

**Report of the Supervisory Board of PKP CARGO S.A.
on the assessment of the financial statements of PKP CARGO S.A. for the financial year
2016, the consolidated financial statements of the PKP CARGO Group for the financial
year 2016, the Management Board's report on the activity of the PKP CARGO Group
in 2016 and the motion of the Management Board to cover the net loss generated by PKP
CARGO S.A. in the financial year 2016, on the assessment of the Company's standing,
including the evaluation of its internal control system and risk management system,
compliance and internal audit functions, the evaluation of the Company's compliance with
reporting duties pertaining to the fulfillment of corporate governance requirements and
the evaluation of reasonability of the Company's policy related to sponsorship activities,
charitable activities or other activities of a similar nature**

Pursuant to Article 382 § 3 of the Commercial Companies Code, the Shareholder Meeting of PKP CARGO S.A., having examined the following documents:

- 1) financial statements of PKP CARGO S.A. ("**Company**") for the financial year 2016 ("**Financial Statements**") consisting of:
 - Statement of Comprehensive Income for the period from 1 January 2016 to 31 December 2016,
 - Statement of Financial Position as at 31 December 2016,
 - Statement of Changes in Equity for the period from 1 January 2016 to 31 December 2016,
 - Cash Flow Statement for the period from 1 January 2016 to 31 December 2016,
 - Notes;
- 2) consolidated financial statements of the PKP CARGO Group ("**PKP CARGO Group**") for the financial year 2016 ("**Consolidated Financial Statements**"), consisting of:
 - Consolidated Statement of Comprehensive Income for the period from 1 January 2016 to 31 December 2016,
 - Consolidated Statement of Financial Position as at 31 December 2016,
 - Consolidated Statement of Changes in Equity for the period from 1 January 2016 to 31 December 2016,
 - Consolidated Cash Flow Statement for the period from 1 January 2016 to 31 December 2016,
 - Notes;
- 3) the Management Board's report on the activity of the PKP CARGO Group in 2016, hereby states the following:
 1. The entity authorized to audit financial statements which conducted the audit of the Financial Statements and the Consolidated Financial Statements had been selected by Resolution No. 1597/VI/2016 adopted by the Supervisory Board of PKP CARGO S.A. on 30 June 2016 as the audit firm BDO Sp. z o.o. with its registered office in Warsaw, entered in the list of entities authorized to audit financial statements kept by the National Board of Statutory Auditors under file no. 3355.

On behalf of the authorized entity, the audit of the financial statements was conducted under the supervision of key statutory auditor Leszek Kramarczuk (registration no. 1920).
 2. The Financial Statements and the Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards as approved by the European Union.
 3. In the opinion of the Supervisory Board, the distinct components of the Financial Statements are in compliance with International Financial Reporting Standards as approved by the European Union, the applicable provisions of law and the Company's Articles of Association. The Company's

financial standing is reflected by the data contained in the documents forming the Financial Statements, including:

- statement of comprehensive income for the financial year from 1 January 2016 to 31 December 2016 showing a net loss of PLN 68,565 thousand and comprehensive income of PLN (53,876) thousand,
- statement of financial position as at 31 December 2016, with the total assets and the total liabilities and equity of PLN 5,553,728 thousand,
- statement of changes in equity for the period from 1 January 2016 to 31 December 2016 showing a decrease in equity by PLN 53,876 thousand,
- cash flow statement for the period from 1 January 2016 to 31 December 2016 showing an increase in cash by PLN 527,893 thousand.

According to the opinion issued by the statutory auditor, the Financial Statements:

- present an accurate and clear picture of the Company's assets and financial standing as at 31 December 2016 as well as its financial result and cash flows for the financial year from 1 January 2016 to 31 December 2016, in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of regulations of the European Commission, and adopted accounting principles (policy),
- have been prepared on the basis of properly maintained accounting ledgers and are consistent as to the form and content with the requirements of the Finance Minister's Regulation of 19 February 2009 on the current and periodic information transmitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent (Journal of Laws of 2014 Item 133, as amended) and with other applicable provisions of law and provisions of the Company's articles of association.

Acting pursuant to Article 55 Section 2a of the Accounting Act of 29 September 1994 (Journal of Laws of 2016 Item 1047, as amended), the Management Board has prepared a report on the activity of the PKP CARGO Group in 2016 together with the report on the activity of the parent company as a single report.

The Supervisory Board hereby issues a positive assessment of the Company's Financial Statements for the financial year 2016 as to their compliance with the financial ledgers, documents and factual status.

4. As regards the Consolidated Financial Statements, the Supervisory Board is of the opinion that the distinct components of the Consolidated Financial Statements are in compliance with International Financial Reporting Standards as approved by the European Union, the applicable provisions of law and the Company's Articles of Association.

The financial standing of the PKP CARGO Group is reflected by the data contained in the documents forming the Consolidated Financial Statements, including:

- consolidated statement of comprehensive income for the period from 1 January 2016 to 31 December 2016 showing a net profit of PLN 133,772 thousand and a negative comprehensive income of PLN 91,076 thousand,
- consolidated statement of financial position as at 31 December 2016, with the total assets and the total liabilities and equity of PLN 6,490,797 thousand,
- consolidated statement of changes in equity for the period from 1 January 2016 to 31 December 2016 showing a decrease in equity by PLN 91,076 thousand,
- consolidated cash flow statement for the period from 1 January 2016 to 31 December 2016 showing an increase in cash by PLN 475,342 thousand.

According to the opinion issued by the statutory auditor, the audited Consolidated Financial Statements:

- present an accurate and clear picture of the PKP CARGO Group's assets and financial standing as at 31 December 2016 as well as its financial result and cash flows for the financial year from 1 January to 31 December 2016, in accordance with International Accounting Standards, International Financial Reporting Standards and related interpretations announced in the form of regulations of the European Commission, and the accounting principles (policy) adopted by the parent company,

- are consistent as to the form and content with the requirements of the Finance Minister's Regulation of 19 February 2009 on the current and periodic information transmitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent (Journal of Laws of 2014 Item 133, as amended) and with other applicable provisions of law and provisions of the parent company's articles of association.

According to the auditor, the information included in the report on the activity of the PKP CARGO Group in 2016 ("**Group Activity Report**") takes into account the provisions of Article 49 of the Accounting Act of 29 September 1994 and the requirements of the Finance Minister's Regulation of 19 February 2009 on the current and periodic information transmitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent, and is consistent with the information presented in the Consolidated Financial Statements.

In connection with the audit of the Consolidated Financial Statements, the statutory auditor was required to examine the Company's corporate governance statement which forms a separate part of the Group Activity Report. The statutory auditor asserted that in this statement the Company's Management Board included the information required in accordance with the scope specified in the executive regulations issued pursuant to Article 60 Section 2 of the Act of 29 July 2005 on Public Offering and the Terms and Conditions for Introducing Financial Instruments to an Organized Trading System and on Public Companies (Journal of Laws of 2016 Item 1639, as amended) and that such information is consistent with the applicable provisions of law and the information contained in the Consolidated Financial Statements.

The Supervisory Board hereby issues a positive assessment of the Consolidated Financial Statements.

5. In comparison with the financial year 2015, in the financial year 2016 the Company reported a decrease in operating revenue by PLN 263.7 million (or -7.5% yoy) and a decrease in operating expenses by PLN 347.8 million (or -9.6% yoy).

In the financial year 2016, PKP CARGO S.A. recorded an operating loss of PLN 31.1 million – the result on operating activity increased by PLN 84.1 million compared to 2015, which was mainly caused by the recognition of an impairment loss on fixed assets and non-current assets classified as held for sale in the amount of PLN 177.9 million in 2015. The impairment loss was a consequence of significant decreases in the prices of scrap metal forming the basis for determining the residual value of non-current assets.

In 2016, the value of non-current assets declined by PLN 16.8 million (or -0.4% yoy). Current assets increased by PLN 509.2 million (or 84.4% yoy), mainly as a result of an increase in cash and cash equivalents by PLN 527.9 million (or 627.7% yoy) due to the drawing of bank loans necessary to finance the Company's planned investments in rolling stock.

On the liabilities and equity side, the value of equity decreased by PLN 53.9 million (or -1.8% yoy), mainly due to the loss incurred by the Company with a simultaneous increase in non-current liabilities by PLN 547.2 million (or 47.6% yoy), which resulted from the said drawing of bank loans.

In 2016, the Company's liquidity situation remained at the level that ensured timely payment of all due and payable liabilities. As at 31 December 2016, the Company had in aggregate unused credit facilities in the amount of PLN 1,117.7 million, which fully secured the Company's financial needs.

6. In comparison with the financial year 2015, in the financial year 2016 the Group reported a decrease in operating revenue by PLN 142.9 million (or -3.1% yoy) and an increase in operating expenses by PLN 45.1 million (or 1.0% yoy).

In the financial year 2016, the Group recorded a loss on operating activity of PLN 132.1 million – compared to 2015 a decrease in the operating result as was PLN 188.0 million, which was predominantly a result of the inclusion of AWT into consolidation and the occurrence of non-recurring events in 2015: a profit on the bargain acquisition of AWT in the amount of PLN 137.8 million and costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million, as well as an impairment of non-

current assets and assets classified as held for sale in the amount of PLN 178.7 million Recognized in 2016 was an impairment loss on assets in the amount of PLN 34.1 million in AWT and an impairment loss on receivables from OKD in the amount of PLN 72.7 million.

In 2016, the value of non-current assets declined by PLN 36.6 million (or -0.7% yoy). The largest decrease in non-current assets was recorded on property, plant and equipment (mainly on means of transport – wagons and locomotives) by PLN 19.2 million (or -0.4% yoy). Current assets increased by PLN 425.0 million (or 37.8% yoy), mainly as a result of an increase in cash and cash equivalents by PLN 479.7 million (or 173.7% yoy) due to the drawing of bank loans, mainly by PKP CARGO S.A.

On the liabilities and equity side, the value of equity decreased by PLN 91.1 million (or -2.7% yoy), mainly due to the incurred loss with a simultaneous increase in non-current liabilities by PLN 490.0 million (or 30.9% yoy), which resulted from the said drawing of bank loans, with a simultaneous decrease in current liabilities by PLN 10.6 million (or 0.9% yoy).

In 2016, the Group's liquidity situation remained at the level that ensured timely payment of all due and payable liabilities. As at 31 December 2016, the Group had in aggregate unused credit facilities in the amount of PLN 1,118.3 million, which fully secured the Group's financial needs.

7. In the opinion of the Supervisory Board, the PKP CARGO Group Activity Report, including the Management Board's report on the Company's activity, has been prepared in a reliable manner and is in compliance with the applicable provisions of law.
8. The data concerning the financial performance of the PKP CARGO Group in the financial year 2016 presented in the Group Activity Report are consistent with the data presented in the Consolidated Financial Statements.

Comparing the Group's transport services in 2016 with 2015, the following differences were noted, among others:

- decrease in total transported freight volume by 4.8 million tons (or -4% yoy) to 111.5 million tons;
- decrease in total freight turnover by 1,318 million tkm (or -4% yoy) to 28,521 million tkm.

The decreases in freight volume and freight turnover resulted predominantly from the challenging situation on the transport market in Poland.

In 2016, the average headcount in the Group decreased by 934 staff yoy, mainly as a result of the Group's implementation of Voluntary Redundancy Programs 1 and 2.

9. The Management Board of PKP CARGO S.A. issued a motion to the Ordinary Shareholder Meeting to cover the net loss of PLN 68,565 thousand resulting from the Standalone Financial Statements for the financial year ended 31 December 2016 with retained earnings from previous years.

The Supervisory Board hereby issues a positive assessment of the Management Board's proposed method of covering the loss and recommendation to refrain from the payment of a dividend.

10. Report on the Company's standing, including an evaluation of the internal audit system, the compliance function and the significant risk management system.

The Supervisory Board, having analyzed the Company Activity Report and the Group Activity Report, hereby issues a positive assessment of the process of restructuring and strengthening of the market position, which was continued in the Company and in the PKP CARGO Group in 2016, despite the deterioration in the financial performance compared to the previous year. In the opinion of the Supervisory Board, the current situation of the Company and the PKP CARGO Group constitutes a solid foundation for the achievement of positive results in 2017 and beyond. However, taking into consideration the increasing competition, the Supervisory Board is of the opinion that it is necessary to continue the conduct of actions aimed at preserving the position of the Company and the PKP CARGO Group on the market, acquiring new transport business and regaining any lost transport business, and maintaining the strategic directions set for the Company and the PKP CARGO Group with the intention of resulting in a further improvement in market competitiveness of both the Company and the Group.

The internal control system in place at PKP CARGO S.A. comprises all operating procedures and instructions, mechanisms and structures (organizational and hierarchical), internal regulations

(resolutions, decisions and orders) which are implemented and performed by the Company in order to run its business in an effective manner. In terms of the institutional framework, the system is supported by the Internal Control and Audit Department, and more specifically by the Department's Internal Audit Section. The internal audit function operates based on the "Audit bylaws at PKP CARGO S.A." an integral element of which is the Internal Auditor's Code. Audit-related tasks are performed in accordance with the annual audit plan developed on the basis of risk analysis, stakeholder proposals and audited areas. The plan is subject to approval by the Company's Management Board and Audit Committee. At the Supervisory Board level, supervision over the operation of the audit function is exercised by the Supervisory Board's Audit Committee. An additional power of the Supervisory Board in the audit area is the approval of annual budgets of the internal audit unit. In light of the information provided by the Supervisory Board's Audit Committee and the Company's Management Board, the Supervisory Board hereby issues a positive assessment of the functioning of the audit area which is based on the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA).

As a result of organizational changes, the compliance function has been transferred to the Security Department. Work has been launched on the Procedure for Dealing with Corruption Risks at PKP CARGO S.A., which will include the following elements:

- definition of corruption and general related information,
- conditions conducive to corruption,
- liability under criminal and civil law borne by employees at various levels for corruption offenses,
- procedure of conduct, including:
 - in identified cases of corruption,
 - towards persons reporting cases of corruption,
 - reporting cases of corruption or suspected corruption,
 - reporting cases of corruption to law enforcement agencies and cooperation with such agencies,
 - registration of corruption events,
 - analysis of corruption events,
 - preventing the recurrence of cases of corruption.

Moreover, the Company continues its work in the area of ethics by focusing on increasing the effectiveness of operation of the Ethics Line in the Company. The Supervisory Board hereby issues a positive assessment of the Company's activities in the compliance area and recommends further improvements in this area.

The Company has in place the "Risk Management Policy at PKP CARGO S.A." which defines the risk management process and identifies the persons in charge of its implementation. The Policy imposes a duty to identify and assess risks at least once per year. Moreover, the most significant risks identified by top management are monitored continuously with the use of key risk indicators (KRIs) designed specifically for this purpose. In the opinion of the Supervisory Board, the Management Board properly identifies risks of material importance for the Company's operations and manages them in an effective manner.

11. Assessment report on the manner of the Company's fulfillment of reporting duties concerning the application of corporate governance principles

The Supervisory Board, following its examination of the Company's corporate governance statement forming a separate part of the Group Activity Report and its examination of the statutory auditor's opinion on the audit of the Consolidated Financial Statements of the PKP CARGO Group, hereby issues a positive assessment of the Company's fulfillment of the reporting duties related to the application of corporate governance principles.

12. Assessment report on the reasonability of the company's policy related to sponsorship activities, charitable activities or other activities of a similar nature

The current objectives and principles governing the conduct of sponsorship and charitable activities within the framework of Corporate Social Responsibility at PKP CARGO S.A. are defined in the document entitled "Rules and regulations for financing social undertakings in the form of donations and sponsorship by PKP CARGO S.A." (hereinafter referred to as the "Rules and Regulations"), adopted for application by Decision No. 33 of the President of the PKP CARGO S.A. Management

Board and the PKP CARGO S.A. Management Board Member responsible for Finance dated 13 July 2016.

The Rules and Regulations contain references to the "Charity Policy for PKP S.A. and PKP Group Companies", a July 2016 document defining the objectives and principles for the conduct of charitable activities.

The Supervisory Board's Audit Committee has examined the Company's information on the activity of the Sponsorship and Donation Commission in 2016. In the reporting period, initiatives were undertaken in the following areas: (1) science and education, (2) culture and arts, (3) safety and security, (4) sports and physical culture.

The Supervisory Board hereby issues a positive assessment of the Company's policy related to sponsorship activities, charitable activities or other activities of a similar nature. At the same time, the Supervisory Board sees the need for the Company to set the main directions in its sponsorship and public image activities and to adopt and apply a policy to be followed by the Company in these areas.

13. The Supervisory Board hereby issues a positive assessment of the following:

- 1) Financial Statements,
- 2) Consolidated Financial Statements,
- 3) Group Activity Report, including the PKP CARGO S.A. activity report,
- 4) Management Board's motion to cover the net loss incurred by the Company in the financial year 2016,
- 5) Company's standing, including its internal control system and material risk management system,
- 6) manner of the Company's fulfillment of reporting duties concerning the application of corporate governance principles,
- 7) reasonability of the company's policy related to sponsorship activities, charitable activities or other activities of a similar nature.