Management Board's report on the operation of the PKP CARGO Capital Group

I, the undersigned, hereby represent that to the best of my knowledge, the Consolidated Financial Statement the PKP CARGO Capital Group for the year ended on 31 December 2013, and the comparable data have been drawn up in observance of the applicable accounting standards and that they truly, reliably and clearly represent the asset-related and financial standing of the PKP CARGO Capital Group, as well as its financial result.

I also represent that the Management Board's report on the operation of the PKP Cargo Capital Group in 2013 presents a true picture of the growth, achievements and standing of the PKP CARGO Capital Group, as well as a description of the key threats and risks.

Members of the Management Board:

1 Adam Purwin - President of the Board

2 Sylwester Sigiel – Board Member in charge of Commerce

Warsaw, 13 March 2014 place, date



REPRESENTATION

of the Management Board on the choice of the entity authorized to audit financial statements (annual consolidated financial statement of the PKP CARGO S.A. Capital Group)

I, the undersigned, hereby represent that the entity authorized to audit annual consolidated financial statements, auditing the Consolidated Financial Statement of the PKP CARGO S.A. Capital Group for the year ended on 31 December 2013, has been appointed in observance of the rule of law, and that the said entity, as well as the certified auditors performing the audit, met the requirements that need to be fulfilled in order to issue an impartial and independent opinion on the annual consolidated financial statement audited, in line with the applicable regulations and professional standards.

Members of the Management Board:

- 1 Adam Purwin President of the Board
- 2 Sylwester Sigiel Board Member in charge of Commerce

Warsaw, 13 March 2014 place, date