

Activity Report of the PKP CARGO S.A. Supervisory Board as the Company's corporate body in the financial year 2016

1. PKP CARGO S.A. was established on 29 June 2001 (Notary Deed Rep. A No. 1287/2001). The Company was registered in the National Court Register on 17 July 2001 under file number KRS 0000027702. The Company's seat is Warsaw.
2. The PKP CARGO S.A. Supervisory Board of the fifth term of office started its activity in the financial year 2016 in the following composition:

Mr. Mirosław Pawłowski	– Chairman of the PKP CARGO S.A. Supervisory Board
Mr. Stanisław Knaflewski	– Member of the PKP CARGO S.A. Supervisory Board
Mr. Raimondo Eggink	– Member of the PKP CARGO S.A. Supervisory Board
Mr. Jerzy Kleniewski	– Member of the PKP CARGO S.A. Supervisory Board
Mr. Andrzej Wach	– Member of the PKP CARGO S.A. Supervisory Board
Mr. Czesław Warsewicz	– Member of the PKP CARGO S.A. Supervisory Board
Mr. Maciej Libiszewski	– Member of the PKP CARGO S.A. Supervisory Board
Ms. Małgorzata Kryszkiewicz	– Member of the PKP CARGO S.A. Supervisory Board
Mr. Kazimierz Jamrozik	– Member of the PKP CARGO S.A. Supervisory Board

On 19 January 2016, Mr. Maciej Libiszewski submitted his resignation from the function of the Supervisory Board Member, effective as of 19 January 2016.

On 30 March 2016, the PKP CARGO S.A. Supervisory Board adopted Resolution No. 1531/V/2016 on carrying out the election for the representatives of the employees in the PKP CARGO S.A. Supervisory Board of the sixth term of office. By virtue of Resolution No. 1589/VI/2016, the PKP CARGO S.A. Supervisory Board confirmed appointment of all the proposed candidates for the representatives of the employees in the PKP CARGO S.A. Supervisory Board of the sixth term of office, i.e. the following persons:

- Mr. Krzysztof Czarnota,
- Mr. Marek Podskalny,
- Mr. Tadeusz Stachaczyński.

With the letter of 22 April 2016, the Company's shareholder – Polskie Koleje Państwowe S.A., exercising the right laid down in § 19 Sec. 8 of the PKP CARGO S.A. Articles of Association, set the number of Members of the PKP CARGO S.A. Supervisory Board of the sixth term of office at 11.

On 11 May 2016, the Ordinary Shareholder Meeting of PKP CARGO S.A. approved the financial statements for the last full financial year of the Supervisory Board of the fifth term of office, and thus started the sixth term of office of the PKP CARGO S.A. Supervisory Board.

With effect from 11 May 2016, Polskie Koleje Państwowe S.A. appointed the following persons to the PKP CARGO S.A. Supervisory Board of the sixth term of office:

- Mr. Mirosław Pawłowski,
- Mr. Andrzej Wach,
- Ms. Małgorzata Kryszkiewicz,
- Mr. Czesław Warsewicz,
- Mr. Jerzy Kleniewski.

On 11 May 2016, the Ordinary Shareholder Meeting of PKP CARGO S.A. by way of Resolution No. 31/2016, appointed Mr. Raimondo Eggink to the PKP CARGO S.A. Supervisory Board.

On 11 May 2016, the Ordinary Shareholder Meeting of PKP CARGO S.A. by way of Resolution No. 32/2016, appointed Ms. Zofia Dzik to the PKP CARGO S.A. Supervisory Board.

The PKP CARGO S.A. Supervisory Board ended 2016 in the following composition:

Mr. Mirosław Pawłowski	– Chairman of the PKP CARGO S.A. Supervisory Board
Mr. Andrzej Wach	– Deputy Chairman of the PKP CARGO S.A. Supervisory Board
Mr. Raimondo Eggink	– Member of the PKP CARGO S.A. Supervisory Board
Mr. Jerzy Kleniewski	– Member of the PKP CARGO S.A. Supervisory Board
Mr. Czesław Warsewicz	– Member of the PKP CARGO S.A. Supervisory Board
Ms. Zofia Dzik	– Member of the PKP CARGO S.A. Supervisory Board
Ms. Małgorzata Kryszkiewicz	– Member of the PKP CARGO S.A. Supervisory Board
Mr. Marek Podskalny	– Member of the PKP CARGO S.A. Supervisory Board
Mr. Krzysztof Czarnota	– Member of the PKP CARGO S.A. Supervisory Board
Mr. Tadeusz Stachaczyński	– Member of the PKP CARGO S.A. Supervisory Board

Changes in the composition of PKP CARGO S.A. Supervisory Board in the financial year 2016 are presented in the following table:

No.	Full name	Position	Period in office	
			from	to
1	Stanisław Knaflewski	Supervisory Board member	17 December 2013	11 May 2016
2	Raimondo Eggink	Supervisory Board Member	13 April 2015*	to date
3	Mirosław Pawłowski	Supervisory Board Member	17 December 2015	18 December 2015
		Supervisory Board Chairman	18 December 2015	6 March 2017
4	Jerzy Kleniewski	Supervisory Board Member	17 December 2015*	14 March 2017
5	Andrzej Wach	Supervisory Board Member	17 December 2015*	27 April 2016
		Supervisory Board Deputy Chairman	27 April 2016	to date
6	Maciej Libiszewski	Supervisory Board Member	17 December 2015 (from 18 December 2015 delegated as acting President of the Management Board)	19 January 2016 (resignation)
7	Czesław Warsewicz	Supervisory Board Member	17 December 2015*	to date
8	Małgorzata Kryszkiewicz	Supervisory Board Member	17 December 2015*	to date
9	Kazimierz Jamrozik	Supervisory Board Member	24 May 2012	11 May 2016
10	Zofia Dzik	Supervisory Board Member	11 May 2016	to date
11	Marek Podskalny	Supervisory Board Member	20 May 2016	to date
12	Krzysztof Czarnota	Supervisory Board Member	20 May 2016	to date
13	Tadeusz Stachaczyński	Supervisory Board Member	20 May 2016	to date

** the sixth term of office of the PKP CARGO S.A. Supervisory Board began on 11 May 2016, the date of holding the Ordinary Shareholder Meeting of PKP CARGO S.A.*

Source: Proprietary material

3. Pursuant to the provisions of § 20 Sec. 1 of the Company's Articles of Association, at least two Supervisory Board members elected by the Shareholder Meeting should satisfy the criteria of independence from the Company and entities with significant ties to the Company. In addition, the aforementioned PKP CARGO S.A. Supervisory Board Members should satisfy the independence criteria for Supervisory Board Members defined by the European Commission in Annex II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board (EU OJ L. 05.52.51) and additional requirements specified in the "Good Practices of Companies Listed on the WSE" constituting an attachment to Resolution No. 26/1413/2015 of the WSE Supervisory Board of 13 October 2015.

From 1 January 2016 to 11 May 2016 these were the following PKP CARGO S.A. Supervisory Board Members:

- Mr. Stanisław Knaflewski – Resolution No. 66/2013 of the Extraordinary Shareholder Meeting of PKP CARGO S.A. dated 17 December 2013 on appointing the Supervisory Board Member;
- Mr. Raimondo Eggink – Resolution No. 2/2015 of the Extraordinary Shareholder Meeting of PKP CARGO S.A. dated 13 April 2015 on appointing the PKP CARGO S.A. Supervisory Board Member;

From 11 May 2016 to 31 December 2016 these were the following PKP CARGO S.A. Supervisory Board Members:

- Mr. Raimondo Eggink – Resolution No. 31/2016 of the Ordinary Shareholder Meeting of PKP CARGO S.A. dated 11 May 2016 on appointing the PKP CARGO S.A. Supervisory Board Member satisfying the independence criteria;
- Ms. Zofia Dzik – Resolution No. 32/2016 of the Ordinary Shareholder Meeting of PKP CARGO S.A. dated 11 May 2016 on appointing the PKP CARGO S.A. Supervisory Board Member satisfying the independence criteria;

4. In the financial year 2016, the Supervisory Board held 15 meetings, during which it adopted 107 resolutions. In addition to the resolutions adopted during meetings, in 2016 the Supervisory Board adopted 8 resolutions without holding a meeting, following the written procedure.
5. Absence of Supervisory Board Members was excused at Supervisory Board meetings by way of resolutions.

The dates of Supervisory Board meetings and number of Supervisory Board Members absent from the meetings in 2016 were as follows:

Supervisory Board meetings in 2016		
No.	date	number Supervisory Board members in attendance at the meeting
1	11 January 2016	not applicable
2	19 January 2016	one Supervisory Board Member
3	25 February 2016	one Supervisory Board Member
4	30-31 March 2016	not applicable
5	27 April 2016	not applicable
6	20 May 2016	not applicable
7	31 May 2016	not applicable
8	23 June 2016	not applicable
9	15 July 2016	one Supervisory Board Member
10	3 August 2016	not applicable
11	30 September 2016	not applicable
12	10 October 2016	one Supervisory Board Member
13	27 October 2016	one Supervisory Board Member
14	9 December 2016	not applicable
15	27 December 2016	not applicable

6. In the financial year 2016 the Supervisory Board concentrated on the most important issues determining the Company's operating activity, current and future financial standing, market position and its capacity to keep up with the increasing domestic and foreign competition in the evolving and liberalizing rail freight transport market. Presently, PKP CARGO S.A. holds safety certificates enabling it to render rail transport services on its own in Slovakia, the Czech Republic, Germany, Austria, Belgium, Hungary, the Netherlands and Lithuania. PKP CARGO S.A. continues to be the rail freight transport leader in Poland both in terms of freight volume and freight turnover.

6.1. In particular, in the financial year 2016, the Supervisory Board dealt with the following issues:

- acknowledging the appointment of the proposed candidates for employee representatives to the PKP CARGO S.A. Supervisory Board of the sixth term of office;
- electing the Chairman of the PKP CARGO S.A. Supervisory Board;
- electing the Deputy Chairman of the PKP CARGO S.A. Supervisory Board;
- establishing the Strategic Committee of the PKP CARGO S.A. Supervisory Board;
- appointing the composition of the Audit Committee of the PKP CARGO S.A. Supervisory Board;
- appointing the composition and Chairman of the PKP CARGO S.A. Nomination Committee;
- granting bonuses in connection with settlement of the MBO strategic objectives set for PKP CARGO S.A. Management Board Members in 2015;
- approving the new Visual Identification System for PKP CARGO S.A.;
- selecting the recruitment consultant in the recruitment procedure for the position of PKP CARGO S.A. Management Board Members;
- initiating the recruitment procedure for the position of President of the PKP CARGO S.A. Management Board and PKP CARGO S.A. Management Board Members;
- selecting and appointing the President and Members of the Management Board;
- setting the terms and conditions of employment of the President and newly appointed Members of the Management Board;
- authorizing the President of the PKP CARGO S.A. Supervisory Board to enter an employment contract with the President of the PKP CARGO S.A. Management Board;
- approving amendments to the PKP CARGO S.A. Management Board Bylaws;
- adopting the PKP CARGO S.A. Supervisory Board Bylaws;
- approving the Supervisory Board report on the assessment of the financial statements of PKP CARGO S.A. for the financial year 2015, the Management Board's report on the activity of PKP CARGO S.A. in 2015, the consolidated financial statements of the PKP CARGO Group for the financial year 2015, the Management Board's report on the activity of the PKP CARGO Group in 2015, the Management Board motion on covering the loss incurred by PKP CARGO S.A. in 2015, and assessing the Company's standing, taking into account the assessment of the internal control system and the significant risk management system;
- approving the "Activity report of the PKP CARGO S.A. Supervisory Board as the Company's corporate body in the financial year 2015";
- submitting a motion to the PKP CARGO S.A. Shareholder Meeting for granting a discharge to the President and Members of the Management Board, Chairman, Deputy Chairman and Members of the Supervisory Board of PKP CARGO S.A. on the performance of their duties in 2015;
- issuing an opinion on the agenda for the PKP CARGO S.A. Ordinary Shareholder Meeting;
- approving amendments to the "Rules and regulations for appointing members of the PKP CARGO S.A. Management Board" and amendments to "Rules and regulations for running elections for candidates to become an employee representative in the PKP CARGO S.A.

Management Board and to appoint employee representatives to the PKP CARGO S.A. Supervisory Board and the procedure for their removal" and the consolidated texts of the aforementioned rules and regulations;

- ordering the election of employee representatives in the PKP CARGO S.A. Supervisory Board of the sixth term of office;
- adopting the consolidated text of the Company's Articles of Association;
- approving the Organizational Bylaws of the Internal Control and Audit Department at the PKP CARGO S.A. Head Office;
- authorizing the PKP CARGO S.A. Management Board to made changes to lease/tenancy agreements;
- defining the objectives for the PKP CARGO S.A. Management Board for 2016;
- approving the "PKP CARGO S.A. Business Activity Plan for 2016";
- giving consent to enter into an agreement on performance of repairs of wheel sets for freight wagons by PKP CARGOTABOR Sp. z o.o.;
- entering into an agreement on performance of train and non-train traction service for PKP Intercity;
- giving consent to enter into an agreement on repair of 7 series ET41 locomotives performed by PKP CARGOTABOR sp. z o.o. on the P5 level together with their modernization in the period from execution of the agreement to 30 September 2016;
- giving consent to enter into an agreement with PKP Utrzymanie Sp. z o.o. on provision of maintenance services for the railway telecommunication and radio communication devices for the period of 6 months;
- entering into an agreement on performance of train and non-train traction service by PKP CARGO S.A. using locomotives and train crews for PKP Intercity in the period from 1 July 2016 to 30 September 2017;
- entering into an guarantee facility agreement with Credit Agricole Bank Polska S.A.;
- giving consent to incur a liability associated with PKP Informatyka Sp. z o.o. entering into an agreement on provision of the SAP Enterprise Support service for the SAP ERP modules for which PKP CARGO S.A. holds licenses;
- establishing a PKP CARGO Tax Group;
- giving consent to enter into an Annex to the Agreement with PKP CARGOTABOR Sp. z o.o. on performance of repairs of wheel sets for freight wagons;
- giving consent to incur a liability through accepting the Proposal of PKP Energetyka S.A. for the sale of electricity and provision of distribution service for PKP CARGO S.A. in 2017-2018 and entering into an agreement in this regard;
- giving consent to incur a liability through entering into a rail infrastructure access agreement for cargo transport covering the 2016/2017 timetable with PKP Polskie Linie Kolejowe S.A.;
- giving consent to enter into Annex no. 2 to the agreement with Green Cargo AB for transport with the "Jan Śniadecki" ferry;
- giving consent to enter into a Memorandum of Understanding to Agreement no. 5700020870 (UHS-711/31/16/P) on provision of maintenance, lease and emergency repair services for the railway telecommunication and radio communication devices with PKP Utrzymanie Sp. z o.o. with its registered office in Warsaw;
- giving consent to incur a liability through entering into an agreement on provision of services by PKP PLK S.A. and PKP CARGO S.A. on access to data from the SEPE System with PKP Polskie Linie Kolejowe S.A.;

- giving consent to enter into annexes to agreements on current repairs of wagons and periodic inspections of wagons entered into with PKP CARGOTABOR Sp. z o.o.;
- giving consents to enter into a rail infrastructure access agreement with CARGOTOR Sp. z o.o.;
- giving consent to enter into annexes to agreements on current repairs of wagons and periodic inspections of wagons entered into with PKP CARGOTABOR Sp. z o.o.;
- giving consent to acquire concessionary transportation services for 2017;
- giving consent to enter into an agreement, with PKP Intercity S.A., on paid-for provision of passenger wagons for transport of persons in military or extraordinary transport organized and executed by PKP CARGO S.A. on domestic and international routes;
- giving consent to enter into an agreement on performance of traction services by PKP CARGOTABOR Sp. z o.o. for Pomorskie Przedsiębiorstwo Mechaniczno-Torowe sp. z o.o.;
- giving consent to enter into an agreement on performance of traction services associated with securing the locomotives together with train crews for business and emergency purposes by PKP CARGO S.A. for the needs of PKP Polskie Linie Kolejowe S.A.;
- entering into an investment loan agreement with the European Investment Bank;
- entering into an annex to the investment loan agreement concluded with Bank Polska Kasa Opieki SA;
- selling 42 locomotives;
- entering into an agreement on periodic repairs of electric and diesel locomotives on levels P4 and P5 by PKP CARGOTABOR Sp. z o.o.;
- entering into an agreement on periodic repairs of wagons on levels P4 and P5 by PKP CARGOTABOR Sp. z o.o.;
- entering into an agreement on periodic inspections of wagons on level P3 by PKP CARGOTABOR Sp. z o.o.;
- entering into an agreement on current repairs of wagons by PKP CARGOTABOR Sp. z o.o. in 2016;
- entering into rolling stock repair shop lease agreement with PKP CARGOTABOR Sp. z o.o. with its registered office in Warsaw;
- preparing and issuing opinions on the Management Board motions to the PKP CARGO S.A. Shareholder Meetings pertaining to, among other things:
 - review of the standalone financial statements of PKP CARGO S.A. and the PKP CARGO S.A. Management Board's activity report for the financial year 2015;
 - evaluating the consolidated financial statements of the PKP CARGO Group for the financial year 2015 and the PKP CARGO S.A. Management Board's report on the activity of the PKP CARGO Group in the financial year 2015;
 - covering the loss incurred by PKP CARGO S.A. in 2015;
 - discharging the Members of the Company's Management Board and Supervisory Board on the performance of their duties in the financial year 2015;
 - amendment of PKP CARGO S.A.'s Articles of Association.

6.2. In addition, the Supervisory Board familiarized itself with the information supplied by the PKP CARGO S.A. Management Board and drew up its stance in these matters, which is reflected in the provisions of the minutes from the Supervisory Board meetings. The information supplied by the PKP CARGO S.A. Management Board for the Supervisory Board pertained to, among other things:

- progress in the work on selection of the statutory auditor to audit the standalone and consolidated financial statements of PKP S.A. and PKP Group Companies for 3 financial years, i.e. 2016-2018;
- execution of the tasks pertaining to election of candidates for the employees' representative in the Management Board;
- appointment of new PKP CARGO S.A. Management Board Members;
- commercial terms of the biggest tenders in which the Company took part in 2015-2016;
- the process of acquisition of the Polish assets from PKN Orlen S.A.;
- definition of the financial terms of the locomotive repairs executed in the PKP CARGO group;
- introduction of a new reporting duty;
- the Company's economic and transportation results;
- development of intermodal transport and activity of PKP CARGO CONNECT Sp. z o.o.;
- key data of the Business Activity Plan for 2017;
- planned motions to the PKP CARGO S.A. Supervisory Board for consent to enter into material agreements;
- general benchmarking of PKP CARGO S.A. vs. AWT Group in H1 2016 and presentation of the AWT Group;
- operational results of the train crew employees in the period January - August 2016 compared to 2015;
- reorganization of the organizational structure of the commercial activity, market situation and prepared incentive system for commercial employees;
- status of preparation of the agreement on provision of the SAP Enterprise Support service for the SAP ERP modules for which PKP CARGO S.A. holds licenses and plans to renew the support in 2017;
- planned investments in the intermodal services market.

The activities of the Supervisory Board were documented in adopted resolutions and minutes from the Supervisory Board meetings in 2016.

6. In pursuance of the powers defined in the Commercial Companies Code and Shareholder Meeting resolutions, the Supervisory Board familiarized itself with the information of the PKP CARGO S.A. Management Board on issues of key importance for the Company and its position both in the domestic and international market.
7. As a result of the procedure to grant a non-public order entitled "Selection of the statutory auditor to audit the standalone and consolidated financial statements of PKP S.A. and PKP Group Companies for 3 financial years, i.e. 2016-2018", on 30 June 2016 the Supervisory Board selected BDO Sp. z o.o. in Warsaw. In the aforementioned procedure PKP CARGO S.A. was represented by two Audit Committee members.
8. In pursuance of the specific obligations following from Article 382 § 3 of the Commercial Companies Code, the PKP CARGO S.A. Supervisory Board:
 - a) evaluated the financial statements of PKP CARGO S.A. for the financial year 2015 and adopted Resolution No. 1533/V/2016 (30 March 2016),
 - b) reviewed and issued a positive opinion on the PKP CARGO S.A. Management Board motion to cover the net loss incurred for 2015 stemming from the Standalone Financial Statements of PKP CARGO S.A. for the period from 1 January 2015 to 31 December 2015 and not to pay dividend for the financial year from 1 January 2015 to 31 December 2015 and adopted Resolution No. 1565/V/2016 (31 March 2016) to this effect.
9. Changes in the composition of PKP CARGO S.A. Management Board in the financial year 2016 are presented in the following table:

Composition of the PKP CARGO S.A. Management Board for the reporting period from 1 January 2016 to 31 December 2016

No.	Full name	Position	Period in office	
			from	to
1.	Maciej Libiszewski	acting President of the Management Board	18 December 2015	19 January 2016
		President of the Management Board	19 January 2016	to date
2.	Wojciech Derda	Management Board Member responsible for Operations	24 April 2014	24 February 2016
3.	Jacek Neska	Management Board Member responsible for Trade	24 April 2014	24 February 2016
4.	Dariusz Browarek	Management Board Member – Employee Representative	24 April 2014	11 May 2016
5.	Łukasz Hadyś	Management Board Member responsible for Finance	12 May 2014	24 February 2016
6.	Jarosław Klasa	Management Board Member responsible for Operations	1 April 2016	to date
7.	Grzegorz Fingas	Management Board Member responsible for Trade	1 April 2016	to date
8.	Arkadiusz Olewnik	Management Board Member responsible for Finance	1 April 2016	to date
9.	Zenon Kozendra	Management Board Member – Employee Representative	14 July 2016	to date

Source: Proprietary material

On 18 December 2015, by way of Resolution No. 1494/V/2015 of the PKP CARGO S.A. Supervisory Board, Mr. Maciej Libiszewski was delegated as a Member of the PKP CARGO S.A. Supervisory Board to perform on a temporary basis the duties of a Member of the PKP CARGO S.A. Management Board and hold the position of President of the PKP CARGO S.A. Management Board.

On 11 January 2016, the PKP CARGO S.A. Supervisory Board adopted Resolution No. 1509/V/2016 on initiating the recruitment procedure for the position of President of the PKP CARGO S.A. Management Board.

The recruitment procedure was carried out in accordance with § 14 Section 4 of the Articles of Association of PKP CARGO S.A. and the Bylaws for Appointing Management Board Members in PKP CARGO S.A.

On 19 January 2016, by way of Resolution No. 1511/V/2016 Maciej Libiszewski was appointed to the position of President of the PKP CARGO S.A. Management Board for the joint term of office of the Company's Management Board within the meaning of § 27 Section 5 of the Company's Articles of Association and by Resolution No. 1512/V/2016, Maciej Libiszewski was appointed to the position of President of the PKP CARGO S.A. Management Board for the term of office following the term of office of the Company's Management Board Members within the meaning of § 27 Section 5 in conjunction with § 14 Section 1 of the PKP CARGO S.A.'s Articles of Association.

On 8 February 2016, the PKP CARGO S.A. Supervisory Board adopted Resolution No. 1514/V/2016 on initiating the recruitment procedure for Management Board Member responsible for Finance, Management Board Member responsible for Trade and Management Board Member responsible for Operations.

The recruitment procedure was carried out in accordance with § 14 Section 6 of the Articles of Association of PKP CARGO S.A. and the Bylaws for Appointing Management Board Members in PKP CARGO S.A.

On 30 January 2016, the PKP CARGO S.A. Supervisory Board adopted Resolution No. 1532/V/2016 on initiating the recruitment procedure for the position of Management Board Member – Representative of the Employees of PKP CARGO S.A.

On 31 March 2016, the Supervisory Board adopted Resolution No. 1570/V/2016 appointing as of 1 April 2016 Arkadiusz Olewnik to the position of the PKP CARGO S.A. Management Board Member responsible for Finance for the joint term of office of the Company's Management Board within the meaning of § 27 Section 5 of the Company's Articles of Association and by Resolution No. 1571/V/2016, Arkadiusz Olewnik was appointed to the position of the PKP CARGO S.A. Management Board Member responsible for Finance for the joint term of office following the term of office of the Company's Management Board Members within the meaning of § 27 Section 5 in conjunction with § 14 Section 1 of the Articles of Association of PKP CARGO S.A.

On 31 March 2016, the Supervisory Board adopted Resolution No. 1572/V/2016 appointing as of 1 April 2016 Jarosław Klasa to the position of the PKP CARGO S.A. Management Board Member responsible for Operations for the joint term of office of the Company's Management Board within the meaning of § 27 Section 5 of the Company's Articles of Association and by Resolution No. 1573/V/2016, Jarosław Klasa was appointed to the position of the PKP CARGO S.A. Management Board Member responsible for Operations for the joint term of office following the term of office of the Company's Management Board Members within the meaning of § 27 Section 5 in conjunction with § 14 Section 1 of the Articles of Association of PKP CARGO S.A.

On 31 March 2016, the Supervisory Board adopted Resolution No. 1574/V/2016 appointing as of 1 April 2016 Grzegorz Fingas to the position of the PKP CARGO S.A. Management Board Member responsible for Trade for the joint term of office of the Company's Management Board within the meaning of § 27 Section 5 of the Company's Articles of Association and by Resolution No. 1575/V/2016, Grzegorz Fingas was appointed to the position of the PKP CARGO S.A. Management Board Member responsible for Commerce for the joint term of office following the term of office of the Company's Management Board Members within the meaning of § 27 Section 5 in conjunction with § 14 Section 1 of the Articles of Association of PKP CARGO S.A.

On 14 July 2016, the PKP CARGO S.A. Supervisory Board adopted Resolution No. 1599/VI/2016 to appoint as of 14 July 2016 Mr. Zenon Kozendra to the position of Management Board Member – Employee Representative.

The Supervisory Board issued an opinion on the motion to the Shareholder Meeting to grant a discharge to the PKP CARGO S.A. Management Board and Supervisory Board Members on the performance of their duties in the financial year 2015 (Supervisory Board Resolutions from 1537/V/2015 to 1561/V/2015) dated 30 March 2016.

10. PKP CARGO S.A. Supervisory Board Committees:

The activities of the Supervisory Board were supported by the Committees operating as collective advisory and opinion-making bodies of the PKP CARGO S.A. Supervisory Board, appointed from among its members.

In 2016 the following Committees were operating within the framework of the PKP CARGO S.A. Supervisory Board:

- Audit Committee
- Nomination Committee
- Strategic Committee

The detailed scope of the work of the Committees in 2016 is documented in the minutes from the meetings of individual committees.

SUPERVISORY BOARD AUDIT COMMITTEE

The PKP CARGO S.A. Audit Committee is appointed by the PKP CARGO S.A. Supervisory Board. It consists of at least three Supervisory Board Members, including two Members (including the Committee Chairman) meeting the independence criteria and appointed in the manner specified in § 20 and 21 of the Company's Articles of Association. At least one Audit Committee member should be qualified in accounting or financial audit. Committee members are appointed for a term corresponding to the Supervisory Board's term of office. Tasks of the Audit Committee include in particular: supervision over the organizational unit responsible for internal audit, monitoring the financial reporting process, monitoring the performance of financial audit activities, monitoring the independence of the statutory auditor and the entity authorized to audit financial statements, recommending an entity authorized to audit financial statements to the Supervisory Board to perform financial audit activities for the Company, etc.

As at 1 January 2016, the composition of the PKP CARGO S.A. Supervisory Board Audit Committee was as follows:

- Mr. Raimondo Eggink– Chairman of the Supervisory Board Audit Committee
- Mr. Stanisław Knaflewski– Member of the Supervisory Board Audit Committee
- Ms. Małgorzata Kryszkiewicz– Member of the Supervisory Board Audit Committee

In connection with appointing the new PKP CARGO S.A. Supervisory Board of the sixth term of office, on 20 May 2016, the Supervisory Board adopted Resolution No. 1591/VI/2016 appointing a new composition of the PKP CARGO S.A. Supervisory Board Audit Committee, which ended 2016 in the following composition:

- Mr. Raimondo Eggink– Chairman of the Supervisory Board Audit Committee
- Ms. Zofia Dzik– Member of the Supervisory Board Audit Committee
- Ms. Małgorzata Kryszkiewicz– Member of the Supervisory Board Audit Committee

Composition of the PKP CARGO S.A. Supervisory Board Audit Committee for the reporting period from 1 January 2016 to 31 December 2016

No.	Full name	Position	Period in office	
			from	to
1	Stanisław Knaflewski	Committee Member	6 February 2014	11 May 2016
2	Raimondo Eggink	Committee Chairman Committee Member Committee Chairman	18 December 2015 20 May 2016 31 May 2016	11 May 2016 31 May 2016 to date
3	Małgorzata Kryszkiewicz	Committee Member	18 December 2015 20 May 2016	11 May 2016 to date
4	Zofia Dzik	Committee Member	20 May 2016	to date

* date of elapse of the fifth term of office of the Company's Supervisory Board

Source: Proprietary material

In 2016 the Audit Committee held 17 minuted meetings.

The Audit Committee meetings were attended by its members. During discussions on specific issues the Management Board was represented by a competent Management Board Member or department directors. The Audit Committee and its individual members also met directly with the Company's employees and statutory auditor.

In particular, the Audit Committee dealt with the following issues:

- preparation and adoption of the Audit Committee work schedule for 2016 and 2017;
- review of the regulations regulating its activities from the perspective of their maximum effectiveness;

- adoption of the activity report of the PKP CARGO S.A. Supervisory Board Audit Committee for H2 2015;
- adoption of the activity report of the PKP CARGO S.A. Supervisory Board Audit Committee for H2 2016;
- approval of the Organizational Bylaws of the Internal Control and Audit Department at the PKP CARGO S.A.;
- review of the regulations regulating its activities from the perspective of their maximum effectiveness and self-assessment of the Supervisory Board Audit Committee;
- issuance of an opinion on the annual budget of the internal audit unit to submit it to the Supervisory Board for approval;
- analysis of the internal audit plan for 2016;
- analysis of the information on the results of the audits carried out in the Company and periodic assessment of the work of the internal audit unit in the Company;
- monitoring of the implementation of the auditor's recommendations;
- review of the procurement procedures;
- analysis of the information on IT security (audits, inspections, monitoring of implementation of recommendations);
- abuse prevention system (monitoring the development and implementation of the system, summing up identified cases);
- analysis of the information on IT security: audits, inspections, monitoring of implementation of recommendations;
- familiarization with the risk management policies and risk map;
- assessment of the effectiveness of the system for management of the risks that have material impact on the Company's functioning, including its identification and mitigation methods;
- analysis of the information on regulatory risk management, including information on external inspection results;
- analysis of information on operational risk management;
- analysis of the semi-annual report on implementation of the recommendations of internal audits;
- analysis of information on operating system back-up in the context of IT business continuity;
- review of the internal control and risk management systems to ensure that the key risks are correctly identified, managed and disclosed;
- approval of the internal audit plan for the next year and meeting with the Internal Audit Department Director;
- analysis of the results of the annual review of the PKP CARGO S.A. financial statements and consolidated financial statements of the PKP CARGO S.A. Group for 2015;
- review of the schedule of selection of an auditor to review the PKP Group Companies' financial statements for 2016-2018;
- control of the services provided by the entity carrying out the financial review and statutory auditor together with evaluation of the independence of the auditor and quality of cooperation of the Supervisory Board Audit Committee with the auditor;
- explanation of the necessity to prepare and review annual consolidated financial statements of AWT B.V.;
- discussion of the semi-annual review of the financial statements;
- analysis of the financial statements;

- review of the structure of the financial department, key persons, training plan and succession plan;
- analysis of financial risk management (financing, credit risk, FX risk, security policy, insurance policy);
- review of the structure of the financial department, key persons, training plan and succession plan;
- review and assessment of the applied accounting policy, in particular changes during the year;
- review of the tools used in financial reporting, including management reporting;
- review of the management board's material estimates;
- review of the transactions with related parties;
- tax review (including deferred taxes);
- assessment of cooperation with the entities providing advisory and consulting services;
- analysis of information on the legal actions taken by or against by the Company;
- analysis of information on the residual value of the rolling stock;
- review of structure of the group;
- review of the activity in the area of investor relations.

NOMINATION COMMITTEE

The Nomination Committee is appointed by the PKP CARGO S.A. Supervisory Board. It consists of three Supervisory Board members, of which at least one Supervisory Board Member meeting the independence criteria and appointed in the manner specified in § 20 and 21 of the Company's Articles of Association. Committee members are appointed for a term corresponding to the Supervisory Board's term of office. The Nomination Committee organizes and exercises ongoing oversight over the recruitment procedure to the positions of Management Board Members and over the Management Board Member evaluation and appointment process.

As at 1 January 2016 the composition of the PKP CARGO S.A. Supervisory Board Nomination Committee was as follows:

- Mr. Stanisław Knaflewski – Chairman of the Committee
- Mr. Mirosław Pawłowski – Member of the Committee
- Mr. Andrzej Wach – Member of the Committee

In connection with appointing the new PKP CARGO S.A. Supervisory Board of the sixth term of office, on 20 May 2016, the Supervisory Board adopted Resolution No. 1592/VI/2016 appointing a new composition and Chairman of the PKP CARGO S.A. Supervisory Board Nomination Committee, which ended 2016 in the following composition:

- Ms. Zofia Dzik - Chairperson of the Committee
- Mr. Mirosław Pawłowski – Member of the Committee
- Mr. Andrzej Wach – Member of the Committee

Composition of the PKP CARGO S.A. Supervisory Board Nomination Committee for the reporting period from 1 January 2016 to 31 December 2016

No.	Full name	Position	Period in office	
			from	to
1	Stanisław Knaflewski	Committee Chairman	17 December 2013	11 May 2016
2	Mirosław Pawłowski	Committee Member	18 December 2015 20 May 2016	11 May 2016 6 March 2017

3	Andrzej Wach	Committee Member	18 December 2015 20 May 2016	11 May 2016 to date
4	Zofia Dzik	Committee Chairman	20 May 2016	to date
* date of elapse of the fifth term of office of the Company's Supervisory Board				

Source: *Proprietary material*

In 2016 the Nomination Committee held 16 minuted meetings.

Nomination Committee meetings, in addition to the Committee Members, were attended by other Supervisory Board Members, Management Board Members, department directors and advisors.

As part of its duties set for 2016 the Nomination Committee:

- recommended to the PKP CARGO S.A. Supervisory Board selection of the company for the recruitment consultant in the recruitment procedure for the positions of the PKP CARGO S.A. Management Board Members, i.e. the President of the Management Board, Management Board Member responsible for Finance, Management Board Member responsible for Trade, Management Board Member responsible for Operations and Management Board Member - Employee Representative;
- discussed the rules for election of the PKP CARGO S.A. Management Board Member, Employee Representative;
- discussed the rules for setting the bonus objectives for PKP CARGO S.A. Management Board members ("MBO Objectives") for 2016;
- approved the draft resolutions of the PKP CARGO S.A. Supervisory Board initiating the recruitment procedure for the position of President and Members of the PKP CARGO S.A. Management Board;
- adopted a resolution to admit candidates to the next stage of the recruitment procedure for the position of President and Members of the PKP CARGO S.A. Management Board;
- determined the schedule of interviews with the candidates for the position of President and Members of the PKP CARGO S.A. Management Board;
- defined and presented to the Supervisory Board for approval the MBO objectives for the PKP CARGO S.A. Management Board for 2016;
- approved the "Activity report of the PKP CARGO S.A. Supervisory Board Nomination Committee in the financial year 2015";
- assessed the attainment of the MBO objectives by the PKP CARGO S.A. Management Board members in 2015 and recommended the amount of the bonus for Management Board Members for 2015 to the Supervisory Board;
- discussed the Company's proposals regarding the remuneration policy;
- discussed the prevailing MBO incentive systems for the management staff (2015/2016) and the perspective for 2017;
- reviewed the bonus systems in place in the Company with special focus on the sales department.

STRATEGIC COMMITTEE

The Strategic Committee is appointed by the PKP CARGO S.A. Supervisory Board. It consists of at least three Supervisory Board Members, of whom at least one Supervisory Board Member must satisfy the independence criteria and be appointed in the manner provided for in § 20 and 21 of the Company's Articles of Association. Committee members are appointed for a term corresponding to the Supervisory Board's term of office. The Strategic Committee supports the Supervisory in the oversight over the definition of the strategy as well as the appropriate implementation of the strategy and annual and long-term activity plans for the Company and its Group.

Composition of the PKP CARGO S.A. Supervisory Board Strategic Committee for the reporting period from 1 January 2016 to 31 December 2016

No.	Full name	Position	Period in office	
			from	to
1	Czesław Warsewicz	Committee Chairman	23 June 2016	to date
2	Raimondo Eggink	Committee Member	23 June 2016	to date
3	Andrzej Wach	Committee Member	23 June 2016	to date

Source: Proprietary material

In 2016 the Strategic Committee held 5 minuted meetings.

Strategic Committee meetings, in addition to the Committee Members, were attended by other Supervisory Board Members, Management Board Members, department directors and advisors.

As part of their duties set for 2016, the Strategic Committee discussed:

- implementation of the PKP CARGO S.A. Strategy;
- structure and tasks of the Company's sales department;
- update of the Business Activity Plan for 2016;
- strategic initiatives in PKP CARGO S.A.;
- Business Activity Plan of the Company and the PKP Cargo Group for 2017;
- viability of leaving PKP Cargotabor sp. z o.o. as a separate entity;
- planned acquisitions.