

**Resolution No. 1738/VI/2018**  
**adopted by the PKP CARGO S.A. Supervisory Board**  
**on 23 April 2018**

on: **approving the PKP CARGO S.A. Supervisory Board report on the assessment of the financial statements of PKP CARGO S.A. for the financial year 2017, the consolidated financial statements of the PKP CARGO Group for the financial year 2017, the Management Board's report on the activity of the PKP CARGO Group in 2017, the Management Board's report on its activity as the Company's corporate body in 2017, the Management Board motion distribution of the profit for the financial year 2017 and 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 Company Code and § 19 Section 2 Item 1(a)(c)(d) of the PKP CARGO S.A. Supervisory Board Bylaws, the PKP CARGO S.A. Supervisory Board hereby resolves to:

§ 1

1. Approve the report of the PKP CARGO S.A. Supervisory Board on the evaluation of:
  - a) Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2017 prepared according to EU IFRS,
  - b) Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2017 prepared in accordance with EU IFRS,
  - c) Management Board report on the activity of the PKP CARGO Group for 2017,
  - d) the method of distribution of the net profit presented in the Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2017 proposed by the PKP CARGO S.A. Management Board,
  - e) PKP CARGO S.A.'s standing, taking into account the evaluation of the internal control, risk management and compliance systems and the internal audit function covering all material control mechanisms, including in particular those pertaining to financial reporting on the operating activity,
  - f) fulfillment of the reporting duties by the company as regards application of corporate governance specified in the Stock Exchange Rules and Regulations pertaining to current and periodic information submitted by securities issuers,
  - g) rationality of the Company's policy regarding its sponsoring, charitable or other similar activities.
2. The activity report of the Supervisory Board referred to in Section 1 forms an attachment to this Resolution.

§ 2

This resolution shall come into force on the date of its adoption.

The vote was taken by open ballot.

Number of the PKP CARGO S.A. Supervisory Board members who participated in the voting: 8

Number of votes in favor: 8

Number of votes against: 0

Number of votes abstaining: 0

Attachment to Resolution No. 1738/N/I/2018  
adopted by the PKP CARGO S.A. Supervisory Board  
on 23 April 2018



PRZEWODNICZĄCY  
Rady Nadzorczej PKP CARGO S.A.  
Krzysztof Maminski

**PKP CARGO S.A. Supervisory Board report on the assessment of the financial statements of PKP CARGO S.A. for the financial year 2017, the consolidated financial statements of the PKP CARGO Group for the financial year 2017, the Management Board's report on the activity of the PKP CARGO Group in 2017, the Management Board's report on its activity as the Company's corporate body in 2017, the Management Board motion distribution of the profit for the financial year 2017 and 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 Company Code, the PKP CARGO S.A. Supervisory Board, having examined the following documents:

- 1) standalone financial statements of PKP CARGO S.A. ("**Company**") for the financial year 2017 ("**Financial Statements**") consisting of:
  - Statement of Comprehensive Income for the period from 1 January 2017 to 31 December 2017,
  - Statement of Financial Position as at 31 December 2017,
  - Statement of Changes in Equity for the period from 1 January 2017 to 31 December 2017,
  - Cash Flow Statement for the period from 1 January 2017 to 31 December 2017,
  - Notes;
- 2) consolidated financial statements of the PKP CARGO Group ("**PKP CARGO Group**") for the financial year 2017 ("**Consolidated Financial Statements**"), consisting of:
  - Consolidated Statement of Comprehensive Income for the period from 1 January 2017 to 31 December 2017,
  - Consolidated Statement of Financial Position as at 31 December 2017,
  - Consolidated Statement of Changes in Equity for the period from 1 January 2017 to 31 December 2017,
  - Consolidated Cash Flow Statement for the period from 1 January 2017 to 31 December 2017,
  - Notes;
- 3) the Management Board's report on the activity of the PKP CARGO Group in 2017, hereby states the following:
  1. The audit firm 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 audit firm, 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 period from 1 January 2017 to 31 December 2017 showing a net profit of PLN 93,967 thousand and a comprehensive income of PLN 88,021 thousand;

- statement of financial position as at 31 December 2017, 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 2017 to 31 December 2017 showing an increase in equity by PLN 88,021 thousand;
- cash flow statement for the period from 1 January 2017 to 31 December 2017 showing a decrease in cash by PLN 316,080 thousand;
- notes including significant accounting principles and other explanatory notes to the Standalone Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2017.

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 2017 as well as its financial result and cash flows for the financial year from 1 January to 31 December 2017, 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, in accordance with the provisions of chapter 2 of the Accounting Act
- 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), hereinafter "FM Regulation" 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 2018 Item 395, as amended) and paragraph 83.7 of the MF Regulation, the Company's Management Board has prepared a consolidated report on the activity of the Company and the PKP CARGO Group as a single report.

The Supervisory Board hereby issues a positive assessment of the Company's Financial Statements for the financial year 2017 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 2017 to 31 December 2017 showing a net profit of PLN 81,673 thousand and a comprehensive income of PLN 74,500 thousand;
- consolidated statement of financial position as at 31 December 2017, with the total assets and the total liabilities and equity of PLN 6,641,559 thousand;
- consolidated statement of changes in equity for the period from 1 January 2017 to 31 December 2017 showing an increase in equity by PLN 74,500 thousand;
- consolidated cash flow statement for the period from 1 January 2017 to 31 December 2017 showing a decrease in cash by PLN 238,706 thousand;
- notes including significant accounting principles and other explanatory notes to the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2017.

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 2017 as well as the its financial result for the financial year from 1 January to 31 December 2017, 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)
- 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.

The opinion issued by the statutory auditor on the audit of the consolidated financial statements does not cover the report on the Group's activity.

In the opinion of the statutory auditor, the report on the Group's activity has been prepared in accordance with applicable regulations and is consistent with the information contained in the standalone and consolidated financial statements. In addition, in light of the knowledge about the Group and its environment gathered during the audit of the consolidated financial statements, the statutory auditor did not identify any material distortions in the report on the Group's activity.

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 2018 Item 512) 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 2017, the PKP CARGO Group carried 119.1 million tons of cargo (+7% yoy) and achieved freight turnover of 31.0 billion tkm (+9% yoy), with the Parent Company carrying 106.8 million tons (+8% yoy) and 29.2 billion tkm (+9% yoy). PKP CARGO S.A. accounted for 89.6% of the Group's transport in terms of freight volume and 94.3% of freight turnover. In 2017 the Group had a 44.8% market share (+0.6 p.p. yoy) in terms of freight volume and a 51.6% market share in terms of freight turnover (+0.1 p.p. yoy). Within the Group, the Parent Company had a 44.2% market share (+0.3 p.p. yoy) in terms of freight volume and a 51.4% market share in terms of freight turnover (unchanged).

In 2017, the transport of intermodal units realized by the Group increased in terms of container freight volume by 17% yoy, while freight turnover increased by 31% yoy, which was attributable in part to an increase in the average haul by 11% yoy. The Parent Company's intermodal transport services accounted for 95% of the freight turnover and 90% of the freight volume in this area. The increase in intermodal transport was driven mainly by the development of transit routes and the handling of cargo connections on the China-Europe-China route as part of the "New Silk Road" (in transports to and from China, the share of container carriage by land was 24% in 2017 compared to 16% in 2016) and a higher percentage of cargo that used to be transported in conventional ways and is now being transported in containers (e.g. coke, grains, automobile parts, steel coils). Transit between marine ports and inland terminals accounts for a significant share (which is closely associated with the development of this segment of the rail market – the transshipment of containers in Polish marine ports climbed in 2017 by 15.6% yoy<sup>90</sup>). There was also a significant increase in the number of trains operated on the Group's own traction in Germany, which also contributed to an increase in the average haul in this cargo category by 11% yoy.

From the point of view of the directions in which the PKP CARGO Group's transportation services were provided, transportation within Poland was dominant, accounting for 91% of the realized freight turnover in 12M 2017. In comparison with 12M 2016, the share of freight turnover realized outside Poland rose 0.2 p.p., which confirms the steady expansion of the PKP CARGO Group into foreign markets. Compared to 2016, the Company delivered material growth in freight volume and freight turnover outside Poland, by 26% and 25% yoy, respectively, which highlights the growth of freight outside Poland.

In 2017, the Company incurred capital expenditures for the acquisition of property, plant and equipment and intangible assets in the form of procurement, modernization and the overhaul component (periodic repairs of P4 and P5 rolling stock and P3 periodic inspections) of PLN 511.2 million, which was 14.7% higher than the actuals in 2016.

In 2017, the Company incurred capital expenditures in property, plant and equipment of PLN 53.0 million outside of Poland, primarily to purchase multi-system locomotives.

The biggest part of capital expenditures in the Company in 2017 was allocated for the execution of investment tasks associated with the rolling stock, mainly for repairs and periodic inspections of the rolling stock (the number of periodic repairs and periodic inspections performed in individual periods is derived from the cycles specified in the Maintenance System Documentation (DSU) of the rolling stock approved by the Office of Rail Transport and the quantum of rolling stock maintained as fit for operation as required for the provision of transportation services), purchase of multi-system locomotives (3 units), modernization of locomotives (16 locomotives) and the acquisition of used EAOS series coal wagons (89 pieces) – for a total amount of PLN 486.4 million (i.e. 95.1% of capital expenditures). Moreover, the Company incurred capital expenditures in the IT area, in particular to purchase hardware and ICT equipment along with intangible assets (software) for the total amount of PLN 14.5 million (chiefly for the roll-out of IT systems and the acquisition of purchase of workstations, servers, mobile phones and VoIP devices), for investment construction in the amount of PLN 5.5 million, namely the construction and modernization of buildings, in particular workshop facilities, and the construction and modernization of water supply and sewage removal networks, the construction of boiler rooms and the acquisition of machinery and equipment and workshop and office fit-out in the amount of PLN 4.8 million.

In 2017, the Group incurred capital expenditures for the acquisition of property, plant and equipment and intangible assets in the form of procurement, modernization and the overhaul component (periodic repairs of P4 and P5 rolling stock and P3 periodic inspections) as well as intangible assets of PLN 562.0 million, which was 5.5% higher than the actuals in 2016.

In 2017, in this expenditure category, the Group incurred capital expenditures outside Poland for property, plant and equipment, chiefly to purchase multi-system locomotives.

In PKP CARGO S.A.'s total operating revenue the biggest item was revenue from sales of services (98.6% in 2017, with 98.7% in 2016). The increase in revenue from rail transportation and freight forwarding services by PLN 353.3 million, or 11.4% yoy, to PLN 3,449.3 million resulted from intensified sales activities which translated into higher transport volumes.

The growth in revenues from sales of materials by PLN 1.4 million, i.e. 12.7% yoy, was caused primarily by increased sales of other materials. At the same time, the Company continues the implementation of its program of decommissioning the extraneous, unused and obsolete rolling stock.

Other operating revenue increased by PLN 5.7 million, or 18.0% yoy, driven by higher fines and compensations received in the amount of PLN 10.7 million, or 74.3% yoy, mainly from the Company's business partners for the provision of transport services in breach of the agreement, with a drop in foreign exchange differences by PLN 3.4 million as a result of fluctuations in exchange rates.

In 2017, PKP CARGO S.A. recorded a loss on financial activities in the amount of PLN -25.8 million. In the corresponding period of 2016, the Group also generated a loss on financial activities

in the amount of PLN -39.6 million. The improvement in the result on financing activities by PLN 13.8 million yoy was driven by a reduction in the costs of valuation of the put/call option to acquire shares in AWT B.V. by PLN 10.2 million, down 84.5% yoy. Additionally, as a result of changes in exchange rates, the Company recorded a hike in net profit/loss on foreign exchange differences by PLN 6.8 million yoy.

At the end of 2017, non-current liabilities rose by PLN 34.2 million, or 2.0%, from the end of 2016. Long-term loans and borrowings increased by PLN 40.9 million, or 3.5% yoy, which is related to the investment loans taken by the Company for the purchase of a 20% stake in AWT B.V. Long-term provisions for employee benefits increased by PLN 28.9 million, or by 6.1% yoy, primarily as a result of recognizing employee provisions in response to changed assumptions related to salary increases since September 2017 (the main changes apply to provisions for jubilee awards and old age and disability pension severance pays). Long-term lease liabilities and long-term liabilities on account of leases with a purchase option decreased by PLN 32.9 million, or 90.9% yoy, due to the gradual repayment of this form of financing.

Current liabilities increased as at the end of 2017 compared to the end of 2016 by PLN 61.1 million, or 7.3% yoy. The biggest changes were noted in the following items:

- short-term bank loans and borrowings – an increase by PLN 41.2 million, or 23.1% yoy, as a result of loans extended to the Company and loans having been reclassified from long-term items,
- other current financial liabilities – a decrease by PLN 59.0 million yoy, primarily due to the execution of the put and call options for the non-controlling interests in AWT,
- short-term trade and other payables – an increase by PLN 83.8 million, i.e. by 18% yoy, attributable to higher cargo transport and higher liabilities resulting from the purchase of non-financial non-current assets.

In 2017, net cash flow used in connection with investing activities was PLN -780.3 million versus PLN -440.6 million in 2016. Net cash flow from investing activities was affected primarily by capital expenditures on rolling stock, in particular the last delivered 3 multi-system locomotives, for which the Company spent PLN 53.0 million in 2017. The Company's major capital expenditures will also include spending on the existing rolling stock. Capital expenditures on periodic repairs (NO) and periodic inspections (P3) amounted to PLN 356.7 million. The significant growth of the expenditure in this item is attributable to the rolling stock utilization cycle, which follows the Maintenance System Documentation (DSU) approved by the Office of Rail Transport, as well as to the amount of operational rolling stock maintained for transportation needs.

In 2017, net cash flow from financing activities was PLN -14.2 million compared to PLN 731.0 million in 2016. Proceeds of PLN 326.5 million were received from loan drawn down in 2017, versus PLN 884.5 million in 2016. In 2017, total cash expenditures for leases and repayments of bank loans and borrowings with interest were PLN 297.2 million versus PLN 199.4 million in 2016. Outflow of cash as part of cash pooling in the amount of PLN 41.7 million was an additional significant item that contributed to the decrease in net cash from financing activities in 2017.

6. 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.
7. The Management Board of PKP CARGO S.A. issued a motion to the Ordinary Shareholder Meeting to distribute the net profit of PLN 93,967,095.00 resulting from the Standalone Financial Statements for the financial year ended 31 December 2017.

The Supervisory Board hereby issues a positive assessment of the Management Board's proposed method of distributing the profit.

8. 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 Group Activity Report, comprising the Management Report on the Company's activity, 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 2017, due to improvement of the financial performance compared to the previous year.

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 2017, 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 Control Section and Internal Audit Section.

The internal control function operated on the basis of the "Instructions for exercise of institutional control and cooperation with external control authorities in PKP CARGO S.A. Ck-1"

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. The functioning of the audit area is based on the International Standards for the Professional Practice of Internal Auditing (IIA).

In 2017, the Compliance function, in the part pertaining to prevention of corruption and abuse, was performed by the Security Department. Decision No. 46 of President of the PKP CARGO S.A. Management Board dated 31 October 2017 introduced the "*Procedure of Dealing with Corruption Risks in PKP CARGO S.A.*". The decision came into force on the date of its adoption, effective as of 1 January 2018. The aforementioned procedure regulates, among others, the following issues:

- reporting cases of corruption or suspected corruption;
- registration of corruption events;
- dealing with identified cases of corruption;
- dealing with persons reporting cases of corruption;
- reporting cases of corruption to law enforcement agencies and cooperation with such agencies;
- analyzing corruption events;
- preventing the recurrence of cases of corruption;
- gift policy;
- whistleblower status: name-specific and anonymous.

In the risk management area, the Company has in place the "Risk Management Policy at PKP CARGO S.A." which defines the 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.

9. 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.

10. 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.”, 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 and long-term social programs by Polskie Koleje Państwowe S.A. and PKP Group Companies.

The Supervisory Board examined the Company’s periodic information on the activity of the Sponsorship and Donation Commission in 2017. In the reporting period, initiatives were undertaken in the following areas:

- Innovative innovations for development of the TSL industry,
- Science and education, including cooperation with institutions of higher education and scientific centers,
- Culture and arts,
- Safety and security,
- Sports, with particular focus on development of youths through sports and care for healthy lifestyle.

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.

11. 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 distribute the net profit earned by the Company in the financial year 2017,
- 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.