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according to EU IFRS (in thousands of PLN)

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

	Note	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Revenue from sales of services	4	3,542,472	3,208,165
Revenue from sales of materials		12,216	10,840
Other operating revenue	6	37,126	31,452
Total operating revenue		**3,591,814**	**3,250,457**
Depreciation, amortization and impairment losses	5	440,610	474,844
Consumption of materials and energy	5	565,239	532,655
External services	5	1,165,181	1,078,527
Taxes and charges		31,938	28,587
Employee benefits	5	1,149,084	1,089,101
Other expenses by kind	5	43,133	41,820
Cost of materials sold		8,358	7,670
Other operating expenses	6	37,042	28,364
Total operating expenses		**3,440,585**	**3,281,568**
Operating profit / (loss)		**151,229**	**(31,111)**
Financial revenue	7	30,915	20,532
Financial expenses	7	56,697	60,111
Profit / (loss) before tax		**125,447**	**(70,690)**
Income tax	8	31,480	(2,125)
NET PROFIT / (LOSS)		**93,967**	**(68,565)**
OTHER COMPREHENSIVE INCOME			
Other comprehensive income subject to reclassification in the financial result			
Effective portion of gains / (losses) related to a hedging instrument to hedge cash flow		25,409	(4,733)
Income tax referring to the other comprehensive income line item		(4,828)	899
Total other comprehensive income subject to reclassification to in the financial result		**20,581**	**(3,834)**
Other comprehensive income not subject to reclassification in the financial result			
Actuarial gains /(losses) on post-employment benefits	25	(32,750)	22,868
Income tax referring to the other comprehensive income line item		6,223	(4,345)
Total other comprehensive income not subject to reclassification in the financial result		**(26,527)**	**18,523**
Total other comprehensive income		**(5,946)**	**14,689**
TOTAL COMPREHENSIVE INCOME		**88,021**	**(53,876)**
Earnings / (losses) per share (PLN per share)			
Basic	19	2.10	(1.53)
Diluted	19	**2.10**	**(1.53)**

according to EU IFRS (in thousands of PLN)

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	Note	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment	9	3,611,262	3,561,993
Intangible assets	10	39,561	50,778
Investments in subsidiaries, associates and joint ventures	11	804,629	737,974
Other non-current financial assets	12	8,647	6,169
Other non-current non-financial assets	13	4,484	8,162
Deferred tax assets	8	89,904	76,244
Total non-current assets		**4,558,487**	**4,441,320**
Current assets			
Inventories	14	86,426	59,701
Trade and other receivables	15	486,607	413,607
Income tax receivables		-	1,304
Other current financial assets	12	281,630	87
Other current non-financial assets	13	27,976	19,716
Cash and cash equivalents	16	295,910	611,990
Non-current assets classified as held for sale	17	-	6,000
Total current assets		**1,178,549**	**1,112,405**
TOTAL ASSETS		**5,737,036**	**5,553,725**
EQUITY AND LIABILITIES			
Equity			
Share capital	18	2,239,346	2,239,346
Supplementary capital	18	589,202	589,202
Other items of equity		12,469	18,415
Retained earnings		265,444	171,477
Total equity		**3,106,461**	**3,018,440**
Long-term liabilities			
Long-term bank loans and borrowings	20	1,211,148	1,170,224
Long-term finance lease liabilities	21	3,308	36,159
Long-term trade and other payables	24	-	582
Long-term provisions for employee benefits	25	502,856	473,965
Other long-term provisions	26	14,224	16,455
Long-term liabilities, total		**1,731,536**	**1,697,385**
Short-term liabilities			
Short-term bank loans and borrowings	20	219,352	178,170
Short-term finance lease liabilities	21	31,069	43,176
Short-term trade and other payables	24	549,188	465,411
Short-term provisions for employee benefits	25	81,424	80,524
Other short-term provisions	26	16,905	11,640
Other short-term financial liabilities	22	-	58,979
Short-term tax liabilities		1,101	-
Short-term liabilities, total		**899,039**	**837,900**
Total liabilities		**2,630,575**	**2,535,285**
TOTAL EQUITY AND LIABILITIES		**5,737,036**	**5,553,725**

according to EU IFRS (in thousands of PLN)

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

			Other items of equity			
	Share capital	Supplementary capital	Actuarial gains/(losses) on post-employment benefits	Gains/(losses) related to a hedging instrument to hedge cash flow	Retained earnings	Total
As at 1/01/2017 (audited)	**2,239,346**	**589,202**	**22,249**	**(3,834)**	**171,477**	**3,018,440**
Net result for the financial year	-	-	-	-	93,967	**93,967**
Other comprehensive income for the financial year (net)	-	-	(26,527)	20,581	-	**(5,946)**
Total comprehensive income	**-**	**-**	**(26,527)**	**20,581**	**93,967**	**88,021**
As at 31/12/2017 (audited)	**2,239,346**	**589,202**	**(4,278)**	**16,747**	**265,444**	**3,106,461**
As at 1/01/2016 (audited)	**2,239,346**	**589,202**	**3,726**	**-**	**240,042**	**3,072,316**
Net result for the financial year	-	-	-	-	(68,565)	**(68,565)**
Other comprehensive income for the financial year (net)	-	-	18,523	(3,834)	-	**14,689**
Total comprehensive income	**-**	**-**	**18,523**	**(3,834)**	**(68,565)**	**(53,876)**
As at 31/12/2016 (audited)	**2,239,346**	**589,202**	**22,249**	**(3,834)**	**171,477**	**3,018,440**

according to EU IFRS (in thousands of PLN)

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

	Note	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Cash flow from operating activities			
Profit / (loss) before tax		**125,447**	**(70,690)**
Adjustments			
Depreciation of property, plant and equipment and amortization of intangible assets	5	467,776	484,555
Impairment of non-current assets	5	(27,166)	(9,711)
(Profit) / loss on the sale and liquidation of property, plant and equipment, intangible assets and non-current assets held for sale		(779)	188
(Profit) / loss on investing activities	7	6,227	-
Foreign exchange (gains) / losses		(3,561)	1,276
(Profits) / losses on interest, dividends		(1,360)	3,552
Received / (paid) interest		2,149	(515)
Received / (paid) income tax		(43,098)	(3,729)
Other adjustments	27	(22,548)	23,019
Change in working capital			
(Increase) / decrease in trade and other receivables	27	(77,109)	(30,179)
(Increase) / decrease in inventories	27	3,630	3,837
(Increase) / decrease in other assets	27	(18,331)	(13,889)
Increase / (decrease) in trade and other payables	27	32,470	(89,501)
Increase / (decrease) in other financial liabilities	27	1,873	12,055
Increase / (decrease) in provisions		32,824	(72,742)
Net cash on operating activities		**478,444**	**237,526**
Cash flow from investing activities			
Expenditures to acquire property, plant and equipment and intangible assets		(451,742)	(466,854)
Proceeds on the transfer of property, plant and equipment, intangible assets and non-current assets held for sale		8,486	6,443
Expenditures to acquire other financial assets		(114,745)	-
Proceeds on the sale of other financial assets		7,367	219
Proceeds from interest received		20,348	19,550
(Outflow) / inflows on bank deposit over 3 months		(250,000)	-
Net cash on investing activities		**(780,286)**	**(440,642)**
Cash flow from financing activities			
Payments of finance lease liabilities	23	(41,831)	(50,376)
Payments of interest under finance leases	23	(1,198)	(2,956)
Proceeds from bank loans and borrowings	23	326,549	884,467
Repayment of bank loans and borrowings	23	(228,051)	(131,143)
Interest paid on bank loans and borrowings	23	(26,094)	(14,940)
Grants received		-	5,407
Inflow / (outflow) as part of cash pool		(41,694)	44,350
Other outflow from financing activities		(1,919)	(3,800)
Net cash from financing activities		**(14,238)**	**731,009**
Net increase / (decrease) in cash and cash equivalents		(316,080)	527,893
Cash and cash equivalents as at the beginning of the reporting period	16	611,990	84,097
Cash and cash equivalents as at the end of the reporting period, including:	16	**295,910**	**611,990**
restricted cash	*16*	***22,782***	***6,845***

EXPLENATORY NOTES TO SEPARATE FINANCIAL STATEMENTS AS AT 31 DECEMBER 2017

1. General information

Information about the Company

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

The Company's reporting year is the calendar year.

The Company core business is rail transport of cargo. In addition to rail freight transport services, the Company also provides additional services:

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

Information about the Group

PKP CARGO S.A. is the parent company of the PKP CARGO Group and prepares consolidated financial statements pursuant to International Financial Reporting Standards approved by the European Union ("EU IFRS").

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

Additional information about subsidiaries, associates and interests in joint ventures is presented in **Note 11** to these Separate Financial Statements.

The duration of individual Group companies is unlimited.

according to EU IFRS (in thousands of PLN)

2. Basis for the preparation of financial statements

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

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

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

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

Note	Title	Amount recognized in the separate financial statements		Accounting policy	Material estimates and judgments
		31/12/2017	31/12/2016		
4	Revenue from sales of services	3,542,472	3,208,165	X	
5	Expenses by kind	3,395,185	3,245,534		
6	Other income and operating expenses	84	3,088		
7	Financial revenue and expenses	(25,782)	(39,579)		
8	Income tax current and deferred	30,085	(1,321)	X	X
9	Property, plant and equipment	3,611,262	3,561,993	X	X
10	Intangible assets	39,561	50,778	X	
11	Investments in subsidiaries, associates and joint ventures	804,629	737,974	X	
12	Other financial assets	290,277	6,256	X	
13	Other non-financial assets	32,460	27,878		
14	Inventories	86,426	59,701	X	
15	Trade and other receivables	486,607	413,607	X	X
16	Cash and cash equivalents	295,910	611,990	X	
17	Non-current assets held for sale	-	6,000		
18	Equity	3,106,461	3,018,440	X	
20	Bank loans and borrowings	1,430,500	1,348,394	X	
21	Finance lease liabilities	34,377	79,335	X	
22	Other financial liabilities	-	58,979		
24	Trade and other payables	549,188	465,993	X	
25	Provisions for employee benefits	584,280	554,489	X	X
26	Other provisions	31,129	28,095	X	

2. Basis for the preparation of financial statements (cont.)

These Separate Financial Statements have been prepared in Polish zloty (PLN). Polish zloty is the Company's functional and reporting currency. The data in the financial statements have been presented in thousands of PLN, unless in specific situations they are presented with more accuracy. As at 31 December 2017 and 31 December 2016, for the needs of valuation of the line items of the statement of financial position expressed in currencies other than PLN, the Company used the following exchange rates:

Currency	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
EUR	4.1709	4.4240
CZK	0.1632	0.1637
CHF	3.5672	4.1173

These Separate Financial Statements have been approved for publication by the Management Board on 15 March 2018.

3. Applied International Financial Reporting Standards platform

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

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

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

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

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

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

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

- **IFRS 15 – Revenue from Contracts with Customers** – applicable to annual periods beginning on 1 January 2018 or afterwards. This standard contains rules which will replace most of the detailed guidelines regarding recognition of revenues currently existing in EU IFRS. In particular, as a result of adoption of the new standard, IAS 18 Revenues and IAS 11 Construction Contracts and the related interpretations will stop applying. The fundamental principle of the new standard provides for recognition of the revenues in the financial statements in such a way as to show the transfer of goods or services to clients in the amount that reflects the amount of the remuneration (i.e. payment) which the Company expects in return for such goods or services. In accordance with the new regulations a revenue occurs at the time when control over the goods or services passes on to the customer. The standard proposes a 5-step approach to revenue recognition:
  1) Identify the contracts with customers, which are understood as parties which concluded a contract with the entity to purchase goods or services, resulting from ordinary activity of the entity, in exchange for compensation.
  2) Identify the performance obligations in the contract.
  3) Determine the transaction price. Determining the transaction price, in addition to the base compensation, one should consider such other components as: variable compensation, non-pecuniary compensation which should be carried at fair value, factors associated with financing the price (by the seller or buyer) e.g. discount resulting from a time difference between the performance of the obligation and the payment for its performance or amounts paid in connection with performance of the obligations of the contract.
  4) Allocate the transaction price to the performance obligations in the contract. The best basis to determine the individual price is the price for which the entity may separately sell the given good or service.
  5) Recognize revenue when (or as) the entity satisfies a performance obligation. The performance obligation is recognized as satisfied upon transfer of the control over the goods or services subject to the agreement to the customer.
- **Clarifications to IFRS 15 Revenue from Contracts with Customers** – applicable to annual periods beginning on 1 January 2018 or afterwards. The amendment provides additional explanations regarding certain requirements and introduces additional exemptions for entities implementing IFRS 15 “Revenue from Contracts with Customers”.
- **IFRS 9 – Financial Instruments** – the key amendments introduced by the new standard pertain to: 1) Changes of the rules of classification and valuation of financial assets which are based on the entity’s business model for managing the assets and the cash flow characteristics. The existing categories of financial assets have been replaced with new ones, i.e. carried out at:
  - Amortized cost,
  - Fair value through other comprehensive income,
  - Fair value through profit or loss.

  The amended standard imposes an obligation to carry shares in unlisted companies in fair value and significantly reduces the existing possibility of carrying assets at cost.
  2) introduction of a new model for assessment of impairment of financial assets which replaces the concept of incurred losses with the concept of expected credit losses.
  3) Hedge accounting model.
- **IFRS 16 Leases** – applicable to annual periods beginning on 1 January 2019 or afterwards. In accordance with IFRS 16 the lessee recognizes the right to use an asset and lease liability. The right to use an asset is treated like other non-financial assets and amortized accordingly. Lease liabilities are initially carried at current value of the lease payments payable during the lease term, discounted by the lease rate, if it is not difficult to determine it. If such rate cannot be easily determined the lessee applies the marginal interest rate.

according to EU IFRS (in thousands of PLN)

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

Impact on separate financial statements:

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

- **IFRS 9 – Financial Instruments** – change of the rules of classification will cause a change of classification of financial assets in the Company's financial statements. Instruments currently classified into the loans and receivables category satisfy the conditions of classification into assets measured at amortized cost, hence the entry into force of IFRS 9 will not cause a change in the rules of their valuation. Shares held by the Company in companies not listed on active markets are currently measured at purchase price minus impairment losses, if any. As at 31 December 2017 the Company, as part of interests in unlisted companies, presents the value of the shares in Euroterminal Sławków Sp. z o.o. in the amount of PL 6,021 thousand. The process of valuation of the shares of Euroterminal Sławków Sp. z o.o. by an independent advisor is currently under way. The shares in other companies not listed on active markets amount to PLN 832 thousand and are fully covered by an impairment loss. The Company does not have sufficient up-to-date information to determine their fair value. The amendments to the accounting policy assume that the effects of fair value valuation of investments in equity instruments will be recognized in other comprehensive income. Below are presented the changes in the classification and valuation of financial assets and liabilities in connection with entry into force of IFRS 9.

Existing approach			IFRS 9	
Financial assets by categories and classes	**As at 31/12/2017 (unaudited)**	**Valuation method**	**Financial assets by category and class**	**Valuation method**
Hedging financial instruments			**Hedging financial instruments**	
Derivative instruments	10,545	at fair value through other comprehensive income	Derivative instruments	at fair value through other comprehensive income
Available for sale financial assets			**Financial assets measured at fair value through other comprehensive income**	
Shares in unlisted companies	6,021	at cost minus impairment losses	Investments in equity instruments	at fair value through other comprehensive income
Loans and receivables			**Financial assets measured at amortized cost**	
Trade receivables	461,044	at amortized cost	Trade receivables	at amortized cost
Receivables from sale of non-current assets	-	at amortized cost	Receivables from sale of non-current assets	at amortized cost
Bank deposits above 3 months	250,801	at amortized cost	Bank deposits above 3 months	at amortized cost
Cash pool	22,910	at amortized cost	Cash pool	at amortized cost
Cash and cash equivalents	295,910	at amortized cost	Cash and cash equivalents	at amortized cost
Total	**1,047,231**			

The new financial assets impairment assessment model implemented by the Company is based on an analysis of the probability of expected credit losses on trade receivables. The probability of expected credit losses was estimated on the basis of the historical analysis of recoverability of the balances of trade receivables in specific aging ranges. The determined amount of the additional impairment loss on trade receivables resulting from implementation of IFRS 9 amounts to PLN 1.7 million. The Company has taken advantage of the IFRS 9 transition provisions allowing for refraining from conversion of comparative data as regards the changes regarding classification and valuation and impairment of financial assets.

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

Changes resulting from application of IFRS 9 are reflected as at 1 January 2018 as follows:
- trade receivables will be reduced in the amount of PLN 1.7 million,
- deferred tax assets will increase in the amount of PLN 0.3 million,
- retained earnings will be reduced by the amount of PLN 1.4 million.

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

- **IFRS 15 – Revenue from Contracts with Customers** - since the Company generates revenues primarily from provision of rail transport services, the analysis of the impact of entry of IFRS 15 into force pertained mainly to transport agreements. As a result of completed works, it has been concluded that the commercial agreements contain a variable compensation component resulting from:
  - the possibility of imposing fines on the client in connection with its failure to meet the contractual provisions pertaining to transport of a specified freight volume during the term of the agreement,
  - the possibility of imposing fines on the Company by the client in the event of failure to transport the ordered freight volume.

  So far these fines have been presented as other revenues or operating expenses depending on the nature of the fine. According to the new standard, starting from 1 January 2018 the above fines will be treated as an element of revenues from sales. As at 31 December 2017, other operating revenue comprised fines resulting from no ordering of the contractual freight volume in the amount of PLN 12.7 million. Other operating expenses, in turn, included the fines due to the Company's customers in the amount of PLN 3.8 million. In accordance with the new standard, the amount of revenues from sales as at 31 December 2017 as a result of restatement will be increased by PLN 8.9 million to PLN 3.551.2 million. Based on IFRS 15 C3 a) the Management Board of the Company has decided that the standard will be implemented retrospectively in accordance with the requirements of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, with the possibility of taking into account the instructions contained in clause C5. As a result of carried out analyses, it has not been identified that the application of this approach should result in correction of the Company's equity as at the date of its first application.
- **IFRS 16 Leases** - preliminary analysis of the impact of IFRS 16 on the applied accounting principles has shown that the Company will have to recognized retrospectively in the financial statements significant lease liabilities. and the rights to use assets (mainly land, buildings and structures) which are currently subject to long-term operational leasing agreements, or rental or lease agreements. The Company is currently in the process of detailed identification of the agreements subject to the new requirements of the standard and preliminary preparation of possible valuation models and recognition of the aforementioned agreement in the financial statements. At this stage it is not possible to determine the numerical impact of IFRS 16 on the Company's financial statements.

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

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

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

- **Interpretation of IFRIC 22** entitled Foreign Currency Transactions and Advance Consideration -applicable to annual periods beginning on 1 January 2018. The interpretation clarifies the term of transactions comprising receipt or payment of an advance consideration in a foreign currency.
- **Amendments to IAS 40 Investment Property** – entitled Reclassification of investment property - applicable to annual periods beginning on 1 January 2018. The amendments raise the question of whether an investment property under construction should be transferred from inventories to investment property if there is a clear change in its use.

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

- **Amendments to IFRS 2 Share-based Payment** entitled Classification and valuation of share-based payment transactions - applicable to annual periods beginning on 1 January 2018. This amendment to IFRS 2 clarifies that the fair value of share-based payments settled in cash should be determined in the same way as in the case of payments settled in equity instruments. The amendment of the standard introduced a requirement of adjustment of the liability through taking into account each change of the value in the financial result before change of the classification from liabilities to equity. The cost recognized after modification is based on the fair value from the modification date. The amendment has introduced an exception according to which the payment of cash to the tax authority is treated as part of the settlement in the form of equity instruments. The entity should disclose the estimate amount that it expects to pay to the tax authority on account of such tax. As at the date of the first application of this amendment, the reclassification of the liability to equity will not have any impact on the financial result.
- **IFRS 17 Insurance Contracts** – applicable to annual periods beginning on and after 1 January 2021 or afterwards. The objective of the standard is to introduce consistent formalized accounting methods applicable to insurance contracts. The new standard states that insurance liabilities are stated at the present value of the liability and introduces consistent methods for the valuation and presentation of all types of insurance contracts. IFRS 17 replaces IFRS 4 "Insurance Contracts" and the related interpretations.
- **Interpretation of IFRIC 23** entitled Uncertainty over Income Tax Treatments – applicable to annual periods beginning on 1 January 2019. The interpretation applies to determining the income to be taxed (tax loss), taxation basis, unused tax losses, unused tax reliefs, tax rates, if there is uncertainty as the treatment of the income tax pursuant to IAS 12.
- **Amendments to IFRS 9 Financial Instruments** entitled Prepayment Features with Negative Compensation – applicable to annual periods beginning on 1 January 2019. The amendments make it possible for entities to carry some financial assets subject to prepayment with the so-called negative compensation at amortized cost.
- **Amendment to IAS 28 – Investments in Associates and Joint Ventures –**Long-term interests in associates and joint ventures (applicable to annual periods beginning on 1 January 2019 or afterwards). The amendments were introduced to clarify that an entity applies IFRS 9 (including regulations pertaining to impairment) to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. The amendments also delete paragraph 41 because it has been concluded that it merely reiterated requirements in IFRS 9 and had created confusion about the accounting for long-term interests.
- **Amendments to IAS 19 Employee Benefits –** Amendment, limitation or settlement of the plan (applicable to annual periods beginning on 1 January 2019 or afterwards). The amendments require that after change of the plan, updated assumptions for valuation should be applied to determine the current costs of the services and interest (net) for the remaining part of the reporting period (issued on 7 February 2018).
- **Amendments to different standards "Amendments to IFRS (cycle 2015-2017)" -** changes made as part of the procedure of annual amendments to IFRS (IFRS 3, IFRS 11, IAS 23 and IAS 23) focused mainly on resolving inconsistencies and unification of terminology (applicable to annual periods beginning on 1 January 2019 or afterwards).

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

according to EU IFRS (in thousands of PLN)

4. Revenue from sales of services

Accounting policy applied

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

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

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

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

Structure of revenues from sales of services

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

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

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Revenue from rail transportation and freight forwarding services	3,449,292	3,095,973
Revenue from siding and traction services	53,399	62,067
Other revenues, including:		
Rent of assets	25,342	31,963
Repair of rolling stock and other repairs	5,783	5,189
Administrative support services	2,518	5,639
Operating support services	1,528	3,013
Other	4,610	4,321
Total	**3,542,472**	**3,208,165**

according to EU IFRS (in thousands of PLN)

4. Revenue from sales of services (cont.)

Geography

The Company defines the geographical territory of business as the location of the registered seat of the service recipient, and not as the country of the service provision.

The Company operates in one principal geographic area, i.e. Poland, where its registered offices are also located. Total revenues for all geographic areas outside Poland for the financial year ended 31 December 2017 and 31 December 2016 did not exceed 13% of total revenues from sales of services. There is no single geographic area (outside of Poland) which generates more than 5% of revenues from sales of services.

Revenue from sales of services generated on external customers and broken down based on their country of residence is presented below:

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Poland	3,096,665	2,828,797
Germany	148,179	108,707
Czech Republic	111,768	128,522
Slovakia	77,509	41,701
Cyprus	30,610	39,816
Other countries	77,741	60,622
Total	**3,542,472**	**3,208,165**

Information on key customers

In the financial year ended 31 December 2017, the sales of services to two groups exceeded 10% and amounted to 14.1% and 13.8% of the total revenue from sales of services, respectively. In the financial year ended 31 December 2016, the sales of services to two groups exceeded 10% and amounted to 12.9% and 12.8% of the total revenue from sales of services, respectively.

5. Expenses by kind

Depreciation, amortization and impairment losses

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Depreciation of property, plant and equipment	451,825	469,762
Amortization of intangible assets	15,951	14,793
Recognized / (reversed) impairment losses:		
Property, plant and equipment [1]	(27,166)	(9,711)
Total	**440,610**	**474,844**

[1] Detailed information on the reversal of impairment losses in the financial year ended 31 December 2017 is presented in **Note 9** of these Separate Financial Statements.

Consumption of materials and energy

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Consumption of fuel	131,227	105,847
Consumption of materials	47,630	45,224
Consumption of electricity, gas and water	384,671	381,442
Recognized / (reversed) impairment losses on inventories	116	(1,559)
Other	1,595	1,701
Total	**565,239**	**532,655**

according to EU IFRS (in thousands of PLN)

5. Expenses by kind (cont.)

External services

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Line access services from infrastructure managers	714,455	658,145
Repair services	68,712	66,887
Rent and fees for the use of real properties and rolling stock	115,205	115,262
Transport services	126,814	98,661
Telecommunication services	5,005	5,914
Legal, consulting and similar services	12,893	12,755
IT services	41,865	45,516
Maintenance and operation services for facilities and fixed assets	27,332	26,055
Transshipment services	23,796	26,210
Other services	29,104	23,122
Total	**1,165,181**	**1,078,527**

Employee benefits

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Payroll	878,347	871,847
Social security costs	174,718	174,205
Costs of charges for the Company Employee Benefit Fund	21,610	18,911
Other employee benefits during employment	27,507	28,386
Post-employment benefits	5,193	6,352
Movement in provisions for employee benefits	40,454	(12,389)
Other employee benefits	1,255	1,789
Total	**1,149,084**	**1,089,101**

Other expenses by kind

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Business travel expenses	26,205	26,308
Insurance	8,627	7,568
Representation and advertising	5,527	5,184
Other	2,774	2,760
Total	**43,133**	**41,820**

according to EU IFRS (in thousands of PLN)

6. Other income and operating expenses

Other operating revenue

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Profit on disposal		
Profit on sale of non-financial non-current assets	2,356	3,226
Reversed impairment losses		
Trade receivables	2,037	2,631
Other receivables	58	29
Other		
Penalties and compensations	25,085	14,389
Reversal of provisions for penalties from the Office for Protection of Competition and Consumers (UOKiK)	-	357
Reversal of other provisions	3,225	1,220
Interest on trade and other receivables	2,604	1,789
Net result on foreign exchange differences on trade receivables and payables	-	3,359
Trade payables written off	45	3,090
Other	1,716	1,362
Total	**37,126**	**31,452**

Other operating expenses

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Impairment losses recognized		
Trade receivables	4,298	3,760
Other		
Penalties and compensations	8,970	7,382
Costs of liquidation of non-current and current assets	2,813	5,548
Provisions for penalties from the Office for Protection of Competition and Consumers (UOKiK)	957	2,032
Other provisions(1)	14,132	4,604
Court and enforcement expenses	363	503
Expenses under benefits in the form of train fares for persons who are not employees	1,496	2,084
Interest on trade and other payables	99	1,263
Net result on foreign exchange differences on trade receivables and payables	2,129	-
Donations made	1,109	521
Other	676	667
Total	**37,042**	**28,364**

(1) In the financial year ended 31 December 2017, this item includes mainly the provision for onerous contracts in the amount of PLN 9,102 thousand. Detailed information is presented in **Note 26** of these Separate Financial Statements.

according to EU IFRS (in thousands of PLN)

7. Financial revenue and expenses

Financial revenue

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Interest income		
Bank deposits and accounts	8,181	252
Loans granted (including cash pool)	691	536
Other	184	184
Dividend income on shares and stocks	20,348	19,560
Other		
Net result on foreign exchange differences	1,511	-
Total	**30,915**	**20,532**

Financial expenses

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Interest expenses		
Interest on bank loans and borrowings	26,217	16,358
Interest on finance lease liabilities	1,198	2,956
Interest on long-term liabilities	503	2,587
Other (including interest on public-law settlements)	465	582
Other		
Loss on shares and stocks, including:		
Impairment losses on shares and stocks	6,227	-
Loss on valuation of financial assets and liabilities accounted for at fair value through profit and loss, including:		
Valuation of a put / call option for purchase of shares in AWT B.V.	1,873	12,065
Valuation of FX forward contracts	(108)	(94)
Settlement of discount on provisions for employee benefits	18,906	19,094
Net result on foreign exchange differences	-	5,318
Other	1,416	1,245
Total	**56,697**	**60,111**

8. Income tax

Accounting policy applied

The income tax of the reporting period includes current and deferred income tax. The current tax burden is calculated on the basis of the tax result for the given reporting period. The tax result differs from the accounting gross profit due to exclusion of revenue which temporarily is not subject to taxation, expenses which temporarily do not represent tax deductible revenue and those expenses and revenue that will not be subject to taxation. Tax burden is calculated based on the tax rates applicable in the given financial year.

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

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

The Tax Group

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

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

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

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

according to EU IFRS (in thousands of PLN)

8. Income tax (cont.)

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

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

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

Income tax recognized in profit / loss

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Current income tax		
Current tax expense	43,702	673
Adjustments recognized in the current year with reference to past years' tax	43	290
Deferred income tax		
Deferred income tax of the reporting period	(12,265)	(3,088)
Income tax recognized in profit / loss	**31,480**	**(2,125)**

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

Deferred income tax recognized in other comprehensive income

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Deferred tax on re-measurement of fair value of financial instruments designated as cash flows hedges	4,828	(899)
Deferred tax on actuarial gains / (losses) on post-employment benefits	(6,223)	4,345
Deferred income tax recognized in other comprehensive income	**(1,395)**	**3,446**

according to EU IFRS (in thousands of PLN)

8. Income tax (cont.)

Reconciliation of the effective tax rate

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Profit / (loss) before tax	**125,447**	**(70,690)**
Income tax expense at 19%	23,835	(13,431)
Tax effect of revenue which does not constitute revenue within the meaning of tax regulations, including:		
Dividend	(3,866)	(3,716)
Reversal of non-tax provisions and impairment losses	(388)	(197)
Recovered VAT	(817)	(1,195)
Other	(608)	(687)
Tax effect of non-deductible expenses within the meaning of tax regulations, including:		
PFRON (Disability Fund)	3,659	3,702
Non-tax provisions and impairment losses	1,137	971
Permanent differences in expenses related with property, plant and equipment	2,551	534
Representation expenses	535	492
Penalties and compensations	878	739
Valuation of financial instruments	356	7,555
Impairment losses on assets	1,183	-
Value added tax and other public law liabilities	1,798	1,332
Other	1,184	1,146
Effect of unused / (used) tax losses in the period	-	340
Adjustments recognized in the current year with reference to past years' tax	43	290
Income tax recognized in profit / loss	**31,480**	**(2,125)**

The corporate income tax rate effective in Poland in the years 2016 - 2017 amounted to 19%.

Deferred tax assets and liability

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Deferred tax assets	146,618	153,064
Deferred tax liability	(56,714)	(76,820)
Total	**89,904**	**76,244**

according to EU IFRS (in thousands of PLN)

8. Income tax (cont.)

Movements in deferred income tax

Year ended 31/12/2017 (audited)	As at 1/01/2017 (audited)	Recognized in profit /loss	Recognized in other comprehensive income	As at 31/12/2017 (audited)
Temporary differences relating to deferred income tax items (liabilities) /assets:				
Property, plant and equipment, intangible assets and non-current assets held for sale (including finance lease)	(72,552)	30,811	-	**(41,741)**
Long-term liabilities	(95)	95	-	**-**
Inventories	238	(3,186)	-	**(2,948)**
Receivables - impairment losses	3,808	187	-	**3,995**
Accrued interest related to assets	(146)	(152)	-	**(298)**
Accrued interest related to liabilities	182	(26)	-	**156**
Provisions for employee benefits	105,351	(561)	6,222	**111,012**
Other provisions	1,285	432	-	**1,717**
Prepayments and accruals	5,529	(2,440)	-	**3,089**
Deferred income	(3,982)	(4,014)	-	**(7,996)**
Unpaid employee benefits	6,048	(5,949)	-	**99**
Foreign exchange differences	2,235	(1,071)	(2,889)	**(1,725)**
Valuation of derivative instruments	(45)	(21)	(1,938)	**(2,004)**
Unused tax loss [(1)]	28,388	(1,840)	-	**26,548**
Total	**76,244**	**12,265**	**1,395**	**89,904**

[(1)] As at 31 December 2017, the Company recognized deferred tax assets on tax loss incurred in the period from 1 April to 31 December 2016. It will be possible to deduct these losses within five fiscal years following the end of operation of the Tax Group. According to the Company Management Board there is no risk that it will be impossible to realize the above assets as at 31 December 2017.

Year ended 31/12/2016 (audited)	As at 1/01/2016 (audited)	Recognized in profit /loss	Recognized in other comprehensive income	As at 31/12/2016 (audited)
Temporary differences relating to deferred income tax items (liabilities) /assets:				
Property, plant and equipment, intangible assets and non-current assets held for sale (including finance lease)	(66,075)	(6,477)	-	**(72,552)**
Trade payables	3,788	(3,788)	-	**-**
Long-term liabilities	(587)	492	-	**(95)**
Inventories	(68)	306	-	**238**
Receivables - impairment losses	3,447	361	-	**3,808**
Accrued interest related to assets	(82)	(64)	-	**(146)**
Accrued interest related to liabilities	-	182	-	**182**
Provisions for employee benefits	119,862	(10,166)	(4,345)	**105,351**
Other provisions	1,098	187	-	**1,285**
Prepayments and accruals	6,220	(691)	-	**5,529**
Deferred income	(4,742)	760	-	**(3,982)**
Unpaid employee benefits	5,988	60	-	**6,048**
Foreign exchange differences	1,568	(261)	928	**2,235**
Valuation of derivative instruments	5,264	(5,280)	(29)	**(45)**
Other	921	(921)	-	**-**
Unused tax loss	-	28,388	-	**28,388**
Total	**76,602**	**3,088**	**(3,446)**	**76,244**

8. Income tax (cont.)

Tax losses not recognized in calculation of deferred tax assets

As at 31 December 2017 and 31 December 2016, there were no income tax losses not recognized in calculation of deferred tax assets.

9. Property, plant and equipment

Accounting policy applied

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

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

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

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

Within rolling stock items, the Company identifies and separates all the material elements, or components making up the given asset, with different economic useful lives. Material rolling stock components distinguished by the Company comprise the main part of the rolling stock item and the repair / inspection part. In addition, the residual value (scrap value) is established for the rolling stock items.

Repairs and periodic inspections of rolling stock

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

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

9. Property, plant and equipment (cont.)

Accounting policy applied

Residual value of rolling stock

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

In accordance with the Accounting Policy of PKP CARGO S.A., the residual value is verified at the end of each financial year and is changed if the change thereto significantly affects the Company's Separate Financial Statements.

Depreciation and amortization of property, plant and equipment

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

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

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

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

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

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

Impairment of non - current assets

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

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

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

according to EU IFRS (in thousands of PLN)

9. Property, plant and equipment (cont.)

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

Economic useful lives of non-current assets

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

Residual value of the rolling stock

In accordance with the Accounting Policy, the Company verified the residual value of its rolling stock as at 31 December 2017. Following an increase in the market prices of scrap metal compared to the prices adopted by the Company for measurement of the residual value of rolling stock in previous periods, the Company's Management Board, having analyzed the impact of this change on the Separate Financial Statements for 2017 year, decided to review the residual value of rolling stock. As at 31 December 2017, as a result of the revaluation of the residual value, the Company reversed a part of the impairment loss of the rolling stock without valid technical railworthiness certificates in the amount of PLN 27,414 thousand. The relevant rolling stock is not depreciated and is recognized in the residual value.

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

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

Impairment of non-current assets

In accordance with IAS 36, an entity shall assess at the end of each reporting period whether there is any objective evidence of impairment of non-current assets. As at 31 December 2017, the key indication of a possible impairment of the selected assets was the fact that the market value of the Company's net assets continued to be lower than their carrying amounts. Hence, the Company decided to perform an impairment test.

The impairment test was performed on a cash generating unit by determining its recoverable amount at the level of its value in use. The cash generating unit consisted of all of the Company's assets in view of the uniformity of its business.

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

9. Property, plant and equipment (cont.)

Presented below are the key assumptions affecting the estimate of the value in use of the tested cash generating unit:

a) throughout the entire period of the detailed projection, the compound annual growth rate (CAGR) of freight revenue will amount to 1.6% in real terms,
b) throughout the entire period of the detailed projection, CAPEX expenditures will achieve, on a yearly average, 14% of the annual operating revenue in real terms,
c) the after-tax weighted average capital cost (WACC) level will be at 5.71% in real terms,
d) after the detailed projection period, the assumed growth of future cash flows will be of 0.0% in real terms.

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

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

according to EU IFRS (in thousands of PLN)

9. Property, plant and equipment (cont.)

Change in the balance of property, plant and equipment

Year ended 31/12/2017 (audited)	Land	Buildings, premises and civil engineering facilities	Technical machinery and equipment	Means of transport	Other non-current assets	Fixed assets under construction	Total
Gross value							
As at 1 January 2017 (audited)	**130,065**	**459,286**	**199,881**	**4,935,832**	**23,263**	**14,003**	**5,762,330**
Increases / (decreases):							
Purchase	-	-	-	-	-	506,492	**506,492**
Settlement of fixed assets under construction	-	1,807	14,997	489,671	936	(507,411)	**-**
Sales	-	-	(115)	(267)	(153)	-	**(535)**
Contribution in kind	-	-	(1,890)	-	-	-	**(1,890)**
Liquidation	-	(4,995)	(2,306)	(290,540)	(306)	(80)	**(298,227)**
Other (including a donation)	(686)	(3,284)	(326)	(4,298)	(1,460)	-	**(10,054)**
As at 31 December 2017 (audited)	**129,379**	**452,814**	**210,241**	**5,130,398**	**22,280**	**13,004**	**5,958,116**
Accumulated depreciation							
As at 1 January 2017 (audited)	**-**	**91,385**	**138,047**	**1,787,704**	**18,431**	**-**	**2,035,567**
Increases / (decreases):							
Depreciation **expenses**	-	18,766	17,129	414,448	1,482	-	**451,825**
Sales	-	-	(102)	(107)	(152)	-	**(361)**
Contribution in kind	-	-	(1,385)	-	-	-	**(1,385)**
Liquidation	-	(3,390)	(2,180)	(239,430)	(295)	-	**(245,295)**
Other (including a donation)	-	(3,280)	(301)	(4,102)	(1,487)	-	**(9,170)**
As at 31 December 2017 (audited)	**-**	**103,481**	**151,208**	**1,958,513**	**17,979**	**-**	**2,231,181**
Accumulated impairment							
As at 1 January 2017 (audited)	**1,495**	**1,678**	**-**	**159,137**	**-**	**2,460**	**164,770**
Increases / (decreases):							
Recognition of impairment loss	-	-	-	-	-	248	**248**
Reversal of impairment **loss**	-	-	-	(27,414)	-	-	**(27,414)**
Sales	-	-	-	(49)	-	-	**(49)**
Liquidation	-	(1,560)	-	(20,242)	-	(80)	**(21,882)**
As at 31 December 2017 (audited)	**1,495**	**118**	**-**	**111,432**	**-**	**2,628**	**115,673**
Net value							
As at 1 January 2017 (audited)	**128,570**	**366,223**	**61,834**	**2,988,991**	**4,832**	**11,543**	**3,561,993**
including finance lease	-	-	*3,513*	*167,126*	-	-	***170,639***
As at 31 December 2017 (audited)	**127,884**	**349,215**	**59,033**	**3,060,453**	**4,301**	**10,376**	**3,611,262**
including finance lease	-	-	*4,170*	*103,319*	-	-	***107,489***

according to EU IFRS (in thousands of PLN)

9. Property, plant and equipment (cont.)

Year ended 31/12/2016 (audited)	Land	Buildings, premises and civil engineering facilities	Technical machinery and equipment	Means of transport	Other non-current assets	Fixed assets under construction	Total
Gross value							
As at 1 January 2016 (audited)	**123,576**	**465,446**	**196,392**	**4,522,864**	**23,255**	**16,574**	**5,348,107**
Increases / (decreases):							
Purchase	-	-	-	-	-	437,532	**437,532**
Finance lease	-	-	-	1,945	-	-	**1,945**
Reclassified from assets held for sale	6,489	-	-	94,689	-	-	**101,178**
Settlement of fixed assets under construction	-	2,768	12,015	417,835	430	(433,048)	**-**
Grants to fixed assets	-	-	-	-	-	(5,407)	**(5,407)**
Sales	-	-	(74)	(2,114)	(10)	-	**(2,198)**
Contribution in kind	-	-	(6,546)	-	-	-	**(6,546)**
Liquidation	-	(8,928)	(1,903)	(99,303)	(334)	(1,648)	**(112,116)**
Other	-	-	(3)	(84)	(78)	-	**(165)**
As at 31 December 2016 (audited)	**130,065**	**459,286**	**199,881**	**4,935,832**	**23,263**	**14,003**	**5,762,330**
Accumulated depreciation							
As at 1 January 2016 (audited)	**-**	**68,796**	**126,857**	**1,414,717**	**16,698**	**-**	**1,627,068**
Increases / (decreases):							
Depreciation expenses	-	24,824	16,180	426,638	2,120	-	**469,762**
Reclassified from assets held for sale	-	-	-	41,234	-	-	**41,234**
Sales	-	-	(62)	(647)	(10)	-	**(719)**
Contribution in kind	-	-	(3,215)	-	-	-	**(3,215)**
Liquidation	-	(2,235)	(1,710)	(94,199)	(299)	-	**(98,443)**
Other	-	-	(3)	(39)	(78)	-	**(120)**
As at 31 December 2016 (audited)	**-**	**91,385**	**138,047**	**1,787,704**	**18,431**	**-**	**2,035,567**
Accumulated impairment							
As at 1 January 2016 (audited)	**-**	**8,022**	**-**	**147,799**	**-**	**2,502**	**158,323**
Increases / (decreases):							
Recognition of impairment loss	-	335	-	-	-	-	**335**
Reclassified from assets held for sale	1,495	-	-	22,451	-	-	**23,946**
Reversal of impairment **loss**	-	-	-	(10,046)	-	-	**(10,046)**
Sales	-	-	-	(301)	-	-	**(301)**
Liquidation	-	(6,679)	-	(766)	-	(42)	**(7,487)**
As at 31 December 2016 (audited)	**1,495**	**1,678**	**-**	**159,137**	**-**	**2,460**	**164,770**
Net value							
As at 1 January 2016 (audited)	**123,576**	**388,628**	**69,535**	**2,960,348**	**6,557**	**14,072**	**3,562,716**
including finance lease	-	-	*6,950*	*186,768*	-	-	***193,718***
As at 31 December 2016 (audited)	**128,570**	**366,223**	**61,834**	**2,988,991**	**4,832**	**11,543**	**3,561,993**
including finance lease	-	-	*3,513*	*167,126*	-	-	***170,639***

9. Property, plant and equipment (cont.)

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

A technical railworthiness certificate is a document issued individually for each rail vehicle, confirming the validity of vehicle inspection and their suitability for transport.

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

- as a backup from which additional resources can be drawn from to increase freight turnover following P4 and P5 level repairs,
- as a necessary set of rail vehicles to be rotated in the maintenance process. Performing a P4 or P5 level repair lasts from 30 to 90 days depending on vehicle type. To prevent the number of operated wagons and locomotives with valid technical railworthiness certificate from decreasing, it is necessary to have a larger pool of vehicles so that a vehicle whose technical railworthiness certificates expires can be replaced at least on the same day with another that has been repaired and had a technical railworthiness certificate issued.

according to EU IFRS (in thousands of PLN)

10. Intangible assets

Accounting policy applied

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

The Company uses straight-line amortization. For with a definite useful life, amortization is applied during the period of economic utility of a component. To calculate the amortization, the Company uses periods ranging from 2 to 10 years. The Company does not have any intangible asset components with indefinite useful life.

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

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

Change of status of intangible assets

Year ended 31/12/2017 (audited)	Licenses - software	Other intangible assets	Intangible assets under development	Total
Gross value				
As at 1 January 2017 (audited)	**152,580**	**6,877**	**9,035**	**168,492**
Increases / (decreases):				
Purchase	-	-	4,734	4,734
Settlement of intangible assets under development	11,379	-	(11,379)	-
As at 31 December 2017 (audited)	**163,959**	**6,877**	**2,390**	**173,226**
Accumulated amortization				
As at 1 January 2017 (audited)	**111,183**	**6,531**	**-**	**117,714**
Increases / (decreases):				
Amortization expenses	15,610	341	-	15,951
As at 31 December 2017 (audited)	**126,793**	**6,872**	**-**	**133,665**
Net value				
As at 1 January 2017 (audited)	**41,397**	**346**	**9,035**	**50,778**
As at 31 December 2017 (audited)	**37,166**	**5**	**2,390**	**39,561**

according to EU IFRS (in thousands of PLN)

10 Intangible assets (cont.)

Year ended 31/12/2016 (audited)	Licenses - software	Other intangible assets	Intangible assets under development	Total
Gross value				
As at 1 January 2016 (audited)	**141,172**	**6,877**	**15,837**	**163,886**
Increases / (decreases):				
Purchase	-	-	6,335	**6,335**
Settlement of intangible assets under development	13,137	-	(13,137)	**-**
Liquidation	(1,729)	-	-	**(1,729)**
As at 31 December 2016 (audited)	**152,580**	**6,877**	**9,035**	**168,492**
Accumulated amortization				
As at 1 January 2016 (audited)	**98,758**	**5,892**	**-**	**104,650**
Increases / (decreases):				
Amortization expenses	14,154	639	-	**14,793**
Liquidation	(1,729)	-	-	**(1,729)**
As at 31 December 2016 (audited)	**111,183**	**6,531**	**-**	**117,714**
Net value				
As at 1 January 2016 (audited)	**42,414**	**985**	**15,837**	**59,236**
As at 31 December 2016 (audited)	**41,397**	**346**	**9,035**	**50,778**

according to EU IFRS (in thousands of PLN)

11. Investments in subsidiaries, associates and joint ventures

Accounting policy applied

Investments in subsidiaries, associates and joint ventures are recognized at the purchase price less impairment loss. The value of shares and stock taken up in return for a contribution in kind is presented at the book value of the contribution in kind made by the Company.

Detailed information about subsidiaries as at 31 December 2017 and 31 December 2016 is as follows:

Item	Name of the subsidiary	Core business	Place of registration and business	Percentage of shares held by the Company	
				As at 31/12/2017	As at 31/12/2016
1	PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	Service activity incidental to land transport, cargo transshipment and wholesale and retail sale of waste and scrap	Małaszewicze	100.0%	100.0%
2	PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o.	Service activity incidental to cargo transshipment in other transshipment points	Żurawica	100.0%	100.0%
3	PKP CARGO SERVICE Sp. Z o.o.	Activity incidental to comprehensive handling of sidings	Warsaw	100.0%	100.0%
4	PKP CARGO CONNECT Sp. z o.o.	Freight forwarding services	Warsaw	100.0%	100.0%
5	PKP CARGOTABOR Sp. z o.o.	Service activity incidental to repair and overhaul of rolling stock	Warsaw	100.0%	100.0%
6	PKP CARGOTABOR USŁUGI Sp. z o.o.	Activity related to collecting, processing and neutralizing waste and recovery of raw materials	Warsaw	100.0%	100.0%
7	CARGOTOR Sp. z o.o.	Management of logistic and service infrastructure in the form of rail sidings and railway tracks, providing access to such infrastructure to rail operators.	Warsaw	100.0%	100.0%
8	ONECARGO Sp. z o.o.	Cargo rail transport	Warsaw	100.0%	100.0%
9	ONECARGO CONNECT Sp. z o.o.	Service activities supporting land transport	Warsaw	100.0%	100.0%
10	Advanced World Transport B.V. (1)	Holding and financial activities	Amsterdam	100.0%	80.0%

(1) On 2 November 2017, acquisition of a 20% stake in AWT B.V. took place due to the exercise of a put option by Minezit S.E. (hereinafter called “MSE”) which is a minority shareholder in AWT B.V. Detailed information can be found in Note 22 to these Separate Financial Statements.

according to EU IFRS (in thousands of PLN)

11. Investments in subsidiaries, associates and joint ventures (cont.)

The following information is available concerning indirect subsidiaries (belonging to **PKP CARGO CONNECT Sp. z o.o.**):

Item	Name of the subsidiary	Core business	Place of registration and business	Percentage of shares held by the subsidiary (nominal values)	
				As at 31/12/2017	As at 31/12/2016
11	Transgaz S.A.	Transport agency	Zalesie k. Małaszewicz	64.0%	64.0%
12	Trade Trans Finance Sp. z o.o.	Financial and accounting service	Warsaw	100.0%	100.0%
13	PPHU "Ukpol" Sp. z o.o.	Freight transshipment, commercial services	Werchrata	100.0%	100.0%
14	Cargosped Terminal Braniewo Sp. z o.o.	Freight transshipment, customs warehouse	Braniewo	100.0%	100.0%
15	PKP CARGO CONNECT GmbH	Customs and freight forwarding service	Hamburg	100.0%	100.0%

according to EU IFRS (in thousands of PLN)

11. Investments in subsidiaries, associates and joint ventures (cont.)

The following information is available concerning indirect subsidiaries (belonging to **AWT B.V.**):

Item	Name of the subsidiary	Core business	Place of registration and business	Percentage of shares held by the subsidiary (nominal values)	
				As at 31/12/2017	As at 31/12/2016
16	Advanced World Transport a.s.	Provision of comprehensive services: rail transport, railway shipping, sidings handling, rolling stock repairs	Ostrava	100.0%	100.0%
17	AWT ROSCO a.s.	Rolling stock management, rolling stock lease	Ostrava	100.0%	100.0%
18	AWT Čechofracht a.s.	Rail freight forwarding and customs service	Prague	100.0%	100.0%
19	AWT Rekultivace a.s.	Provision of comprehensive services: land reclamation, construction services, waste management, zoning design	Havířov-Prostřední Suchá	100.0%	100.0%
20	AWT Rail HU Zrt.	Provision of comprehensive services: rail transport, railway shipping, sidings handling	Budapest	100.0%	100.0%
21	AWT Coal Logistics s.r.o [(1)]	Rail freight forwarding	Prague	-	100.0%
22	AWT Rail SK, a. s	Rail transport, rail freight forwarding	Bratislava	100.0%	100.0%
23	AWT DLT s.r.o.	Siding services	Kladno	100.0%	100.0%
24	AWT Trading s.r.o.	Trading in products for the army	Petřvald	100.0%	100.0%
25	AWT Rekultivace PL Sp. z o.o.	Provision of comprehensive services: land reclamation, construction services, waste management, zoning design	Cieszyn	100.0%	100.0%
26	RND s.r.o.	Rail freight forwarding, transport monitoring	Olomouc	51.0%	51.0%

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

according to EU IFRS (in thousands of PLN)

11. Investments in subsidiaries, associates and joint ventures (cont.)

Detailed information concerning the Company's associates as at 31 December 2017 and 31 December 2016 is as follows:

Item	Name of associate	Core business	Place of registration and business	Percentage of shares held by the Company (nominal values)	
				As at 31/12/2017	As at 31/12/2016
1	COSCO Shipping Lines (POLAND) Sp. z o.o.	Handling containers in sea and land transport	Gdynia	20.0%	20.0%

The following information is available concerning indirect associates (belonging to **PKP CARGO CONNECT Sp. z o.o.**):

Item	Name of associate	Core business	Place of registration and business	Percentage of shares held by the subsidiary (nominal values)	
				As at 31/12/2017	As at 31/12/2016
2	Rentrans Cargo Sp. z o.o.	Rail transport	Szczecin	29.3%	29.3%

The following information is available concerning indirect associates (belonging to the **AWT Group**):

Item	Name of associate	Core business	Place of registration and business	Percentage of shares held by the subsidiary (nominal values)	
				As at 31/12/2017	As at 31/12/2016
3	CD Logistics, a.s.	Rail freight forwarding	Prague	22.0%	22.0%
4	DEPOS Horní Suchá, a.s.	Landfill management	Horní Suchá	20.6%	20.6%

The Company holds shares, indirectly and directly via its **PKP CARGO CONNECT Sp. z o.o.** and **AWT B.V**. subsidiaries, in the following respective joint ventures:

Item	Name of joint venture (jointly controlled entity)	Core business	Place of registration and business	Percentage of shares held by the Company and subsidiaries (nominal values)	
				As at 31/12/2017	As at 31/12/2016
1	Terminale Przeładunkowe Sławków - Medyka Sp. z o.o.	Terminal services in intermodal transport, transshipment/securing/dispatch services for palletized goods and bulk steel mill goods	Sławków	50.0%	50.0%
2	POL - RAIL S.r.l.	International rail transport	Rome	50.0%	50.0%
3	LEX Logistics Express, s.r.o.[1]	Freight forwarding /transport activity and real estate lease	Prague	-	50.0%

[1] On 6 June 2017 AWT Čechofracht a.s. sold 50% of shares held in the share capital of the Lex Logistics Express s.r.o. company, and Lex Logistics Express s.r.o. thereby ceased to be a Company associate.

according to EU IFRS (in thousands of PLN)

11. Investments in subsidiaries, associates and joint ventures (cont.)

List of investments in subsidiaries, associates and joint ventures

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Advanced World Transport B.V.	499,677	427,300
CARGOTOR Sp. z o.o.	20,182	20,182
COSCO Shipping Lines (POLAND) Sp. z o.o.	1,100	1,100
ONECARGO Sp. z o.o.	5	5
ONECARGO CONNECT Sp. z o.o.	5	5
PKP CARGOTABOR Sp. z o.o.	84,686	84,181
PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	40,439	40,439
PKP CARGO Centrum Logistyczne Medyka - Żurawica Sp. z o.o.	10,703	10,703
PKP CARGO SERVICE Sp. z o.o.	12,676	12,676
PKP CARGOTABOR USŁUGI Sp. z o.o.	10,092	16,319
POL - RAIL S.r.l.	1,870	1,870
PKP CARGO CONNECT Sp. z o.o.	123,194	123,194
Total	**804,629**	**737,974**

Change of value of investments in subsidiaries, associates and joint ventures

Investment in entities:	subsidiaries	associates and joint ventures	Total
As at 1 January 2017 (audited)	**735,004**	**2,970**	**737,974**
Increases / (decreases):			
Acquisition [(1)]	72,882	-	72,882
Impairment loss [(2)]	(6,227)	-	(6,227)
As at 31 December 2017 (audited)	**801,659**	**2,970**	**804,629**
including impairment loss	*(8,923)*	*(1,018)*	*(9,941)*
As at 1 January 2016 (audited)	**731,673**	**2,970**	**734,643**
Increases / (decreases):			
Purchase	3,331	-	3,331
As at 31 December 2016 (audited)	**735,004**	**2,970**	**737,974**
including impairment loss	*(2,696)*	*(1,018)*	*(3,714)*

[(1)] In the financial year ended 31 December 2017, this item includes mainly the sale of 20% of shares in AWT B.V. due to exercise of a put option by Minezit S.E. (hereinafter called "MSE") which is a minority shareholder in AWT B.V. Detailed information about the exercise of the put option is presented in **Note 22** to these Separate Financial Statements. In addition, this item includes taking up newly created shares in the PKP CARGOTABOR Sp. z o.o., covered by a contribution in kind.
[(2)] In the financial year ended 31 December 2017, this item includes the impairment loss for the shares in PKP CARGOTABOR USŁUGI Sp. z o.o.

As at 31 December 2017, the AWT B.V. subsidiary carried out an impairment test of AWT Group assets. The main circumstance was the approval of the restructuring plan of the main AWT Group business partner that had a major impact on projected cash flows.

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

11. Investments in subsidiaries, associates and joint ventures (cont.)

The key assumptions affecting the estimation of the useful value of the tested cash flows generation centre were as follows:

a) the cash generating unit was considered to be the entirety of the assets belonging to the AWT Group, used mainly to service customers on the Czech railway market,
b) the volume of loads transported for a key customer was assumed to be on the level of planned coal extraction, considering also plans to close down individual mines in 2023,
c) the after-tax weighted average capital cost (WACC) level was assumed to be 5.63% in real terms (including a specific risk premium relating to the main customer),
d) the increase of remunerations in the residual period was on the level of 0.15% in real terms; no increase was assumed for other parameters.

Test results did not reveal the need to recognize an impairment loss for the shares in AWT B.V.

A sensitivity analysis was carried out for the key assumptions of impairment test model for such figures as WACC and the future cash flows increase ratio after the detailed projection period. A change of WACC by +/- 0.3 p.p. and the increase ratio of future cash flows after the detailed projection period by +/- 0.3 p.p. does not cause the need to recognize an impairment loss for the shares in AWT B.V.

according to EU IFRS (in thousands of PLN)

12. Other financial assets

Accounting policy applied

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

a) Loans and receivables

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

b) Available- for-sale financial assets (AFS)

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

Additionally, for other financial assets, the Company presents derivative forward-like financial instruments. These instruments are used to hedge future cash flows described in **Note 28** to these Separate Financial Statements. Upon providing the hedging the Company defines and properly documents hedging relationships, the purpose of risk management and hedging provision strategy. The effective portion of profits / (losses) related to a hedging instrument is recognized in other comprehensive income. The non-effective portion of profits or losses related to the hedging instrument is recognized in the period's financial performance, unless it has no material value. Profits/losses related to evaluation of hedging instruments and recognized in other comprehensive income are recognized in the financial result when the hedged item affects the financial performance.

Structure of other financial assets

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Derivative instruments		
FX forwards	10,545	235
Available for sale financial assets		
Shares and stock in Polish entities [1]	6,021	6,021
Loans and receivables		
Deposits above 3 months	250,801	-
Cash pool	22,910	-
Total	**290,277**	**6,256**
Non- current assets	8,647	6,169
Current assets	281,630	87
Total	**290,277**	**6,256**

[1] The value of the impairment loss for investments in shares as at 31 December 2017 was equal to PLN 11,811 thousand and on 31 December 2016 to PLN 11,833 thousand.

according to EU IFRS (in thousands of PLN)

13. Other non-financial assets

Structure of other non-financial assets

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Costs settled in time		
Prepayments for purchase of electricity	22,994	14,673
Insurance	7,430	7,159
IT services	250	1,049
Other costs settled in time	561	745
Other		
Advances for purchase of non-financial non-current assets	1,059	3,697
Other	166	555
Total	**32,460**	**27,878**
Non- current **assets**	4,484	8,162
Current **assets**	27,976	19,716
Total	**32,460**	**27,878**

14. Inventories

Accounting policy applied

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

Structure of inventories

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Raw materials (1)	89,661	65,148
Impairment losses	(3,235)	(5,447)
Total	**86,426**	**59,701**

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

Changes in impairment losses for inventories

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
As at the beginning of the reporting period	**5,447**	**9,381**
Recognition	116	-
Reversal	-	(1,559)
Utilization	(2,328)	(2,375)
As at the end of the reporting period	**3,235**	**5,447**

according to EU IFRS (in thousands of PLN)

15. Trade and other receivables

Accounting policy applied

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

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

Impairment losses for receivable value are made when objective proof exists that the Company will be unable to recover the due amounts. In line with accounting policy used, the following are created:
a) specific impairment losses:
- receivables from debtors in liquidation or bankruptcy - up to 100% of their value,
- receivables from debtors whose application for bankruptcy was rejected - up to 100% of their value,
- receivables from debtors involved in settlement or composition proceedings - up to 100% of their value,
- receivables disputed by the debtor - up to 100% of their value,
- receivables from debtors involved in recovery proceedings - up to 100% of their value,
- receivables claimed in court - up to 100% of their value;

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

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

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

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

Structure of trade and other receivables

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Trade receivables	509,248	455,619
Impairment losses for trade receivables	(48,204)	(47,657)
	461,044	407,962
Other		
Receivables from sale of non-financial non-current assets	-	7
State settlements	1,238	4,583
VAT settlements	21,953	-
Other settlements	2,372	1,055
Total	**486,607**	**413,607**
Current assets	486,607	413,607
Total	**486,607**	**413,607**

according to EU IFRS (in thousands of PLN)

15. Trade and other receivables (cont.)

Age analysis of trade receivables

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Non-overdue receivables	431,595	385,863
Overdue receivables:		
up to 30 days	23,679	14,060
from 31 to 90 days	2,823	1,733
from 91 to 180 days	2,186	5,880
from 181 to 365 days	360	64
over 365 days	401	362
Total	**461,044**	**407,962**
Average age of receivables (days)	47	46

Changes of impairment losses for trade receivables

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
As at the beginning of the reporting period	**47,657**	**58,008**
Recognition	4,298	3,760
Reversal	(2,037)	(2,631)
Utilization	(576)	(12,153)
FX valuation	(1,138)	673
As at the end of the reporting period	**48,204**	**47,657**

16. Cash and cash equivalents

Accounting policy applied

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

Structure of cash and cash equivalents

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Cash on hand and in bank accounts	49,270	152,895
Bank deposits up to 3 months	246,640	459,095
Total	**295,910**	**611,990**
Including restricted cash	22,782	6,845

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

As at 31 December 2017 and 31 December 2016, restricted cash includes mostly cash accumulated on bank accounts kept for bid deposits and guarantees.

according to EU IFRS (in thousands of PLN)

17. Non-current assets classified as held for sale

Changes in assets classified as held for sale

	Land	Buildings, premises and civil engineering facilities	Means of transport	Total
As at 1 January 2017 (audited)	**1,817**	**4,183**	**-**	**6,000**
Increases / (decreases):				
Sales	(1,817)	(4,183)	-	(6,000)
As at 31 December 2017 (audited)	**-**	**-**	**-**	**-**
As at 1 January 2016 (audited)	**6,811**	**4,183**	**33,067**	**44,061**
Increases / (decreases):				
Sales	-	-	(2,063)	(2,063)
Reclassification to property, plant and equipment	(4,994)	-	(31,004)	(35,998)
As at 31 December 2016 (audited)	**1,817**	**4,183**	**-**	**6,000**

18. Equity

Accounting policy applied

The share capital in the separate financial statements is shown in the amount stated in the articles of association of the Company, regardless of entry in the the national court register (principle of substance over legal form).

Share capital

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

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

PKP S.A. is the parent company of PKP CARGO S.A. Pursuant to the articles of association of the Company, PKP S.A. holds special personal rights to appoint and dismiss Supervisory Board Members in a number equal to half the composition of the Supervisory Board plus one. PKP S.A. has a personal right to appoint the Supervisory Board Chairman and to determine the number of Supervisory Board Members. Additionally, in the event that PKP S.A.'s share in the Company's share capital is 50% or less, PKP S.A. will have an exclusive personal right to propose candidates for the President of the Management Board. The personal rights of PKP S.A. are applicable at any time when PKP S.A. holds at least 25% of the Company's share capital.

In the financial year ended 31 December 2017 and 31 December 2016, no changes in the share capital of the Company took place.

according to EU IFRS (in thousands of PLN)

18. Equity (cont.)

Supplementary capital

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Supplementary capital, including:	589,202	589,202
Share premium (agio)	201,260	201,260
Distributions of profit (established pursuant to statutory regulations)	48,712	48,712
Distributions of profit (established in excess of statutory value)	199,248	199,248
Capital formed from redemption of shares	139,982	139,982

Pursuant to the requirements of the Commercial Company Code, entities with the status of joint-stock companies are obligated to establish supplementary capital to cover losses. Transfers to supplementary capital should be at least 8% of the earnings for a given financial year as stated in the Company's separate financial statements, until the amount of capital reaches at least one third of the entity's share capital. The use of supplementary capital is decided upon by the Shareholder Meeting, however the portion of the supplementary capital representing one third of the share capital may only be used to cover a loss shown in the separate financial statements and must not be set aside for other purposes. The amount to be divided among the shareholders may be increased by undistributed earnings from previous years and amounts transferred from the supplementary capital established from earnings. Agio is the share premium of the Company transferred to supplementary capital without possibility of paying the dividend. The capital established from redemption of shares was the result of reducing the Company's share capital in 2013 for the purpose of covering losses. In the financial year ended 31 December 2017, no changes in the supplementary capital of the Company took place.

Retained earnings

Retained earnings of the Company include:

a) the financial result in the current year,
b) undistributed earnings and uncovered losses from previous years,
c) differences attributable to transition to EU IFRS.

On 30 May 2017, the Ordinary General Meeting of the Company adopted a resolution to approve the Separate Financial Statements for 2016 and to cover the loss for 2016 with undistributed earnings from previous years.

Up to date of approval of these Separate Financial Statements the Company's Management Board haven't passed a resolution of recommendation of distribution of the net profit for the financial year ended 31 December 2017.

19. Profit / (loss) per share

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

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Profit / (loss) used for calculation of basic profit / (loss) per share:	**93,967**	**(68,565)**

Basic profit / (loss) per share

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Weighted average number of common shares	44,786,917	44,786,917
Basic profit / (loss) per share (PLN per share)	**2.10**	**(1.53)**

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

according to EU IFRS (in thousands of PLN)

19. Profit / (loss) per share

Diluted profit / (loss) per share

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Weighted average number of common shares	44,786,917	44,786,917
Diluted profit / (loss) per share (PLN per share)	**2.10**	**(1.53)**

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

20. Bank loans and borrowings

Accounting policy applied

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

Structure of bank loans and borrowings

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Bank investment loans	1,430,500	1,348,394
Total	**1,430,500**	**1,348,394**
Long-term liabilities	1,211,148	1,170,224
Short-term liabilities	219,352	178,170
Total	**1,430,500**	**1,348,394**

according to EU IFRS (in thousands of PLN)

20. Bank loans and borrowings (cont.)

Summary of loan agreements

Investment loan agreements were concluded mostly for financing the investment and acquisition plan. In the financial year ended 31 December 2017, the reference rates for loan agreements were WIBOR 1M, 3M and 6M plus margin as well as EURIBOR 3M plus margin. The agreements were concluded for a period in excess of 5 years. The repayment of contracted obligations resulting from concluded loan agreements is made in PLN and EUR. Details of the Company bank loans are listed below:

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

[1] The liability under the loan was repaid on 2 January 2018.
[2] The loan agreement concluded by the Company with the European Bank for Reconstruction and Development for the purpose of refinancing the purchase of shares in AWT B.V. was entirely repaid early on 27 March 2017.

according to EU IFRS (in thousands of PLN)

20. Bank loans and borrowings (cont.)

Unused credit lines

Type of loan	Bank Name	Period of availability	Currency	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Investment loan	Bank Polska Kasa Opieki S.A.	31/12/2016	PLN	-	50,500
Investment loan	European Investment Bank	19/07/2020	EUR	68,549	113,918
Investment loan	Bank Gospodarstwa Krajowego (1)	27/12/2017	EUR	-	300,171
Investment loan	European Investment Bank	31/12/2016	PLN	-	155,000
Investment loan	European Bank for Reconstruction and Development	31/12/2016	EUR	-	398,160
Overdraft facility	mBank S.A. (2)	31/05/2017	PLN	-	100,000
Overdraft facility	Bank Polska Kasa Opieki S.A. (3)	25/05/2018	PLN	100,000	-
Total				**168,549**	**1,117,749**

(1) On 14 March 2017, an annex to the loan agreement with Bank Gospodarstwa Krajowego was signed, pursuant to which the period of availability of the loan in question was extended from 31 December 2016 to 27 December 2017.
(2) 31 May 2017 marked the end of the overdraft facility agreement concluded with mBank S.A.
(3) On 26 May 2017, an overdraft facility agreement was concluded with Bank Polska Kasa Opieki S.A. The foregoing changes regarding overdraft facility agreements are attributable to change of the bank servicing the cash pooling agreement in which selected the PKP CARGO Group companies participate.

Breach of the terms and conditions of the loan agreements

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

21. Finance lease liabilities

Accounting policy applied

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

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

Structure of finance lease liabilities

As at 31 December 2017, the Company was using freight wagons, vehicles and IT hardware under the finance lease agreements in effect. Agreements currently in effect were concluded for a term of 3 to 7 years. The reference rate for agreements denominated in EUR is EURIBOR 3M and 6M and for agreements signed in PLN, WIBOR 1M and 3M.

according to EU IFRS (in thousands of PLN)

21. Finance lease liabilities (cont.)

	As at 31/12/2017 (audited)			As at 31/12/2016 (audited)		
	Minimum lease payments	Future financial charges	Present value of minimum lease payments	Minimum lease payments	Future financial charges	Present value of minimum lease payments
Up to 1 year	31,464	(395)	31,069	44,669	(1,493)	43,176
Longer than 1 year and up to 5 years	3,327	(19)	3,308	36,605	(446)	36,159
Total	**34,791**	**(414)**	**34,377**	**81,274**	**(1,939)**	**79,335**
Long-term	3,327	(19)	3,308	36,605	(446)	36,159
Short-term	31,464	(395)	31,069	44,669	(1,493)	43,176
Total	**34,791**	**(414)**	**34,377**	**81,274**	**(1,939)**	**79,335**

22. Other financial liabilities

Structure of other financial liabilities

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Derivative instruments		
Net liabilities of valuation of the put / call option for non-controlling interest (1)	-	39,761
Other		
Cash pool	-	19,218
Total	**-**	**58,979**
Short-term liabilities	-	58,979
Total	**-**	**58,979**

(1) On 4 May 2017, the Company received from MSE the notification of exercise of the put option for the sale of 20% of shares in AWT B.V. Following the MSE's exercise of the put option, the financial instruments expired and the liability on account of purchase of shares in AWT B.V. was created in their place. According to the adopted Company's Accounting Policy, upon exercise of one of the option instruments, their valuation adjusts the value of the shares being purchased. Due to the foregoing facts, the value of additional 20% of shares in AWT B.V. recognized in the line Investments in the subsidiaries, affiliated entities and joint ventures amounted to PLN 72,377 thousand. On 20 June 2017, the Management Board of the Company signed the memorandum with MSE governing the performance of the joint project on the basis of which the put option for 20% of shares in AWT B.V. was to be settled. On 3 October 2017, the Company received a notification of MSE's withdrawal from the signed Memorandum. At the same time, MSE summoned the Company to pay the price for the put option to sell the 15,000 shares representing 20% of all the shares in the share capital of AWT B.V. totaling EUR 27,000 thousand within 20 business days from the date of receipt of the withdrawal notification. On 2 November 2017, the payment was made and the ownership title to the remaining 20% of shares in the share capital of AWT B.V. was transferred to the Company.

according to EU IFRS (in thousands of PLN)

23. Reconciliation of debt liabilities

The Company's debt liabilities consist of the three main categories: bank loans and borrowings, finance lease and other financial liabilities (except for the net liability of valuation of the put/call option for non-controlling interest).

Net debt

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Bank loans and borrowings	1,430,500	1,348,394
Finance lease	34,377	79,335
Other	-	19,218
Total debt	**1,464,877**	**1,446,947**
Cash and cash equivalents	295,910	611,990
Deposits above 3 months	250,801	-
Other	22,910	-
Total net debt	**895,256**	**834,957**
EBITDA	**591,839**	**443,733**
Net debt / EBITDA	**1.51**	**1.88**

Debt liabilities – broken down into currencies / interest rate type

As at 31/12/2017 (audited)	In functional currency PLN	In foreign currency – EUR	Total
Bank loans and borrowings	936,230	494,270	**1,430,500**
Finance lease	3,116	31,261	**34,377**
Total	**939,346**	**525,531**	**1,464,877**
Variable-interest-rate liabilities	939,346	523,382	**1,462,728**
Fixed-interest-rate liabilities	-	2,149	**2,149**
Total	**939,346**	**525,531**	**1,464,877**

As at 31/12/2016 (audited)	In functional currency PLN	In foreign currency – EUR	Total
Bank loans and borrowings	1,143,643	204,751	**1,348,394**
Finance lease	15,055	64,280	**79,335**
Other	19,218	-	**19,218**
Total	**1,177,916**	**269,031**	**1,446,947**
Variable-interest-rate liabilities	1,158,698	258,475	**1,417,173**
Fixed-interest-rate liabilities	19,218	10,556	**29,774**
Total	**1,177,916**	**269,031**	**1,446,947**

according to EU IFRS (in thousands of PLN)

PKPCARGO

23. Reconciliation of debt liabilities (cont.)

Reconciliation of debt liabilities

	Bank loans and borrowings	Finance lease	Other	Total
As at 1 January 2017 (audited)	**1,348,394**	**79,335**	**19,218**	**1,446,947**
Proceeds from taken out debt	326,549	-	-	**326,549**
Commissions	1,416	-	-	**1,416**
Accrual of interest	25,960	1,198	257	**27,415**
Payments under debt, including:				
Repayments of the principal	(228,051)	(41,831)	(19,218)	**(289,100)**
Paid interest	(26,094)	(1,198)	(257)	**(27,549)**
Commissions	(1,416)	-	-	**(1,416)**
FX valuation	(16,258)	(3,127)	-	**(19,385)**
As at 31 December 2017 (audited)	**1,430,500**	**34,377**	**-**	**1,464,877**
As at 1 January 2016 (audited)	**589,219**	**124,247**	**25,057**	**738,523**
Proceeds from taken out debt	884,467	1,946	-	**886,413**
Commissions	1,213		-	**1,213**
Accrual of interest	15,897	2,956	461	**19,314**
Payments under debt, including:				
Repayments of the principal	(131,143)	(50,376)	(5,839)	**(187,358)**
Paid interest	(14,940)	(2,956)	(461)	**(18,357)**
Commissions	(1,213)	-	-	**(1,213)**
FX valuation	4,894	3,518	-	**8,412**
As at 31 December 2016 (audited)	**1,348,394**	**79,335**	**19,218**	**1,446,947**

24. Trade and other payables

Accounting policy applied

Payables are the Company's present obligation resulting from future events, whose fulfillment will, according to expectations, cause the outflow from the entity of the means entailing economic benefits.

Trade payables and liabilities related to purchase of non-financial non-current assets are initially carried at fair value. Later, financial liabilities are carried at amortized cost using the effective interest rate method. Other non-financial liabilities are carried at the amount which is required to be paid.

Structure of trade and other payables

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Trade payables	252,490	206,603
Accruals	23,557	22,127
Liabilities related to purchase of non-financial non-current assets	127,846	70,866
Liabilities related to received collateral (deposits, bid deposits, guarantees)	30,057	14,311
State liabilities	49,608	81,168
Settlements with employees	64,748	58,858
Other settlements	882	1,696
VAT settlements	-	10,364
Total	**549,188**	**465,993**
Long-term liabilities	-	582
Short-term liabilities	549,188	465,411
Total	**549,188**	**465,993**

according to EU IFRS (in thousands of PLN)

25. Provisions for employee benefits

Accounting policy applied

The Company provides its employees with long-term benefits during their employment (jubilee awards) as well as benefits after expiration of the tenure of their employment (retirement and disability severance pays, transportation allowances and benefits from the Company Social Benefits Fund (Company Social Benefits Fund) for retirement and disability pensioners, post-mortem benefits).

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

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

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

SIGNIFICANT VALUES BASED ON PROFESSIONAL JUDGMENT AND ESTIMATES

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

	Valuation as at	
	31/12/2017	31/12/2016
	%	%
Discount rate	3.25	3.50
Assumed average annual growth of the base for calculation of provisions for retirement and disability severance benefit and jubilee awards	0 – 1.5	1.35
Assumed growth of the price of transportation benefits	0 – 2.5	0 – 2.5
Assumed average annual growth of the base for calculation of provisions for Company Social Benefits Fund	3.5 – 5.0	3.5 – 8.4
Weighted average employee mobility ratio	2.35	2.30
Inflation (annual)	2.3 – 2.7	1.3 – 2.5

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

according to EU IFRS (in thousands of PLN)

25. Provisions for employee benefits (cont.)

	As at 31/12/2017 (audited)	Discount rate		Salary growth ratio		Employee mobility ratio	
		+0.30 pp.	-0.30 pp.	+0.25 pp.	-0.25 pp.	+0.25 pp.	-0.25 pp.
Jubilee awards	237,857	(3,720)	3,839	4,146	(2,878)	(3,021)	3,089
Retirement and disability severance benefit	150,857	(2,801)	2,899	3,052	(2,238)	(2,348)	2,408
Post-mortem benefits	6,299	130	136	132	(97)	(102)	105
Company Social Benefits Fund	136,080	(5,274)	5,633	4,957	(4,711)	(708)	726
Transportation benefits	32,953	(1,287)	1,374	1,231	(1,089)	(246)	253
Total	**564,046**	**(13,212)**	**13,881**	**13,518**	**(11,013)**	**(6,425)**	**6,581**

	As at 31/12/2016 (audited)	Discount rate		Salary growth ratio		Employee mobility ratio	
		+0.30 pp.	-0.30 pp.	+0.25 pp.	-0.25 pp.	+0.25 pp.	-0.25 pp.
Jubilee awards	232,092	(3,650)	3,767	4,074	(2,837)	(2,976)	3,043
Retirement and disability severance benefit	138,923	(2,662)	2,757	2,847	(2,135)	(2,243)	2,301
Post-mortem benefits	6,140	(126)	131	128	(94)	(99)	102
Company Social Benefits Fund	122,791	(4,755)	5,077	4,469	(4,247)	(684)	702
Transportation benefits	32,857	(1,271)	1,356	1,218	(1,078)	(249)	255
Total	**532,803**	**(12,464)**	**13,088**	**12,736**	**(10,391)**	**(6,251)**	**6,403**

Liabilities related to employee benefit plans

	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total provisions
As at 1 January 2017 (audited)	**138,923**	**122,791**	**32,857**	**6,140**	**232,092**	**21,686**	**554,489**
Current service cost	4,097	1,449	473	61	8,637	-	**14,717**
Interest expenses	4,934	4,323	1,158	216	8,275	-	**18,906**
Actuarial losses / (gains) – recognized in the statement of profit or loss [(1)]	-	-	-	-	27,189	-	**27,189**
Actuarial losses / (gains) – recognized in other comprehensive income [(1)]	18,617	14,152	(485)	466	-	-	**32,750**
Recognition of provisions	-	-	-	-	-	14,375	**14,375**
Reversal of provisions	-	-	-	-	-	(15,827)	**(15,827)**
Benefits paid out	(15,714)	(6,635)	(1,050)	(584)	(38,336)	-	**(62,319)**
As at 31 December 2017 (audited)	**150,857**	**136,080**	**32,953**	**6,299**	**237,857**	**20,234**	**584,280**
Long-term provisions	129,608	130,515	31,658	5,566	205,509	-	**502,856**
Short-term provisions	21,249	5,565	1,295	733	32,348	20,234	**81,424**
Total	**150,857**	**136,080**	**32,953**	**6,299**	**237,857**	**20,234**	**584,280**

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

according to EU IFRS (in thousands of PLN)

25. Provisions for employee benefits (cont.)

	Retirement and disability severance benefits	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total provisions
As at 1 January 2016 (audited)	**141,608**	**119,598**	**33,350**	**28,702**	**283,972**	**23,631**	**630,861**
Current service cost	4,543	1,119	371	254	11,097	-	**17,384**
Past service cost	16,337	5,744	1,980	(16,320)	(17,370)	-	**(9,629)**
Interest expenses	4,460	3,725	1,040	894	8,975	-	**19,094**
Actuarial losses / (gains) – recognized in the statement of profit or loss	-	-	-	-	(18,199)	-	**(18,199)**
Actuarial losses / (gains) – recognized in other comprehensive income	(13,578)	259	(2,795)	(6,754)	-	-	**(22,868)**
Reversal of provisions	-	-	-	-	-	(1,945)	**(1,945)**
Benefits paid out	(14,447)	(7,654)	(1,089)	(636)	(36,383)	-	**(60,209)**
As at 31 December 2016 (audited)	**138,923**	**122,791**	**32,857**	**6,140**	**232,092**	**21,686**	**554,489**
Long-term provisions	121,030	117,756	31,513	5,455	198,211	-	**473,965**
Short-term provisions	17,893	5,035	1,344	685	33,881	21,686	**80,524**
Total	**138,923**	**122,791**	**32,857**	**6,140**	**232,092**	**21,686**	**554,489**

Items recognized in the result in reference to employee benefits programs

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Employee benefits	40,454	(12,389)
Financial expenses	18,906	19,094
Total recognized in the result before tax	**59,360**	**6,705**

Actuarial (gains) / losses

Year ended 31/12/2017 (audited)	change of demographic assumptions	change of financial assumptions	other amendments	Total
Actuarial losses / (gains) – benefits after the employment period				
Retirement and disability severance pays	(243)	2,350	16,510	**18,617**
Company Social Benefits Fund	1,049	4,419	8,684	**14,152**
Transportation benefits	235	1,078	(1,798)	**(485)**
Post-mortem benefits	(163)	115	514	**466**
Actuarial losses / (gains) – other long-term benefits				
Jubilee awards	(398)	3,183	24,404	**27,189**
Total	**480**	**11,145**	**48,314**	**59,939**

according to EU IFRS (in thousands of PLN)

25. Provisions for employee benefits (cont.)

Year ended 31/12/2016 (audited)	change of demographic assumptions	change of financial assumptions	other amendments	Total
Actuarial losses / (gains) – benefits after the employment period				
Retirement and disability severance pays	11,895	(3,865)	(21,608)	**(13,578)**
Company Social Benefits Fund	4,606	9,299	(13,646)	**259**
Transportation benefits	2,036	(1,784)	(3,047)	**(2,795)**
Post-mortem benefits	(909)	(223)	(5,622)	**(6,754)**
Actuarial losses / (gains) – other long-term benefits				
Jubilee awards	(12,405)	(5,705)	(89)	**(18,199)**
Total	**5,223**	**(2,278)**	**(44,012)**	**(41,067)**

Analysis of maturities of paid out employee benefits

As at 31/12/2017 (audited)	Retirement and disability severance benefit	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total
up to 1 year	21,249	5,565	1,295	733	32,348	20,234	**81,424**
from 1 to 5 years	45,062	22,536	4,901	2,396	104,761	-	**179,656**
over 5 years	84,546	107,979	26,757	3,170	100,748	-	**323,200**
Total	**150,857**	**136,080**	**32,953**	**6,299**	**237,857**	**20,234**	**584,280**

As at 31/12/2016 (audited)	Retirement and disability severance benefit	Company Social Benefits Fund	Transportation benefits	Post-mortem benefits	Jubilee awards	Other employee benefits	Total
up to 1 year	17,893	5,035	1,344	685	33,881	21,686	**80,524**
from 1 to 5 years	40,653	20,265	5,014	2,314	95,562	-	**163,808**
over 5 years	80,377	97,491	26,499	3,141	102,649	-	**310,157**
Total	**138,923**	**122,791**	**32,857**	**6,140**	**232,092**	**21,686**	**554,489**

Average vesting period of employee benefits was 8.7 years as at 31 December 2017 and 8.9 years as at 31 December 2016.

according to EU IFRS (in thousands of PLN)

26. Other provisions

Accounting policy applied

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

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

Structure of other provisions

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Provisions for penalties from the Office for Protection of Competition and Consumers (UOKiK)	14,224	16,455
Provision for onerous contracts	4,500	-
Other provisions	12,405	11,640
Total	**31,129**	**28,095**
Long-term provisions	14,224	16,455
Short-term provisions	16,905	11,640
Total	**31,129**	**28,095**

Change to the current value of other provisions

	Provisions for penalties from the Office for Protection of Competition and Consumers (UOKiK)	Provision for onerous contracts	Other provisions	Total
As at 1 January 2017 (audited)	**16,455**	**-**	**11,640**	**28,095**
Recognition	957	9,102	5,030	**15,089**
Reversal	-	-	(3,225)	**(3,225)**
Utilization	(3,188)	(4,602)	(1,040)	**(8,830)**
As at 31 December 2017 (audited)	**14,224**	**4,500**	**12,405**	**31,129**
As at 1 January 2016 (audited)	**16,209**	**-**	**8,256**	**24,465**
Recognition	2,032	-	4,604	**6,636**
Reversal	(357)	-	(1,220)	**(1,577)**
Utilization	(1,429)	-	-	**(1,429)**
As at 31 December 2016 (audited)	**16,455**	**-**	**11,640**	**28,095**

26. Other provisions (cont.)

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

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

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

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

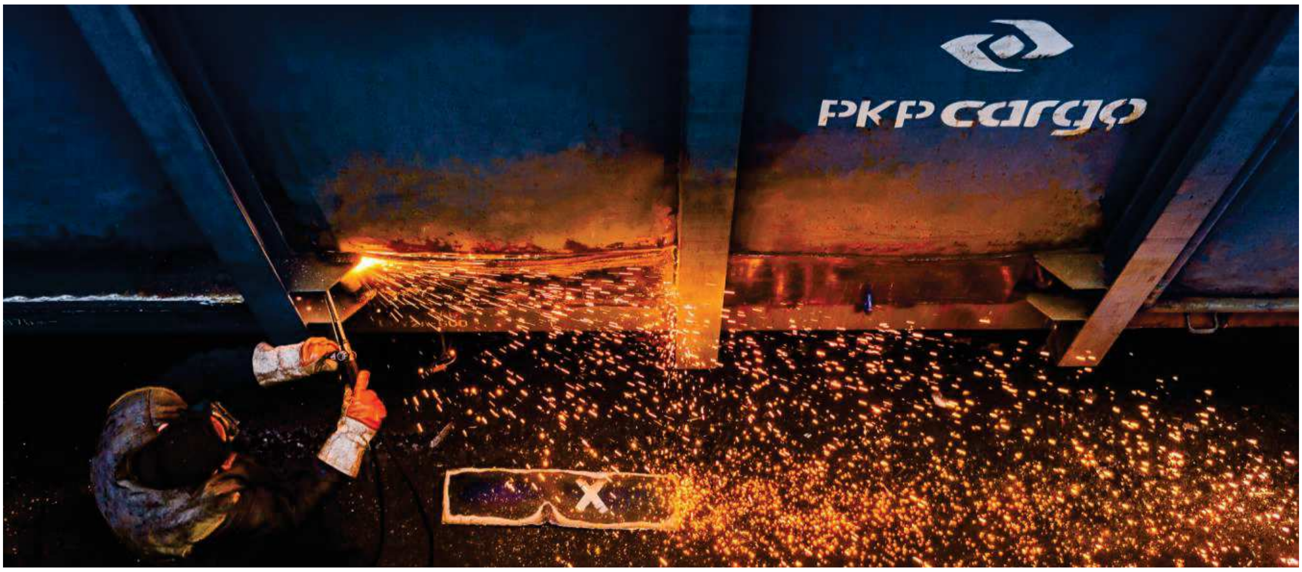
Provision for onerous contracts

In the financial year ended 31 December 2017, as a result of conducted analysis, the Company identified two procurement agreements for which the inevitable costs of fulfilling the resulting duties were higher than the predicted benefits achievable pursuant to these agreements; a provision was therefore established in the amount of PLN 9,102 thousand. As a result of performing these agreements, some part of the provision was utilized. The provision remaining as at 31 December 2017 represents the estimate for the agreement in effect until 31 December 2018. The second of those agreements expired on 31 December 2017.

Other provisions

This line item mostly includes the provisions established for disputed settlements, litigation and liquidated damages in the event of which it is more likely that there will be an outflow of cash in connection with the performance of those claims than it will not.

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



according to EU IFRS (in thousands of PLN)

27. Explanations to the cash flow statement

(Increase) / decrease in trade and other receivables

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Change in the balance from the statement of financial position	(73,000)	(29,379)
Change in the balance of receivables from sale of non-financial non-current assets	(7)	2
Change in the balance of receivable interest	138	(238)
Change in the balance of offsetting mutual settlements	(6,104)	-
Other	1,864	(564)
Change in the balance of trade and other receivables in the cash flow statement	**(77,109)**	**(30,179)**

(Increase) / decrease in inventories

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Change in the balance from the statement of financial position	(26,725)	1,042
Change in the balance of inventories reclassified from fixed assets	30,355	2,795
Change in the balance of inventories in the cash flow statement	**3,630**	**3,837**

(Increase) / decrease in other assets

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Change in the balance from the statement of financial position	(288,603)	20,856
Change in the balance of advances paid for the purchase of fixed assets	(2,638)	(9,688)
Change in the balance of other assets from bank term deposits longer than 3 months	250,000	-
Change in the balance of receivables under cash pooling	22,910	(25,057)
Change in the balance of other assets in the cash flow statement	**(18,331)**	**(13,889)**

Increase / (decrease) in trade and other payables

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Change in the balance from the statement of financial position	83,195	(124,481)
Change in the balance of liabilities related to purchase of non-financial non-current assets	(50,621)	34,980
Other	(104)	-
Change in the balance of trade and other payables in the cash flow statement	**32,470**	**(89,501)**

Increase / (decrease) in other financial liabilities

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Change in the balance from the statement of financial position	(58,979)	31,273
Settlement of net liabilities related to valuation of the put / call option for non-controlling interest	41,634	-
Change in the balance of liabilities under cash pooling	19,218	(19,218)
Change in the balance of other financial liabilities in the cash flow statement	**1,873**	**12,055**

according to EU IFRS (in thousands of PLN)

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

Other adjustments

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Actuarial gains / (losses) recognized in other comprehensive income	(32,750)	22,868
Effective portion of profits and losses related to a hedging instrument to hedge cash flow	10,202	151
Other adjustments in the cash flow statement	**(22,548)**	**23,019**

Non-financial transactions

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

- Settlement of the put / call option for non-controlling interest

In 2017 it witnessed settlement of the put / call option for non-controlling interest in AWT B.V. The net valuation of the put/ call option as at the moment of the performance of the put option, amounting to PLN 41,634 thousand, resulted in correction of the value of shares in AWT B.V. Detailed information concerning the transaction in question can be found in **note 22** to these Separate Financial Statements.

- Offsetting mutual settlements

In 2017, the Company offset trade receivables with liabilities related to purchase of non-financial non-current assets. The total amount of the offsetting was PLN 6,104 thousand in 2017.

- Contributions-in-kind made to the subsidiaries

In 2017, the Company transferred to its subsidiary PKP CARGOTABOR Sp. z o.o. a contribution-in-kind in the form of a property, plant and equipment item worth PLN 505 thousand. The contribution-in-kind was contributed to raise the subsidiary's share capital in the amount of PLN 1,178 thousand. In 2016, the Company transferred to its subsidiary PKP CARGO CONNECT Sp. z o.o. a contribution-in-kind in the form of a property, plant and equipment item worth PLN 3,331 thousand. The contribution-in-kind was contributed to raise the subsidiary's share capital in the amount of PLN 4,701 thousand.

- Purchase of asset components in the form of finance lease

In the 12-month period ended 31 December 2017, the Company did not enter into any new finance lease agreements. In the 12-month period ended 31 December 2016, the value of fixed asset components acquired under finance lease agreements was PLN 1,945 thousand.

- Derecognition of rolling stock

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

according to EU IFRS (in thousands of PLN)

28. Financial instruments and principles of financial risk management

Categories and classes of financial instruments

Financial assets by categories and classes	Note	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Hedging financial instruments			
Derivative instruments	12	10,545	235
Available for sale financial assets			
Shares in unlisted companies	12	6,021	6,021
Loans and receivables			
Trade receivables	15	461,044	407,962
Receivables from sale of non-current assets	15	-	7
Bank deposits over 3 months	12	250,801	-
Cash pool	12	22,910	-
Cash and cash equivalents	16	295,910	611,990
Total		**1,047,231**	**1,026,215**

Financial liabilities by categories and classes	Note	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Financial liabilities measured at fair value through profit or loss			
Liabilities relating to valuation of the put / call option for non-controlling interest in AWT	22	-	39,761
Hedging financial instruments (1)			
Bank loans and borrowings	20	494,171	204,711
Financial liabilities measured at amortized cost			
Bank loans and borrowings	20	936,329	1,143,683
Trade payables	24	276,047	228,730
Liabilities related to purchase of non-current assets	24	127,846	70,866
Cash pool	22	-	19,218
Financial liabilities excluded from the scope of IAS 39	21	34,377	79,335
Total		**1,868,770**	**1,786,304**

Impairment losses to revalue shares in unlisted companies and trade receivables have been described in **Notes 12** and **15** of these Separate Financial Statements, respectively.

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

As at 31 December 2017, the following hedging instruments were established:

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

according to EU IFRS (in thousands of PLN)

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

Fair value hierarchy

As at 31 December 2017 and 31 December 2016, the financial instruments measured at fair value were forward foreign exchange contracts and net liabilities under put / call options for non-controlling interest. The maturity of forward foreign exchange contracts is after the end date of the financial period, and the net liability of the put / call option for non-controlling interest was settled in 2017.

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)	
	Level 2	Level 2	Level 3
Assets			
Derivative instruments – forward foreign exchange contracts	10,545	235	-
Liabilities			
Derivative instruments – put / call option for non-controlling interest	-	-	39,761

Measurement methods for financial instruments carried at fair value

a) Forward foreign exchange contracts

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

b) Other financial instruments

For the category of financial instruments mentioned in this Note, other than shares and ownership interests in companies unlisted on an exchange market, which are not carried at fair value as at the balance sheet date, the Company does not disclose fair value because the fair values of these financial instruments as at 31 December 2017 and 31 December 2016 were not materially different from their values presented in the statement of financial position.

The Company does not disclose fair values for shares and ownership interests in companies unlisted on active markets classified to the category of financial assets available for sale. The Company is not able to determine the fair value in any reliable way in the case of owned interests in companies unlisted on active markets. According to the accounting policy, as at the balance sheet date, these are measured at the purchase price reduced by impairment losses.

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

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
As at the beginning of the reporting period	(39,761)	(27,696)
(Gains) / losses for the period recognized in the result	(1,873)	(12,065)
Settlement of the put / call option for non-controlling interest (1)	41,634	-
As at the end of the reporting period	**-**	**(39,761)**

(1) The settlement follows from the realization of the put option by a minority shareholder. Detailed information can be found in **Note 22** to these Separate Financial Statements.

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

according to EU IFRS (in thousands of PLN)

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

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

Year ended 31/12/2017 (audited)	Hedging financial instruments	Loans and receivables	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IAS 39	Total
Interest income / (expense)	(1,225)	11,476	-	(25,594)	(1,198)	**(16,541)**
Foreign exchange differences	723	(5,633)	-	469	3,126	**(1,315)**
Impairment losses / revaluation	108	(2,261)	(1,873)	-	-	**(4,026)**
Commission on bank loans	-	-	-	(1,416)	-	**(1,416)**
Effect of settlement of cash flow hedging accounting (1)	5,757	-	-	-	-	**5,757**
Gross profit / (loss)	**5,363**	**3,582**	**(1,873)**	**(26,541)**	**1,928**	**(17,541)**
Revaluation	25,409	-	-	-	-	**25,409**
Other comprehensive income	**25,409**	**-**	**-**	**-**	**-**	**25,409**

(1) In the financial year ended 31 December 2017, the effect of settling cash flow hedging accounting adjusted the value of revenues from the sales of services for the amount of PLN 5,757 thousand.

Year ended 31/12/2016 (audited)	Hedging financial instruments	Loans and receivables	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Financial liabilities excluded from the scope of IAS 39	Total
Interest income / (expense)	765	2,577	-	(19,443)	(2,956)	**(20,587)**
Foreign exchange differences	(10)	(297)	-	1,865	(3,517)	**(1,959)**
Impairment losses / revaluation	94	(1,129)	(12,065)	-	-	**(13,100)**
Commission on bank loans	-	-	-	(1,213)	-	**(1,213)**
Effect of settlement of cash flow hedging accounting (1)	1,051	-	-	-	-	**1,051**
Gross profit / (loss)	**370**	**1,151**	**(12,065)**	**(18,791)**	**(6,473)**	**(35,808)**
Revaluation	(4,733)	-	-	-	-	**(4,733)**
Other comprehensive income	**(4,733)**	**-**	**-**	**-**	**-**	**(4,733)**

(1) In the financial year ended 31 December 2016, the effect of settling cash flow hedging accounting adjusted the value of revenues from the sales of services for the amount of PLN 1,051 thousand.

according to EU IFRS (in thousands of PLN)

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

Offsetting financial assets

As at 31/12/2017 (audited)	Gross value of recognized financial assets	Gross value of recognized financial liabilities offset in the balance sheet	Net value of financial assets presented in the balance sheet	Associated values not offset in the balance sheet – received cash collateral	Net value
Trade receivables	461,044	-	461,044	(4,396)	456,648
Cash pool	29,341	(6,431)	22,910	-	22,910
Total	**490,385**	**(6,431)**	**483,954**	**(4,396)**	**479,558**

As at 31/12/2016 (audited)	Gross value of recognized financial assets	Gross value of recognized financial liabilities offset in the balance sheet	Net value of financial assets presented in the balance sheet	Associated values not offset in the balance sheet – received cash collateral	Net value
FX forwards	930	(695)	235	-	235
Trade receivables	407,962	-	407,962	(14,311)	393,651
Total	**408,892**	**(695)**	**408,197**	**(14,311)**	**393,886**

Offsetting financial liabilities

As at 31/12/2017 (audited)	Gross value of recognized financial liabilities	Gross value of recognized financial assets offset in the balance sheet	Net value of financial liabilities presented in the balance sheet	Associated values not offset in the balance sheet – provided cash collateral	Net value
Trade payables	276,047	-	276,047	(135)	275,912
Total	**276,047**	**-**	**276,047**	**(135)**	**275,912**

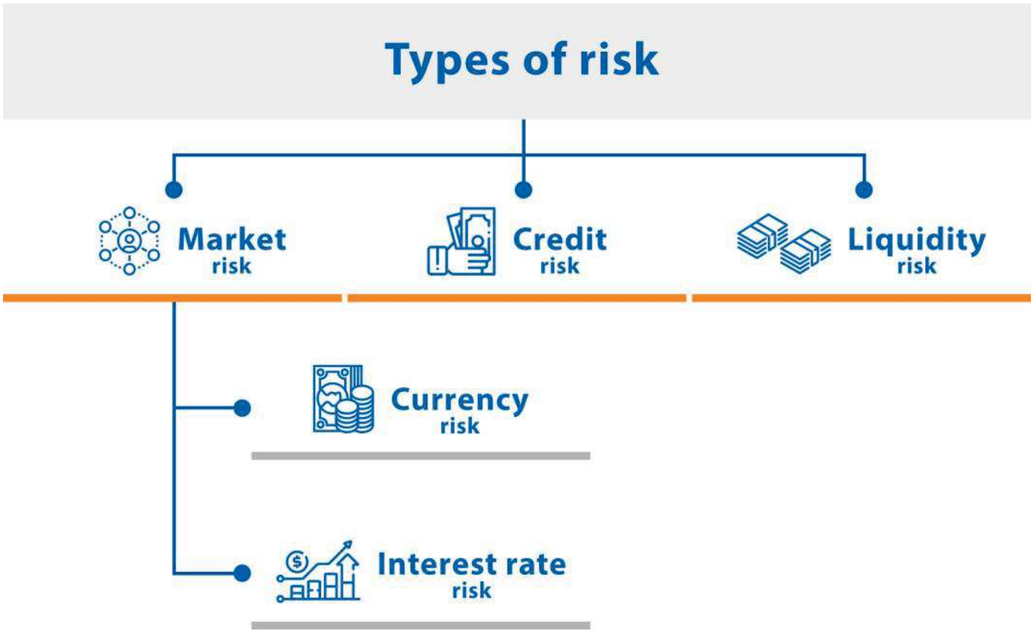
As at 31/12/2016 (audited)	Gross value of recognized financial liabilities	Gross value of recognized financial assets offset in the balance sheet	Net value of financial liabilities presented in the balance sheet	Associated values not offset in the balance sheet – provided cash collateral	Net value
Liabilities relating to valuation of the put / call option for non-controlling interest in AWT	43,542	(3,781)	39,761	-	39,761
Trade payables	228,730	-	228,730	(141)	228,589
Cash pool	56,475	(37,257)	19,218	-	19,218
Total	**328,747**	**(41,038)**	**287,709**	**(141)**	**287,568**

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

In the Group, cash pooling, a cash management system, operates which involves covering cash shortages of one Group company with surpluses earned by another one. The system is based on transferring cash resources of companies to one joint account managed by the pool leader (PKP CARGO S.A.). The resources are distributed by compensating balances, which in the Group assumes the form of concentration of cash in a bank account (the so called zero balancing cash pooling), or actual transfers of cash between accounts of the Group companies (surpluses from accounts of specific companies are transferred to the joint account and then distributed to the accounts in which there are shortages). Compensated balances are presented as other financial assets or liabilities.

Objectives and principles of financial risk management

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



Market risk

The Company is exposed to market risks associated with changes of the exchange rates and interest rates. The objective of the market risk management process is to limit undesirable impact of changes of market risk factors on the cash flows and results in the short- and medium-term. The Company manages market risks following from the aforementioned factors on the basis of internal procedures which define the rules of measurement of individual exposures, parameters and time horizon.

The principles of market risk management are implemented through assigned organizational units under the supervision of the Company's Management Board. Market risk management is executed based on developed strategies, with partial utilization of derivative instruments. Derivative instruments are used only to limit the risk of change of the carrying amounts and the risk of cash flow changes. Transactions are entered into only with reliable partners, admitted to participation as a result of application of internal procedures and execution of appropriate documentation.

According to the Financial Risk Management Policy prevailing in the Company, in 2017, the Company used FX risk management transactions for the EUR/PLN currency pair.

according to EU IFRS (in thousands of PLN)

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

Foreign exchange risk management

As at 31 December 2017, the Company was exposed to foreign exchange risk concerning for the most part trade receivables, loan liabilities and lease liabilities denominated in foreign currencies.
As a result of valuation of receivables and liabilities denominated in foreign currencies conducted as at the balance sheet date, and also as a result of ongoing settlements in foreign currencies, there arise positive and negative foreign exchange differences. Their values fluctuate during the year, which is caused by changes in exchange rates. In a long-term perspective, the valuation risk matches the risk of change of cash flows, therefore the Group's cash flows are subject to hedging operations.

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

Items in foreign currencies

As at 31/12/2017 (audited)	Total value of items in PLN	EUR / PLN		CHF / PLN	
		in a foreign currency	in PLN	in a foreign currency	in PLN
ASSETS					
Trade receivables	63,723	14,858	61,971	491	1,752
Cash and cash equivalents	56,616	13,559	56,555	17	61
EQUITY AND LIABILITIES					
Long-term liabilities					
Long-term bank loans and borrowings	453,985	108,846	453,985	-	-
Long-term finance lease liabilities	2,726	654	2,726	-	-
Short-term liabilities					
Short-term bank loans and borrowings	40,285	9,658	40,285	-	-
Short-term finance lease liabilities	28,535	6,841	28,535	-	-
Trade and other payables	61,973	14,119	58,891	864	3,082
Net currency item	**(467,165)**	**(111,701)**	**(465,896)**	**(356)**	**(1,269)**

As at 31/12/2016 (audited)	Total value of items in PLN	EUR / PLN		CHF / PLN	
		in a foreign currency	in PLN	in a foreign currency	in PLN
ASSETS					
Trade receivables	58,082	12,855	56,872	294	1,210
Cash and cash equivalents	9,086	2,040	9,026	15	60
EQUITY AND LIABILITIES					
Long-term liabilities					
Long-term bank loans and borrowings	194,785	44,029	194,785	-	-
Long-term finance lease liabilities	33,159	7,495	33,159	-	-
Short-term liabilities					
Short-term bank loans and borrowings	9,966	2,253	9,966	-	-
Short-term finance lease liabilities	31,121	7,035	31,121	-	-
Trade and other payables	22,340	4,293	18,992	813	3,348
Other short-term financial liabilities	39,761	8,988	39,761	-	-
Net currency item	**(263,964)**	**(59,198)**	**(261,886)**	**(504)**	**(2,078)**

according to EU IFRS (in thousands of PLN)

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

Sensitivity to FX risk

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

As at 31/12/2017 (audited)	Value of the item in PLN	FX risk					
		EUR / PLN				CHF / PLN	
		impact on the result		impact on other comprehensive income		impact on the result	
		+5%	-5%	+5%	-5%	+5%	-5%
ASSETS							
Trade receivables	63,723	3,099	(3,099)	-	-	88	(88)
Cash and cash equivalents	56,616	2,827	(2,827)	-	-	3	(3)
EQUITY AND LIABILITIES							
Long-term liabilities							
Long-term bank loans and borrowings	453,985	(34)	34	(22,665)	22,665	-	-
Long-term finance lease liabilities	2,726	(136)	136	-	-	-	-
Short-term liabilities							
Short-term bank loans and borrowings	40,285	-	-	(2,014)	2,014	-	-
Short-term finance lease liabilities	28,535	(1,427)	1,427	-	-	-	-
Trade and other payables	61,973	(2,945)	2,945	-	-	(154)	154
Total gross effect		**1,384**	**(1,384)**	**(24,679)**	**24,679**	**(63)**	**63**

As at 31/12/2016 (audited)	Value of the item in PLN	FX risk					
		EUR / PLN				CHF / PLN	
		impact on the result		impact on other comprehensive income		impact on the result	
		+9%	-9%	+9%	-9%	+18%	-18%
ASSETS							
Trade receivables	58,082	5,118	(5,118)	-	-	218	(218)
Cash and cash equivalents	9,086	812	(812)	-	-	11	(11)
EQUITY AND LIABILITIES							
Long-term liabilities							
Long-term bank loans and borrowings	194,785	-	-	(17,531)	17,531	-	-
Long-term finance lease liabilities	33,159	(2,984)	2,984	-	-	-	-
Short-term liabilities							
Short-term bank loans and borrowings	9,966	-	-	(897)	897	-	-
Short-term finance lease liabilities	31,121	(2,801)	2,801	-	-	-	-
Trade and other payables	22,340	(1,709)	1,709	-	-	(603)	603
Other short-term financial liabilities	39,761	(3,579)	3,579	-	-	-	-
Total gross effect		**(5,143)**	**5,143**	**(18,428)**	**18,428**	**(374)**	**374**

according to EU IFRS (in thousands of PLN)

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

FX forward transactions

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

List of unrealized FX forward contracts

As at 31 December 2017 (audited)

Company	Transaction type	Contract signing date	Contract settlement date	Currency pair	Amount in the base currency	Amount in the volatile currency	Fair value
BZ WBK	Forward	06/2016 - 10/2017	01/2018 - 10/2019	EUR / PLN	2,550	11,507	697
mBANK	Forward	11/2016 - 12/2017	01/2018 - 12/2019	EUR / PLN	8,600	38,406	1,624
Pekao	Forward	06/2016 - 10/2017	01/2018 - 10/2019	EUR / PLN	9,650	43,606	2,659
PKO BP	Forward	05/2016 - 12/2017	01/2018 - 12/2019	EUR / PLN	17,700	79,743	4,468
RCB	Forward	10/2016 - 11/2016	01/2018 - 11/2018	EUR / PLN	1,000	4,485	286
Credit Agricole	Forward	01/2017 - 12/2017	07/2018 - 12/2019	EUR / PLN	4,600	20,523	811
Total					**44,100**	**198,270**	**10,545**

As at 31 December 2016 (audited)

Company	Transaction type	Contract signing date	Contract settlement date	Currency pair	Amount in the base currency	Amount in the volatile currency	Fair value
BZ WBK	Forward	06/2016 - 12/2016	05/2017 - 10/2018	EUR / PLN	4,000	18,199	160
mBANK	Forward	02/2016 - 12/2016	01/2017 - 12/2018	EUR / PLN	8,900	39,897	(1)
Pekao	Forward	04/2016 - 12/2016	01/2017- 12/2018	EUR / PLN	7,900	35,968	133
PKO BP	Forward	01/2016 - 11/2016	01/2017 - 12/2018	EUR / PLN	21,100	94,989	24
RCB	Forward	10/2016 - 12/2016	09/2017 - 11/2018	EUR / PLN	1,500	6,723	(67)
Credit Agricole	Forward	07/2016 - 09/2016	07/2017 - 08/2017	EUR / PLN	300	1,330	(14)
Total					**43,700**	**197,106**	**235**

Interest rate risk management

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

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

In 2017, the Company did not use derivative instruments to hedge the interest rate risk.

according to EU IFRS (in thousands of PLN)

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

Financial instruments by interest rate type

Financial assets	As at 31/12/2017 (audited)		As at 31/12/2016 (audited)	
	At a fixed interest rate	Total	At a fixed interest rate	Total
Bank deposits	250,801	250,801	-	-
Cash pool	22,910	22,910	-	-
Cash and cash equivalents	295,910	295,910	611,990	611,990
Total	**569,621**	**569,621**	**611,990**	**611,990**

Financial liabilities	As at 31/12/2017 (audited)			As at 31/12/2016 (audited)		
	Interest rate			Interest rate		
	fixed interest rate	variable interest rate	Total	fixed interest rate	variable interest rate	Total
Bank loans and borrowings	-	1,430,500	1,430,500	-	1,348,394	1,348,394
Liabilities from the purchase of fixed assets	586	-	586	22,896	-	22,896
Cash pool	-	-	-	19,218	-	19,218
Finance lease liabilities	2,149	32,228	34,377	10,556	68,779	79,335
Total	**2,735**	**1,462,728**	**1,465,463**	**52,670**	**1,417,173**	**1,469,843**

Interest rate fluctuation sensitivity

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

As at 31/12/2017 (audited)	Value of the item in PLN	Interest rate risk			
		WIBOR		EURIBOR	
		impact on the result		impact on the result	
		+ 50 pp	- 50 pp	+ 50 pp	- 50 pp
EQUITY AND LIABILITIES					
Long-term liabilities					
Long-term bank loans and borrowings	1,211,148	(3,786)	3,786	(2,270)	2,270
Long-term finance lease liabilities	3,261	(3)	3	(13)	13
Short-term liabilities					
Short-term bank loans and borrowings	218,530	(892)	892	(201)	201
Short-term finance lease liabilities	28,856	(12)	12	(132)	132
Total gross effect		**(4,693)**	**4,693**	**(2,616)**	**2,616**

according to EU IFRS (in thousands of PLN)

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

As at 31/12/2016 (audited)	Value of the item in PLN	Interest rate risk			
		WIBOR		EURIBOR	
		impact on the result		impact on the result	
		+ 100 pp	- 100 pp	+ 100 pp	- 100 pp
EQUITY AND LIABILITIES					
Long-term liabilities					
Long-term bank loans and borrowings	1,170,224	(9,754)	9,754	(1,363)	1,363
Long-term finance lease liabilities	33,880	(30)	30	(216)	216
Short-term liabilities					
Short-term bank loans and borrowings	177,213	(1,673)	1,673	(70)	70
Short-term finance lease liabilities	34,899	(13)	13	(160)	160
Total gross effect		**(11,470)**	**11,470**	**(1,809)**	**1,809**

Credit risk management

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

Classes of financial instruments	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Trade receivables	461,044	407,962
Cash and cash equivalents	295,910	611,990
Bank deposits over 3 months	250,801	-
Cash pooling	22,910	-
Receivables from **sale of non-financial non-current assets**	-	7
Total	**1,030,665**	**1,019,959**

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

The structure of the trade receivables in terms of companies is as follows:

Structure of trade receivables	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Group of entities related to the biggest external counterparty	11.5%	11.2%
PKP Group related parties	19.9%	19.2%
Others State Treasury related parties	25.0%	28.8%
Other entities	43.6%	40.8%
Total	**100.0%**	**100.0%**

according to EU IFRS (in thousands of PLN)

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

In addition, to reduce the risk of problems with recovery of trade receivables, the Company accepts security interests from their customers in the form of, among others: bank/insurance guarantees, assignment of contracts and promissory notes. As at 31 December 2017, 6.5% of the trade receivables were secured.

The credit risk associated with cash and bank deposits is perceived as low. All entities in which the Company invests free cash operate in the financial sector. These include domestic banks, foreign banks and branches of foreign banks of high credit level rating.

Liquidity risk management

The Company may be exposed to liquidity risk following from the ratio of current assets to term abilities. Additionally, to secure its long-term liquidity, the Company used investment loans and leasing (financing of capital expenditures). In addition, to minimize the risk of occurrence of disturbances of cash flows and risk of liquidity loss, as well as to optimize the financial costs in the PKP CARGO Group, a cash pooling system is in place which comprises 7 Group companies as at 31 December 2017. Cash pooling, independently of the cash collected by particular participants, is associated with a flexible line of credit in the form of current account overdraft facility. Under the cash pooling agreement, the Company may use a current account overdraft of up to PLN 100,000 thousand.

As at 31 December 2017, the Company had in aggregate unused credit facilities in the amount of PLN 168,549 thousand.

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

As at 31/12/2017 (audited)	Below 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years	Total
Interest-bearing bank loans and borrowings	61,420	180,562	738,477	544,627	**1,525,086**
Trade payables	276,047	-	-	-	**276,047**
Liabilities on the purchase of fixed assets	127,808	42	-	-	**127,850**
Finance lease liabilities	9,880	21,584	3,327	-	**34,791**
Total	**475,155**	**202,188**	**741,804**	**544,627**	**1,963,774**

As at 31/12/2016 (audited)	Below 3 months	From 3 to 12 months	From 1 year to 5 years	Over 5 years	Total
Interest-bearing bank loans and borrowings	52,781	150,801	742,942	519,398	**1,465,922**
Trade payables	228,730	-	-	-	**228,730**
Liabilities on the purchase of fixed assets	57,770	13,018	586	-	**71,374**
Finance lease liabilities	9,183	35,486	36,605	-	**81,274**
Derivative instruments	-	39,761	-	-	**39,761**
Other financial liabilities - cash pool	19,218	-	-	-	**19,218**
Total	**367,682**	**239,066**	**780,133**	**519,398**	**1,906,279**

according to EU IFRS (in thousands of PLN)

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

Equity management

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

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

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Total debt [1]	2,630,575	2,535,285
Total assets	5,737,036	5,553,725
Debt to total assets	**46%**	**46%**

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

29. Related party transactions

Transactions with the State Treasury and its other related parties

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

In the financial year ended 31 December 2017 and the financial year ended 31 December 2016, there were no transactions conducted between the Company and the State Treasury which would be significant due to a non-standard scope or amount. In the periods covered by this Separate Financial Statements, the Company's most important customers among other parties related to the State Treasury were Jastrzębska Spółka Węglowa S.A., the Azoty Group, the Enea Group, the PKN Orlen Group, Węglokoks S.A. and PGE Górnictwo i Energetyka Konwencjonalna S.A.; on the other hand, there were no purchase transactions with other entities related to the State Treasury which would be significant in terms of value.

according to EU IFRS (in thousands of PLN)

29. Related party transactions (cont.)

Transactions with PKP Group related parties

In the period covered by this Separate Financial Statements the Company entered into the following commercial transactions with PKP Group related parties:

	Year ended 31/12/2017 (audited)		Year ended 31/12/2016 (audited)	
	Sales to related parties	Purchases from related parties	Sales to related parties	Purchases from related parties
Parent Company (PKP S.A.)	369	56,434	361	59,285
Subsidiary undertakings / co-subsidiaries	607,872	544,090	526,859	313,115
Associates	894	-	60	-
Other PKP Group related parties	24,455	668,134	30,170	632,694

	As at 31/12/2017 (audited)		As at 31/12/2016 (audited)	
	Receivables from related parties	Liabilities to related parties	Receivables from related parties	Liabilities to related parties
Parent Company (PKP S.A.)	1,077	7,104	1,087	6,973
Subsidiary undertakings / co-subsidiaries	88,103	119,165	74,274	72,602
Associates	142	-	3	-
Other PKP Group related parties	2,229	59,251	2,821	73,855

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

In the PKP CARGO Group sales transactions covered freight transport services, lease of equipment and sub-lease of real estate. Purchase transactions comprised, among other maintenance and repair of rolling stock, freight forwarding services, transshipment services and intermodal transport.

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

In addition to the commercial transactions the Company granted sureties to its subsidiaries described in **Note 32** to these Separate Financial Statements. All related party transactions were effected on arm's length basis.

Loans granted to / received from related parties

In the financial year ended 31 December 2017 and 31 December 2016, the Company did not grant or take any loans from its related parties. As at 31 December 2017 and 31 December 2016, the Company had cash pooling settlements presented **Notes 12 and 22** of these Separate Financial Statements.

Remunerations of key management personnel

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

according to EU IFRS (in thousands of PLN)

29. Related party transactions (cont.)

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

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

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

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

All related party transactions were conducted on arms length basis.

30. Operating lease agreements

Company as a lessee

As at 31 December 2017 the Company's operating lease agreements comprise mainly agreements pertaining to lease of real estate, lease of the building in Katowice and lease of freight wagons. The lease of the office building in Katowice is effective till the end of September 2022, without an early termination option. The remaining key real estate lease agreements are concluded for long-term periods with the possibility of early termination within specified contractual deadlines. The term of the freight wagon lease agreements lasts till 2018-2020, depending on the agreement. The Company presents, as future minimum lease payments, the fees which it is obligated to pay during the termination notice period for such agreements.

For some of the developed land properties the Company has concluded sub-leasing agreements with its related parties, granting them the right to the said properties in return for the fees specified in the agreements.

Increase of future minimum lease payments as at 31 December 2017 is the effect of new freight wagon lease agreements entered into in 2017.

Lease payments recognized as expense of the period

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Minimum lease payments	64,539	68,066
Payments received under sub-lease (subleasing)	(11,562)	(11,167)
Total	**52,977**	**56,899**

according to EU IFRS (in thousands of PLN)

30. Operating lease agreements (cont.)

Future minimum lease payments under non-cancellable operating leases

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Up to 1 year	46,008	34,886
From 1 year to 5 years	27,473	23,207
Over 5 years	-	4,367
Total	**73,481**	**62,460**

Future minimum fees receivable under non-cancellable sub-lease agreements

	Year ended 31/12/2017 (audited)	Year ended 31/12/2016 (audited)
Up to 1 year	4,068	2,367
Total	**4,068**	**2,367**

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

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

Contractual liabilities related to purchase of non-financial non-current assets	Contractual execution deadline	Unrealized contract value as at 31/12/2017 (audited)
Agreement for major repair of locomotives and their modernization	to 31/12/2019	120,355
Total		**120,335**

32. Contingent liabilities

Structure of contingent liabilities

	As at 31/12/2017 (audited)	As at 31/12/2016 (audited)
Sureties for subsidiaries	1,500	22,956
Guarantees issued on PKP CARGO S.A.'s order	18,372	18,327
Other contingent liabilities	110,419	63,149
Total	**130,291**	**104,432**

Sureties granted for subsidiaries

As at 31 December 2017, there was an outstanding loan agreement surety granted by the Company for PKP CARGOTABOR Sp. z o.o. As at 31 December 2016, there were outstanding sureties granted by the Company for PKP CARGO SERVICE sp. z o.o. (surety for a multi-currency facility agreement) and PKP CARGOTABOR Sp. z o.o. (surety for a loan agreement and surety for a facility agreement). All sureties are secured with blank promissory notes.

Change of the level of sureties granted in the financial work ended 31 December 2017 is the effect of expiry of the surety for a multi-currency facility agreement granted by the Company for PKP CARGO SERVICE sp. z o.o. and return of the securities received under the facility agreement entered into by PKP CARGOTABOR Sp. z o.o.

32. Contingent liabilities (cont.)

Guarantees issued on PKP CARGO S.A.'s order

As at 31 December 2017 there were outstanding guarantees issued by banks on the Company's order for commercial business partners. The guarantees comprised tender bonds (for PLN 1,680 thousand), performance bonds (for PLN 14,282 thousand) and payment guarantees (for PLN 2,410 thousand). As at 31 December 2016 there were outstanding tender bonds (for PLN 320 thousand), performance bonds (for PLN 15,466 thousand) and payment guarantees (for PLN 2,541 thousand).

Other contingent liabilities

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

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

33. Collateral for repayment of liabilities

Assets constituting collateral for repayment of liabilities

As at 31 December 2017 and 31 December 2016 the Company did not have any assets securing repayment of its liabilities.

Other collateral for repayment of liabilities

As at 31 December 2017 and as at 31 December 2016, as part of collateral for repayment of liabilities, the Company also had the following outstanding blank promissory notes:

a) Blank promissory notes up to PLN 39,512 thousand, securing proper performance of the subsidy agreements for the investment projects executed by the Company,
b) Blank promissory notes constituting a security under the guarantee line agreements with the bank under which the Company and selected PKP CARGO Group companies could order issuance of bank guarantees up to PLN 120,000 thousand. As at 31 December 2017 the amount of guarantee facilities used by the Company, collateralized by the said promissory notes amounted to PLN 16,335 thousand. The amount of utilization of the facilities was presented in **Note 32** of these Separate Financial Statements in the item Guarantees issued by banks on the Company's order.

34. Disclosures following from Article 36g Section 1 of the rail transport act

In accordance with Article 36g Section 1 of the rail transport act, PKP CARGO S.A., being at the same time a rail carrier and service infrastructure operator, is obligated to prepare regulatory financial information through disclosure in the notes to these Separate Financial Statements appropriate balance sheet (statement of financial position) and statement of profit or loss (statement of comprehensive income) items separately for the business involving management of service infrastructure facilities. As part of this note the Company presents the statement of comprehensive income and statement of financial position broken down into individual types of activity.

Rules of allocation of the items of the statement of comprehensive income and statement of financial position

Statement of comprehensive income

The Company allocates the items of the statement of comprehensive income to individual types of activity on the basis of accounting records. The Company keeps a record of expenses by nature using the Cost Centers and controlling orders. The analytical records of controlling objects makes it possible to single out and properly allocate the sales revenue items and operating expenses to individual types of activity.

The items of other operating revenues and operating expenses are subject to detailed identification on the basis of accounting records. Due to the fact that the Company has not identified any major items pertaining to the activity associated with the service infrastructure, these items were allocated fully to the Company's other activities.

Financial revenue and expense items are excluded from the division, except for the costs of settlement of the discount on account of the provision for employee benefits, which are allocated to individual activities on the basis of a division key. Also the income tax items and other comprehensive income are excluded from the division. These items are excluded from the division because they pertain to the activities of the whole Company.

Detailed information about the rules of allocation of the items of the statement of comprehensive income is presented below:

Item designation	Allocation key
Revenue from sales of services	method of detailed identification
Revenue from sales of materials	method of detailed identification
Depreciation and amortization and impairment losses	method of detailed identification
Consumption of materials and energy	method of detailed identification
External services	method of detailed identification
Taxes and charges	method of detailed identification
Employee benefits	method of detailed identification
Other expenses by kind	method of detailed identification
Cost of materials sold	method of detailed identification
Other income and operating expenses	method of detailed identification
Costs of settlement of discount on provisions for employee benefits	proportional method
Other financial revenue and expenses	excluded from the division
Income tax in the statement of profit or loss	excluded from the division
Other comprehensive income	excluded from the division

The sales revenues items presented in the activity associated with the service infrastructure comprise revenues earned from external entities. Cost items, in turn, are presented in the activity associated with the service infrastructure comprise all costs generated by the Company in this activity, regardless of whether they were generated for the needs of the services performed for external entities or for the Company's own needs.

34. Disclosures following from Article 36g Section 1 of the rail transport act (cont.)

Statement of financial position

The Company allocates the items of the statement of financial position to individual types of activity on the basis of:

a) detailed identification of individual items of the statement of financial position

Detailed identification applies primarily to the items: property, plant and equipment, intangible assets, inventories, other non-financial assets, trade receivables and payables and purchase and sale of non-financial non-current assets, settlements with employees and others provisions. In the case of the property, plant and equipment items, the Company performed a detailed identification of individual components used in the activity associated with the service infrastructure and them subordinated them to the service activity on the basis of a division key associated with the level of utilization of this component in this activity. In the case of inventories items the Company performed a detailed identification of individual components which may be used in the activity associated with the service infrastructure. The identified components were fully allocated to the activity associated with the service infrastructure. Due to the general use of individual components it is not out of the question that in the future some of them may be used in other activities of the Company. In the case of trade receivables and payables and settlements with the employees, the Company allocated them to individual items on the basis of accounting records. In the case of the remaining items listed above, the Company did not identify any major items associated with the service infrastructure activity therefore all of these items were allocated to the Company's other activity.

b) on the basis of a division key

The allocation on the basis of a division key applies to the provisions for employee benefits. This item was allocated to individual types of activity on the basis of the division key based on the number of employees assigned to the service infrastructure activity and other activity.

c) exclusion of some of the components from the division.

Some items of the statement of financial position are not allocated to specific types of activity and were excluded from the division because they pertain to the activities of the whole Company. The items excluded from the division include mainly financial items such as: shares, cash and cash equivalents, other financial assets, liabilities on account of loans and borrowings, leases and other financial liabilities. Also deferred tax assets and liabilities and income tax and VAT settlements are excluded from the division.

Item designation	Allocation key
ASSETS	
Property, plant and equipment	method of detailed identification
Intangible assets	method of detailed identification
Non-current assets held for sale	method of detailed identification
Investments in subsidiaries, associates and interests in joint ventures	excluded from the division
Other financial assets	excluded from the division
Other non-financial assets	method of detailed identification
Trade receivables	method of detailed identification
Receivables related to sale of non-financial non-current assets	method of detailed identification
VAT receivables	excluded from the division
Income tax receivables	excluded from the division
Other receivables	excluded from the division
Inventories	method of detailed identification
Cash and cash equivalents	excluded from the division
Deferred tax assets	excluded from the division

according to EU IFRS (in thousands of PLN)

34. Disclosures following from Article 36g Section 1 of the rail transport act (cont.)

Item designation	Allocation key
EQUITY AND LIABILITIES	
Equity except for the profit for the reporting period	excluded from the division
Trade payables and accruals	method of detailed identification
Liabilities related to purchase of non-financial non-current assets	method of detailed identification
VAT liabilities	excluded from the division
Current tax liabilities	excluded from the division
Liabilities related to salaries, personal income tax, social contributions and Company Social Benefits Fund	proportional method
Finance lease liabilities	excluded from the division
Other liabilities	excluded from the division
Bank loans and borrowings	excluded from the division
Provisions for employee benefits	proportional method
Other provisions	method of detailed identification
Deferred tax liabilities	excluded from the division

Division of the statement of comprehensive income and statement of financial position for 2016-2017 into individual types of activity

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

	Activity associated with the service infrastructure	Elimination of capitalized expenses	Other activities	Excluded items	Year ended 31/12/2017 (audited)
Revenue from sales of services	5,439	-	3,537,033	-	**3,542,472**
Revenue from sales of materials	-	-	12,216	-	**12,216**
Other operating revenue	-	-	37,126	-	**37,126**
Total operating revenue	**5,439**	**-**	**3,586,375**	**-**	**3,591,814**
Depreciation and amortization and impairment losses	8,683	-	431,927	-	**440,610**
Consumption of materials and energy	83,996	(33,166)	514,409	-	**565,239**
External services	37,040	(8,512)	1,136,653	-	**1,165,181**
Taxes and charges	2,291	(312)	29,959	-	**31,938**
Employee benefits	133,328	(24,256)	1,040,012	-	**1,149,084**
Other expenses by kind	389	(1,585)	44,329	-	**43,133**
Cost of materials sold	-	-	8,358	-	**8,358**
Other operating expenses	-	-	37,042	-	**37,042**
Total operating expenses	**265,727**	**(67,831)**	**3,242,689**	**-**	**3,440,585**
Operating profit / (loss)	**(260,288)**	**67,831**	**343,686**	**-**	**151,229**
Financial revenue	-	-	-	30,915	**30,915**
Financial expenses	2,913	-	15,993	37,791	**56,697**
Profit / (loss) before tax	**(263,201)**	**67,831**	**327,693**	**(6,876)**	**125,447**
Income tax	-	-	-	31,480	**31,480**
NET PROFIT / (LOSS)	**(263,201)**	**67,831**	**327,693**	**(38,356)**	**93,967**

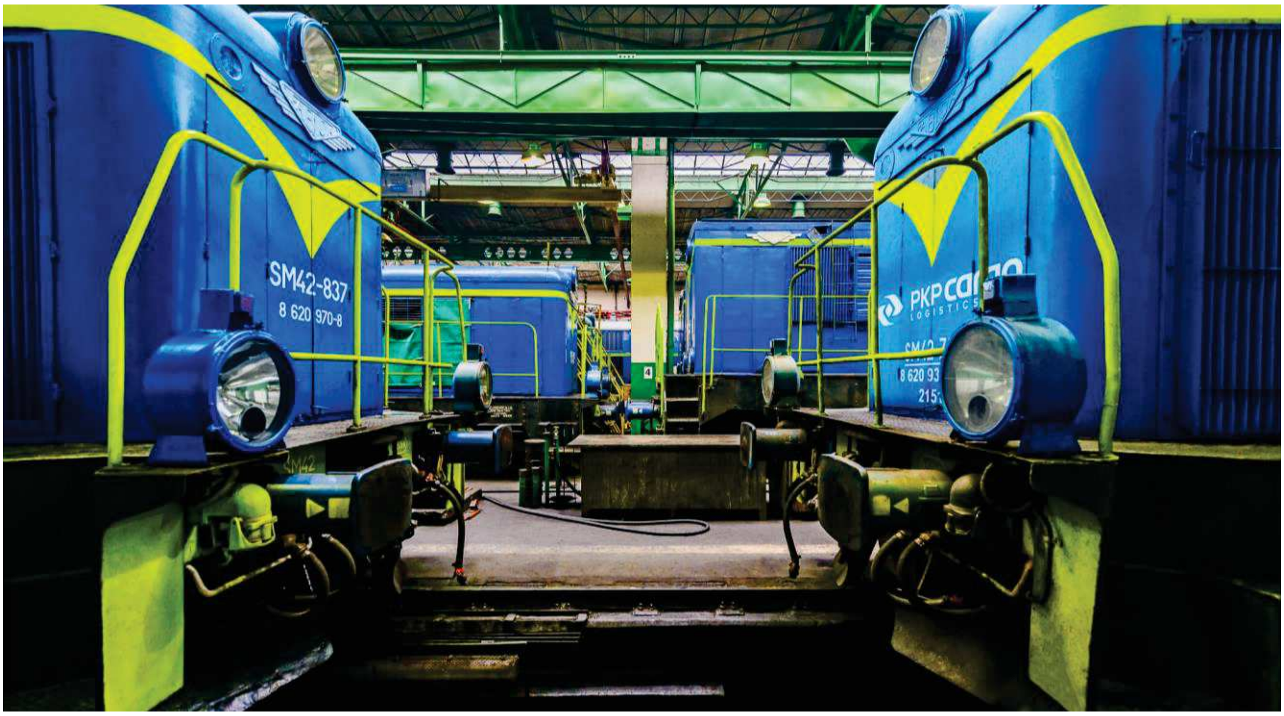
according to EU IFRS (in thousands of PLN)

34. Disclosures following from Article 36g Section 1 of the rail transport act (cont.)

STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2016 TO 31 DECEMBER 2016

	Activity associated with the service infrastructure	Elimination of capitalized expenses	Other activities	Excluded items	Year ended 31/12/2016 (audited)
Revenue from sales of services	4,520	-	3,203,645	-	**3,208,165**
Revenue from sales of materials	-	-	10,840	-	**10,840**
Other operating revenue	-	-	31,452	-	**31,452**
Total operating revenue	**4,520**	**-**	**3,245,937**	**-**	**3,250,457**
Depreciation and amortization and impairment losses	13,684	-	461,160	-	**474,844**
Consumption of materials and energy	65,266	(15,436)	482,825	-	**532,655**
External services	35,476	(7,302)	1,050,353	-	**1,078,527**
Taxes and charges	2,379	(162)	26,370	-	**28,587**
Employee benefits	124,168	(16,176)	981,109	-	**1,089,101**
Other expenses by kind	505	(1,944)	43,259	-	**41,820**
Cost of materials sold	-	-	7,670	-	**7,670**
Other operating expenses	-	-	28,364	-	**28,364**
Total operating expenses	**241,478**	**(41,020)**	**3,081,110**	**-**	**3,281,568**
Operating profit / (loss)	**(236,958)**	**41,020**	**164,827**	**-**	**(31,111)**
Financial revenue	-	-	20,532	-	**20,532**
Financial expenses	2,826	-	16,268	41,017	**60,111**
Profit / (loss) before tax	**(239,784)**	**41,020**	**169,091**	**(41,017)**	**(70,690)**
Income tax	-	-	-	(2,125)	**(2,125)**
NET PROFIT / (LOSS)	**(239,784)**	**41,020**	**169,091**	**(38,892)**	**(68,565)**

As part of activities associated with service infrastructure, costs were incurred in connection with the services performed for the needs of the Company's core business in the amount of about PLN 264 milion and PLN 238 milion in 2017 and 2016, respectively.



according to EU IFRS (in thousands of PLN)

34. Disclosures following from Article 36g Section 1 of the rail transport act (cont.)

SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017

	Activity associated with the service infrastructure	Other activity	Excluded items	Year ended 31/12/2017 (audited)
ASSETS				
Non-current assets				
Property, plant and equipment	115,621	3,495,641	-	**3,611,262**
Intangible assets	-	39,561	-	**39,561**
Investments in subsidiaries, associates and joint ventures	-	-	804,629	**804,629**
Other non-current financial assets	-	-	8,647	**8,647**
Other non-current non-financial assets	-	4,484	-	**4,484**
Deferred tax assets	-	-	89,904	**89,904**
Total non-current assets	**115,621**	**3,539,686**	**903,180**	**4,558,487**
Current assets				
Inventories	42,073	44,353	-	**86,426**
Trade and other receivables	926	460,118	25,563	**486,607**
Other current financial assets	-	-	281,630	**281,630**
Other current non-financial assets	-	27,976	-	**27,976**
Cash and cash equivalents	-	-	295,910	**295,910**
Total current assets	**42,999**	**532,447**	**603,103**	**1,178,549**
TOTAL ASSETS	**158,620**	**4,072,133**	**1,506,283**	**5,737,036**
EQUITY AND LIABILITIES				
Equity				
Share capital	-	-	2,239,346	**2,239,346**
Supplementary capital	-	-	589,202	**589,202**
Other items of equity	-	-	12,469	**12,469**
Retained earnings	-	-	265,444	**265,444**
Total equity	**-**	**-**	**3,106,461**	**3,106,461**
Long-term liabilities				
Long-term bank loans and borrowings	-	-	1,211,148	**1,211,148**
Long-term finance lease liabilities	-	-	3,308	**3,308**
Long-term provisions for employee benefits	76,403	426,453	-	**502,856**
Other long-term provisions	-	14,224	-	**14,224**
Long-term liabilities, total	**76,403**	**440,677**	**1,214,456**	**1,731,536**
Short-term liabilities				
Short-term bank loans and borrowings	-	-	219,352	**219,352**
Short-term finance lease liabilities	-	-	31,069	**31,069**
Short-term trade and other payables	30,910	437,731	80,547	**549,188**
Short-term provisions for employee benefits	10,067	71,357	-	**81,424**
Other short-term provisions	-	16,905	-	**16,905**
Short-term tax liabilities	-	-	1,101	**1,101**
Short-term liabilities, total	**40,977**	**525,993**	**332,069**	**899,039**
Total liabilities	**117,380**	**966,670**	**1,546,525**	**2,630,575**
TOTAL EQUITY AND LIABILITIES	**117,380**	**966,670**	**4,652,986**	**5,737,036**

according to EU IFRS (in thousands of PLN)

34. Disclosures following from Article 36g Section 1 of the rail transport act (cont.)

SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016

	Activity associated with the service infrastructure	Other activity	Excluded items	Year ended 31/12/2016 (audited)
ASSETS				
Non-current assets				
Property, plant and equipment	123,206	3,438,787	-	**3,561,993**
Intangible assets	-	50,778	-	**50,778**
Investments in subsidiaries, associates and joint ventures	-	-	737,974	**737,974**
Other non-current financial assets	-	-	6,169	**6,169**
Other non-current non-financial assets	-	8,162	-	**8,162**
Deferred tax assets	-	-	76,244	**76,244**
Total non-current assets	**123,206**	**3,497,727**	**820,387**	**4,441,320**
Current assets				
Inventories	45,542	14,159	-	**59,701**
Trade and other receivables	768	407,201	5,638	**413,607**
Income tax receivables	-	-	1,304	**1,304**
Other current financial assets	-	-	87	**87**
Other current non-financial assets	-	19,716	-	**19,716**
Cash and cash equivalents	-	-	611,990	**611,990**
Non-current assets classified as held for sale	-	6,000	-	**6,000**
Total current assets	**46,310**	**447,076**	**619,019**	**1,112,405**
TOTAL ASSETS	**169,516**	**3,944,803**	**1,439,406**	**5,553,725**

according to EU IFRS (in thousands of PLN)

34. Disclosures following from Article 36g Section 1 of the rail transport act (cont.)

SEPARATE STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2016 (cont.)

	Activity associated with the service infrastructure	Other activity	Excluded items	Year ended 31/12/2016 (audited)
EQUITY AND LIABILITIES				
Equity				
Share capital	-	-	2,239,346	**2,239,346**
Supplementary capital	-	-	589,202	**589,202**
Other items of equity	-	-	18,415	**18,415**
Retained earnings	-	-	171,477	**171,477**
Total equity	**-**	**-**	**3,018,440**	**3,018,440**
Long-term liabilities				
Long-term bank loans and borrowings	-	-	1,170,224	**1,170,224**
Long-term finance lease liabilities	-	-	36,159	**36,159**
Long-term trade and other payables	-	582	-	**582**
Long-term provisions for employee benefits	69,061	404,904	-	**473,965**
Other long-term provisions	-	16,455	-	**16,455**
Long-term liabilities, total	**69,061**	**421,941**	**1,206,383**	**1,697,385**
Short-term liabilities				
Short-term bank loans and borrowings	-	-	178,170	**178,170**
Short-term finance lease liabilities	-	-	43,176	**43,176**
Short-term trade and other payables	27,109	330,763	107,539	**465,411**
Short-term provisions for employee benefits	8,899	71,625	-	**80,524**
Other short-term provisions	-	11,640	-	**11,640**
Other short-term financial liabilities	-	-	58,979	**58,979**
Short-term liabilities, total	**36,008**	**414,028**	**837,864**	**837,900**
Total liabilities	**105,069**	**835,969**	**1,594,247**	**2,535,285**
TOTAL EQUITY AND LIABILITIES	**105,069**	**835,969**	**4,612,687**	**5,553,725**

35. Subsequent events

There we no significant events affecting the Company's operations after the balance sheet date.

36. Approval of the financial statements

These Separate Financial Statements have been approved for publication by the Company’s Management Board on 15 March 2018.

Company's Management Board

Krzysztof Mamiński
acting President of the Management Board

Grzegorz Fingas
Management Board Member

Witold Bawor
Management Board Member

Zenon Kozendra
Management Board Member

Warsaw, 15 March 2018