

ANNUAL REPORT

2015

GRUPA 



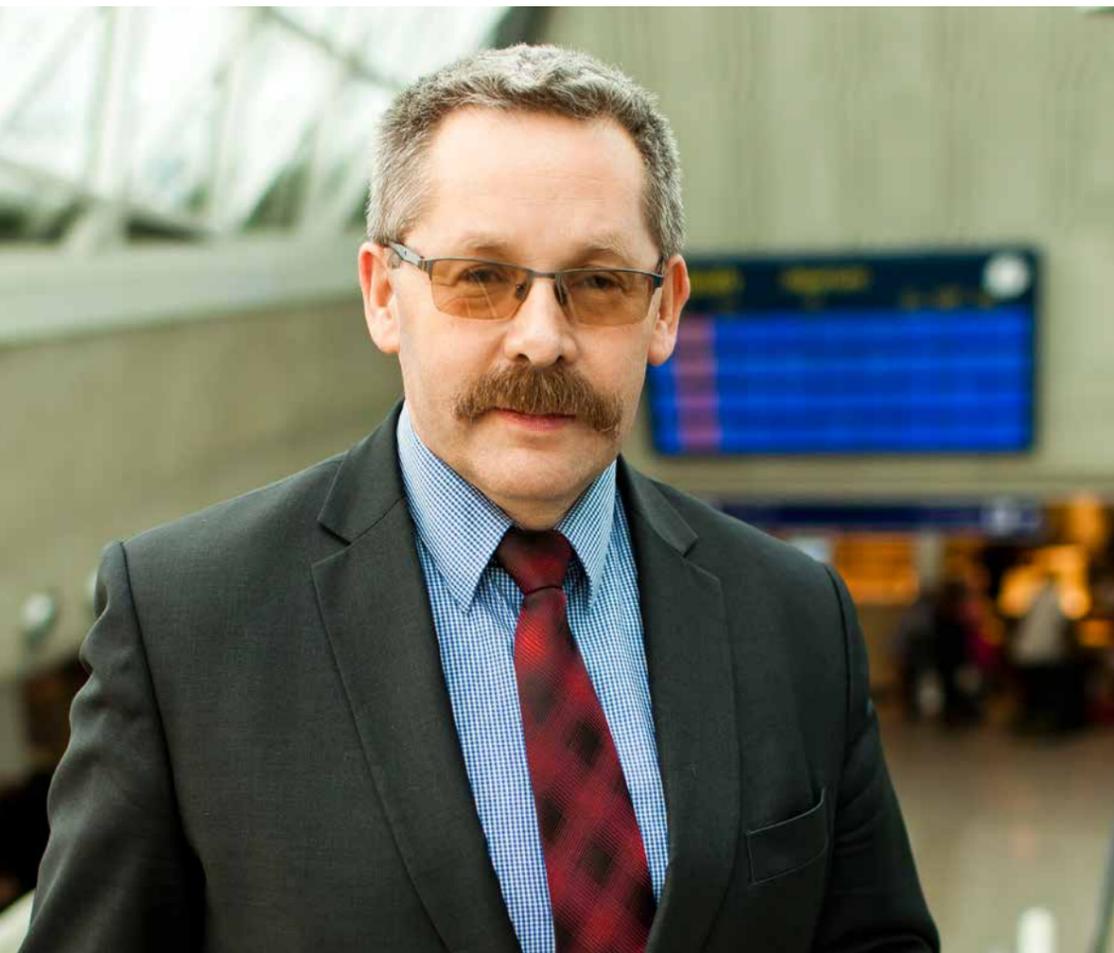


ANNUAL REPORT

2015

CONTENTS

5	Introduction
6	Report on the operations of PKP Group Companies
8	1 PKP Group
20	2 PKP S.A.
30	3 PKP Polskie Linie Kolejowe
38	4 PKP CARGO
46	5 PKP Intercity
56	6 PKP Linia Hutnicza Szerokotorowa
64	7 PKP Szybka Kolej Miejska w Trójmieście
72	8 PKP Informatyka
80	9 Xcity Investment
86	10 PKP Budownictwo
94	Corporate social responsibility activities
102	Research project as an element of quality management
105	Summary



▲ Mirosław Pawłowski — President of the Management Board

*We wish
Polskie Koleje Państwowe
to become a company which
truly lives up to the demands
of the 21st century.*

INTRODUCTION

We are introducing a new approach to investment. We have developed a comprehensive program of modernisation of railway stations, including facilities across the country. We identified 464 operational stations requiring modernisation and grouped them so that the implementation of the project not only brought benefits to passengers and local communities, but also gave optimal economic effect. In carrying out our projects we intend to intensify the absorption of EU funds. We want that EU funds to be the main source of funding.

The use of the huge pool of EU funds is a major challenge in the area of investment in the railways. We intend to continue to improve the parameters of passenger routes, but also to focus on freight routes to a greater extent than before. We also plan to improve connections to seaports, which are our window to the world.

We hope to rely on the long-standing railway employees, as their knowledge and experience will greatly account for the development of this branch of transport. Respect towards the railwayman uniform and ethic was restored. The dialogue with trade unions was renewed, since building a strong and modern company is impossible without their support and comprehension.

The Annual Report for 2015, which I am pleased to present to you, summarises the effects of operations carried out by the PKP Group in the previous year. Companies' performance results achieved in the last year were the benchmark for present Management Boards and enabled them to determine which areas ought to be reinvigorated and which had to undergo a radical change.

I believe that the improved strategy and new approach to management will contribute to a significant progress of the PKP Group in the upcoming years, in various fields, such as investment programme, the number of railway passengers or increase in the weight of goods transported by rail. By modernizing the railway lines we want to create the freight carriers such working conditions that will allow them to compete with road transport.

Ladies and gentlemen,
I have the privilege to hold office as the president of the PKP S.A. since December 2015. Intensification of the railway investment project and continuous increase in the competitiveness of this branch of transport, is the primary goal which I and the Management Board set ourselves.

Railway has always been the driving force for economy. We wish Polskie Koleje Państwowe to become a company which truly lives up to the demands of the 21st century. We regain passengers slowly but surely. The comfort of travelling improves due to investments in infrastructure and rolling stock.

Some areas, however, require additional improvements and greater commitment, and we wish to focus our efforts on them.

*We hope
to rely on the
long-standing
railway
employees,
as their
knowledge
and experience
will greatly
account for
the development
of this branch
of transport.*

Warsaw, July 2016

Report on the operations of PKP Group Companies



1

PKP GROUP

1.1 About the PKP Group

The PKP Group manages both the public service and actions characteristic for a modern company operating on the market economy. The aim of PKP Group Companies is to build the trust and improve the railway image via increasing the significance of railway transport in Poland by following the model of modern railways in Europe.

The PKP Group was established in 2001 as a result of the reconstructing process of the Polskie Koleje Państwowe (Polish State Railways) state enterprise. This process aimed at separating transport activities from railway infrastructure management and the establishment of independent legal entities in the secondary areas of activity.

Polskie Koleje Państwowe Spółka Akcyjna was established on 1 January 2001 and entered into the rights and obligations of its predecessor. Its only shareholder is the State Treasury represented by the Minister of Transport. Furthermore, on the basis of the Polskie Koleje Państwowe state enterprise Act of 6 July 1995 and the Act of 8 September 2000 on the commercialization, restructuring and privatization of the Polskie Koleje Państwowe state enterprise, the following companies were established in 2001 in the areas of:

- ▶ railway passenger transport: PKP Intercity Sp. z o.o. (since 2008 PKP Intercity S.A.), PKP Przewozy Regionalne Sp. z o.o.;
- ▶ freight transport: PKP CARGO S.A.;

- ▶ railway infrastructure management: PKP Polskie Linie Kolejowe S.A.;
- ▶ local railway management and utilising them for transport: PKP Szybka Kolej Miejska w Trójmieście Sp. z o.o. and PKP Warszawska Kolej Dojazdowa Sp. z o.o. (in the field of passenger transport), and PKP Linia Hutnicza Szerokotorowa Sp. z o.o. (in the field of freight transport);
- ▶ activities supporting the core business: PKP Energetyka Sp. z o.o. (since 2009 PKP Energetyka S.A.), PKP Informatyka Sp. z o.o. and Telekomunikacja Kolejowa Sp. z o.o. (since 2010 TK Telekom Sp. z o.o.);
- ▶ moreover, the following entities were established:
 - ▶ nine companies providing services for infrastructure renovations and repairs and two companies dealing with rolling stock repairs.
 - ▶ three companies operating in secondary areas, such as training (CS Szkolenie i Doradztwo Sp. z o.o.), pharmacy (Farmacja Kolejowa Sp. z o.o.) and supplies (Ferpol Sp. z o.o.).
 - ▶ five companies operating in areas related to railway services (three railway printing houses, KPT-W 'Natura-Tour' Sp. z o.o. – providing tourist services and Polskie Koleje Linowe Sp. z o.o. – providing mountain cable railway services).

PKP S.A. contributed elements of movable assets to the newly formed companies. Real estate property was leased to the companies, mainly because of its unclear legal status and then brought in 'in kind' as the process of regulating its legal status is being established.

As a result of the changes in ownership, including the privatisation, acquisition and restructuring processes, at the end of 2015 the PKP Group included:

- ▶ Polskie Koleje Państwowe Spółka Akcyjna (hereafter referred to as PKP S.A.) – parent company;
- ▶ PKP Intercity S.A. (hereafter referred to as PKP Intercity) and PKP Szybka Kolej Miejska w Trójmieście Sp. z o.o. (also being the infrastructure administrator of No. 250 Line, hereafter referred to as PKP SKM) – the operator companies providing services on the passenger transport market;
- ▶ PKP CARGO S.A. (hereafter referred to as PKP CARGO) and PKP Linia Hutnicza Szerokotorowa Sp. z o.o. (also being the infrastructure manager of No. 65 Line – a broad-gauge line, hereafter referred to as PKP LHS) – the operator companies providing services on the freight transport market;

- ▶ PKP Polskie Linie Kolejowe S.A. (hereafter referred to as PLK) – the company managing standard railway lines;
- ▶ PKP Informatyka Sp. z o.o. (hereafter referred to as PKP Informatyka) – the company providing IT services for railway industry;
- ▶ CS Szkolenie i Doradztwo Sp. z o.o., Drukarnia Kolejowa Sp. z o.o. i KPT-W 'Natura Tour' Sp. z o.o. – companies operating in areas unrelated to railway transportation;
- ▶ Xcity Investment Sp. z o.o. (hereafter referred to as Xcity Investment) – the company managing real estates, as well as developing and implementation of commercial development projects;
- ▶ PKP Budownictwo Sp. z o.o. (hereafter referred to as PKP Budownictwo) – the company providing building and installation services in areas of telecommunications engineering and maintenance of ICT lines.

SCHEME OF THE PKP GROUP IN 2015



The PKP Group's consolidated financial statement for 2015 includes financial data for nineteen entities, including nine Companies directly dependent on PKP S.A., two Companies dependent on PKP CARGO and seven Companies of the AWT Group included in consolidation on the level of their parent company – PKP CARGO. These Companies underwent full consolidation. Additionally, PKP S.A. was a minority shareholder in PLK, which had

an impact on the consolidation of this enterprise under the equity method.

This report describes consolidated financial and operational data, and individual data for each of the companies is discussed further in the report (the description of individual companies includes only those entities from the PKP Group which were included in the consolidated report).

The PKP Group was established in 2001 as a result of the reconstructing process of the Polskie Koleje Państwowe (Polish State Railways) state enterprise. This process aimed at separating transport activities from railway infrastructure management (...)

1.2 Finances

In 2014, the PKP Group continued the restructuring process in order to adjust its resources to its actual needs. The actions were aimed at extending the area of activity and minimizing negative economic effects, mainly in transport companies.

In 2015 the PKP Group's sales amounted to 122.5 million PLN and improved compared to 2014 by 111.0 million PLN, which was primarily the result of revenue growth as a result of maintaining the dynamic development of selected Companies in the PKP Group, while reducing operations costs as a result of the positive effects of continuing restructuring.

Net revenues from sales of products and services in 2015 were realized at the level of 11,434.6 million PLN, which is higher by 7.3 % in comparison with 2014. The dominant position in the structure of revenues in 2015 continued to be income from the sale of transport services in the amount of 6,119.4 million PLN, including the main item of income from the transport of goods, which amounted to 64.1% of the revenue and the remaining 35.9%

CONSOLIDATED PROFIT AND LOSS ACCOUNT FOR 2014–2015 (IN MILLION PLN)

Item	2014*	2015	Change	
			2015–2014	%
Net sales revenues and equivalent revenues	10,659.1	11,434.6	775.6	7.3%
Operating expenses	10,647.6	11,312.1	664.5	6.2%
Profit (loss) on sales	11.4	122.5	111.0	970.6%
Profit (loss) on sales margin	0.1%	1.1%	+1.0 p.p.	-
Other operating revenues	895.8	781.0	-114.9	-12.8%
Other operating expenses	907.6	1,191.9	284.3	31.3%
Profit (loss) on other operating activities	-11.7	-410.9	-399.1	-
EBIT	-0.3	-288.4	-288.1	-
EBITDA	744.6	403.3	-341.2	-45.8%
EBITDA Margin	7.0%	3.5%	-3.5 p.p.	-
Financial revenues	423.8	136.0	-287.8	-67.9%
Financial expenses	374.7	283.1	-91.6	-24.4%
Profit (loss) on financial activities	49.1	-147.0	-196.2	-
Profit (loss) on the sale of all or part of shares in controlled entity	0.0	343.5	343.5	-
Profit (loss) on business activities	48.8	-91.9	-140.7	-
Profit (loss) on shares in controlled entity	216.2	-6.9	-223.1	-
Gross profit (loss)	265.0	-94.5	-359.5	-
Income tax	-13.3	17.2	30.4	-
Profit (loss) of minority shareholders	-144.4	-8.6	-	-
Net profit (loss)	422.7	-102.8	-525.5	-
Net profitability	4.0%	-0.9%	-4.9 p.p.	-

*Figures restated for the purpose of ensuring comparability.

from the transport of persons. Compared to 2014, both categories achieved an increase in income, equal to 0.5% and 18.5% respectively. Higher level of net revenue from freight transport was primarily due to better results of the AWT Group Company (the data was not a subject of consolidation in 2014). Simultaneously, the net revenues from transport in PKP CARGO, PKP LHS and PKP CARGO SERVICE were lower, primarily on account of the decrease in the quantity of transported goods.

In 2015 the level of net revenues from passenger transport in the PKP Group increased by 343.2 million PLN that is by 18.5% compared to 2014. The increase was mainly generated by PKP Intercity, which income in 2015 was higher by 240.0 million PLN, largely as the outcome of passenger transport which was higher by 22.1%. The income from passenger transport in PKP SKM, in 2015, increased by 6.6 million PLN, also resulting from greater number of passengers (by 4.2%) and the increase of ticket prices since February 2015 (by 5.0% on average).



CONSOLIDATED SALES REVENUES AND EQUIVALENT REVENUES FOR 2014–2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015–2014	%
Net revenues from sales and equivalent revenues	10,659.1	11,434.6	775.6	7.3%
Net revenues from the sale of products and services, including:	8,545.4	8,602.8	57.4	0.7%
Sale of transport services, including:	5,756.1	6,119.4	363.3	6.3%
Freight transport	3,901.5	3,921.6	20.1	0.5%
Passenger transport, including:	1,854.6	2,197.8	343.2	18.5%
State budget subsidies	645.0	719.0	74.1	11.5%
Sale of other services	2,789.3	2,483.5	-305.9	-11.0%
Change in the balance of products	3.0	-0.3	-3.4	-
Manufacturing cost of products for internal purposes	79.5	56.8	-22.7	-28.6%
Net revenues from sales of goods and materials	2,031.1	2,775.4	744.3	36.6%

The higher level of grants from the State budget for the passenger transport, amounted to 74.1 million PLN, was due to the transport of more passengers – increased subsidies for the national passenger transport aiming to compensate for the lost income related to statutory discounts. Moreover, due to the increased number of connections included in the subsidy programme PKP Intercity received higher funding for the conduct of inter-provincial and international transport.

The level of net revenue from the sale of other products and services – lower by 305.9 million PLN – was primarily due to the sale of PKP Ener-

getyka and TK Telekom companies, which caused a decrease in the revenue from both the electric energy distribution and ICT and maintenance services.

The increase in net revenue from the sale of goods and materials to is largely the result of higher level of revenue by PKP Energetyka during the period included in the consolidated finances report (increase in sales of electricity mainly in the 'Third Party Access' segment [hereafter referred to as TPA] and continuing development of initiatives of energy trading in the wholesale market, which accounted for profit higher than in 2014).

Higher profit from sales was primarily the result of revenue growth as a result of the development of selected companies in the PKP Group, at the same time with lower growth rates in operating costs (...)

The higher level of grants from the State budget for the passenger transport, amounted to 74.1 million PLN, was due to the transport of more passengers (...)

Operating expenses totalled 11,312.1 million PLN, that is higher by 664.5 million PLN compared to 2014. The increase in operating expenses affected the value of goods and materials sold due to the increase in the purchase of electricity (derived from growth in electricity sales in the TPA segment),

as well as the continuation of sale of gas and fuel by PKP Energetyka. Additionally, the outsourced services expenses were greater. At the same time there was a decline in the costs of materials and energy consumption, as well as the costs of work and depreciation.

CONSOLIDATED OPERATING EXPENSES FOR 2014–2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015–2014	%
Total operating expenses	10,647.6	11,312.1	664.5	6.2%
Depreciation	744.9	691.7	-53.1	-7.1%
Materials and energy consumption	1,560.6	1,417.5	-143.1	-9.2%
Outsourced services	3,316.1	3,460.9	144.7	4.4%
Taxes and charges	236.6	235.0	-1.6	-0.7%
Payroll	2,181.8	2,077.5	-104.3	-4.8%
Social security and other benefits	546.7	541.8	-4.9	-0.9%
Other costs by kind	74.1	109.3	35.2	47.6%
Value of goods and materials sold	1,986.7	2,778.3	791.6	39.8%

In the case of other operating activities, the PKP Group recorded a loss of 410.9 million PLN, which was higher by 399.1 million PLN in comparison with 2014.

The decrease in other operating revenues by 114.9 million PLN is due to lower penalties and compensations in 2015 with a simultaneous dissolution of a write-down of supply value, signed by PKP CARGO in 2014.

Other operating expenses increased by 284.3 million PLN due to the value of fixed assets being brought up to date by PKP CARGO, high costs of payment

on the part of PKP S.A. for the Fundusz Własności Pracowniczej (Worker's Ownership Fund) in consequence of the revenue from privatisation and the creation of reserves for penalties and compensations, with lower costs of realisation of Program Dobrowolnych Odejsć (Voluntary Redundancy Programme) by PKP CARGO in 2015.

In 2015 the PKP Group recorded a loss of 147.0 million PLN on financial activities (in 2014 the profit amounted to 49.1 million PLN). The change was primarily caused by lower revenue from the sale of investments.



(...) decrease in the cost has been noted, in terms of the cost of materials and energy consumption, labor costs and depreciation.

In 2015 the PKP Group suffered a loss on business activities which totalled 91.9 million PLN, with a profit of 48.8 million PLN generated in 2014. A loss on other operating (410.9 million PLN) and financial activities (147.0 million PLN), with a profit on sales (122.5 million PLN) and on the sale of controlled entities (343.5 million PLN) contributed to greater loss on business activities.

The consolidated net loss of 102.8 million PLN, apart from the result of business activities, was affected by the write-down of negative company value of controlled entities (4.4 million PLN), loss on shares in controlled entities priced with the ownership rights method (6.9 million PLN), the value of tax income (17.2 million PLN), loss of minority shareholders (8.6 million PLN) and other mandatory profit cuts (0.2 million PLN).



1.3 Assets

In 2015, the balance sheet total of the PKP Group increased by 4.8%, reaching the level of 26,636.6 million PLN, as at 31 December 2015. There was an increase in the value of fixed assets, inter alia as a result of raising the investments in rolling stock. The increase in the assets of the PKP Group was financed by both equity and external capital.

As at 31 December 2015, fixed assets made up 82.5% of total assets and in comparison to the financial standing as at 31 December 2014 increased by 1,210.2 million PLN. This resulted from an increase in tangible fixed assets by 1,230.2 million PLN and an increase in long-term investments by 83.7 million PLN, with a simultaneous decrease of long-term prepayments by 90.2 million PLN, a decrease in long-term receivables by 12.8 million PLN and a decrease of intangible and legal assets by 0.6 million PLN.

Current assets accounted for 17.5% of the total assets. In comparison to December 2014, they increased by 10.6 million PLN as a result of the increase in short-term receivables by 373.7 million PLN, with a simultaneous decrease in the value of short-term investments by 281.8 million PLN, short-term

prepayments by 58.4 million PLN and inventories by 22.9 million PLN.

As at 31 December 2015, equity capital made up 36.3% of total liabilities and in comparison to December 2014, equity capital increased by 794.2 million PLN. It was a result of decreasing the loss carried forward from the previous years by 1,458.0 million PLN with a net profit lower by 525.5 million PLN. Additionally, the value of other reserve capital was lower by 90.9 million PLN and supplementary capital decreased by 57.3 million PLN, while the value of other capital increased by 12.2 million PLN.

Liabilities and provisions for liabilities constituted 57.2% of total liabilities and increased by 492.1 million PLN in comparison with the end of 2014. The change in provisions and liabilities balance was mainly due to the increase in value of long-term liabilities by 551.2 million PLN (borrowings and loans, as well as issue of debt securities) and prepayments by 426.3 million PLN (receipt of investment grants by the PKP Group Companies), with a decrease of long-term liabilities by 260.2 million PLN (partial repayment of bonds, additional borrowings and loans) and provisions for liabilities by 225.2 million PLN (mainly the decrease of provisions for retirement benefits and other provisions).

As at 31 December 2015, fixed assets made up 82.5% of total assets and in comparison to the financial standing as at 31 December 2014 increased by 1,210.2 million PLN.

CONSOLIDATED BALANCE SHEET FOR 2014–2015 (IN MILLION PLN)

Item	31.12.2014	31.12.2015	Change	
			2015–2014	%
Fixed assets	20,760.5	21,970.7	1,210.2	5.8%
Current assets	4,655.3	4,665.9	10.6	0.2%
Total assets	25,415.9	26,636.6	1,220.8	4.8%
Equity	8,864.4	9,658.6	794.2	9.0%
Equity of minority shareholders	1,797.9	1,732.4	-65.5	-3.6%
Liabilities and provisions for liabilities	14,753.6	15,245.7	492.1	3.3%
Total liabilities	25,415.9	26,636.6	1,220.8	4.8%

As at 31 December 2015 the most significant fixed asset items included tangible fixed assets worth 10,161.5 million PLN (38.1% of total assets), which include:

- ▶ fixed assets, which mainly include:
 - ▶ means of transport, with the largest segment being the rolling stock,
 - ▶ buildings, premises, civil and water engineering structures, which include: elements

of PKP SKM and PKP LHS railways, railway stations, as well as buildings forming the maintenance and repairs base for passenger and freight transport;

- ▶ fixed assets under construction (capital expenditures that had not been completed);
- ▶ advance payments for fixed assets under construction.

SELECTED FIXED ASSETS IN 2014–2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015–2014	%
Fixed assets	20,760.5	21,970.7	1,210.2	5.8%
I. Intangible and legal assets	101.5	100.9	-0.6	-0.6%
II. Tangible fixed assets, including:	8,931.3	10,161.5	1,230.2	13.8%
1. Fixed assets, including:	7,555.9	9,252.7	1,696.8	22.5%
a. Land	235.2	224.2	-10.9	-4.7%
b. Buildings, premises, civil & water engineering structures	1,588.3	1,129.1	-459.2	-28.9%
c. Technical equipment and machinery	564.6	209.0	-355.5	-63.0%
d. Means of transport	5,152.3	7,677.7	2,525.4	49.0%
e. Other fixed assets	15.5	12.7	-2.9	-18.4%
2. Fixed assets under construction	991.8	900.6	-91.1	-9.2%
3. Advance payments for fixed assets under construction	383.6	8.1	-375.5	-97.9%



Means of conveyance were the main group of fixed assets and their growth was due to the purchase of new and modernization of old rolling stock.



1.4 Investments

In 2014 the PKP Group Companies incurred capital expenditure at the record amount of 10,540.7 million PLN, that is 13.0% more than in 2014.

The investment activity was focused mainly on the upgrade of railway lines, construction investments, modernization and purchase of rolling stock. Sources of funding for capital expenditures included own funds, EU funds, State budget subsidies, investment loans and other forms of external financing. The most significant investments include the following tasks:

- ▶ the upgrade of railway lines:
 - ▶ PLK:
 - the upgrade of Kraków – Rzeszów railway line – 1,034.4 million PLN;
 - the upgrade of Warszawa – Białystok railway line – 620.6 million PLN;
 - the upgrade of Warszawa – Łódź railway line – 551.1 million PLN;
 - reducing congestions on the Łódzki Węzeł Kolejowy (Łódź Railway Junction) – 441.6 million PLN;
 - the upgrade of Wrocław – Poznań railway line – 256.8 million PLN;
 - the upgrade of Warszawa – Gdynia railway line – 221.6 million PLN;

- the upgrade of Warszawa – Radom railway line – 187.2 million PLN;
- the upgrade of Siedlce – Terespol railway line – 171.0 million PLN;
- the upgrade of No. 273 railway line on the Głogów – Zielona Góra – Rzepin – Dolna Odra section – 134.3 million PLN;
- the upgrade of Central Railway Trunk Line – 122.6 million PLN;
- the project of improving the railway access to Port Gdańsk – 121.6 million PLN;
- ▶ PKP SKM:
 - extension of No. 250 line with Gdańsk Śródmieście station stop construction – 6.2 million PLN;
- ▶ construction investment:
 - ▶ PKP S.A.:
 - construction of railway stations (including Bydgoszcz, Szczecin Główny, Gliwice, Warszawa Centralna, Piła Główna, Jarosław, Kędzierzyn-Koźle) and construction of the System Bezpieczeństwa Warszawskiego Węzła Kolejowego (Warszawa Railway Junction Security System) – 325.0 million PLN;
 - ▶ PKP LHS:
 - extension and management of the Gołuchów railway station – 6.0 million PLN;

- ▶ the purchase and upgrade of rolling stock:
 - ▶ PKP Intercity:
 - purchase of electric multiple units (ED160 FLIRT3, ED161 PesaDART and continued purchase of ED250 Pendolino train sets) – 1,864.1 million PLN;
 - purchase and upgrade of passenger carriages – 386.8 million PLN:
 - upgrade of carriages for rail services between Przemyśl – Szczecin,
 - purchase of new passenger carriages

- for rail services on Wrocław – Gdynia and Warszawa – Szczecin lines;
 - purchase and upgrade of passenger engines – 166.8 million PLN:
 - purchase of GAMA diesel engines,
 - upgrade of diesel engines from SM42 series;
 - ▶ PKP CARGO:
 - upgrade of 15 engines – 69.6 million PLN;
 - purchase of 70 flatcars for container transport – 20.1 million PLN.

CAPITAL EXPENDITURE BY THE PKP GROUP COMPANIES IN 2014–2015 (IN MILLION PLN)

Item	2014	structure %	2015	structure %	Change	
					2015–2014	%
PKP S.A.	172.6	1.9%	440.1	4.2%	267.5	155.0%
PLK	7,305.6	78.3%	7,414.7	70.3%	109.1	1.5%
PKP CARGO*	145.8	1.6%	153.4	1.5%	7.6	5.2%
PKP LHS	37.6	0.4%	21.2	0.2%	-16.4	-43.5%
PKP Intercity	1,504.2	16.1%	2,485.4	23.6%	981.2	65.2%
PKP SKM	150.1	1.6%	19.0	0.2%	-131.1	-87.4%
PKP Informatyka	13.1	0.1%	6.5	0.1%	-6.7	-50.9%
Xcity Investment	-	-	0.1	0.0%	-	-
PKP Budownictwo	0.0	0.0%	0.4	0.0%	0.4	1,951.7%
Total	9,329.0	100.0%	10,540.7	100.0%	1,211.7	13.0%

* Figures compliant with the Accounting Act. PKP CARGO draws up its statutory financial statements according to IAS/IFRS.

Purchase of electric multiple units (ED160 FLIRT3, ED161 PesaDART and continued purchase of ED250 Pendolino train sets) – 1,864.1 million PLN.



Source: PKP Intercity/autor.

1.5 Employment

As at the end of 2015, the PKP Group was employing nearly 70,000 people, which makes it one of the largest employers in Poland. In 2015, the PKP Group Companies continued the process of adjusting the level and structure of employment to their current tasks in line with changing market requirements.

As at 31 December 2015, 69,617 people were employed in the PKP Group Companies and in comparison with 31 December 2014 it was lower by 1,870 people. In 2015 the average number of full-time job positions was 69,488 and decreased by 4.2% in comparison with 2014.

Lower employment as at the end of 2015 was predominantly influenced by operations in PKP CARGO Companies (implementation of Program Dobrowolnych Odejsć – The Voluntary Redundancy Program) and PKP S.A. (reorganisation natural attrition as part of acquiring retirement rights). At the same time there was an increase in employment in PLK (filled vacancies, as well as the necessary increase in employment caused by the risk of generation gap) and in PKP Intercity (due to the increase in commenced operations).

EMPLOYMENT IN THE PKP GROUP IN 2014–2015

Item	Average employment* during a 12 months period (full-time job positions)		Change 2015–2014		Number of people employed** as at the end of December (persons)		Change 2015–2014	
	2014	2015	full-time job positions	%	2014	2015	persons	%
PKP S.A.	2,602	2,310	-292	-11.2%	2,437	2,268	-169	-6.9%
PLK	37,959	38,803	844	2.2%	38,264	39,139	875	2.3%
PKP CARGO	22,010	18,484	-3,526	-16.0%	20,830	17,979	-2,851	-13.7%
PKP LHS	1,282	1,278	-5	-0.4%	1,292	1,263	-29	-2.2%
PKP Intercity	7,199	7,150	-49	-0.7%	7,138	7,454	316	4.4%
PKP SKM	794	816	22	2.8%	831	895	64	7.7%
PKP Informatyka	403	352	-51	-12.7%	403	333	-70	-17.4%
Xcity Investment	-	18	-	-	-	28	-	-
PKP Budownictwo	309	277	-32	-10.4%	292	258	-34	-11.6%
Total	72,558	69,488	-3,070	-4.2%	71,487	69,617	-1,870	-2.6%

* Including its representatives abroad and employees for whom PKP S.A. is not the primary place of employment.

** Including its representatives abroad but excluding employees for whom PKP S.A. is not the primary place of employment.

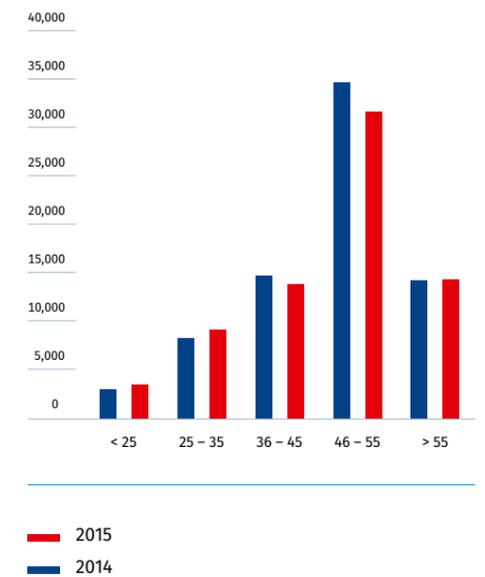
As at the end of 2015, the PKP Group was employing nearly 70,000 people, which makes it one of the largest employers in Poland.

EMPLOYMENT STRUCTURE IN THE PKP GROUP BY COMPANIES IN 2015



- PLK – 56.2%
- PKP CARGO – 25.8%
- PKP Intercity – 10.7%
- Other – 7.3%
- PKP S.A. – 3.3%
- PKP LHS – 1.8%
- PKP SKM – 1.3%
- PKP Informatyka – 0.5%
- Xcity Investment – 0.0%
- PKP Budownictwo – 0.4%

EMPLOYMENT STRUCTURE IN THE PKP GROUP BY AGE IN 2014–2015



1.6 Main highlights

January

- ▶ Xcity Investment Sp. z o.o. company, a new legal entity in the PKP Group, commenced operations on 1 January 2015, and together with third parties it will implement investment projects on land assets belonging to PKP S.A.
- ▶ The 15 January 2015 Budget Act was passed which stipulated, inter alia:
 - designated subsidy for PKP S.A. and PLK for investments in assets, in the amount of 300.3 million PLN;
 - a subsidy for domestic passenger railway transport awarded to railway companies (including companies unrelated to the PKP Group) to compensate for lost revenues due to the application of concessions, in the amount of 459.4 million PLN;
 - a designated subsidy for PKP Intercity and Przewozy Regionalne Sp. z o.o. for passenger transport (interprovincial and international), in the amount of 498.3 million PLN.
- ▶ The increase of PKP Intercity rating by Fitch Rating Agency. The long-term rating in foreign currency was raised from 'BBB-' to 'BBB' level, and in Polish currency from 'BBB' to 'BBB+'. The perspective of the rating is stable.
- ▶ New members of the Management Board were appointed by the Plenary Shareholders Assembly and Jacek Leonkiewicz, who previously was the Director of Privatisation and Owner Supervision in PKP S.A., assumed the role of the President.
- ▶ PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o., as employers, gave consent for the Program Dobrowolnych Odejść (Voluntary Redundancy Programme) to benefit 3,041 employees.
- ▶ Xcity Investment established the SEMEKO Grupa Inwestycyjna S.A. company as a partner for commercial management of Gdynia Międzytorze. The estimated value of the project is approx. 700 million EUR.
- ▶ Mariusz Świętoń resigned from his duty as a Member of Economy and Finances Board of PKP LHS.
- ▶ Xcity Investment established the GD&K Investment Sp. z o.o. company as a partner for Kraków Bosacka project. In the years 2015–2019 a project will be undertaken to develop 21 thousand square metres of commercial space in the area of approx. 1.4 ha located in the immediate vicinity of Kraków Główny railway station.

February

- ▶ Contract signed by PKP CARGO to acquire 44.44% of shares in Przedsiębiorstwo Spedycyjne Trade Trans Sp. z o.o. (hereafter referred to as PS Trade Trans) from Trade Trans Invest a.s. Thereby the Company acquired 100% of shares in PS Trade Trans.
- ▶ Magdalena Zajączkowska-Ejsymond, who previously held the position of Member of Supervisory Board in PKP Intercity, was appointed Member of Management Board for Finances in PKP Intercity.

March

- ▶ Contract signed by PKP CARGO for a strategic co-operation with HŽ Cargo, the Croatian national railway freight transport company. Both companies plan to co-operate in servicing their existing customers, with a simultaneous freight transport in the North-South transit and joint logistics offer for new potential customers.
- ▶ PKP CARGO Group launched the freight transport from China to Germany. The freight train from China reached Hamburg Billwerder railway station in Germany after 13 days. In the European section of the route (Polish and German) the transport was realised fully by the PKP CARGO Group.
- ▶ The Plenary Shareholders Assembly of PKP Intercity accepted Marcin Celejewski's resignation from his duty as a Member of Company Management Board.

- ▶ The Supervisory Board of PKP SKM appointed Maciej Lignowski as President of the Management Board and Bartłomiej Buczek was appointed as Member of the Management Board and Transport Director. The appointment was a result of qualification proceeding in regard to the end of PKP SKM Management Board's end of term.
- ▶ The PKP Group was honoured in 'Etyczna firma' ('Ethical company') contest. The PKP Group was honoured for 'operations aimed at building and strengthening the organisation culture based on ethics and the rules of social business responsibility'. The organiser of the contest is the editorial board of 'Puls Biznesu' ('Pulse of Business').

April

- ▶ The launch of forwarding activity consolidation process in the PKP CARGO Group. Forwarding services provided by PKP CARGO were previously divided among 3 companies: PKP CARGO CONNECT, CARGOSPED and PKP CARGO.

May

- ▶ Announcement by the PKP CARGO Management Board about meeting the last of suspending conditions regulated by the contract to acquire 80% of the share capital of Advanced World Transport B.V. The transaction value amounted to 103.2 million EUR (427.3 million PLN).
- ▶ Elwira Sokołowska resigned from her duty as the Member of the Management Board of PKP Informatyka.

June

- ▶ PKP CARGO conducted the second stage of Program Dobrowolnych Odejść (Voluntary Redundancy Programme). The total liabilities reached 63.9 million PLN. 1,193 Company employees applied to join the programme. On account of maintaining the continuity of realised operations, 874 Company employees were allowed to use the programme.
- ▶ Letter of intent regarding co-operation between PKP CARGO and Zhengzhou International Hub Development and Construction Co., Ltd. was signed. Both Parties declared the appointment of an international logistics operator dedicated to manage the transport of containers between China and Western Europe through Małaszewicze.
- ▶ The ISO 27001 project implementation in the PKP Group was terminated and as a result 6 Companies of the PKP Group (PKP S.A., PKP Intercity, PKP Energetyka, TK Telekom, PKP SKM, PKP LHS) received a certificate of accordance with the requirements of PN ISO/IEC 27001:2014 norm. The accordance assessment was undertaken by the renewed certification entity TÜV Nord.

July

- ▶ Promised contract signed by PKP S.A. with Netia S.A. company to acquire 100% of shares in TK Telekom worth 221.9 million PLN.
- ▶ Letter of intent signed between PKP CARGO and Greenbrier Europe Wagony Świdnica concerning the launch of production of carriages in Szczecin.
- ▶ PKP S.A. Management Board made a decision to remove Krzysztof Biniek from the position of the President of PKP Informatyka. At the same time, Adam Filutowski was instituted for the position of the President of the Management Board in PKP Informatyka and Jan Starzyk was instituted for the position of the Member of Management Board.
- ▶ PKP LHS was granted a licence by the President of the Office of Rail Transport to provide railway transport services in the European Union and the European Economic Area. The licence was granted for an indefinite period.

September

- ▶ PKP SKM launched new connections on the new-build line belonging to Pomorska Kolej Metropolitalna (Pomeranian Metropolitan Railway). The transport is carried out on the Gdańsk Wrzeszcz – Gdańsk Osowa line. In October the Gdańsk Wrzeszcz – Kartuzy connection was launched, and in December the Gdynia Główna – Kościerzyna connection.
- ▶ Promised contract signed between PKP S.A. and Caryville Investments Sp. z o.o. company, related to CVC Capital Partners fund, to acquire 100% of shares in PKP Energetyka worth 1.4 billion PLN.
- ▶ PKP CARGO signed a contract with the consortium of Siemens company for the delivery of 15 multi-system Vectron engines with the option to buy additional 5 units.
- ▶ Approval of PKP CARGO Supervisory Board for 'PKP CARGO Group Strategy for years 2016–2020'. The strategy assumes that the PKP CARGO Group will become the leading logistics operator in the Central and Eastern Europe until the year 2020.

October

- ▶ Plenary Assembly of PKP S.A. made a decision to recapitalise PKP Intercity with assets obtained from the sale of shares in PKP Energetyka for a total value of 1 billion PLN, which will be spent on the upgrade of rolling stock, investments in the technical base and IT systems.
- ▶ PKP CARGO launched the consolidation of a section of sales service within the PKP CARGO CONNECT company. The entity's task will be the sale of comprehensive logistics services of PKP CARGO in Poland and on international markets.
- ▶ Expiration of the ban on selling the employee shares of PKP CARGO (lock-up). Employee shares, pursuant to the statutes of the Company Charter, had restricted marketability for the period of 2 years since the day of the first trading session in the Stock Exchange.
- ▶ Daniel Pitrus was instituted for the position of the Member of the Economic and Financial Management Board in PKP LHS.

November

- ▶ The Fitch Rating Agency sustained its rating of PKP S.A. on the 'BBB' level in foreign currency and the 'BBB+' level in Polish currency with a stable perspective of rating in the future.
- ▶ Jakub Karnowski resigned from his duty as the President of the PKP S.A. Management Board. At the same time Piotr Ciżkowicz resigned from his duty as the Member of the Management Board.
- ▶ The sale of all shares in Galeria Katowicka company by PKP S.A. and NEINVER came to a close. Investment fund managed by Meyer Bergman became the only owner of the shopping centre. The facility was thereafter managed by Apsys Polska company.
- ▶ Approval by Extraordinary Shareholders Assembly of both CARGOSPED Sp. z o.o. and PKP CARGO CONNECT Sp. z o.o. companies for the merger of CARGOSPED Sp. z o.o. (Target Company) with PKP CARGO CONNECT Sp. z o.o. (Acquiring Company).

December

- ▶ Juliusz Engelhardt, Cezary Szeliga, Piotr Stolarczyk, Magdalena Safjan and Radosław Leszek Kwaśnicki were removed from their positions in the Supervisory Board of PKP S.A. At the same time Mirosław Chaberek, Mirosław Pawełczyk and Dariusz Wędzki were appointed as Members of the Supervisory Board.
- ▶ The appointment of Bogusław Kowalski as the President of the Management Board of PKP S.A. Jarosław Kołodziejczyk and Mirosław Pawłowski were appointed as Members of the Management Board

and Jarosław Bator was removed from his duty as the Member of the Management Board.

- ▶ The resignation of Bogusław Kowalski from his duty as the President of the Management Board of PKP S.A.
- ▶ The appointment of Mirosław Pawłowski for the position of acting President of the Management Board of PKP S.A.
- ▶ PKP Intercity launched new connections serviced by modern electric multiple units FLIRT3 and PesaDART.
- ▶ An agreement was signed by PKP LHS on the co-operation between the City of Zamość, District Office and the Borough of Zamość with the realisation of the Strategiczna Inwestycja Terytorialna (SIT) programme (Strategic Territorial Investition).
- ▶ The realisation of Program Dobrowolnych Odejść (Voluntary Redundancy Programme) in the Contract Realisation Office of PKP Budownictwo. The Company terminated the contract with 55 employees.
- ▶ The Supervisory Board of PKP CARGO passed an Act on delegating Maciej Libiszewski to temporarily perform the duties of the President of the Management Board of PKP CARGO, after Adam Purwin resigned from his duty as the President of the Management Board.
- ▶ The registration of merging PS Trade Trans (currently PKP CARGO CONNECT Sp. z o.o.) with CARGOSPED Sp. z o.o. The merger was carried out by transferring the assets from CARGOSPED Sp. z o.o. company to PKP CARGO CONNECT Sp. z o.o. company, in exchange for shares which PKP CARGO CONNECT Sp. z o.o. company transferred to PKP CARGO, the only partner of CARGOSPED Sp. z o.o.

Operations aimed at the protection of the environment are carried out within the investment and renovation works, which include:

- ▶ elimination or reduction of the emission of harmful gases or particulates released by burning fuels in local boiler stations;
- ▶ continuation of the works aimed at recultivating the land and water environment of contaminated grounds;
- ▶ undertaking the thermo-modernisation operations in railway stations and administrative buildings aimed at reducing the amount heat energy used for heating;
- ▶ reduction of the amount of sewage that requires treatment by regulating water usage through modernisation, construction and expansion of the drainage system;
- ▶ conducting energy audits of facilities headed by local boiler stations, in order to find an optimal solution with regard to the current fuel policy;
- ▶ elimination of asbestos by replacing the asbestos cement flat and corrugated boards (covering the roofs of 53 facilities) with metal sheets and by dismantling 118 buildings (PKP S.A.).

Within the railway station investments of PKP S.A. travellers were given access to 4 railway stations, built as a result of 'Innowacyjne Dworce Systemowe' (IDS) (Innovative Systemic Railway Stations [ISRS]): in Strzelce Krajeńskie, Ciechanów, Mława and Nasielsk. The employed ecological solutions, that is heat pumps, heat retrieving system, rainwater retrieving system (green roof), LED lighting and solar panels, make reducing the costs of exploitation and maintenance of facilities possible. A novel element includes employing a dynamic illumination, which is an integrated system which signals the arrival of a train by illuminating the railway station. This solution will not only raise the level of security, but also reduce lighting costs during the night.

2

www.pkpsa.pl

PKP S.A.

2.1 About the Company

The Company plays a dominant role in PKP Group, by managing and co-ordinating the operations of other Companies.

Polskie Koleje Państwowe Spółka Akcyjna (Polish State Railways Joint-stock Company) (hereafter PKP S.A.) was established as a result of the commercialization of the Polskie Koleje Państwowe company pursuant to the Act of 8 September 2000 on commercialization, restructuring and privatization of the state enterprise Polskie Koleje Państwowe. PKP S.A. started its operation on 1 January 2001 and the State Treasury is the only shareholder of PKP S.A.

The Company plays a dominant role in PKP Group. It manages and co-ordinates the operations of other Companies, operating in the scope of:

- ▶ management of the capital group;
- ▶ owner supervision over the PKP Group Companies;
- ▶ management of its assets;
- ▶ provision of railway workers' medical service.

In the area of PKP Group management, particular emphasis is placed on effective owner supervision and completion of the ongoing privatisation processes. In 2015 PKP S.A. completed the sale of

shares in PKP Energetyka S.A. and TK Telekom Sp. z o.o.

PKP S.A. manages and administers tens of thousands of residential and non-residential properties. The company owns the largest real estate base in the country, which includes railway stations and premises adjacent to them. In order to reduce costs incurred by the Company intensified sale activities are carried out aimed at the disposal of another group of real estate unused commercially or financially unprofitable. The Company is also continuing the processes of enfranchisement of the land held for sale and undertakes the preparation of the property to provide for an in-kind contribution to subsidiary companies.

As manager and administrator, PKP S.A. implements a comprehensive investment program related to the revitalization of railway stations. As a result of these activities, since the 2007, travellers were given access to 123 railway stations. The opening of another 9 railway stations is scheduled for 2016.

Part of the land is used for commercial purposes in co-operation with private developers. As a result, modern spaces, which are suitable for local societies needs and ensure high level of services for passengers, are created. The Company places an emphasis on co-operation with local authorities.



2.2 Management and Supervisory Bodies

Management Board

- ▶ **Mirosław Pawłowski** – President of the Management Board
- ▶ **Jarosław Kołodziejczyk** – Member of the Management Board
- ▶ **Cecylia Lachor** – Member of the Management Board
- ▶ **Marek Michalski** – Member of the Management Board
- ▶ **Michał Beim** – Member of the Management Board

Supervisory Board

- ▶ **Mirosław Chaberek** – Chairperson
- ▶ **Mirosław Pawełczyk**
- ▶ **Dariusz Wędzki**
- ▶ **Zenon Kozendra**
- ▶ **Leszek Miętek**

- ▲ **Mirosław Pawłowski**
– President of the Management Board

2.3 Finances

In 2015, PKP S.A. recorded a net profit of 223.0 million PLN, which in comparison to 2014 was higher by 4.0 million PLN. The recorded net profit is primarily the result of the sale of shares in subsidiary companies, including the revenue from the sale of shares in PKP Energetyka S.A.

The Company maintains liquidity at a safe and stable level, thereby realizing the main objective of PKP S.A. in maintaining a safe level of financial liquidity and timely payment of liabilities from loans and bonds issued. In 2015 alone, in comparison with the previous year, total liabilities decreased by 61.3 million PLN. Total interest from financial debt amounted to over 73.4 million PLN, including the interest from bonds, approx. 40.9 million PLN and loans, approx. 32.5 million PLN.

Net sales revenues of PKP S.A. in 2015 amounted to 692.9 million PLN and decreased by 6.9 million PLN as compared to 2014. Lower revenue results from

FINANCIAL RESULTS FOR 2014–2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015–2014	%
Net sales revenues and equivalent revenues	699.9	692.9	-6.9	-1.0%
Operating expenses	853.7	852.8	-0.9	-0.1%
Profit (loss) on sales	-153.9	-159.9	-6.0	3.9%
Profit (loss) on sales margin	-22.0%	-23.1%	-1.1 p.p.	-
Other operating revenues	510.9	526.5	15.6	3.1%
Other operating expenses	350.2	587.1	236.9	67.6%
Profit (loss) on other operating activities	160.7	-60.6	-221.3	-
EBIT	6.8	-220.5	-227.3	-
EBITDA	167.2	-81.0	-248.1	-
EBITDA Margin	23.9%	-11.7%	-35.6 p.p.	-
Financial revenues	499.4	909.5	410.2	82.1%
Financial expenses	287.2	453.4	166.2	57.9%
Profit (loss) on financial activities	212.2	456.1	243.9	115.0%
Gross profit (loss)	219.0	235.7	16.6	7.6%
Income tax	0.0	12.6	12.6	-
Net profit (loss)	219.0	223.0	4.0	1.8%
Net profitability	31.3%	32.2%	0.9 p.p.	-



the decrease in revenues from residential business, lease and rent, with slightly higher income from the sale of materials and goods. Lower income from rent and lease is the result of higher number of uninhabited buildings, and the decrease in revenue from residential business was the outcome of the decline in residential resources due to the systematic sale of residential premises. The revenue from the sale of materials and goods was primarily the income from the sale of scrap metal, from the liquidation of redundant fixed assets.

The dominant position in the structure of revenues from core activities is the revenue from rent and lease totalling at 483.3 million PLN, which is 69.8% of net sales revenue. The revenue from residential business amounted to 70.9 million PLN and constituted the second area with the highest revenue.

Compared to 2014, operating expenses in 2015 declined by 0.9 million PLN and totalled 852.8 million PLN. The main expenditure items were: outsourced services – 253.7 million PLN, personal expenses

SALES REVENUES AND EQUIVALENT REVENUES FOR 2014–2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015–2014	%
Net sales revenues and equivalent revenues	699.9	692.9	-6.9	-1.0%
Net revenues from sales of goods	650.8	643.0	-7.8	-1.2%
Lease and rent	485.8	483.4	-2.4	-0.5%
Media	41.5	42.8	1.3	3.2%
Medical services	23.7	23.9	0.2	0.9%
Residential business	77.2	70.9	-6.3	-8.2%
Other	22.5	21.9	-0.7	-3.1%
Manufacturing costs of products	13.4	13.9	0.5	3.4%
Revenues from sales of goods and materials	35.7	36.1	0.5	1.3%

– 182.9 million PLN, depreciation – 139.5 million PLN and taxes and fees – 153.7 million PLN, which all together accounted for 85.6% of total operating expenses.

The largest increase in expenses was recorded in expenses on outsourced services, which increased by 40.1 million PLN as a result of the increase in expenses on advisory, consulting and advertising services, as well as renovation and maintenance

costs. Additionally, there was a slight increase in the costs of materials and energy consumption. Compared to 2014, the highest decrease was recorded in depreciation, lower by 20.8 million PLN as a result of limited assets, as well as in payroll, which was lower by 11.7 million PLN due to the decrease in average employment.

In 2015 PKP S.A. recorded a loss on sales of 159.9 million PLN, which is higher by 6.0 million PLN in com-

OPERATING EXPENSES IN 2014–2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015–2014	%
Total operating expenses	853.7	852.8	-0.9	-0.1%
Depreciation	160.3	139.5	-20.8	-13.0%
Materials and energy consumption	84.6	85.0	0.4	0.4%
Outsourced services	213.6	253.7	40.1	18.8%
Taxes and charges	157.1	153.7	-3.4	-2.1%
Payroll	164.9	153.2	-11.7	-7.1%
Social security and other benefits	34.0	29.8	-4.3	-12.6%
Other costs by kind	3.9	3.2	-0.7	-17.4%
Value of goods and materials sold	35.2	34.7	-0.6	-1.6%



The dominant position in the structure of revenues from core activities is the revenue from rent and lease totalling at 483.3 million PLN, which is 69.8% of net sales revenue.

In the case of profits, PKP S.A. achieved significantly higher income from the sale of non-financial fixed assets, totalled 224.0 million PLN (...)

parison with 2014. Higher loss was influenced by the dynamics of operating profit, which was falling faster than the dynamics of operating expenses. After the valuation correction of the value of depreciation, the loss on sales amounted to 20.4 million PLN.

In the case of other operating activities PKP S.A. reported a loss of 60.6 million PLN, by 221.3 million PLN lower than in 2014. Lower result occurred with slightly higher other operating revenues and with a significant increase of other operating expenses. In the case of profits, PKP S.A. achieved significantly higher income from the sale of non-financial fixed assets, totalled 224.0 million PLN, with lower revenue from the write-downs of the right of perpetual usufruct of land, as well as lower revenues from the liquidation of non-financial fixed assets. The increase in other operating costs was predominantly influenced by depositions in the Fundusz Własności Pracowniczej (Workers' Ownership Fund) in the amount of 281.5 million PLN, which resulted from

the sale of shares in subsidiary companies, as well as the increase in the costs of updating the value of assets and other expenses, including provisions and valuation corrections.

In 2015, the profit on business activities of 456.1 million PLN increased by 243.9 million PLN with respect to 2014. The increase results from revenues higher by significant 82.1%, with expenses higher only by 57.9%. The increase in financial revenues was mainly due to the high profit from the sales of investments – 760.7 million PLN, achieved as a result of the sale of shares in subsidiary companies. At the same time revenues from dividends increased by 101.7 million PLN. The increase in financial expenses occurred mainly as a result of higher costs of write-downs of the financial instruments, which totalled 332.1 million PLN (write-down of the value of shares held by PKP Intercity), and thus an increase in other expenses, including provisions for future financial liabilities and valuation of bonds.

STRUCTURE OF OPERATING EXPENSES IN 2014–2015 (%)

2014



- Depreciation – 18.8%
- Outsourced services – 25.0%
- Taxes and charges – 18.4%
- Personnel costs – 23.3%
- Other – 14.5%

2015



- Depreciation – 16.4%
- Outsourced services – 29.8%
- Taxes and charges – 18.0%
- Personnel costs – 21.5%
- Other – 14.4%



2.4 Assets

The total assets of PKP S.A. at the end of 2015 were 16,609.7 million PLN and constituted 91.5% of total assets. In comparison with 2014 the value of fixed assets increased by 906.6 million PLN, mainly as a result of continued investment processes in the area of real estate.

The largest group in the structure of fixed assets in 2015 was long-term investments, which accounted for 78.2% of the assets, including the long-term financial assets in related entities in the amount of 8,577.7 million PLN and capital real estate in the amount of 4,416.1 million PLN.

The second largest group in the structure of assets was long-term receivables, which at the end of 2015 amounted to 3,097.6 million PLN and included undue receivables operated under lease agreements of railway lines and other real estate necessary for the management of railway lines by the companies: PLK, PKP SKM and PKP LHS.

In 2015 the Company reported an increase in tangible fixed assets by 179.4 million PLN, as a result of capital expenditures.



FIXED ASSETS IN 2014–2015 (IN MILLION PLN)

Item	31.12.2014	31.12.2015	Change	
			2015–2014	%
Fixed assets	15,703.1	16,609.7	906.6	5.8%
I. Intangible and legal assets	18.7	16.3	-2.4	-12.7%
II. Tangible fixed assets, including:	299.8	479.2	179.4	59.8%
1. Fixed assets, including:	105.2	97.3	-7.9	-7.5%
a. Land, including:	18.6	14.7	-3.9	-21.0%
b. Buildings, premises, civil & water engineering structures	31.9	21.9	-10.0	-31.3%
c. Technical equipment and machinery	52.6	59.2	6.6	12.6%
d. Means of transport	0.4	0.2	-0.3	-63.9%
e. Other fixed assets	1.6	1.3	-0.3	-20.7%
2. Fixed assets under construction	192.5	381.8	189.4	98.4%
3. Advance payments for fixed assets under construction	2.2	0.1	-2.1	-96.8%
III. Long-term receivables	3,108.7	3,097.6	-11.1	-0.4%
IV. Long-term investments	12,253.4	12,993.9	740.4	6.0%
V. Long-term prepayments	22.6	22.8	0.2	1.1%

Net profit in 2015 amounted to 223.0 million PLN and were higher by 4.0 million PLN in relation to 2014.

Capital expenditures were mainly financed with the Company's own funds in the amount of 222.0 million PLN, as well as with the funds from State Budget – 59.7 million PLN and EU funds – 158.4 million PLN.

2.5 Investments

Capital expenditure incurred by the Company in 2015 was 440.1 million PLN and was allocated for:

- ▶ construction projects in the Company's organizational units – over 325.0 million PLN;
- ▶ capital purchases including the purchase of machinery, equipment, hardware and software – approx. 115.1 million PLN.

Capital expenditures were mainly financed with the Company's own funds in the amount of 222.0 million PLN, as well as with the funds from State Budget – 59.7 million PLN and EU funds – 158.4 million PLN.

The highest capital expenditure was incurred in relation to the following railway stations:

- ▶ Bydgoszcz – 62.5 million PLN;

INVESTMENTS OF PKP S.A. IN 2014–2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015–2014	%
Investments – construction	153.3	325.0	171.7	112.0%
Other investments (purchase, upgrade)	19.3	115.1	95.8	497.2%
Total investments	172.6	440.1	267.5	155.0%
Own funds	98.6	222.0	123.3	125.0%
Public funds	38.9	59.7	20.8	53.4%
EU funds	35.0	158.4	123.4	352.8%

2.6 Employment

At the end of 2015, a total of 2,268 people were employed in PKP S.A. and decreased by 169 people in comparison with 2014. The decrease in employment was mainly attributable to the restructuring of the Company's employment structure, as a result of organizational changes in the Company and natural attrition of employees eligible for retirement benefits.

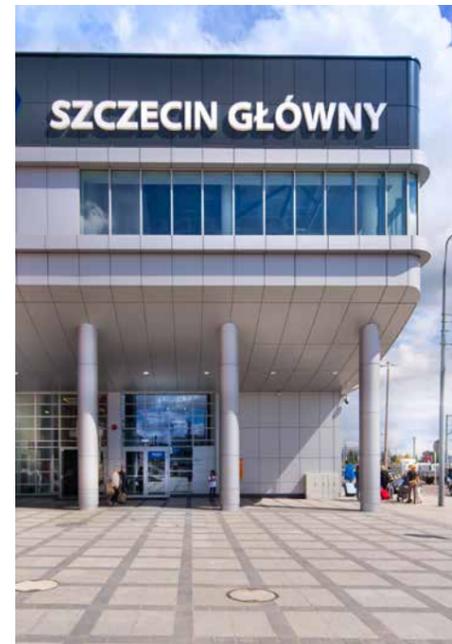
The structure of education is gradually improving. At the end of 2015, the share of employees with higher education accounted for 60.9%, which is an increase of 2.1 p.p. Concurrent with the observed increase in the share of employees with higher education, there is a decline in the share of workers with primary and vocational education. During 2015 the share of this group of workers in total employment fell to 5.7%, that is by 0.7 p.p.

In addition, the share of workers between 36 and 45 years of age increased to 18.5%, that is by 2.6 p.p., in the structure of total employment in the Company. At the same time, the share of workers

- ▶ System Bezpieczeństwa Warszawskiego Węzła Kolejowego – 51.6 million PLN;
- ▶ Szczecin Główny – 46.9 million PLN;
- ▶ Gliwice – 17.6 million PLN;
- ▶ Warszawa Centralna (aesthetic) – 15.1 million PLN;
- ▶ Piła Główna – 11.6 million PLN;
- ▶ Jarosław – 11.4 million PLN;
- ▶ Kędzierzyn-Koźle – 11.0 million PLN;
- ▶ Warszawa Zachodnia – 9.6 million PLN;
- ▶ Warszawa Centralna (insulation) – 9.0 million PLN.

In addition, in 2015 PKP S.A. completed repairs totalling at 48.6 million PLN, which means an increase in spending in comparison to the previous year by 8.1 million PLN. The scope of renovation works included, inter alia, thermo-modernization, repair of roofs, exterior elevations and repairs resulting from breakdowns.

between 46 and 55 years of age was 29.5%, which was the largest decrease (by 2.8 p.p.).

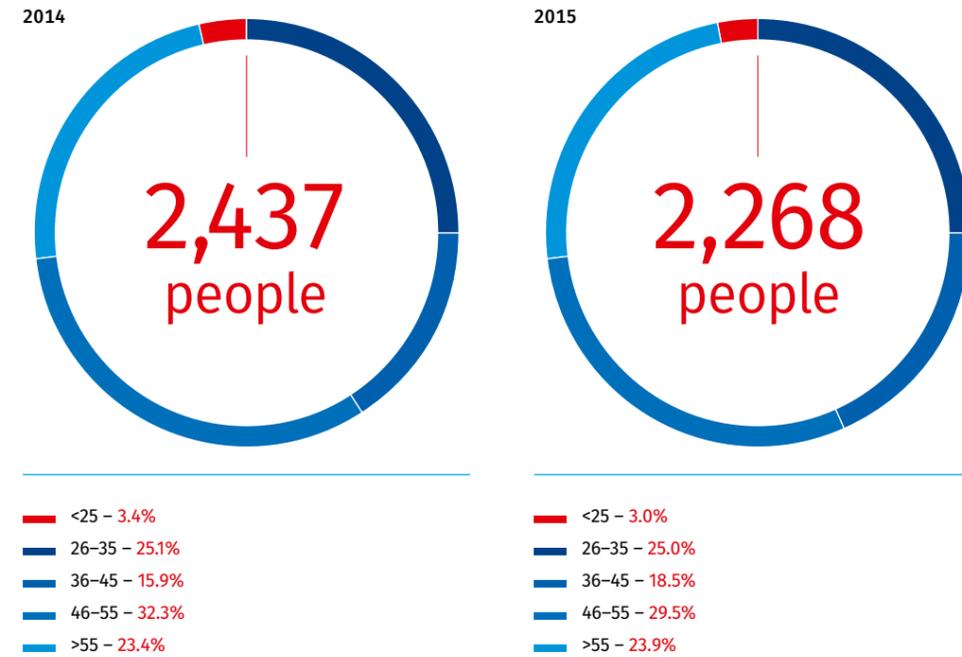


EMPLOYMENT IN PKP S.A. IN 2014–2015

Item	Average employment during a 12 months period (full-time job positions)		Change 2015–2014		Number of people employed* as at the end of December (persons)		Change 2015–2014	
	2014	2015	full-time job positions	%	2014	2015	persons	%
PKP S.A. Headquarters	801.7	774.9	-26.8	-3.3%	804.0	762.0	-42	-5.2%
Regions	1,617.2	1,361.3	-255.9	-15.8%	1,415.0	1,309.0	-106	-7.5%
Railway Medical Services Department	182.8	173.7	-9.1	-5.0%	218.0	197.0	-21	-9.6%
Total employment	2,601.7	2,309.9	-291.8	-11.2%	2,437	2,268	-169	-6.9%

*With its representatives abroad, excluding persons for whom PKP S.A. is not the primary place of employment

STRUCTURE OF EMPLOYMENT BY AGE IN 2014–2015 (%)



The structure of education is gradually improving. At the end of 2015, the share of employees with higher education accounted for 60.9%, which is an increase of 2.1 p.p.



2.7 Main highlights

February

- ▶ PKP S.A. was honoured in 'Diamenty polskiej infrastruktury' ('Diamonds of Polish infrastructure') contest, in the 'Inwestycja roku' ('Investment of the year') category. The jury appreciated the programme of restoration and renovation of railway stations carried out by the Company.

April

- ▶ The launch of Program Oddłużeniowy (Debt Reduction Programme) aimed at helping the residential customers of the Company in repaying their debts on easy terms. These terms included repaying the debt in instalments, along with current rent, with a partial exemption from paying the debt.

May

- ▶ Positive reception of the Program Oddłużeniowy (Debt Reduction Programme) PKP S.A. According to the surveys, 93% of the indebted clients agreed to take part in the programme.

July

- ▶ Promised contract signed by PKP S.A. with Netia S.A. company to acquire 100% of shares in TK Telekom worth 221.9 million PLN.

August

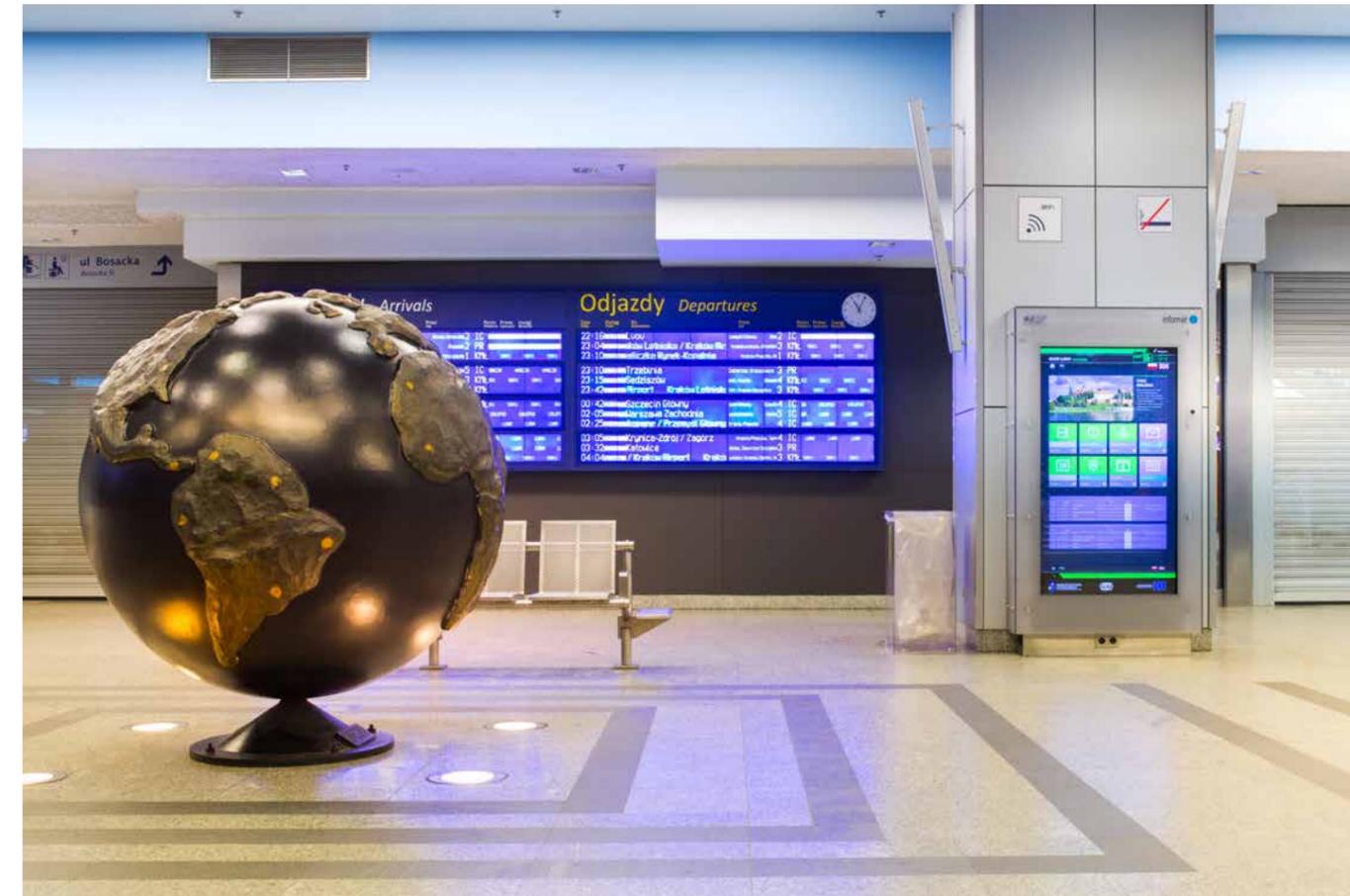
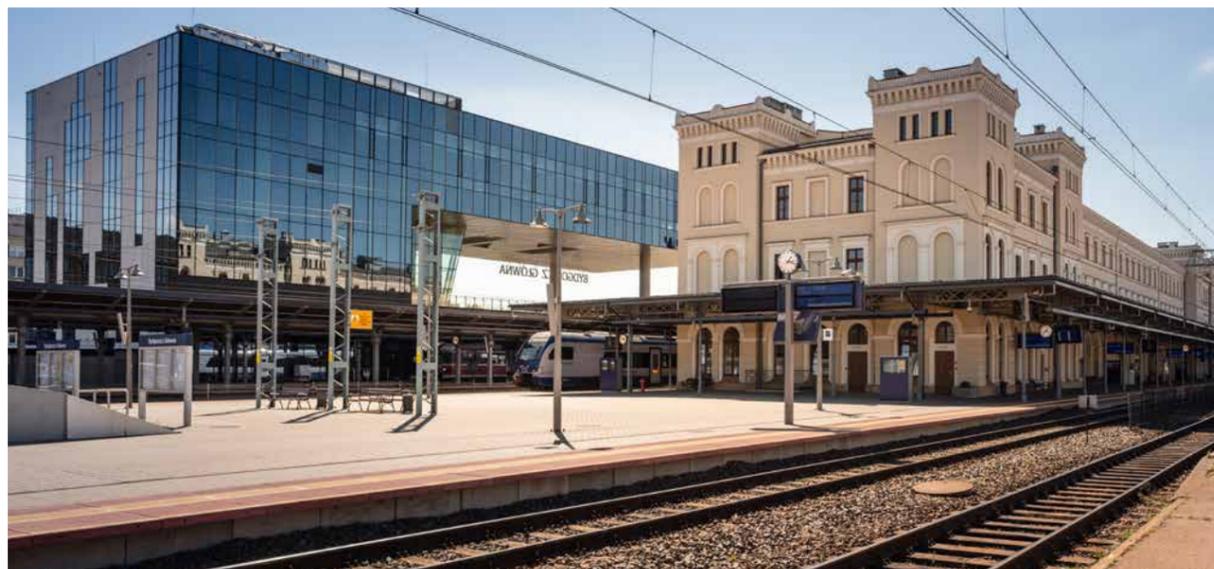
- ▶ Construction of a modern railway station in Nasielsk was finalised. It is the first facility built by the PKP S.A. as part of its pilot programme, that is the 'Innowacyjne Dworce Systemowe' (Innovative Systemic Railway Stations [hereafter referred to as IDS]). Construction of the railway station in Nasielsk was managed by Warmińskie Przedsiębiorstwo Budowlane S.A. The investment costs totalled approx. 5.4 million PLN and were covered by the State Treasury funds and own funds of PKP S.A.

September

- ▶ The modernisation of Katowice Ligota railway station was finalised.
- ▶ Promised contract signed between PKP S.A. and Caryville Investments Sp. z o.o. company, related to CVC Capital Partners fund, to acquire 100% of shares in PKP Energetyka worth 1,410 million PLN, thereby finalising the privatisation process of PKP Energetyka launched at the end of the previous year.
- ▶ Travellers were given access to IDS Strzelce Krajeńskie Wschód railway station.

October

- ▶ Construction of IDS w Mławie railway station finalised. Investment costs amounted to 3.6 million PLN.
- ▶ Announcement by Xcity Investment of launching 15 new investment projects in attractive locations across Poland, owned by PKP S.A., intended for the construction of office, shopping or residential facilities and hotels, which are the consequent projects included in the portfolio, which has the estimated value of 8.84 billion EUR.
- ▶ Bydgoszcz Główna railway station was opened. The investment in Bydgoszcz included the construction of new railway station and modernisation of the building between platforms, as well as a thorough renovation of platforms and underground passages. Total project costs were approx. 197 million PLN. The operation was co-financed from EU funds, under the Infrastructure and Environment Operational Programme. EU funds totalled approx. 120 million PLN.
- ▶ Results of 'Startup Round' competition for innovative solutions for PKP S.A. The winner of the contest for solutions improving the comfort, availability and security of railway stations was the MIGAM 'RKPK' Sp. z o.o. S.K.A. company. Laureates developed a solution to video communication



with interpreters of the sign language using a web browser and mobile application, which will facilitate the communication between PKP workers and deaf passengers.

- ▶ Reconstruction of the antique railway station Piła Główna was completed.

November

- ▶ Thorough reconstruction of the railway station in Kalisz was completed.
- ▶ The sale of all shares in Galeria Katowicka company by PKP S.A. and NEINVER came to a close. Investment fund managed by Meyer Bergman became the only owner of the shopping centre. The facility was thereafter managed by Apsys Polska company.

December

- ▶ The Warszawa Zachodnia railway station was opened. A modern business complex West Station was constructed in the immediate vicinity of the Warszawa Zachodnia railway station. Two office buildings, each with 14 tiers, offer a total of 68 400 square metres of A class area for tenants.
- ▶ PKP S.A., PKP Group Foundation and MIGAM 'RKPK' launched a pilot programme of on-line sign language interpretations. The service, introduced for the deaf and hearing-impaired, runs in 10 biggest railway stations, and it is available 7 days a week, during the opening hours of Info-Railway Station (7 a.m. – 9 p.m.).

- ▶ The opening of modernised Kraków Płaszów railway station.
- ▶ Travellers were gained access to the railway station in Ciechanów. It was the last facility built as part of the IDS programme in 2015.
- ▶ Celebrations marking the 40th anniversary of Warszawa Centralna railway station. During the 3 days of celebrations, titled '40 lat minęło' ('40 years gone by'), allowed us to get back to the younger days of the station, that is to the 1970s. On that occasion, lavish entertainment awaited for travellers, Warsaw residents and the railway station enthusiasts.
- ▶ The opening of thoroughly modernised Kędzierzyn-Koźle railway station.
- ▶ The Sopot Centrum railway station investment was made available. The project was carried out as a part of a pioneering formula of public and private partnership, partially financed from the EU funds (Jessica), carried out by: PKP S.A., Borough of the City of Sopot and Bałtycka Grupa Inwestycyjna S.A.

3

www.plk-sa.pl

PKP POLSKIE
LINIE KOLEJOWE

3.1 About the Company

The Company is the railway infrastructure administrator that provides access to infrastructure to licensed railway operators.

PKP Polskie Linie Kolejowe S.A. (hereafter referred to as PLK) has been in business since 1 October 2001. The shareholders of the Company include the State Treasury which owns 86.5% of all shares and PKP S.A., which holds the remaining 13.5% of shares. As at 31 December 2015 its share capital was 16,684.8 million PLN.

PLK is the railway infrastructure administrator that provides access to infrastructure to licensed railway operators. The Company's objects are:

- ▶ paid access to railway infrastructure for passenger and freight operators on equal terms, for a fee according to rates published in the price list approved by the Office of Rail Transport;

- ▶ service activities supporting the availability, attractiveness and reliability of railway transport, in particular carrying-out railway transport and railway line management, keeping railway lines in a condition ensuring efficient and safe transport of people and freight, regularity and safety of railway traffic, fire service activities, and environment and property protection on railway premises;
- ▶ engineering activities and related technical consultancy, including surveying and cartographic activities;
- ▶ works related to the construction of railway tracks, underground railways, roads and motorways, telecommunications and electricity lines construction;
- ▶ activities related to the general defence obligation, in particular in the preparation of railway facilities and lines for the purpose of carrying-out defence activities.

PLK successfully combines tradition with the most novel solutions and technologies.



3.2 Management and Supervisory Bodies

Management Board

- ▶ **Ireneusz Merchel** – President of the Management Board
- ▶ **Andrzej Pawłowski** – Vice-President of the Management Board, Operations Director
- ▶ **Małgorzata Kuczevska-Laska** – Member of the Management Board, Financial and Economic Director
- ▶ **Antoni Jasiński** – Member of the Management Board, Infrastructure Maintenance Director
- ▶ **Włodzimierz Żmuda** – Member of the Management Board, Operational Quality and Risk Director

Supervisory Board

- ▶ **Mariusz Andrzejewski** – Chairperson
- ▶ **Artur Kawaler** – Secretary
- ▶ **Piotr Gebel**
- ▶ **Wiesław Pełka**
- ▶ **Jan Piechel**
- ▶ **Stanisław Skoczylas**
- ▶ **Ryszard Stopa**

- ▲ **Ireneusz Merchel**
– President of the Management Board

3.3 Finances

In 2015 PLK suffered a net loss of 351.8 million PLN, higher by 204.3 million PLN than in 2014. Lower net revenues were the result of higher loss from sales (due to lower funding and lower income from the sale of scrap metal, as well as higher costs of outsourced services, depreciation and work, in spite of higher income from providing access to railway lines).

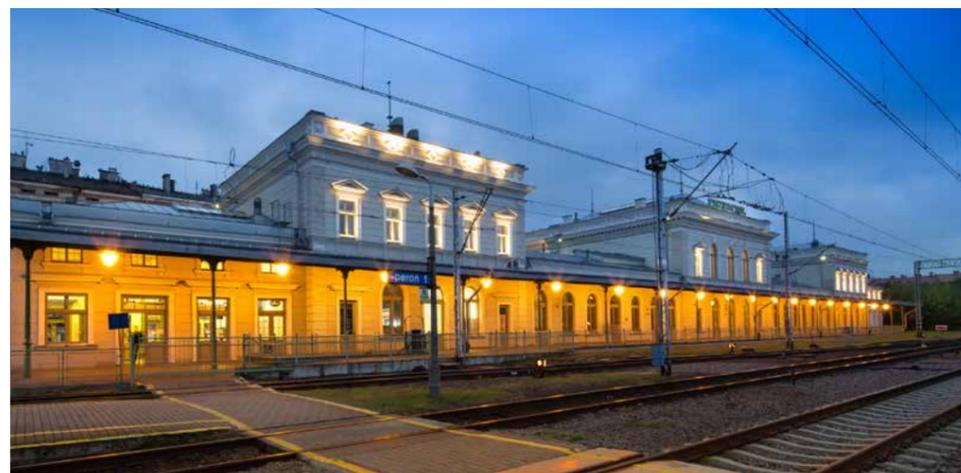
In 2015 sales revenues amounted to 4,754.5 million PLN and were lower by 142.6 million PLN in comparison with 2014, which essentially resulted from the receipt of lower public funds by 151.3 million PLN while at the same time with lower revenues by 60.7 million PLN from the sale of goods and

materials and higher by 75.2 million PLN revenues from sharing railway lines.

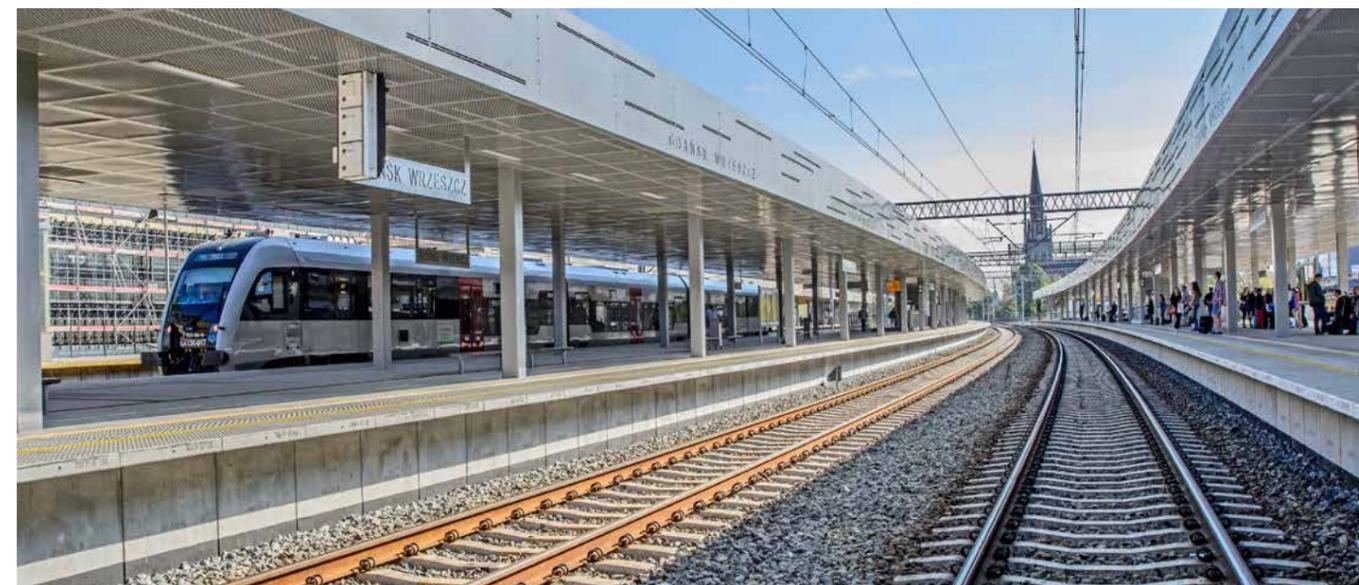
Lower revenues from subsidies were the result of lower funding from the State budget by 467.6 million PLN for management and maintenance of the railway infrastructure, lower funding for technical assistance with Program Operacyjny Infrastruktura i Środowisko (Operational Programme Infrastructure and Environment [hereafter referred to as POIiŚ]) by 3.3 million PLN, with higher compensation for accounting normalisation by 177.5 million PLN (higher amount of compensation on account of expenses on Straż Ochrony Kolei [Railway Security, hereafter referred to as SOK]) and subsidies from the Railway Fund higher by 142.1 million PLN (more funds for renovations and maintenance).

FINANCIAL RESULTS FOR 2014–2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015–2014	%
Net sales revenues and equivalent revenues	4,897.1	4,754.5	-142.6	-2.9%
Operating expenses	5,144.0	5,528.1	384.1	7.5%
Profit (loss) on sales	-246.9	-773.6	-526.7	213.3%
Profit (loss) on sales margin	-5.0%	-16.3%	-11.3 p.p.	-
Other operating revenues	516.7	876.0	359.3	69.5%
Other operating expenses	349.2	446.2	97.0	27.8%
Profit (loss) on other operating activities	167.5	429.8	262.3	156.6%
EBIT	-79.4	-343.8	-264.4	333.0%
EBITDA	916.2	763.4	-152.8	-16.7%
EBITDA Margin	18.7%	16.1%	-2.6 p.p.	-
Financial revenues	69.7	97.2	27.5	39.5%
Financial expenses	137.8	105.2	-32.6	-23.7%
Profit (loss) on financial activities	-68.1	-8.0	60.1	-88.3%
Gross profit (loss)	-147.5	-351.8	-204.3	138.5%
Income tax	0.0	0.0	0.0	-
Net profit (loss)	-147.5	-351.8	-204.3	138.5%
Net profitability	-3.0%	-7.4%	-4.4 p.p.	-



Operating expenses amounted to 5,528.1 million PLN and were 384.1 million PLN higher than in 2014. The reported increase in expenses was due to higher costs of outsourced services (...)



SALES REVENUES AND EQUIVALENT REVENUES FOR 2014–2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015–2014	%
Net sales revenues and equivalent revenues, including:	4,897.1	4,754.5	-142.6	-2.9%
Revenues from providing access to railway lines, including:	1,922.6	1,997.8	75.2	3.9%
Rail freight operators	1,043.8	1,020.0	-23.8	-2.3%
Passenger transport operators	878.8	977.8	99.0	11.3%
Public funds	2,623.0	2,471.7	-151.3	-5.8%
Revenues from sale of other services	113.5	108.7	-4.8	-4.2%
Costs of manufacturing goods for internal use	8.9	7.9	-1.0	-11.2%
Revenues from the sale of goods and materials	229.1	168.4	-60.7	-26.5%

Operating expenses amounted to 5,528.1 million PLN and were 384.1 million PLN higher than in 2014. The reported increase in expenses was due to higher costs of outsourced services (mainly due to wider range of repair works and higher costs of cleaning services in passenger infrastructure facilities, related to higher standards of providing those services), higher expenses on depreciation and payroll (resulting from higher level of employment, rises in salaries and higher minimal wage).

In 2015, the write-down of receivables covered by the settlement from Przewozy Regionalne Sp. z o.o. (hereafter referred to as Przewozy Regionalne) was dissolved, higher write-offs of investment subsidies for capitalising the construction of fixed assets written down together with the write-downs of the depreciation of fixed assets were recorded and assets from bank warranties were granted. All of the above implied an increase in other operating profits in comparison with 2014.

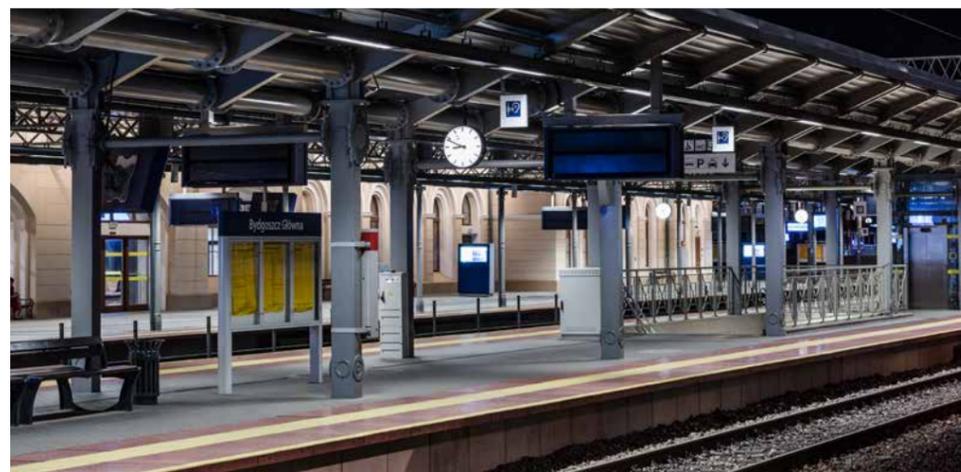
The increase of other operating expenses in 2015 in comparison with 2014 was recorded in spite of higher costs of write-offs of doubtful receivables in 2014 (mainly including receivables from Przewozy Regionalne), as a result of higher value of provisions for constructors' claims on investment projects and for retirement and disability pension workers' benefits.

The decrease in loss on financial activities by 60.1 million PLN in comparison with 2014 was mainly the result of lower financial costs due to lower costs of negative exchange rate differences and lower write-downs of interest receivables. The positive result in financial activities was also influenced by higher financial revenues (the effect of dissolving a write-down of interest receivables from Przewozy Regionalne and receiving higher interest from overdue receivables).

The positive result in financial activities was also influenced by higher financial revenues (...)

OPERATING EXPENSES IN 2014–2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015–2014	%
Total operating expenses	5,144.0	5,528.1	384.1	7.5%
Depreciation	995.6	1,107.2	111.6	11.2%
Materials and energy consumption	439.3	455.2	15.9	3.6%
Outsourced services	1,249.8	1,415.2	165.4	13.2%
Taxes and charges	69.0	77.7	8.7	12.6%
Payroll	1,893.4	1,955.1	61.7	3.3%
Social security and other benefits	468.5	485.1	16.6	3.5%
Other costs by kind	28.4	32.6	4.2	14.8%



3.4 Assets

The highest part of the Company's fixed assets constitute tangible fixed assets. In 2015, tangible fixed assets rose by 16.6% mainly due to the ongoing investment process.

Buildings, premises, civil and water engineering structures continued to dominate the structure

of tangible fixed assets. Their share in the total amount of assets increased by 6.0 p.p. in comparison with 2014, mainly as a result of railway infrastructure modernisation. At the same time, during the 2015 financial year, resources for fixed assets under construction increased in the structure discussed by 5.0 p.p.

SELECTED FIXED ASSETS IN 2014–2015 (IN MILLION PLN)

Item	31.12.2014	31.12.2015	Change	
			2015–2014	%
Fixed assets	39,138.9	45,630.6	6,491.7	16.6%
I. Intangible and legal assets	11.6	27.2	15.6	134.5%
II. Tangible fixed assets, including:	39,009.3	45,478.8	6,469.5	16.6%
1. Fixed assets, including:	24,481.5	30,899.9	6,418.4	26.2%
a. Land	3,295.0	3,509.4	214.4	6.5%
b. Buildings, premises, civil & water engineering structures	20,550.2	26,677.8	6,127.6	29.8%
c. Technical equipment and machinery	566.4	639.9	73.5	13.0%
d. Means of transport	60.9	62.8	1.9	3.1%
e. Other fixed assets	9.0	10.0	1.0	11.1%
2. Fixed assets under construction	14,413.6	14,528.2	114.6	0.8%
3. Advance payments for fixed assets under construction	114.2	50.7	-63.5	-55.6%

The highest part of the Company's fixed assets constitute tangible fixed assets. In 2015, tangible fixed assets rose by 16.6% mainly due to the ongoing investment process.

3.5 Subsidies

In 2015 PLK was granted subsidies for ongoing operations and investment activities. The State subsidy was granted for managing and protecting the railway infrastructure, and for intermodal relief. In 2015, by the decision of the Minister of Infrastructure and Development, the size of the State budget subsidy provided to PLK was reduced by 792.9 million PLN, which included 770.3 million PLN of specified-user subsidy and 22.6 million PLN as compensation for accounting normalization.

A designated subsidy for technical support for POIiŚ 2014–2020 projects is aimed at the implementation of financial tasks from EU structural funds.

Financing from the Railway Fund is approved from 'Program rzeczowo-finansowego wykorzystania środków z Funduszu Kolejowego' ('Programme of material and financial usage of finances from the Railway Fund'). This financing method decreases the level of expenses used to calculate access rates, and thanks to which fees for use of the railway infrastructure are lowered. In 2015 the finances from Railway Fund were spent on the grounds of

'Program rzeczowo-finansowego wykorzystania środków z Funduszu Kolejowego' ('Programme of material and financial usage of finances from the Railway Fund in 2014–2019', updated by the Council of Ministers Act of July 2015).

On the basis of the Council Regulation (EEC) of 26 June 1969, on common rules for the normalization of the accounts of railway companies, PLK is entitled to compensation for expenses incurred resulting from the obligation to maintain level crossings and cover the costs of the functioning of SOK. The regulation is intended to lead to a lasting assurance of equal competition conditions between the various branches of transport. In 2015 PLK, on the grounds of the request concerning the final settlement of accounting normalisation in respect of maintenance costs of level crossings in 2013, received a compensation of 22.6 million PLN. The Company, on the grounds of the contract signed in 2015 with Minister of Infrastructure and Development, was also granted a compensation of 190.9 million PLN in respect of the expenses incurred resulting from the obligation to cover the costs of the functioning of SOK in 2012.

Financing from the Railway Fund decreases the level of expenses used to calculate access rates, and thanks to which fees for use of the railway infrastructure are lowered.

USE OF DOMESTIC STATE FUNDS IN 2014–2015 (IN MILLION PLN)

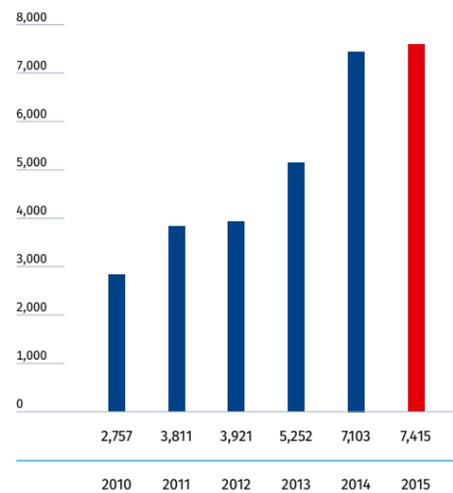
Item	31.12.2014	31.12.2015	Change	
			2015–2014	%
State funds for operating activities, including:	2,623.0	2,471.7	-151.3	-5.8%
Earmarked subsidy	1,852.6	1,385.0	-467.6	-25.2%
POIiŚ subsidy for technical support	54.6	51.3	-3.3	-6.0%
Railway Fund part 'B' – repairs and maintenance	66.6	224.8	158.2	237.5%
Railway Fund part 'E' – running expenses	613.3	597.1	-16.2	-2.6%
Compensations on account of accounting normalisation	35.9	213.5	177.6	494.7%
State funds on investment activities, including:	189.8	588.4	398.6	210.0%
Ineligible State budget subsidy (property – with funds for lines with defensive significance)	14.1	225.9	211.8	1,502.1%
Railway Fund part 'A' – financing investment projects and repayment of interest, EBI capital and bonds	175.7	362.5	186.8	106.3%



3.6 Investments

PLK, as administrator of the national railway infrastructure, is designed to increase performance and efficiency of the country's transport system through implementation of a broad-based program of modernization of railway lines. In 2015 the development of a new long-term railway investment programme for 2014–2023 was discussed and accepted later that year in September 2015. Thereby, Domestic Railway Programme substituted the Long Term Railway Investment Programme and, until 2023, will be the main document regulating the realisation of investments.

CAPITAL EXPENDITURE
IN 2014–2015 (IN MILLION PLN)



Expenses were incurred mainly for the modernization of railway lines, which transferred to the increase in capacity of railway lines and commercial efficiency of rail operators.

3.7 Employment

Average employment in PLK in 2015 was 38,803 full-time job positions and was lower in comparison with 2014 by 844 full-time job positions. The number of employees at the end of 2015 was 39,139, which is an increase of 875 persons in comparison with the previous year.

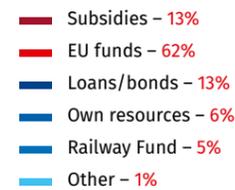
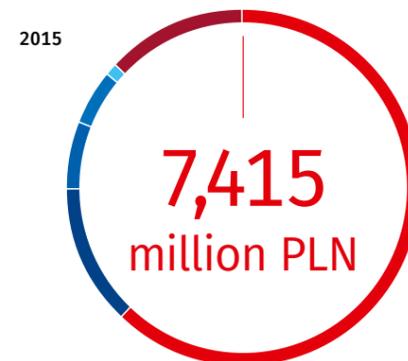
The increase in employment in comparison with the end of December 2014 was mainly due to supplementing employment in maintenance and traffic engineering areas, distributing full-time job positions concerning the reduced amount of overtime work and launching actions related to the generational gap.

PLK is a modern employer focused on developing highest work standards by:

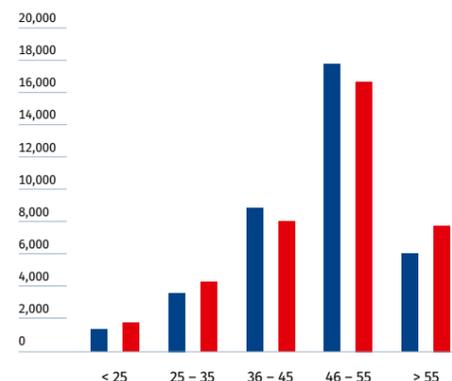
- ▶ employing specialists in the areas required to accomplish Company's goals,
- ▶ motivating and creating conditions for raising employees' qualifications, as well as systematic and conscious development of skills and competencies.

In 2015 PLK achieved record capital expenditure of 7,414.7 million PLN. Expenses were incurred mainly for the modernization of railway lines, which transferred to the increase in capacity of railway lines and commercial efficiency of rail operators.

STRUCTURE OF INVESTMENT
FINANCING SOURCES IN 2015



STRUCTURE EMPLOYMENT BY AGE



3.8 Main highlights

January

- ▶ The year 2014 was announced the safest in the history of railway. Summary of the effects of 'Programu poprawy bezpieczeństwa w PLK' ('Programme of Safety Improvement in PLK').

February

- ▶ The introduction of new services for passengers – schedules available for smartphones. Free application provides information on passenger trains schedules of all operators.

March

- ▶ First rail tracks laid at the Łódź Fabryczna railway station – another stage in the construction of one of the most modern railway stations in Europe.

April

- ▶ PLK signed the contract 'Modernizacja systemu sterowania ruchem kolejowym na trasie Rawicz – Czempin' ('Modernisation of the railway traffic control system on the Rawicz – Czempin line'). It was the first contract enabling the use of finances from the new perspective 2014–2020.

May

- ▶ New functions available for passengers. All railway connections can be followed in real time and the up-to date information about travel difficulties can be found on the website www.portalpasazera.pl.

June

- ▶ The inauguration of the 11th edition of the 'Bezpieczny przejazd' ('Safe Crossing') social campaign, under the new slogan 'Szlaban na ryzyko!' ('Risk barrier!').
- ▶ All projects PLK in the first competition 'Łącząc Europę' ('Connecting Europe Facility' [hereafter referred to as CEF]) were accepted by the European Commission. Over 7.5 billion PLN of subsidies granted for the realisation of 7 projects.

July

- ▶ Commencement of modernisation of No. 8 line from Warsaw to Radom. The Company signed a contract to modernise the line on Warszawa Okęcie – Czachówek section.

August

- ▶ The introduction of a new method of practical training for train dispatchers – a modern railway traffic control and communication devices simulator fosters the development of skills of employees responsible for safety.

September

- ▶ A modern connection between the railway station and the airport. The launch of a fast railway connection between Kraków Główny railway station and Kraków Balice airport.

- ▶ Taking part in the 11th International Railway Fair TRAKO 2015. The Company was honoured with 'Lokomotywą Rynku Kolejowego' ('Engine of Railway Market') for new functions of passenger website, that is for the application in informing about the shuttling trains in real time.

October

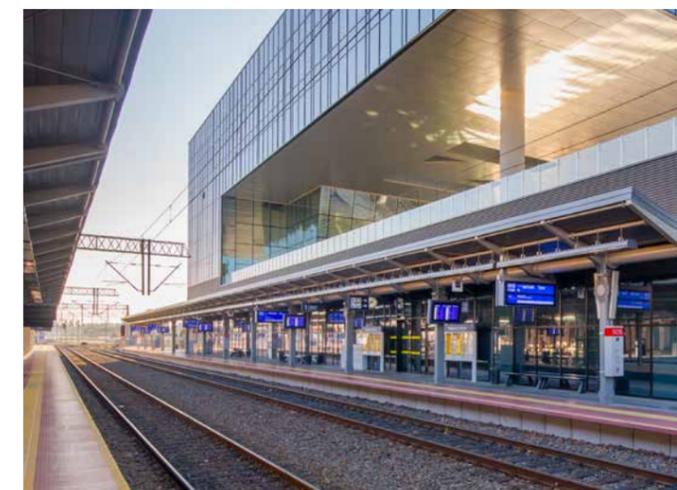
- ▶ An agreement signed with State Centre of Research and Development concerning the realisation of the best projects related to research and development in railway transport.
- ▶ The announcement of the tender for the modernisation of Warszawa – Poznań railway line on the Sochaczew – Swarzędz segment, for an amount of 2.6 billion PLN. It was another PLK project financed from a new financial instrument of the EU – CEF 'Łącząc Europę' ('Connecting Europe').

November

- ▶ Positive test results of the ERTMS 2nd level system on the Legnica – Węgliniec – Bielawa Dolna route within the project 'Modernisation of E30 railway line, stage 2. Pilot introduction of ERTMS/ETCS and ERTMS/GSM-R in Poland on the Legnica – Węgliniec – Bielawa Dolna segment'.
- ▶ Poland joined the European Union countries which have functioning transport corridors. The opening of two international transport corridors: corridor No. 5 Baltic – Adriatic and corridor No. 8 North Sea – Baltic.

December

- ▶ Railway traffic resumed on the Warszawa – Białystok route. Completion of another stage in modernisation, with the first exclusion of the line for the time of a brief investment (Tłuszcz – Sadowne Węgierskie).
- ▶ PLK used the EU funds from the perspective 2007–2013, which totalled 13.4 billion PLN, before the due date. The Company modernised the railway infrastructure and both the passenger services and security level on the tracks improved significantly.



4

www.pkp.cargo.com

PKP CARGO

4.1 About the Company

PKP CARGO company is the largest rail freight operator in Poland and the second largest rail freight operator in the European Union.

PKP CARGO S.A. company (hereafter referred to as PKP CARGO) was established under Article 14 of the Act of 8 September 2000 on the commercialization, restructuring and privatization of the state-owned Polskie Koleje Państwowe. PKP CARGO in its current legal status was established within the processes discussed and commenced its operations in October 2001 after an appropriate concession was given by the Minister of Transport.

Besides providing freight railway transport services, PKP CARGO and other Companies of the PKP CARGO Group provide their customers additional services covering: intermodal services, freight forwarding (domestic and international), terminals (trans-loading and storing goods at the junctions of broad and standard-gauge tracks on Poland's eastern border and in other key locations around the country) and siding services. Moreover, the PKP CARGO Group deals with rolling stock maintenance and repairs and recultivating activities.

SHAREHOLDER STRUCTURE OF PKP CARGO COMPANY AS AT 31 DECEMBER 2015

Shareholder	No. of shares	Percentage stakes in share capital	No. of votes	Percentage stakes in the total No. of votes on WZA
PKP S.A.	14,784,194	33.01%	14,784,194	33.01%
Nationale-Nederlanden OFE	5,771,555	12.89%	5,771,555	12.89%
Morgan Stanley	2,380,008	5.31%	2,380,008	5.31%
AVIVA OFE	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	19,512,789	43.57%	19,512,789	43.57%
Total	44,786,917	100.00%	44,786,917	100.00%

PKP CARGO is the largest rail freight operator in Poland and the second largest rail freight operator in the European Union. Currently, PKP CARGO company has security certifications which enable the provision of independent railway transport services on the territory of: Czech Republic, Slovakia, Germany, Austria, the Netherlands, Lithuania and Hungary.

Since 30 October 2013, PKP CARGO company is listed on the Warsaw Stock Exchange (hereafter referred to as GPW). The public offering was the first successful share offering of a national rail freight carrier in the European Union. The most successful debut of State Treasury company in years was confirmed by the honour of the editorial board of 'Gazeta Giełdy Parkiet' ('Parquet Exchange Newspaper') and the award 'Best IPO on the Warsaw Stock Exchange 2013/2014' – award of Warsaw Capital Market Summit 2014. A total of 48.3% of shares were traded publicly. In June 2014, as a result of the block trades signed as a result of the accelerated book building, PKP S.A. sold 17.0% of PKP CARGO shares. In October 2015 the lock-up, that is the ban on the sale of workers' shares, which lasted for 2 years, came to an end.

In 2015, PKP CARGO finalised the process of acquiring 80% of stocks in Advanced World Transport B.V. (hereafter referred to as AWT), the second largest rail freight carrier in the Czech Republic, whose operations include Central and Southern Europe. The acquisition of AWT will provide PKP CARGO company with an increased share of the Czech market and a significant share in the course of the Baltic – Adriatic transport corridor. In 2015 PKP CARGO company signed a contract to acquire 44.44% of stocks in PS Trade Trans Sp. z o.o., thus acquiring 100% of shares in that Company, which changed the name to PKP CARGO CONNECT Sp. z o.o. and as a result of consolidation with CAR-GOSPED Sp. z o.o. performs the functions of a forwarder and an intermodal operator functioning within the PKP CARGO Capital Group.



4.2 Management and Supervisory Bodies of PKP CARGO company

▲ **Maciej Libiszewski**
– President of the Management Board

Management Board

- ▶ **Maciej Libiszewski** – President of the Management Board
- ▶ **Grzegorz Fingas** – Member of the Management Board for Commercial Matters
- ▶ **Jarosław Klasa** – Member of the Management Board for Operations
- ▶ **Arkadiusz Olewnik** – Member of the Management Board for Finances
- ▶ **Zenon Kozendra** – Member of the Management Board, Employee Representative

Supervisory Board

- ▶ **Mirosław Pawłowski** – Chairperson
- ▶ **Andrzej Wach** – Deputy Chairperson
- ▶ **Zofia Dzik**
- ▶ **Marek Janusz Podskalny**
- ▶ **Raimondo Eggink**
- ▶ **Krzysztof Czarnota**
- ▶ **Małgorzata Kryszkiewicz**
- ▶ **Czesław Warszewicz**
- ▶ **Jerzy Kleniewski**
- ▶ **Tadeusz Stachaczyński**

4.3 Finances

In 2015, the PKP CARGO Group recorded a net profit of 31.4 million PLN.

In 2015, the PKP CARGO Group achieved operating income of 4,554.1 million PLN and it was an increase by 279.8 million PLN in comparison with 2014. Higher revenues were primarily caused by

including the AWT company in the consolidation. However, on the domestic market there were negative trends in transport and forwarding revenues resulting from strong pricing pressure on the railway freight transport market and from a decrease in revenues from the transport of aggregates and building materials, caused by a slow progress in infrastructure investments.

TOTAL INCOME STATEMENT FOR 2014–2015 (IN MILLION PLN) DRAWN UP IN COMPLIANCE WITH IAS/IFRS

Item	2014	2015	Change	
			2015–2014	%
Income from operating activities	4,274.3	4,554.1	279.8	6.5%
Operating expenses	4,153.4	4,498.2	344.8	8.3%
EBIT	120.9	55.9	-65.0	-53.8%
EBITDA	503.7	704.9	201.2	39.9%
EBITDA margin	11.8%	15.5%	3.7 p.p	31.3%
Financial revenues	33.8	14.7	-19.1	-56.5%
Financial expenses	62.1	65.1	3.0	4.8%
Result on financial activities	-27.4	-44.1	-16.7	-
Profit before tax	93.5	11.8	-81.7	-87.4%
Income tax	15.2	-19.6	-34.8	-
Net profit	78.3	31.4	-46.9	-59.9%
Net profitability	1.8%	0.7%	-1.1 p.p	-
Other total income not reclassified in the financial results	-2.6	34.3	36.9	-
Total income	44.9	108.7	63.8	142.1%



OPERATING EXPENSES OF PKP CARGO GROUP IN 2014–2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015–2014	%
Total operating costs	4,153.4	4,498.2	344.8	8.3%
Depreciation and write-downs	382.8	649.0	266.2	69.5%
Consumption of raw materials and supplies	594.0	697.0	103.0	17.3%
Outsourced services	1,315.8	1,501.2	185.4	14.1%
Tax and charges	40.8	38.6	-2.2	-5.4%
Costs of employee benefits	1,698.9	1,484.8	-214.1	-12.6%
Other costs by kind	44.0	53.9	9.9	22.5%
Value of goods and materials sold	38.2	25.7	-12.5	-32.7%
Other operating expenses	39.0	48.2	9.2	23.6%

Higher revenues were primarily caused by including the AWT company in the consolidation.



In 2015, operating expenses increased by 344.8 million PLN, that is by 8.3% y/y, reaching 4,498.2 million PLN, primarily as a result of including AWT in the consolidation. In 2015, an increase was recorded in depreciation and write-downs by 266.2 million PLN (that is by 69.5% y/y) reaching 649.0 million PLN as a result of including AWT in the consolidation, high level of investment financing and carrying out write-downs on account of permanent value loss of the rolling stock without valid certificates of technical condition. An increase in the remaining areas, namely the consumption of raw materials and energy, and outsourced services, was largely caused by the including AWT in the consolidation, whereas the decrease in costs of employee benefits was related to Program Dobrowolnych Odejść I (Voluntary Redundancy Programme I) and Program Dobrowolnych Odejść II (Voluntary

Redundancy Programme II), as well as to the termination of employment contracts due to acquiring retirement rights.

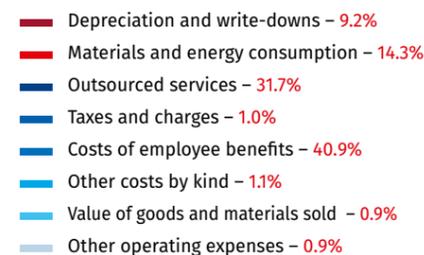
In 2015, PKP CARGO Group suffered a loss of 44.1 million PLN on financial activities, with the result being lower by 16.7 million PLN as compared to the preceding year. The main cause of worse results in the financial activities was the decline in interest income from deposits and bank accounts by 15.0 million PLN (that is by -77.1% r/r).

In 2015, the income of PKP CARGO Group before tax amounted to 11.8 million PLN and was lower by 87.4% as compared to 2014. This was due to the decline in profits from operating and financial activities. In 2015, generated a net financial income of 31.4 million PLN.

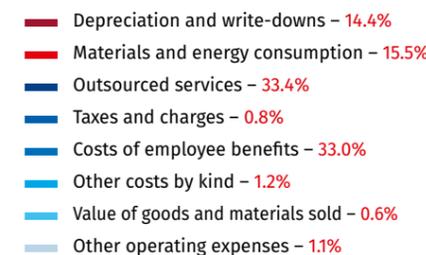
In 2015, PKP CARGO Group generated a net financial income of 31.4 million PLN.

STRUCTURE OF OPERATING EXPENSES OF PKP CARGO GROUP IN 2014–2015

2014



2015



4.4 Assets

As at 31 December 2015, the total value of tangible fixed assets of PKP CARGO Group was 4,719.7 million PLN and was higher by 675.1 million PLN than in the previous year, primarily due to including AWT in the consolidation.



SELECTED FIXED ASSETS OF PKP CARGO GROUP IN 2014–2015 (IN MILLION PLN) IN COMPLIANCE WITH IAS/IFRS

Item	2014	2015	Change	
			2015–2014	%
I. Tangible fixed assets	4,044.6	4,719.7	675.1	16.7%
1. Fixed assets, including:	4,026.4	4,691.9	665.5	16.5%
a. Land, including the right of perpetual usufruct	139.9	152.6	12.7	9.1%
b. Buildings, premises, civil & water engineering structures	504.7	597.1	92.4	18.3%
c. Technical equipment and machinery	120.8	146.7	25.9	21.4%
d. Means of transport	3,253.3	3,785.0	531.7	16.3%
e. Other fixed assets	7.7	10.5	2.8	36.4%
2. Fixed assets under construction	18.2	27.8	9.6	52.7%



4.5 Investments

PKP CARGO Group in 2015 incurred capital expenditures of 484.6 million PLN (as to IAS/IFRS), which accounted for 81% of that incurred in 2014. The capital expenditure in 2015 were intended mainly for projects relating to the rolling stock, including periodical repairs of carriages and engines, modernisation of engines (15 units) and the

purchase of carriages (70 units of platform carriages for transport of containers). Moreover, PKP CARGO company incurred expenditure for the construction and equipment of container terminal, and the expansion of the hall in Poznań Franowo, organisation of the sewage management on Kamieniec Żąbkowicki, modernisation of buildings in Gdynia, Wrocław and Jaworzno Szczakowa and expenditures on IT services for the Company.

LIST OF INVESTMENTS MADE BY THE PKP CARGO GROUP IN 2014–2015 (IN MILLION PLN) IN COMPLIANCE WITH IAS/IFRS

Item	2014	2015	Change	
			2015–2014	%
Total investments	596.7	484.6	-112.1	-18.8%
Construction investments	18.1	28.1	10.0	55.2%
Upgrade of engines	48.5	70.4	21.9	45.2%
Rolling stock repair components	437.1	307.6	-129.5	-29.6%
Purchase of carriages	57.3	20.1	-37.2	-64.9%
Machinery and equipment	9.5	12.2	2.7	28.4%
IT	22.0	34.9	12.9	58.6%
Other investments	4.2	9.7	5.5	131.0%

The capital expenditure in 2015 were intended mainly for projects relating to the rolling stock, including periodical repairs of carriages and engines, modernisation of engines (...) and the purchase of carriages (...)

4.6 Employment

At the end of 2015, PKP CARGO Group employed 23,805 people and it was a drop by 1,155 people in comparison with 2014. The main reason for the decrease in employment was the realisation of the Program Dobrowolnych Odejść (Voluntary Redundancy Programme), which was conducted in two stages. The stage No. I benefited 3,041 people, who as of 1 February 2015 ceased to be employees. On the other hand, the stage No. II benefited 874 people, who as of 1 July 2015 ceased to be employees of PKP CARGO company. The Programme was additionally implemented in PKP CARGOTABOR – 107 people ceased to be employees as of 1 August 2015.



4.7 Freight transport

In 2015, PKP CARGO Group transported 116.3 million tons of cargo and it was an increase in comparison with the previous year by 5.6 million tons (that is by 5.1%). In 2015 the average distance of transports was also lower by 4.8 km (that is by 1.8%). As a result of the increase of the mass of transported cargo and a reduction in the average transport distance, transport performance also increased by 892.3 million tkm (that is by 3.1%) as compared to 2014.

The increase in transportation in 2015 was mainly related to increased transport of hard coal by 5.9 million tons (that is by 11.3%), resulting from the established trade policy (a rise in transport in Poland and a significant rise in foreign transport due to new possibilities in transit from the Czech

Republic to Slovakia). On the other hand, there was a decline in the transport of aggregates and building materials, wood and crops, as well as freight classified as 'Other'. The largest decrease of 1.6 million tons (that is by 7.6%) was recorded in the transport of aggregates and building materials, as a consequence of slower infrastructure investments and a slow progress in new investments (stages of settling the tender offers, designing and planning). The decrease in the average transport distance by 4.8 km in comparison with 2014, was largely due to the reduction of the average transport distance of aggregates and building materials, as well as the increase of the share of hard coal in the transport (from 47% in 2014 to 50% in 2015, considering the mass of transported cargo), characterised by a low average distance (214 km in 2015, while the average overall transportation distance was 257 km).

LIST OF TRANSPORT INDICES OF THE PKP CARGO GROUP IN 2014–2015

Item	2014	2015	Change	
			2015–2014	%
Freight transport (million tons)	110.7	116.3	5.6	5.1%
Transport performance (million tkm)	28,946.8	29,839.1	892.3	3.1%
Average transport distance (km)	261.5	256.7	-4.8	-1.8%



A rise in transport in Poland and a significant rise in foreign transport due to new possibilities in transit from the Czech Republic to Slovakia.

4.8 Main highlights

January

- ▶ The finalisation of the Programu Dobrowolnych Odejsć (Voluntary Redundancy Programme) launched in PKP CARGO company in 2014 – stage No. I benefited over 3 thousand people.
- ▶ Commencement of the creation of Intermodal Logistics Centre in Poznań Franowo. The expansion will increase the handling capacity of the terminal by 40%.

February

- ▶ An agreement was reached with employees, thus ending the labour dispute.
- ▶ The tender for hard coal transport provided by companies of the Azoty Group won. One of the biggest expected tenders for coal transport in 2015, with a total mass of 1.5 million tons.
- ▶ Acquisition of the remaining shares (44.44%) in PS Trade Trans. Thereby, PKP CARGO company acquired 100% of shares PS Trade Trans and gained control over hauler's operations.

March

- ▶ Two-year contracts were signed for freight transport, with leaders of Polish wood industry: International Paper Kwidzyn, Kronospan Szczecinek and Mondi Świecie. The total mass of cargo transported by PKP CARGO company for the mentioned companies over the period of 2 years will exceed 5 million tons, with wood constituting nearly 65% of the transported cargo.

April

- ▶ The commencement of the consolidation process of forwarding activity in the PKP CARGO Group, thus far undertaken by 3 companies.

May

- ▶ The launch of the stage No. II of Program Dobrowolnych Odejsć (Voluntary Redundancy Programme), which in June benefited nearly 900 people.
- ▶ Finalisation of the purchase of 80% of shares in Advanced World Transport B.V., the second largest railway operator in the Czech Republic.
- ▶ The tender for coal transport won for 62.5 million PLN, allowing coal deliveries from Bogdanka in Lubelszczyzna and Silesian mines to Elektrownia Kozienice, owned by ENEA Wytwarzanie. The contract will be in force for 12 months since July 2015. The total mass of fuel transported within the contract will exceed 5 million tons.

June

- ▶ Commencement of co-operation with Zhengzhou International Hub (Henan Province in China) on railway container transport between Central China and Europe (New Silk Road). The key element of the project is the extension of the dry port of the PKP CARGO Group in Małaszewicze on the Polish-Belarusian border.
- ▶ A three-year contract was signed in Poland with Veolia to transport 4.25 million tons of hard coal. The contract will



be fulfilled in 2016–2018 and primarily includes delivering coal from Silesian mines to central and western Poland.

July

- ▶ Commencement of the extension of the container terminal in Poznań Franowo. In the future, the terminal will constitute a part of the Logistics Centre, providing comprehensive logistic services on the crossing of East-West and North-South transport corridors.

September

- ▶ The increase in the frequency of regular container connections between ports and Warsaw to 4 weekly. So-called 'pociągi operatorskie' (operating trains), shuttle in accordance with a fixed timetable adjusted to ships' schedules.
- ▶ A contract was signed between PKP CARGO company and Siemens to buy 15 multi-system Vectron engines for international train services towards West and South.
- ▶ Expansion of the foregoing co-operation with Maersk Line, the global container operator. PKP CARGO Group ships containers between Polish ports and the terminal in Warsaw, stores them and delivers to the destination by lorries.

October

- ▶ Lithuanian Office of Rail Transport issued a permit for the use of engines from the ST48 series on Lithuanian railway infrastructure. Lithuania is the 7th European country in which PKP CARGO company is allowed independent transport.

November

- ▶ The Company won a tender for the transport of approx. 12 million tons of coal and over 1 million tons of limestone sorbent for PGE Górnictwo i Energetyka Konwencjonalna. The contract will run in the years 2016–2018, and its peak value reaches almost 290 million PLN. The contract is the continuation of the foregoing co-operation between PKP CARGO company and PGE.

December

- ▶ Successful finalisation of tests of the Vectron engines at the manufacturing company in Munich. The first three of the engines bought were delivered to Poland at the beginning of 2016.
- ▶ Finalisation of the extension of the intermodal terminal in Poznań Franowo. As a result the Company acquired a second manoeuvre and storage square, and better layout of access roads.

5

www.intercity.pl

PKP INTERCITY

5.1 About the Company

The Company is the biggest passenger transport operator in Poland, offering domestic and international long distance transport.

PKP Intercity S.A. (hereafter PKP Intercity) started operations on 1 September 2001 by being taken out of the PKP S.A. structure. Initially, the Company focused its activity on the premium segments of railway transport, but as it developed, it extended its offer to economy class by introducing the Tanie Linie Kolejowe brand (currently Twoje Linie Kolejowe [TLK]). As a part of PKP reformation process in 2008, PKP Intercity acquired PKP Przewozy Regionalne which provided services with express interprovincial transport. In 2014, InterCity (IC) brand and PKP InterCity's flagship product, the Express InterCity Premium (EIP) were added to the Company's offer. Currently, the Company provides transport services on the market of qualified passenger transport, both in the area of domestic and international communication.

The Company's domestic offer is based on the following products:

- ▶ Express Intercity Premium (EIP) – since 14 December 2014, the express Pendolino trains run regularly on the routes connecting Warszawa, Trójmiasto, Kraków, Katowice and Wrocław.
- ▶ Express InterCity (EIC) – express trains with classic rolling stock, connecting large city centres;
- ▶ InterCity (IC) – the brand founded in November 2014, offering travels with new and modernized express trains, which were acquired and modernised using the EU funds;
- ▶ Twoje Linie Kolejowe (TLK) – well-developed, nationwide network of day and night long distance routes in the economy segment, connecting hundreds of towns in Poland (including tourist resorts and academic centres).

The carrier also provides a network of international routes, connecting selected Polish cities of neighboring countries.



5.2 Management and Supervisory Bodies

Management Board

- ▶ **Marek Chraniuk** – President of the Management Board
- ▶ **Jarosław Oniszczyk** – Member of the Management Board
- ▶ **Artur Resmer** – Member of the Management Board

Supervisory Board

- ▶ **Cecylia Lachor** – Chairperson
- ▶ **Marta Postuła**
- ▶ **Maria Sędek**
- ▶ **Krzysztof Piotr Ciećka**
- ▶ **Monika Nowosielska**
- ▶ **Lucyna Krawczyk**
- ▶ **Maciej Gustaw Zaborowski**

▲ **Marek Chraniuk**

– President of the Management Board

5.3 Finances

In 2015, the increasing revenues of PKP Intercity contributed to the rise in EBITDA by 90.5 million PLN (that is by 42.5% y/y). At the same time, higher financial expenses resulted in lower net profit by 2.6 million PLN. Rolling stock investments and extended commercial offer of the Company significantly influenced the results in 2015.

The Company generated sales revenues of 2,097.4 million PLN and they were lower than in 2014 by 320.6 million PLN (that is by 18.0% y/y). When it comes to individual categories, the increase mainly concerned revenues on domestic

FINANCIAL RESULTS FOR 2014–2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015–2014	%
Net sales revenues and equivalent revenues	1,776.8	2,097.4	320.6	18.0%
Operating expenses	1,781.7	2,119.2	337.5	18.9%
Profit (loss) on sales	-4.8	-21.7	-16.9	349.0%
Profit (loss) on sales margin	-0.3%	-1.0%	-0.8 p.p.	-
Other operating revenues	95.6	132.0	36.4	38.0%
Other operating expenses	89.3	75.4	-13.9	-15.6%
Profit (loss) on other operating activities	6.3	56.6	50.3	798.7%
EBIT	1.5	34.8	33.4	2,299.0%
EBITDA	213.2	303.7	90.5	42.5%
EBITDA Margin	12.0%	14.5%	2.5 p.p.	-
Financial revenues	12.3	13.0	0.7	5.9%
Financial expenses	66.7	95.4	28.6	42.9%
Profit (loss) on financial activities	-54.4	-82.4	-27.9	51.3%
Gross profit (loss)	-53.0	-47.5	5.5	-10.3%
Income tax	1.2	9.3	8.1	672.5%
Net profit (loss)	-54.2	-56.8	-2.6	4.8%
Net profitability	-3.1%	-2.7%	0.3 p.p.	-

In 2015, operating expenses totalled 2,119.2 million PLN and were higher in comparison to 2014 by 337.5 million PLN (that is by 18.9%). The increase in costs was the result of extended commercial offer and an increase in operational works by 19.8%.

Higher expenses included mainly increased costs of energy (higher standard of works in electric traction), costs of outsourced services (increased charges for access to the infrastructure resulted from an increase in labour, higher renovation costs as a result of more frequent repairs, as well as higher expenses on cleaning services, refreshments for passengers and IT services), labour costs (due to the increase in average employment), as well as other costs by kind (increased expenditure

trains and revenues from subsidies. Higher revenues from ticket and reserved-seat ticket sales, and from product subsidies (income on account of the statutory relief financed by the State) were caused by the number of passengers in domestic transport, which increased by 5.9 million (that is by 25.1%). At the same time, lower number of passengers in international transport transferred to the revenues in this category. On the other hand, higher subsidies for international transport in 2015 allowed the Company to extend the commercial offer on subsidised trains (increased number of trains).

on marketing and advertisement). A significant increase included the costs of depreciation, which were higher due to the commissioning of individual rolling stock investments in 2014 and 2015.

The result on other operating activities in 2015 was 56.6 million PLN and increased by 50.3 million PLN in comparison with 2014. Within the individual items, the Company generated higher revenues from investment subsidy write-downs, penalties and from the sale of receivables with a simultaneous decline in revenues from the sale of idle rolling stock. Additionally, lower other operating costs due to the write-downs of the value of assets also had a positive influence on the profit from other operating activities.

The net loss in 2015 was 56.8 million PLN and was higher by 2.6 million PLN than in 2014. Negative net result, with simultaneously better result on

operations, was the result of increased capital expenses which contributed to the loss on financial activities y/y by 27.9 million PLN.

STRUCTURE OF SALES REVENUES FOR 2014–2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015–2014	%
Net sales revenues and equivalent revenues	1,776.8	2,097.4	320.6	18.0%
Domestic trains	868.8	1,126.2	257.3	29.6%
Tickets	778.1	1,046.3	268.2	34.5%
Reserved-seat tickets	33.1	24.9	-8.2	-24.9%
Luggage, rail mail, conductor deliveries	3.6	3.5	-0.1	-2.3%
Railway travel allowances	40.2	41.1	0.8	2.1%
Other revenues from transport	13.8	10.4	-3.4	-24.6%
International trains	225.0	207.7	-17.4	-7.7%
Tickets	117.1	118.6	1.6	1.3%
Reserved-seat tickets	38.4	36.4	-2.1	-5.3%
Other revenues from transport	69.5	52.6	-16.9	-24.3%
Subsidies	628.4	700.8	72.4	11.5%
Product subsidy	167.7	206.5	38.8	23.1%
Subsidy for international trains	29.8	9.9	-19.9	-66.9%
Subsidy for interprovincial trains	430.8	484.4	53.6	12.4%
Revenues owed to third party operators	3.6	4.1	0.5	13.6%
Other sales	45.8	51.3	5.5	12.0%
Sales of goods and materials	5.0	7.2	2.2	43.2%



Source: PKP Intercity.

OPERATING EXPENSES IN 2014–2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015–2014	%
Total operating expenses	1,781.7	2,119.2	337.5	18.9%
Depreciation	211.7	268.9	57.1	27.0%
Materials and energy consumption	324.6	381.8	57.2	17.6%
Energy (including traction energy)	276.7	330.5	53.8	19.4%
Materials	47.8	51.2	3.4	7.1%
Outsourced services	746.1	908.4	162.3	21.8%
Access to railway routes	333.6	402.0	68.4	20.5%
Repair services	142.3	209.6	67.3	47.3%
Taxes and charges	12.0	17.5	5.5	46.2%
Payroll	373.1	399.6	26.5	7.1%
Social security and other benefits	83.0	89.5	6.5	7.8%
Costs related to staff training	2.7	2.3	-0.4	-14.2%
Other costs by kind	26.2	46.5	20.3	77.8%
Value of goods and materials sold	5.0	7.0	2.0	40.5%

The result on other operating activities in 2015 was 56.6 million PLN and increased by 50.3 million PLN in comparison with 2014.

The Company generated sales revenues of 2,097.4 million PLN and they were lower than in 2014 by 320.6 million PLN (that is by 18.0% y/y).

STRUCTURE OF OPERATING EXPENSES IN 2014-2015 (%)

2014



- Depreciation – 11.9%
- Materials and energy consumption – 18.2%
- Outsourced services – 41%
- Payroll – 25.6%
- Other – 2.4%

2015



- Depreciation – 12.7%
- Materials and energy consumption – 18.0%
- Outsourced services – 42.9%
- Payroll – 23.1%
- Other – 3.4%

5.4 Assets

As at the end of 2015, the value of the Company's fixed assets was 6,196.3 million PLN and was higher by 1,845.7 million PLN in comparison with the preceding year.

The value of tangible fixed assets at PKP Intercity at the end of 2015 totalled 6,071.9 million PLN and in comparison to the end of 2014 was higher by 1,827.2 million PLN.

In 2015, there was a commissioning of investments including, inter alia, the purchase of 20 electric multiple units ED160 (FLIRT3), 8 electric multiple units ED161 (PesaDART), 10 diesel engines (GAMA) and 27 carriages of various purpose. Additionally, another 12 electric multiple units were seized conditionally and the payment for these units was made into a trust account.

The increase in the value of buildings, premises and civil and water engineering structures occurred as a result of realised investments in railway station depots.

Means of transport constituted the dominant share in the structure of fixed assets (82.5%). As at 31 December 2015, the Company had 374 engines, 62 electric multiple units (20 ED250 units, 20 ED160 units, 8 ED161 units and 14 ED74 units), 2,411 carriages, 4 utility carriages and 66 pairs of broad gauge bogies for carriages. 670 carriages were air-conditioned, which is by 103 carriages more than at the end of 2014. The majority of the carriages, that is 505 and 1,503, were respectively the 1st class carriages and the 2nd class carriages. The remainder were mostly function carriages.



Source: PKP Intercity.

The value of tangible fixed assets at PKP Intercity at the end of 2015 totalled 6,071.9 million PLN and in comparison to the end of 2014 was higher by 1,827.2 million PLN.

SELECTED FIXED ASSETS IN 2014-2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015-2014	%
Fixed assets	4,350.6	6,196.3	1,845.7	42.4%
I. Intangible and legal assets	8.9	28.6	19.8	222.6%
II. Tangible fixed assets, including:	4,244.7	6,071.9	1,827.2	43.0%
1. Fixed assets, including:	3,576.0	5,514.4	1,938.4	54.2%
a. Land	84.2	83.1	-1.1	-1.3%
b. Buildings, premises, civil & water engineering structures	273.4	299.7	26.3	9.6%
c. Technical equipment and machinery	19.3	21.7	2.4	12.4%
d. Means of transport	3,198.2	5,109.0	1,910.8	59.7%
e. Other fixed assets	0.9	0.9	0.0	0.1%
2. Fixed assets under construction	300.0	557.5	257.5	85.9%
3. Advance payments for fixed assets under construction	368.8	0.0	-368.8	-100.0%



Source: PKP Intercity.

In 2015, the Company incurred record capital expenditures of 2,485.4 million PLN, which increased in comparison with 2014 by 65.2%.

5.5 Investments

In 2015, the Company incurred record capital expenditures of 2,485.4 million PLN, which increased in comparison with 2014 by 65.2%. Expenditures related mainly to the purchase and modernization of rolling stock and construction investments.

The purchase of rolling stock included mainly the purchase of 20 electric multiple units PesaDART and 20 electric multiple units FLIRT3, the purchase of 10 diesel engines GAMA for passenger transport,

as well as the purchase of carriages intended for interprovincial rail services.

Investments for the upgrade of rolling stock related mainly to 20 diesel engines of SM42 series, as well as to the carriages intended for rail services between Przemyśl – Szczecin.

Within construction investments the Company completed the investments in railway station depots, in order to standardise and facilitate the processes of operating and cleaning the trains.

LIST OF CAPITAL EXPENDITURE INCURRED BY THE COMPANY IN 2014-2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015-2014	%
Construction investment	25.1	35.4	10.4	41.3%
Upgrade of rolling stock	179.5	290.5	111.0	61.9%
Purchase of rolling stock	1,270.1	2,127.3	857.2	67.5%
Purchase of machines and equipment	16.4	6.5	-9.8	-60.1%
Other investments	13.3	25.6	12.4	93.3%
Total investments	1,504.2	2,485.4	981.1	65.2%

5.6 Passenger transport

PKP Intercity carried 31.2 million passengers in 2015 and it was an increase in comparison to 2014 by 5.7 million passengers. Together with the increase in the number of passengers there was an increase in transport performance by 24.2%, which grew faster than the operational works. The above tendency transferred positively to the increasing number of occupied seats on the trains of PKP Intercity.

TRANSPORT OPERATING DATA FOR 2014–2015

Item	2014	2015	Change	
			2015–2014	%
Passenger transport (million people)	25.5	31.2	5.7	22.1%
Transport performance (million pkm)	6,252.5	7,767.9	1,515.4	24.2%
Operational works (million train–km)	38.6	46.2	7.6	19.8%
Operational works (gross million tkm)	12,126.0	14,357.9	2.2	18.4%
Number of trains in use (thousand units)	93.4	110.4	17.0	18.2%

Competitiveness of railway in relation to other means of transport is the most important factor deciding the increase of the attractiveness of railway transport, and thus increasing the number of passengers. In recent years, a thorough modernisation of railway infrastructure contributed to significantly shorter travel times on the majority of railway routes. At the same time, aiming at employing the effects of synergy, PKP Intercity significantly expanded its offer through increasing the number of trains and introducing new, modernised rolling stock.

In recent years, a thorough modernisation of railway infrastructure contributed to significantly shorter travel times on the majority of railway routes.

5.7 Employment

Employment in the Company as at 31 December 2015 totalled 7,454 people and was lower than at the end of 2014 by 316 people. In 2015 there was an increase in the number of workers up to 35 years of age by 125 people, and in the group of people over 45 years of age by 308 workers. At the same time the number of workers between 36 and 45 years of age decreased by 117 people. The biggest increase in employment occurred in the North Department and Company's Headquarters. Due to the increasing commercial offer and an increase in the number of train operations, the Management Board plans to further increase the employment.



Source: PKP Intercity.

AVERAGE EMPLOYMENT IN PKP INTERCITY IN 2014–2015

Item	Average employment during a 12 months period (full-time job positions)		Change 2015–2014	
	2014	2015	full-time job positions	%
Total employment	7,199	7,150	-49	-0.7%

STRUCTURE OF EMPLOYMENT BY AGE AS AT THE AGE OF 2014 AND 2015 (IN PERSONS)

Age range	2014	2015	Change	
			2015–2014	%
<25	274	286	12	4.4%
26–35	1,101	1,214	113	10.3%
36–45	1,656	1,539	-117	-7.1%
46–55	2,948	3,111	163	5.5%
>55	1,159	1,304	145	12.5%
Total employment	7,138	7,454	316	4.4%

STRUCTURE OF EMPLOYMENT BY AGE IN 2014–2015 (%)

2014



<25 – 3.8%
26–35 – 15.4%
36–45 – 23.2%
46–55 – 41.3%
>55 – 16.2%

2015



<25 – 3.8%
26–35 – 16.3%
36–45 – 20.7%
46–55 – 41.7%
>55 – 17.5%

Employment in the Company as at 31 December 2015 totalled 7,454 people and was lower than at the end of 2014 by 316 people.

5.8 Subsidies

In 2014, PKP Intercity received a product subsidy to compensate for lost income related to statutory discounts of 206.5 million PLN, that is 38.8 million PLN less than in 2014.

Under the contract for the provision of public services for interprovincial passenger rail services, in 2015 the Company performed operating works

at the level of 31.9 million train–km, carrying 20.6 million passengers having received funding of 484.4 million PLN.

On the other hand, within the contract for the provision of public services for international passenger rail services, PKP Intercity performed operating works of 0.2 million train–km, carried 0.4 million passengers and received funding of 9.9 million PLN.

SUBSIDIES RECEIVED BY THE COMPANY IN 2014–2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015–2014	%
Product subsidy	167.7	206.5	38.8	23.1%
Subsidy for international trains	29.8	9.9	-19.9	-66.9%
Subsidy for interprovincial trains	430.8	484.4	53.6	12.4%



5.9 Main highlights

January

- ▶ Introduction of the Act on 'Karta Dużej Rodziny' ('Large Family Card'), together with changes in the entitlements to discounts on public transport, which means that travelling with PKP Intercity will be cheaper for families.
- ▶ An auction organised by the PKP Group in relation to the 23rd Final of WOŚP. A journey in Pendolino cabin was auctioned for nearly 13 thousand PLN.
- ▶ Fitch Rating Agency raised the long-term rating of PKP Intercity in foreign currency from 'BBB-' to 'BBB' level, and from 'BBB' to 'BBB+' in Polish currency.
- ▶ Changes in the Management Board of PKP Intercity. The Plenary Shareholders Assembly of PKP Intercity S.A. appointed new Members of the Management Board on 16 January 2015. The position of the President of the Management Board was assumed by Jacek Leonkiewicz, formerly the Director of Privatisation and Owner Supervision in PKP S.A.
- ▶ Commencement of co-operation between PKP Intercity and Google Poland. Within the 'Transport publiczny' ('Public Transport') service, travellers will have access to information about operator's services on Google Maps.

February

- ▶ Magdalena Zajączkowska-Ejsymont, formerly the Member of the Supervisory Board in PKP Intercity, joined the Management Board and on 1 February 2015 assumed the office of the Member of the Management Board for Finances.
- ▶ PKP Intercity commenced tests on the sale of tickets in the facilities of Poczta Polska.
- ▶ The launch of a campaign concerning the image and products of railway companies of the PKP Group – PKP S.A. and PKP Intercity.

March

- ▶ The Pendolino train was on track for the first time, under the auspices of Radiowa Trójka (Programme No. III of Radio Poland).
- ▶ The release of a new version of IC Mobile Navigator application, enabling the purchase of tickets for all direct domestic connections of PKP Intercity, including the EIP trains (Pendolino).
- ▶ Assembly of the first FLIRT3 train for PKP Intercity was completed by the consortium of Stadler Polska Sp. z o.o. and Newag S.A. (hereafter referred to as Stadler-Newag).
- ▶ March was another month with the recorded increase in the number of passengers. Since 2010, it was the first upward trend lasting for three months.

April

- ▶ Introduction of the 'Bilet dla Seniora' ('Ticket for a Senior'). Every traveller over 60 years of age is eligible for a 30% discount. The offer is valid for all domestic trains of PKP Intercity, including Pendolino.

May

- ▶ Trains of the EIP category were equipped with lifts for easy boarding of passengers with reduced mobility.
- ▶ The IC Mobile Navigator and SkyCash applications give the possibility to purchase or refund a ticket even 5 minutes before the train leaves.
- ▶ Pendolino trains covered a cumulative distance of 2 million km, since the introduction in the timetable in December 2014.
- ▶ Tests of the first FLIRT3 train for PKP Intercity on an experimental track of Railway Institute in Żmigród. The vehicle was tested under extreme conditions for safety and comfort of travel.
- ▶ Engine drivers of PKP Intercity were given access to a modern engine simulator. The training will have a positive influence on railway safety. The investments amounted to almost 5.4 million PLN. The project was carried out in co-operation with the Office of the Marshal of the Mazowieckie Province and the Railway Institute.
- ▶ The millionth passenger of Pendolino, on board of EIP train from Kraków to Warszawa on 19 May.
- ▶ PESA Bydgoszcz gave the first of the ten diesel engines (of the 111Db type) from GAMA group to PKP Intercity. The manufacturer, aside from the realisation of the contract worth 131.2 million PLN gross, will be responsible for maintenance for the minimum of 12 years.
- ▶ Introduction of 'Bilet Taniomiejscowy' ('Cheap City Ticket'), which is a discount for TLK and IC trains on 13 popular routes.

June

- ▶ Presentation of the first of the total of 20 PesaDART vehicles manufactured for PKP Intercity by Pojazdy Szynowe PESA S.A. The vehicle was tested on an experimental track of Railway Institute in Żmigród.
- ▶ Introduction of the summer timetable. 28 additional trains to tourist resorts were added to the schedule.

July

- ▶ For the first time since 4 years, PKP Intercity recorded an increase in the number of passengers in every month of the first half of the year.
- ▶ Finalised production of 11 from the total of 20 FLIRT3 trains manufactured by Stadler-Newag consortium for PKP Intercity. The remaining 9 carriages are at an advanced stage of production.
- ▶ Additional facilities in the internet ticket sale system, that is a possibility to buy a season ticket in 2 minutes.

August

- ▶ Passengers were presented the interior of FLIRT3 train at the railway station in Katowice. The presentation was organised by Stadler-Newag consortium and PKP Intercity.
- ▶ Increasingly higher interest in trains of the EIP category (Pendolino) was recorded, with average frequency exceeding 60%. The two-million passenger (in less than 8 months

since the introduction of Pendolino and 3 months after the millionth passenger).

September

- ▶ The introduction of a new offer – Multicarnet, designed for passengers travelling by EIC and EIP category trains. Multicarnet allows for up to 10 chosen transits, with the traveller paying only for 8.
- ▶ Implementation of the offer 'Biletowa Czwartkomania' ('Thursday Ticketing'), within which every Thursday the operator offers a large pool of the cheapest tickets for selected EIP and EIC trains.
- ▶ The launch of 'Książka w podróży' ('Book in Travel'). Passengers of PKP Intercity have access to free e-books and high discounts for the purchase of books. It is a joint initiative of PKP Intercity, Publio.pl and Matras bookstores, and the Internet library Wolne Lektury, promoting reading as a valuable pastime.
- ▶ The purchase of weekend tickets in internet ticket sale was made available, and the names for multiple-ride tickets were changed. New 'Bilet weekendowy' ('Weekend Ticket') and 'Bilet weekendowy MAX' ('Weekend Ticket MAX') are available for sale since 22 September 2015.
- ▶ Official presentation of FLIRT3 train for PKP Intercity during TRAKO 2015 fair.
- ▶ Introduction of a possibility to download a free reservation in the e-IC system for a child of up to 4 years of age, for a seat next to the seat of a caretaker.

October

- ▶ Presentations of the new PesaDART train for PKP Intercity at railway stations in Lublin and Dębina. Every visitor could inspect the standard of modern carriages and enter the driver's cabin.
- ▶ Presentations of the new FLIRT3 train for PKP Intercity at railway stations in Olsztyn and Kielce. Every visitor could explore the carriage, sit in the driver's seat and see the interior of the train manager compartment.
- ▶ Announcement of a new series of investments. In order to maintain the increasing trend in transport, the Company will incur expenses of 1.8 billion PLN for the modernisation of 400 carriages, 60 engines and for the construction of a modern base for rolling stock servicing.
- ▶ Presentation of the new GAMA diesel engine at Elk railway station.
- ▶ Increasing popularity of EIP category trains – three-million passenger of Pendolino.

November

- ▶ Recorded increase in the number of tickets bought on the Internet. More and more passengers use modern sale services while buying tickets for PKP Intercity trains. Since

the beginning of the year, a total of 5.7 million tickets were sold in on-line ticket booths.

- ▶ Test of a new promotional offer, providing a discount on taxi services with the purchase of a ticket for Pendolino.

December

- ▶ Introduction of the 2015/2016 PKP Intercity train timetable. Reduced travel times, more connections, new routes and trains.
- ▶ The modern FLIRT3 carriages were on track for the first time. The train is adjusted to the needs of various passengers, especially those with reduced mobility. During the first 24 hours of the new timetable, the carriages serviced 31 connections.
- ▶ Introduction of change in PKP Intercity price list:
 - regulations in the price lists of TLK and IC trains, implementation of new, regular kilometre zones (every 5, 10, 20 and 40 km), which results in passengers paying up to several percent less for travelling;
 - changes in ticket prices for 1st class in TLK and IC trains;
 - expansion of connections for EIP and EIC trains and affordable prices for the new routes;
 - introduction of a new offer – 'Bilet Bliskomiejscowy' ('Nearby City Ticket'), which lowered the ticket price for routes up to 35 km.
- ▶ Upgraded 1st class in Pendolino, with a meal, steward service and newspapers included in the price of the ticket.
- ▶ The Company was granted a Security Certificate (part A and B) by the Office of Rail Transport, valid to 2020. The document confirms PKP Intercity meeting high standards of security.
- ▶ First transits of modern PesaDART trains on routes Warszawa – Lublin and Warszawa – Białystok.
- ▶ The year came to a close with high expenses. During only one day, the Company paid over 1 billion PLN gross to Polish rolling stock manufacturers. In 2015, a total of 10 major rolling stock projects were carried out, worth 5.5 billion PLN. As a result, the majority of operator's trains are brand new or modernised. All investments are co-financed from EU funds.
- ▶ For the first time since 2009, an increase in the number of passengers was recorded. Throughout the year, 31.2 million passengers were transported, which is 5.6 million more than in the preceding year (22% increase in comparison with 2014).

6

www.lhs.com.pl

PKP LINIA
HUTNICZA
SZEROKOTOROWA

6.1 About the Company

The Company manages and carries out transport based on the LHS line No. 65, which is Poland's longest broad-gauge railway line intended for freight transport.

PKP Linia Hutnicza Szerokotorowa Sp. z o.o. (hereafter referred to as PKP LHS) was established under the Act of 8 September 2000 on the commercialization, restructuring and privatization of the state-owned Polskie Koleje Państwowe and started operations on 1 July 2001.

The Company's goal since its inception is:

- ▶ optimal management of the infrastructure of the broad-gauge LHS line, including railway stations' infrastructure, buildings and structures located along the No. 65 railway line;

- ▶ carrying out freight transport within the traction service;
- ▶ provision of additional services associated with logistics and forwarding.

The Company manages the infrastructure and carries out transport based on the LHS line No. 65, which is Poland's longest broad-gauge railway line (1,520 mm track gauge) intended for freight transport. It joins the Polish-Ukrainian Hrubieszów/Izow rail border crossing with Sławków in Silesia and is nearly 400 km long.

The LHS line has a determined regional range (it runs through 5 Provinces: Lubelskie, Podkarpackie, Świętokrzyskie, Małopolskie and Śląskie). It is not connected to the conventional railway system (with 1,435 mm track gauge). Its primary aim is to meet the transport demands of south-west Poland, including the provision of resources for Upper Silesian Industrial Region.



6.2 Management and Supervisory Bodies

Management Board

- ▶ **Zbigniew Tracichleb** – President of the Management Board
- ▶ **Dariusz Sikora** – Member of the Management Board
- ▶ **Andrzej Skiba** – Member of the Management Board

Supervisory Board

- ▶ **Krzysztof Litwin** – Chairperson
- ▶ **Piotr Hołymczuk**
- ▶ **Monika Rejda**
- ▶ **Konrad Bareja**
- ▶ **Stanisław Chlebowski**
- ▶ **Zbigniew Wysocki**

- ▲ **Zbigniew Tracichleb**
– President of the Management Board

In 2015, the Company achieved a record, in the history of its operations, net profit of 76.8 million PLN and was higher by 1.9 million PLN than that obtained in 2014.



6.3 Finances

In 2015, the Company achieved a record, in the history of its operations, net profit of 76.8 million PLN and was higher by 1.9 million PLN than that obtained in 2014.

In 2015, PKP LHS recorded sales revenues of 385.8 million PLN, a decrease in comparison with 2014 by 38.1 million PLN. Transport service revenues with 93.8% hold a dominant position in the revenue structure. Their decrease to 361.8 million PLN (that is by 9.6%) was due to both a decrease in the mass of the goods transported and lower income from additional fees. Other revenues accounted for 6.2% of net revenues and primarily consist of revenues from the forwarding of goods, leasing property to other entities, Customs Agency income and the sale of scrap metal and waste.

Operating expenses totalled 287.9 million PLN and were lower in comparison with 2014 by 41.0 million PLN. Lower costs of traction fuel consumption, as a result of a decline in transport and lower unit price of purchase of traction fuel, as well as lower costs of consumption of materials used for renovations, resulted in an increase in costs of consumption of materials and energy. Lower costs of outsourced services were mainly the result of lower costs of carriage rent, with respect to lower transport, increased share of private carriages and reduced presence of commercial carriages on the line No. 65, as well as lower costs of the railway line and building renovation services.

FINANCIAL RESULTS FOR 2014–2015 (MILLION PLN)

Item	2014	2015	Change	
			2015–2014	%
Net sales revenues and equivalent revenues	424.0	385.8	-38.1	-9.0%
Operating expenses	328.9	287.9	-41.0	-12.5%
Profit (loss) on sales	95.1	97.9	2.8	3.0%
Profit (loss) on sales margin	22.4%	25.4%	+2.9 p.p.	-
Other operating revenues	0.6	1.2	0.7	116.5%
Other operating expenses	2.9	3.0	0.1	3.6%
Profit (loss) on other operating activities	-2.3	-1.8	0.5	-
EBIT	92.8	96.2	3.4	3.6%
EBITDA	135.8	143.0	7.2	5.3%
EBITDA Margin	32.0%	37.1%	+5.0 p.p.	-
Financial revenues	1.5	1.4	-0.2	-12.2%
Financial expenses	1.5	2.0	0.5	36.1%
Profit (loss) on financial activities	0.1	-0.6	-0.7	-
Gross profit (loss)	92.9	95.5	2.6	2.9%
Income tax	18.0	18.7	0.7	4.0%
Net profit (loss)	74.9	76.8	1.9	2.6%
Net profitability	17.7%	19.9%	+2.2 p.p.	-



EBITDA margin in 2015 was 37.1%, an increase compared to 2014 by 5.0 p.p.

In 2015, the Company recorded an increase in revenues from other operating activities by 0.7 million PLN. Lower level of revenues resulted primarily from penalty costs and damages due to the compensation received for damaged engine.

The increase in capital expenses in 2015 by 0.5 million PLN was the result of negative exchange rates due to the increase in exchange rate of CHF, which is the settlement currency for the carriage rent.

OPERATING EXPENSES IN 2014-2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015-2014	%
Total operating expenses	328.9	287.9	-41.0	-12.5%
Depreciation	43.0	46.9	3.9	9.0%
Materials and energy consumption	100.2	75.7	-24.5	-24.5%
Outsourced services	96.3	69.4	-26.9	-27.9%
Taxes and charges	3.0	3.6	0.6	21.1%
Payroll	67.0	70.0	3.0	4.5%
Social security and other benefits	15.7	18.3	2.6	16.6%
Other costs by kind	3.2	3.5	0.3	9.9%
Value of goods and materials sold	0.5	0.5	0.0	6.8%



STRUCTURE OF OPERATING EXPENSES IN 2014-2015

2014



- Depreciation - 13.1%
- Materials and energy consumption - 30.5%
- Outsourced services - 29.3%
- Taxes and charges - 0.9%
- Payroll - 20.4%
- Social security and other benefits - 4.7%
- Other costs by kind - 1.0%
- Value of goods and materials sold - 0.1%

2015



- Depreciation - 16.3%
- Materials and energy consumption - 26.3%
- Outsourced services - 24.1%
- Taxes and charges - 1.3%
- Payroll - 24.3%
- Social security and other benefits - 6.3%
- Other costs by kind - 1.2%
- Value of goods and materials sold - 0.2%

In 2015, the Company recorded an increase in revenues from other operating activities by 0.7 million PLN.

6.4 Assets

At the end of 2015 the value of tangible fixed assets totalled 478.6 million PLN and it was a decrease in comparison with the end of the previous year by 22.7 million PLN. This was caused by investment expenditures valued lower than the value of depreciation.

The Company's operating activity is based on its fixed assets: diesel engines, carriages, carriage bogies and other machinery and equipment contributed in kind by PKP S.A., assets produced by the Company, a railway line and other property necessary for the operations of the Company being used under the D54 agreement with PKP S.A.

At the end of 2015 PKP LHS held 77 diesel engines, 96 carriages, 66 broad gauge bogies and 184 standard gauge carriage bogies. The engines were utilised for both line and manoeuvre transport. The average age of line engines was 36 years and 39 years for the manoeuvre engines. Covered carriages and remaining flat carriages formed part of the equipment for rescue trains and machines for track works and for cranes. In turn, the bogies were necessary to perform basic tasks in the transport of goods in non-reloading gauge switching situation. The Company transported freight goods in leased carriages.

SELECTED FIXED ASSETS IN 2014-2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015-2014	%
I. Tangible fixed assets	501.3	478.6	-22.7	-4.5%
1. Fixed assets, including:	481.7	471.4	-10.4	-2.2%
a. Land	2.8	4.8	2.0	69.6%
b. Buildings, premises, civil & water engineering structures	323.2	323.7	0.5	0.2%
c. Technical equipment and machinery	11.3	12.5	1.2	11.0%
d. Means of transport	143.1	129.0	-14.1	-9.8%
e. Other fixed assets	1.4	1.4	0.0	1.9%
2. Fixed assets under construction	19.6	7.2	-12.4	-63.1%



At the end of 2015 PKP LHS held 77 diesel engines, 96 carriages, 66 broad gauge bogies and 184 standard gauge carriage bogies.

6.5 Investments

In 2015, the Company incurred capital expenditures of 21.2 million PLN, which included mainly the expansion and development of Gołuchów LHS railway station, reconstruction of an internal road at Hrubieszów LHS railway station and the construction of an access road to Wola Baranowska LHS railway station. For 2016 the Company is planning further investment projects aimed at the development of loading stations, automation of the line No. 65 through the development SRK devices and projects aimed at increasing the safety of train operations on the LHS line.

LIST OF CAPITAL EXPENDITURES INCURRED BY THE COMPANY IN 2014–2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015–2014	%
Total investments	37.6	21.2	-16.4	-43.5%
Upgrade of railway station	26.1	9.6	-16.5	-63.2%
Upgrade of workshop facilities	7.2	6.2	-1.0	-13.7%
Purchase of rolling stock	0.0	1.0	1.0	-
Other investments	4.3	4.4	0.1	2.2%



LIST OF TRANSPORT INDICES IN 2014–2015

Item	2014	2015	Change	
			2015–2014	%
Freight transport (millions tons)	10.7	9.7	-1.0	-9.4%
Transport performance (million tkm)	3,538.0	3,160.1	-378.0	-10.7%
Operational works (million train-km)	2.2	2.1	-0.1	-4.5%
Average transport distance (km)	331.8	327.1	-4.6	-1.4%

6.6 Employment

PKP LHS at the end of 2015 employed 1,263 people, 29 less than at the end of 2014. The decrease in the number of staff was due to the staff leaving for retirement, rehabilitative and pension benefits. Employees over the age of 55 constituted 29.4% of total employees at the end of 2015 and it was an increase by 4.1 p.p. in comparison with the previous year.

6.7 Freight transport

In 2015, PKP LHS transported 9.7 million tons of cargo, which was a decrease by 1.0 million tons (that is by 9.4%) as compared to the result in 2014. In the wake of the decreased mass of transported goods the performance of the transport works decreased by 378.0 million tkm and operational works by 0.1 million train-km. The decrease in transport performance also resulted from the decrease in the average transport distance, which in 2015 was 327.1 km, which is lower by 1.4% in comparison with 2014.

The increase in transported mass of the goods mainly related to the transport of iron ore, textiles, food and fodder.

6.8 Main highlights

May

- ▶ PKP LHS was in 3rd place in Lubelskie Province and 63rd place in Poland in 'Forbes' magazine ranking 'Diamenty Forbesa' ('Forbes' Diamonds'), in the category of companies with revenues above 250 million PLN.

June

- ▶ PKP LHS was in 11th place in the overall classification in Ranking Największych Firm Lubelszczyzny 'ZŁOTA SETKA' ('The Golden Hundred' Lubelszczyzna Largest Companies Ranking) 2014 in the 19th edition of the plebiscite organised by Dziennik Wschodni ('Eastern Daily'). The ranking was designed on the basis of financial and economic results and presents 100 most dynamic businesses in Lubelskie Province.
- ▶ Finalisation of test drives of the engine from Evolution series, during which two records were broken. ES44ACi engine pulled not only the longest, but also the heaviest train in the history of PKP LHS. Moreover, it was probably the longest and the heaviest train pulled with one 6-axis diesel engine in Europe. The train had 75 carriages and was 1,107 metres long, and its total gross mass was 6,062 tons.

July

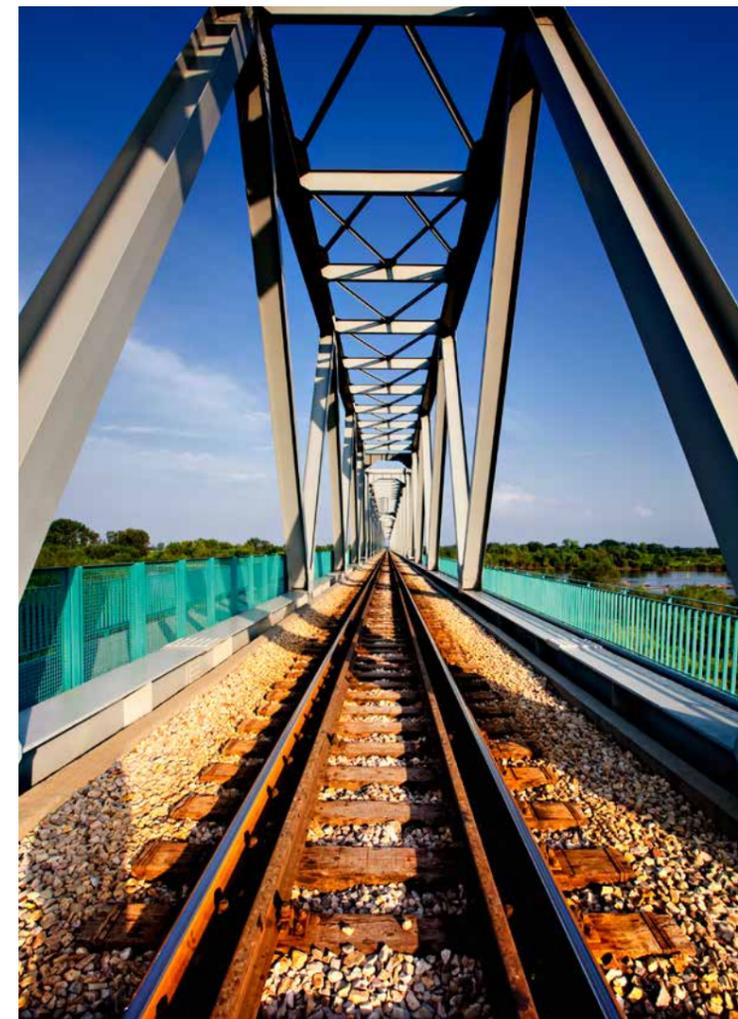
- ▶ The Company received a certificate of Managing the Security of Information, increasing the awareness of potential dangers by raising the quality of safety precautions of IT resources and improvement of control over the realised processes.

September

- ▶ Participation in the 11th International Railway Fair TRAKO 2015 in Gdańsk.

October

- ▶ The 4th 'Sprzątamy Roztoczański Park Narodowy' ('Cleaning up Roztoczański National Park') event, as part of 'EKologiczni' ('ECOLOGICAL') corporate volunteering program. The aim of the project was to promote the idea of protecting the natural and cultural heritage of Roztocze and to formulate the ecological awareness among Company employees.
- ▶ The Company received an award in 'Pracodawca – organizator pracy bezpiecznej' ('Employer – safe job organiser') contest organised by the National Labour Inspectorate. The Company was thereby included in the Złota Lista Pracodawców (Golden List of Employers). The aim of the contest was to promote employers who create working conditions with high level of security and workers' health protection, and follow the regulations of labour law.



November

- ▶ PKP LHS was awarded the Safety Certificate (Part A) for a railway operator, and safety authorisation for the manager of national railway infrastructure, by the President of the Office of Rail Transport. Both the certificate and the authorisation are valid to 31 December 2020.

December

- ▶ An agreement was signed by PKP LHS on the co-operation between the City of Zamość, District Office and the Borough of Zamość with the realisation of the Strategiczna Inwestycja Terytorialna (SIT) programme (Strategic Territorial Investment).
- ▶ PKP LHS was awarded the Safety Certificate (Part B) for a railway operator by the President of the Office of Rail Transport. The certificate is valid to 31 December 2020.

7

www.skm.pkp.pl

PKP SZYBKA KOLEJ MIEJSKA W TRÓJMIEŚCIE

7.1 About the Company

The aim of the Company is to manage and maintain the No. 250 railway line (Gdańsk Śródmieście – Rumia) and to carry out passenger transport on the route. The Company's objectives also include carrying out regional passenger railway transport in Pomorskie Province, on railway lines managed by PLK and Pomorska Kolej Metropolitalna.

PKP Szybka Kolej Miejska w Trójmieście Sp. z o.o. (hereafter referred to as PKP SKM) was separated from the PKP S.A. structure and started its operations on 1 July 2001, taking over the tasks, employees and property of Zakład Szybkiej Kolei Miejskiej w Trójmieście that had been liquidated.

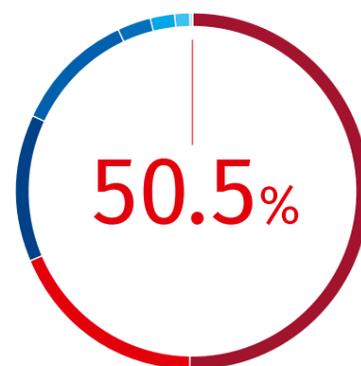
The aim of the Company is to manage and maintain the No. 250 railway line (Gdańsk Śródmieście – Rumia) and to carry out passenger transport on the route. The Company's objectives also include carrying out regional passenger railway transport in Pomorskie Province, on railway lines managed by PLK and Pomorska Kolej Metropolitalna (hereafter referred to as PKM).

PKP SKM, on 27 February 2004, was granted licenses by the President of the Office of Rail Transport for an indefinite period aimed at providing passenger railway transport services and to lease rail electric multiple units. Moreover, the Company has valid

security certificates for both railway infrastructure administrator and railway operator, and also safety authorization for the administrator of railway lines. The transport is carried out on the basis of and under the agreement concluded with the Local Government of the Pomorskie Province being the public administration body responsible for the organization and financing of regional passenger railway transport carried out as part of providing public services.

The ownership structure changed over the years of Company's operation, while the structure as at December 2014 is shown on the side chart.

2015



7.2 Management and Supervisory Bodies

Management Board

- ▶ **Maciej Lignowski** – President of the Management Board
- ▶ **Bartłomiej Buczek** – Member of the Management Board, Director of Transport

Supervisory Board

- ▶ **Marian Woźniak** – Chairperson
- ▶ **Marek Chacuk**
- ▶ **Andrzej Ciopiński**
- ▶ **Marek Machnikowski**
- ▶ **Arnold Modrzejewski**
- ▶ **Krzysztof Pajączek**
- ▶ **Andrzej Słowiński**
- ▶ **Janusz Szczepański**

▲ **Maciej Lignowski**

– President of the Management Board

7.3 Finances

In 2015, the Company recorded a net profit of 1.5 million PLN, which was higher by 0.2 million PLN than the profit recorded in the previous year.

In 2015, the Company generated sales revenue of 165.9 million PLN, an increase by 23.1 million PLN as compared to 2014. Revenues from ticket sales, together with the subsidy increased by 8.2 million PLN, which was a consequence of several events. In February 2015, the Company introduced an increase in single and monthly tickets by approx. 5% and in the quarterly tickets by approx. 7%.

The number of transported passengers also increased, as a result of servicing passengers within the PKM since 1 September 2015. Following the increase in works performed operating revenues from local government subsidies were higher by 17.6 million PLN in comparison with 2014. Other sales revenues decreased by 2.7 million PLN and constituted 10.2% in the revenue structure. The decrease occurred primarily as a result of additional income in 2014 from track closures due to modernisation works carried out by PLK on the E65 line.

FINANCIAL RESULTS FOR 2014–2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015–2014	%
Net sales revenues and equivalent revenues	142.8	165.9	23.1	16.2%
Operating expenses	150.9	171.2	20.4	13.5%
Profit (loss) on sales	-8.1	-5.4	2.7	-
Profit (loss) on sales margin	-5.7%	-3.2%	+2.4 p.p.	-
Other operating revenues	12.0	13.7	1.7	13.8%
Other operating expenses	3.2	5.1	1.9	58.7%
Profit (loss) on other operating activities	8.8	8.6	-0.2	-2.6%
EBIT	0.7	3.2	2.5	340.5%
EBITDA	15.0	21.8	6.8	45.1%
EBITDA Margin	10.5%	13.2%	+2.6 p.p.	-
Financial revenues	1.0	1.0	0.0	-1.5%
Financial expenses	1.5	1.8	0.3	21.7%
Profit (loss) on financial activities	-0.5	-0.9	-0.3	-
Gross profit (loss)	0.2	2.4	2.1	982.3%
Income tax	-1.5	0.9	2.4	-
Net profit (loss)	1.7	1.5	-0.2	-13.9%
Net profitability	1.2%	0.9%	-0.3 p.p.	-

OPERATING EXPENSES IN 2014–2015 (IN MILLION PLN)

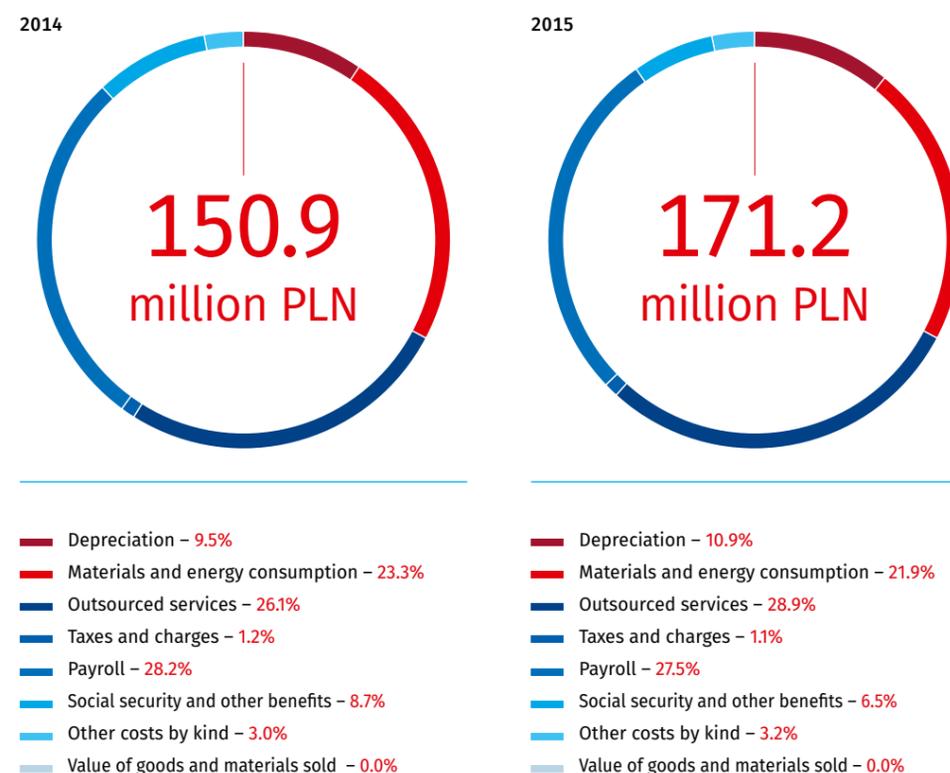
Item	2014	2015	Change	
			2015–2014	%
Total operating expenses	150.9	171.2	20.4	13.5%
Depreciation	14.3	18.6	4.3	30.0%
Materials and energy consumption	35.1	37.6	2.5	7.2%
Outsourced services	39.3	49.5	10.2	25.9%
Taxes and charges	1.8	1.9	0.1	5.1%
Payroll	42.6	47.1	4.5	10.5%
Social security and other benefits	13.2	11.1	-2.1	-15.8%
Other costs by kind	4.6	5.4	0.8	17.7%
Value of goods and materials sold	0.0	0.1	0.1	237.6%

Following the increase in works performed operating revenues from local government subsidies were higher by 17.6 million PLN in comparison with 2014.

Operating expenses in 2015 totalled 171.2 million PLN and were higher in comparison to the previous year by 20.4 million PLN. Their growth was driven by the increase in depreciation costs following the commissioning of completed projects in 2014–2015 (inter alia, modernisation of 21 units of electric multiple units and usage of newly constructed Gdańsk Śródmieście station). In 2015, there was a new item on the list of expenses, namely the consumption of traction fuel related to traction diesel vehicles services within the operations of PKM. Additionally, the costs of outsourced

services in 2015 were higher, mainly due to the costs of access to PKM railway infrastructure, increased costs of access to PLK infrastructure, electric multiple unit driver teams hiring costs, rolling stock cleaning, property security, costs of current rolling stock maintenance, eviction costs, costs of traction network maintenance and commissions from ticket sales. Increases in wages resulted from higher employment and higher average salary related to quarterly bonuses and bonuses paid as a result of social dialogue concerning salary rises.

STRUCTURE OF OPERATING EXPENSES IN 2014–2015 (%)



In 2015, there was a new item on the list of expenses, namely the consumption of traction fuel related to traction diesel vehicles services within the operations of PKM.



In comparison to 2013, the Company recorded an increase in other operating revenues and expenses by 1.7 million PLN and 1.9 million PLN respectively. On the revenues side, the increase was mainly a result of higher write-offs of investment subsidies from the modernised rolling stock (in July 2015, an overdue subsidy resulting from increased funding from Centre for EU Transport Projects [hereafter referred to as CEUTP] was written-off). At the same time, on the expenses side, write-downs



7.4 Assets

At the end of 2015 the value of tangible fixed assets amounted to 408.9 million PLN and increased by 10.9 million PLN y/y. Compared to 31 December 2014 the increase was mainly in the value of buildings, premises and civil & water engineering structures, totalling 57.8 million PLN. The increase resulted primarily from the commissioning of the investment on extending the line No. 250 and from the construction of Gdańsk Śródmieście station stop, as well as from the commissioning of the following stages in investment concerning track regulations on the line No. 250 (reduction of the gap between the train and the platform). Simultaneously, there was a decrease in the value of fixed assets under construction.

The increase of land value by 9.8 million PLN was due to the contribution in kind by PKP S.A. at the Gdynia Cisowa railway station depot.

SELECTED FIXED ASSETS IN 2014-2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015-2014	%
I. Tangible fixed assets	398.0	408.9	10.9	2.7%
1. Fixed assets, including:	337.5	404.3	66.7	19.8%
a. Land	47.1	56.9	9.8	20.8%
b. Buildings, premises, civil & water engineering structures	150.7	208.4	57.8	38.3%
c. Technical equipment and machinery	10.8	16.0	5.3	49.1%
d. Means of transport	128.1	121.1	-7.0	-5.5%
e. Other fixed assets	0.8	1.7	0.9	107.1%
2. Fixed assets under construction	60.5	4.7	-55.8	-92.3%

of provisions for employee benefits had the main impact on the result.

The increase in financial expenses by 0.3 million PLN in comparison with 2014 was due to higher interest on the issued bonds.

The tax income, increased by 2.4 million PLN in comparison with 2014, also had an impact on the achieved net profit.

The decrease in value of means of transport by 7.0 million PLN compared to 2014 was due to write-downs on depreciation.

PKP SKM carries out its transport activity using 60 electric multiple units of the following types: EN57, EN71 and EW58. At the end of 2015 the average age of vehicles was 34 years. Within the project 'Rozwój szybkiej kolei miejskiej w Trójmieście' ('Development of the Tricity commuter rail'), the Company upgraded 22 units of EN57 electric multiple units (project carried out in 2013-2014). In 2015, the Company further equipped the modernised vehicles in electric meters to measure power usage, monitoring and ramps for people moving on wheelchairs. Furthermore, 6 units of electric multiple units of EW58 series were liquidated.

The Company manages the electrified double-track No. 250 Gdańsk Śródmieście – Rumia railway line under the D55 agreement. The line No. 250 includes the Gdynia Cisowa Depot railway station, Technical Inspection Post in Wejherowo and 24 platforms.

7.5 Investments

In 2015, PKP SKM incurred capital expenditure of 19.0 million PLN, which mainly covered the extension of No. 250 line together with the construction of Gdańsk Śródmieście station stop, track regulation, purchase of machinery and equipment, streamlining the transport system at Gdynia Cisowa station, modernisation of Sopot Kamienny Potok station and modernisation of the rolling stock (installation of traction energy measurement system and passenger information system).

LIST OF CAPITAL EXPENDITURE INCURRED BY THE COMPANY IN 2014-2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015-2014	%
Total investments	150.1	19.0	-131.1	-87.4%
Construction projects	45.4	15.0	-30.4	-67.0%
Upgrade of rolling stock	102.4	1.1	-101.4	-99.0%
Purchase of rolling stock	0.0	0.0	0.0	-
Purchase of equipment and machinery	1.4	2.6	1.2	82.7%
Other investments	0.9	0.4	-0.6	-60.9%

7.6 Employment

At the end of 2015 PKP SKM employed 895 people and it was an increase of 64 people in comparison with 2014. The changes were due to additional employment in conductor and electric multiple unit driver teams, in Rolling Stock Repair Section and Control Centres, due to the increase in operational works on the line No. 250, PLK infrastructure and the launch of PKM service.

At the end of 2015 PKP SKM employed 895 people and it was an increase of 64 people in comparison with 2014.



In 2015, the Company further equipped the modernised vehicles (EN57) in electric meters to measure power usage, monitoring and ramps for people moving on wheelchairs.

7.7 Passenger transport

In 2015, PKP SKM carried 39.3 million passengers and it was an increase in comparison with the previous year by 1.6 million people. Together with the increase in the number of passengers the transport performance measured in passenger-km also increased (by 6.9%), operational works measured in train-km (by 18.1%) and the average transport distance (by 2.5%).

LIST OF TRANSPORT INDICES IN 2014–2015

Item	2014	2015	Change	
			2015–2014	%
Passenger transport (million people)	37.8	39.3	1.6	4.2%
Transport performance (million pkm)	916.7	979.5	62.8	6.9%
Operational works (million train-km)	3.7	4.3	0.7	18.1%
Operational works (gross million tkm)	825.3	893.4	68.1	8.2%
Average transport distance (km)	24.3	24.9	0.6	2.5%



7.8 Subsidies

The Company receives a local government subsidy from the Local Government of the Pomorskie Province for the provision of public services in passenger railway transport and a public product subsidy as compensation for revenues lost due to honouring statutory allowances.

Besides the subsidy to provide transport services, the Company was granted a subsidy from the Railway Fund and the European Union under POIiŚ to refinance projects realised with own funds in 2008–2015 (increased funding for the realisation of

SUBSIDIES RECEIVED BY THE COMPANY IN 2014–2015

Item	2014	2015	Change	
			2015–2014	%
Product subsidy	16.6	18.2	1.5	9.3%
Local government subsidy	22.6	40.2	17.6	77.5%
Funding from Railway Fund	11.4	7.3	-4.1	-36.2%
Subsidy under POIiŚ	85.8	28.4	-57.3	-66.8%
Subsidy RPO	0.2	0.0	-0.1	-72.4%
Total	136.6	94.2	-42.5	-31.1%

The reason for the growth of indicators relating to passenger transport in 2015 was the increase in the frequency of trains by 24.5% compared to the previous year. It is related to the launch of connections on the PKM line and PLK infrastructure, on routes from Gdańsk Wrzeszcz to Gdańsk Osowa and to Kartuzi, as well as on the Gdynia – Kościerzyna section.

the 'Rozwój szybkiej kolei miejskiej w Trójmieście' project ('Development of the Tricity commuter rail') from 59% to 80% of eligible expenses). In 2015, PKP SKM also received funds from the Pomorskie Province Regional Operational Programme to finance 'Opracowanie dokumentacji przedprojektowej dla zadania «Rozbudowa systemu kolei aglomeracyjnej Trójmiejskiego Obszaru Metropolitalnego w kierunku Wejherowa»' ('The preparation of pre-project documentation for the «Extension of Tricity Metropolitan area suburban railway system in the direction of Wejherowa»').

In 2015, PKP SKM carried 39.3 million passengers and it was an increase in comparison with the previous year by 1.6 million people.

7.9 Main highlights

February

- ▶ The adoption of the amendment to the contract on subsidies from CUPT, increasing the subsidy percentage from 59% to 66% of eligible expenses.
- ▶ Return of 6 million PLN to the Railway Fund. The return concerned excessive funding of investments, caused by the increase in subsidies from CUP from 59% to 66%.

March

- ▶ The adoption by Extraordinary Shareholders Assembly of a resolution to increase the share capital of PKP SKM by 17.7 million PLN. All new shares were taken over by the foregoing partner, that is by PKP S.A., which covered them with a contribution in kind with land, buildings and structures.
- ▶ Final acceptance of the 'Przedłużenie linii 250 i budowa nowego przystanku SKM Gdańsk Śródmieście' investment ('Extension of the No. 250 line and construction of a new railway stop Gdańsk Śródmieście'). A fail-safe final protocol was signed.
- ▶ Contract signed with Newag S.A. company to manufacture and deliver 2 electric multiple units. The contract had a net value of 28.9 million PLN.

June

- ▶ The Company was granted a certificate for the Management System under PN-ISO/IEC 27001:2014. The certificate concerns 'Information security in the area of railway passenger transport services' and is valid to 25 June 2018.

July

- ▶ Contract signed with ZNTK Mińsk Mazowiecki to repair the 4th level of maintenance (P4) of 1 unit of EN57 electric multiple unit and 2 units of EN71 electric multiple units. The contract had a net value of 2.9 million PLN.
- ▶ Council of Ministers Act No. 127/2015 was passed on the approval of 'Program rzeczowo-finansowego wykorzystania środków Funduszu Kolejowego w latach 2014–2019' ('Programme of material and financial usage of finances from the Railway Fund in 2014–2019'). Under this Act, the funds for PKP SKM in the Tricity for 2015 were raised from 5 million to 12 million PLN.
- ▶ PKP SKM received 17 million PLN from CUPT, as a result of an increase in subsidies for the project 'Rozwój szybkiej kolei miejskiej w Trójmieście' ('Development of the Tricity commuter rail') from 59% to 66%.

August

- ▶ The adoption of the amendment to the contract No. D55-KPN-9L/02 signed with PKP S.A., to reduce the value of the subject of the contract from 40.7 million PLN to 34.1 million PLN. This is a result of the contribution in kind with land and buildings on the premises of Gdynia Cisowa Depot Station.

September

- ▶ New seasonal tickets in the schedule: city ticket for 84 PLN, Tricity ticket for 120 PLN and single Tricity ticket for 6 PLN. City ticket's price was raised from 3 to 3.5 PLN, simultaneously expanding the validity range of the ticket on the PKM line.
- ▶ The launch of a connection on the newly constructed railway line owned by PKM. The transit takes place on the Gdańsk Wrzeszcz – Gdańsk Osowa route.
- ▶ Contract No. 492/U/15 was signed to provide public services for passenger rail travel in the Pomorskie Province for the period from 13.12.2015 to 10.12.2016. The contract concerns the task of transport services on Gdynia – Słupsk – Ustka route. The contract had a value of 13.6 million PLN.
- ▶ Contract No. 476/U/15 was signed to provide public services for passenger rail travel in the Pomorskie Province for the period from 01.09.2015 to 10.12.2016. The contract concerns the task 'Agglomeracja' ('Agglomeration'), which includes two sub-tasks: PKM and Tczew – Wejherowo (from 13.12.2015 to 10.12.2016). The contract had a value of 69.5 million PLN.

October

- ▶ Commencement of trains on the Gdańsk Wrzeszcz – Kartuzi route.

November

- ▶ The adoption of the amendment to the contract on subsidies from CUPT. Under the amendment the funding was increased to 202.6 million PLN. It results from the increase of subsidy percentage from 66% to 80% eligible expenses.
- ▶ Contract signed with RAIL-MIL COMPUTERS company to deliver, install and launch the devices of the Dynamic Passenger Information System (DSIP). The contract had a value of 605 thousand PLN.

December

- ▶ Contract signed with PKM to provide access to railway infrastructure for passenger transport for the 2015/2016 train timetable. The contract had a net value of 12.8 million PLN.
- ▶ The launch of trains on the Gdynia Główna – Kościerzyna route according to the new 2015/2016 timetable.
- ▶ The Company received subsidies of 28.5 million PLN from CUPT to refinance capital expenditures under the project 'Rozwój Szybkiej Kolei Miejskiej w Trójmieście' ('Development of the Tricity commuter rail').

In 2015, the Company received 7.3 million PLN from the Railway Fund to refinance the capital expenditure on railway infrastructure.



www.pkp-informatyka.pl

PKP
INFORMATYKA

8.1 About the Company

PKP Informatyka is the provider of IT solutions, mainly for the railway market. The Company services PKP Group Companies, as well as other railway operators.

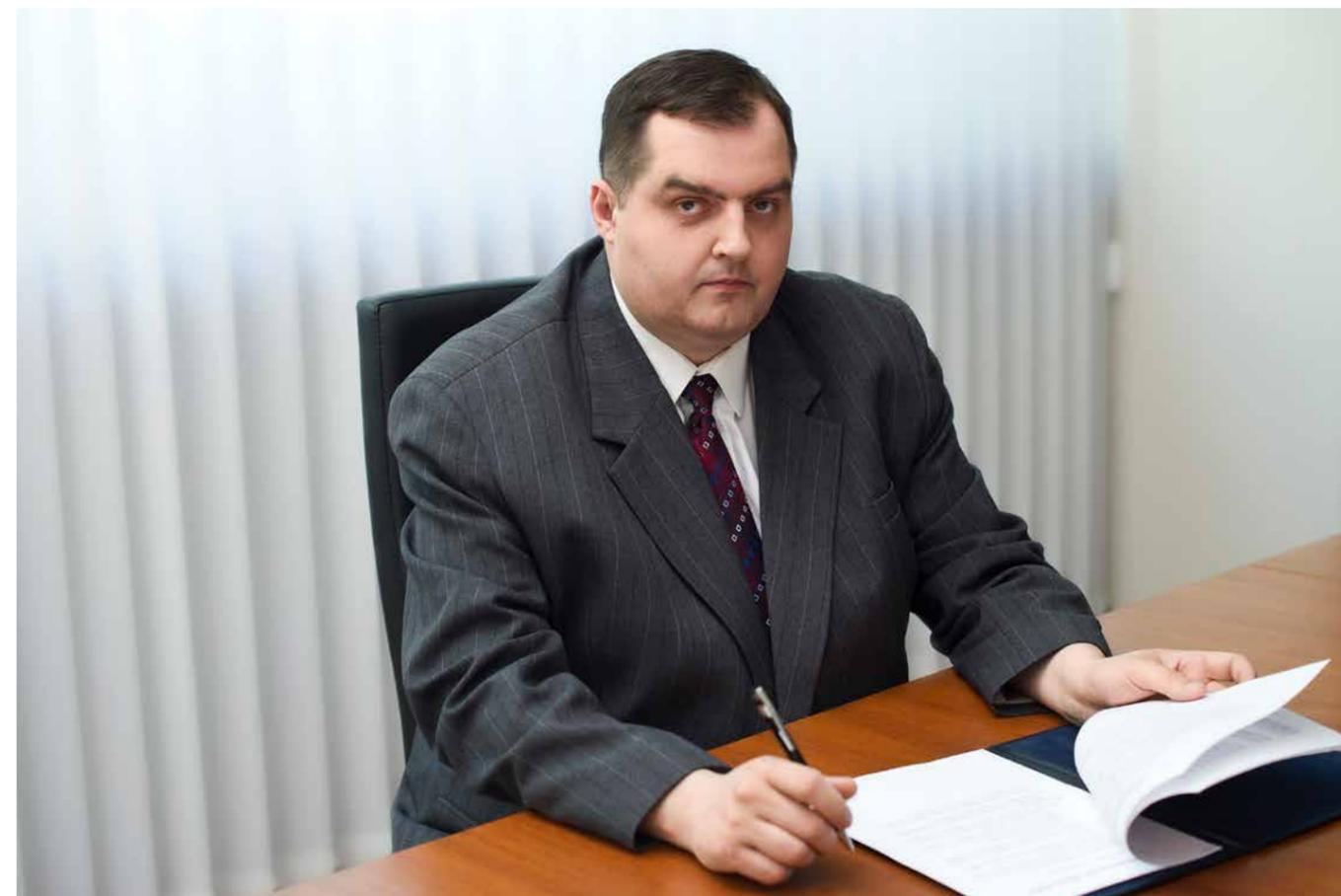
PKP Informatyka Sp. z o.o. (hereafter referred to as PKP Informatyka) started operations on 1 October 2001. The activities of the Company are broadly defined as IT services, in particular the development of application software (introduction and integration of systems and application), especially for the PKP Group Companies, as well as maintenance services, including direct maintenance of systems and applications and technical support services. Additionally, the Company also provides its services in the areas of co-location,

hosting, web services, data transferring centres, structured cabling, computer hardware service, as well as IT consultancy and IT training. The Company operates throughout the country.

PKP Informatyka is the provider of IT solutions, mainly for the railway market. The Company services PKP Group Companies, as well as other railway operators. Operations are carried out within business lines:

- ▶ railway passenger transport;
- ▶ railway freight transport;
- ▶ business management.

The Company ensures continuous service of systems and applications necessary for Polish railway market, including, inter alia, reservation and ticket sale systems, and system of cargo shipment services.



8.2 Management and Supervisory Bodies

Management Board

- ▶ **Tomasz Miszczuk** – President of the Management Board
- ▶ **Jakub Prusik** – Member of the Management Board

Supervisory Board

- ▶ **Zbigniew Cieślak** – Chairperson
- ▶ **Małgorzata Butwicka**
- ▶ **Jacek Iwański**
- ▶ **Katarzyna Kudlak**
- ▶ **Witold Pyrgiel**

- ▲ **Tomasz Miszczuk**
– President of the Management Board

8.3 Finances

In 2015, PKP Informatyka incurred a net loss of 5.6 million PLN, with a net loss in 2014 at the level of 6.9 million PLN. The deterioration in net financial result, with the result in sales higher by 3.1 million PLN, is the consequence of non-recurring events that negatively affected the results obtained in other operating activities. At the same time, the Company generated a profit on financial activities, as a result of dividend received from a subsidiary.

In 2015, the Company achieved sales revenues of 84.9 million PLN and they were lower by 26.9 million PLN (that is by 24.1%), in comparison with 2014. The decrease included revenues from related companies, which decreased by 28.4 million PLN (that

is by 30.3%), with a simultaneous increase in revenues from unrelated companies by 1.4 million PLN (that is by 8.0%). Among related companies the largest decline in revenues concerned PKP CARGO, PKP Intercity and PLK, which resulted from higher revenues from infrastructural services in 2014, including network maintenance, data bases and servers administration, as well as the realisation of numerous projects for these companies, including the Corporate Data Warehouse and SZBI, KD, and SILK3 systems. At the same time, seeking to diversify revenues, the Company carried out operations aimed at the realisation of projects for unrelated entities, including Przewozy Regionalne, Koleje Mazowieckie and other entities.

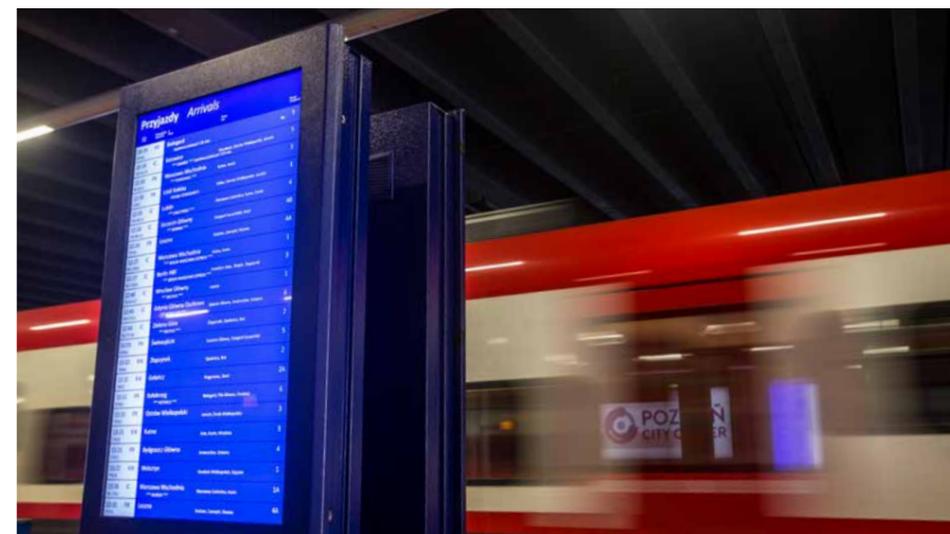
FINANCIAL RESULTS FOR 2014–2015 (MILLION PLN)

Item	2014	2015	Change	
			2015–2014	%
Net sales revenues and equivalent revenues	111.8	84.9	-26.9	-24.1%
Operating expenses	107.7	77.7	-30.0	-27.9%
Profit (loss) on sales	4.1	7.2	3.1	77.1%
Profit (loss) on sales margin	3.6%	8.5%	4.8 p.p.	-
Other operating revenues	0.8	3.7	2.9	342.5%
Other operating expenses	11.7	16.9	5.2	44.0%
Profit (loss) on other operating activities	-10.9	-13.2	-2.3	21.0%
EBIT	-6.8	-6.0	0.8	-12.2%
EBITDA	-0.7	0.1	0.8	-
EBITDA Margin	-0.7%	0.1%	0.7 p.p.	-
Financial revenues	0.3	0.6	0.3	93.7%
Financial expenses	0.2	0.2	0.0	10.6%
Profit (loss) on financial activities	0.1	0.4	0.3	272.3%
Gross profit (loss)	-6.7	-5.6	1.1	-16.6%
Income tax	0.2	0.0	-0.2	-89.3%
Net profit (loss)	-6.9	-5.6	1.3	-18.8%
Net profitability	-6.2%	-6.6%	-0.4 p.p.	-

STRUCTURE OF SALES REVENUES FOR 2014–2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015–2014	%
Net sales revenues and equivalent revenues	111.8	84.9	-26.9	-24.1%
Application services	82.5	73.5	-9.0	-10.9%
Infrastructural services	8.8	5.8	-3.0	-34.3%
Maintenance services	1.0	0.9	-0.1	-13.4%
Other services	13.7	3.8	-9.9	-72.5%
Goods and materials	1.7	1.0	-0.7	-40.8%
Other revenues	4.0	0.0	-4.0	-

In 2015, PKP Informatyka incurred operating expenses at the level of 77.7 million PLN, which decreased by 30.0 million PLN in comparison with 2014. There was a decline in almost every area of expenses (...)



Due to the character of Company's operations, operating expenses are directly dependent on generated income. Through the realisation of particular projects and contracts, the Company acquires proper technologies and licenses used for providing services. In 2015, PKP Informatyka incurred operating expenses at the level of 77.7 million PLN, which decreased by 30.0 million PLN in comparison with 2014. There was a decline in almost every area of expenses, except for depreciation, primarily in materials and energy consumption, outsourced services, payroll and social security.

A decrease in expenses on materials and energy by 9.4 million PLN results from the costs incurred by the Company in 2014 on PKP Intercity rolling stock positioning, delivery of systems for Koleje Dolnośląskie and Łódzka Kolej Aglomeracyjna and equipment purchase for Stadler company.

OPERATING EXPENSES IN 2014–2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015–2014	%
Total operating expenses	107.7	77.7	-30.0	-27.9%
Depreciation	6.1	6.1	0.0	-0.6%
Materials and energy consumption	11.2	1.8	-9.4	-84.1%
Outsourced services	41.3	33.2	-8.2	-19.8%
Renewal of licenses and technical assistance	15.6	5.4	-10.2	-65.4%
Other IT services	15.0	18.5	3.5	23.6%
Taxes and charges	1.3	0.6	-0.7	-52.1%
Payroll	35.4	26.6	-8.8	-24.9%
Social security and other benefits	8.0	6.4	-1.5	-19.1%
Other costs by kind	2.1	2.0	-0.1	-4.6%
Value of goods and materials sold	2.4	1.0	-1.3	-56.0%

Decreased expenses on outsourced services, including the costs of renewal of licences and technical assistance, is the result of lower level of sales in related companies. On the other hand, higher costs of other IT services were mainly due to the increase in revenues from contracts with unrelated entities. At the same time, there was a deterioration in the results on payroll, as well as on social security and other benefits, which was caused by the decline in average employment by 51 full-time job positions. Lower costs of goods and materials resulted from a decrease in revenues from the sale of goods and materials.

PKP Informatyka reported deterioration in the result on other operating activities, following the payment of contractual penalties, reserves set up for the penalties and contractor claims, as well as write-downs on receivables.

Through the realisation of particular projects and contracts, the Company acquires proper technologies and licenses used for providing services.

STRUCTURE OF OPERATING EXPENSES IN 2014-2015 (%)

2014



- Depreciation – 5.7%
- Materials and energy consumption – 10.4%
- Outsourced services – 38.4%
- Labour costs – 40.3%
- Other – 5.3%

2015



- Depreciation – 7.8%
- Materials and energy consumption – 2.3%
- Outsourced services – 42.7%
- Labour costs – 42.6%
- Other – 4.7%

8.4 Assets

At the end of 2015, the value of tangible fixed assets amounted to 9.8 million PLN, which accounted for 28.7% of the Company's total assets. At the same time, intangible and legal assets accounted for 28.9% of total assets.

In comparison with 2014 the value of tangible fixed assets decreased by 5.5 million PLN, as a result of settlement and transfer of HAFAS system from 'fixed assets under construction' to 'intangible and legal assets'. At the same time, in 2015 the RMS system, sustained for the needs of PKP Intercity,

was allowed for use. The increase in the value of technical equipment and machinery was due to investment expenditures on modules and PC units.

In addition, PKP Informatyka successively withdrawn and liquidated obsolete and redundant fixed assets. In 2015, the Company gained 0.3 million PLN from the sale of withdrawn fixed assets, as well as intangible and legal assets.

In 2015 the value of long-term investments did not change. Long-term investments constitute shares of PKP Informatyka in its subsidiary – Kolejowe Zakłady Łączności Sp. z o.o.



SELECTED FIXED ASSETS IN 2014-2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015-2014	%
Fixed assets	34.1	34.2	0.1	0.2%
I. Intangible and legal assets	4.1	9.9	5.8	142.8%
II. Tangible fixed assets, including:	15.3	9.8	-5.5	-35.8%
1. Fixed assets, including:	9.0	9.8	0.8	9.0%
a. Land	0.4	0.3	0.0	-1.5%
b. Buildings, premises, civil & water engineering structures	3.1	2.7	-0.3	-11.1%
c. Technical equipment and machinery	5.2	6.5	1.3	25.2%
d. Means of transport	0.4	0.2	-0.1	-38.5%
2. Fixed assets under construction	6.3	0.0	-6.3	-99.8%
3. Advance payments for fixed assets under construction	0.0	0.0	0.0	-
III. Long-term receivables	0.0	0.0	0.0	-
IV. Long-term investments	10.2	10.2	0.0	0.0%
V. Long-term prepayments	4.6	4.3	-0.3	-6.0%



8.5 Investments

In 2015, the Company incurred capital expenditures of 6.5 million PLN, of which 71% was financed from leasing, and 29% from own funds. The main items of expenditures were: the purchase of HP Non Stop server, RMS software HAFAS infrastructural environment, which are the continuation of investments commenced in 2014.

Unlike expenditures during the previous year, capital expenditures in 2015 were financed 100% from own funds and the Company's investment activities were focused on licences and software, including the environment, and on applications necessary for providing signed contracts.

LIST OF CAPITAL EXPENDITURES MADE BY PKP INFORMATYKA IN 2014-2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015-2014	%
Purchasing licenses and WniP software	10.3	1.9	-8.4	-81.5%
Fixed assets purchases	2.8	4.5	1.7	61.3%
Total investments	13.1	6.5	-6.7	-50.9%

8.6 Employment

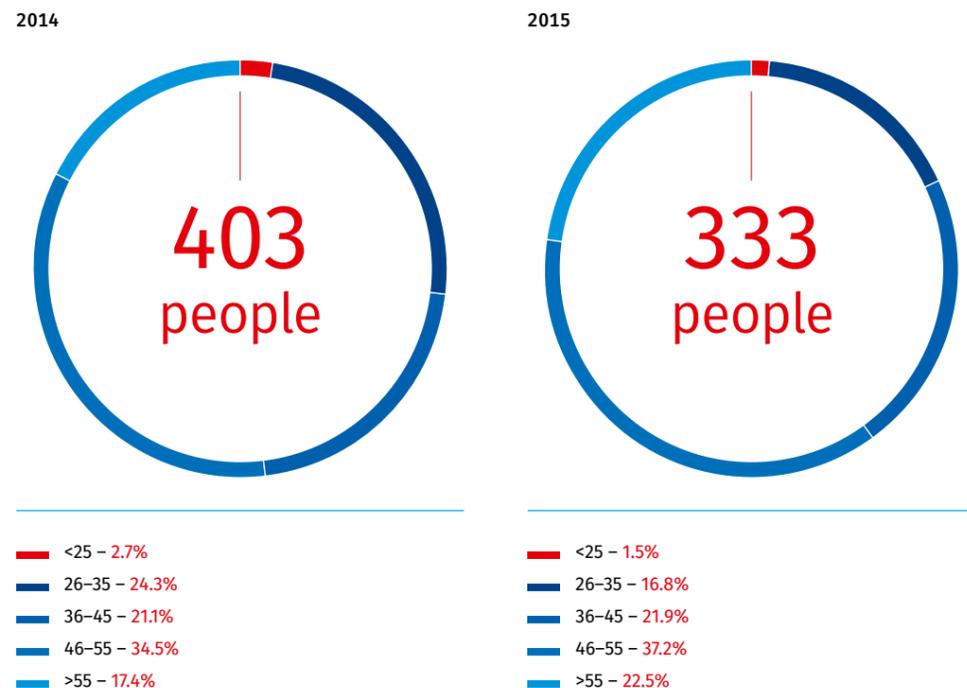
The state of employment as at 31 December 2015 was 333 people, which was 70 people less than at the end of 2014. The decrease in the state of employment was related to the adjustment of the scope of Company's operations to the contractors' demand. Employees aged 46–55 years constituted

the largest group in the Company and at the end of 2015 accounted for 37.2% of total employment. The second largest group was represented by employees between 36–45 years of age, that is 21.9% of total employment. Young workers, up to 35 years of age, constituted 18.3% of total employment. On the other hand, as much as 60% of total employees have work experience of more than 21 years.

AVERAGE EMPLOYMENT IN PKP INFORMATYKA IN 2014–2015

Item	Average employment during a 12 months period (full-time job positions)		Change 2015–2014	
	2014	2015	Full-time job positions	%
Total employment	403	332	-51	-12.7%

STRUCTURE OF EMPLOYMENT BY AGE AS AT THE END OF 2014 AND 2015 (%)



STRUCTURE OF EMPLOYMENT BY AGE AS AT THE END OF 2014 AND 2015 (IN PERSONS)

Age range	2014	2015	Change	
			2015–2014	%
<25	11	5	-6	-54.5%
26–35	98	56	-42	-42.9%
36–45	85	73	-12	-14.1%
46–55	139	124	-15	-10.8%
>55	70	75	5	7.1%
Total employment	403	333	-70	-17.4%

Employees aged 46–55 years constituted the largest group in the Company and at the end of 2015 accounted for 37.2% of total employment.

8.7 Main highlights

March

▶ New Video Surveillance Centre in PKP Informatyka. On the cusp between 2014 and 2015 the Company decided to significantly develop the Video Surveillance Centre, which is an entity responsible for the surveillance of key systems, application and IT infrastructure of companies operating on the railway market, primarily passenger and freight operators. Monitoring includes, among others, the ticket reservation and sales system. Company's clients are systematically informed about the status of monitored services via an e-mail and SMS.

May

▶ Travel Planning System HAFAS was purchased from TK Telekom by PKP Informatyka. New environment is monitored round the clock by the Surveillance Centre. Services were transferred imperceptibly for ultimate users – travelers checking railway connections at www.rozklad-pkp.pl.

▶ The purchase of BILKOM mobile application within the Travel Planning System HAFAS. BILKOM was designed for all platforms: Android, IOS, and Windows Phone. The system combines two basic functions: the first one is a connection browser, same as the one found on www.rozklad-pkp.pl, the second function enables the purchase of domestic tickets using the 'BUY TICKET' button by the desired connection.

▶ First contract concerning the sale of surveillance services was signed. Creation of Surveillance Centre contributed to the extension of Company's product offer. PKP Informatyka offers clients with services of system surveillance, infrastructure, data bases, etc. PKP Intercity is the beneficiary of the services. Within the signed contract, selected elements of ticket reservation and ticket sale systems were included in the surveillance.

July

▶ Successful finalisation of the process of recertification within the SAP solutions service. The certificate acknowledges that PKP Informatyka provides maintenance services for clients in compliance with restrictive SAP technical and organisational requirements. The first SAP Partner Centre of Expertise Certificate was awarded to the Company in 2011. Recertification required successful finalisation of an audit, carried out in June 2015 by auditor of SAP Global Partner Operations in PKP Informatyka. The examination concerned technical (systems supporting the service of clients' requests from registration to realisation) and organisational resources of the Company (maintenance services procedures, reaction times, notification processing times) and consultants' competencies confirmed by passed exams.

▶ The Company launched a new website: www.pkp-informatyka.pl.

August

▶ Completion of the project 'Faktery Energetyczne SAP' ('Sap Energy Invoice') in PKP S.A., carried out by PKP Informatyka, as the main contractor, together with Hicron Sp. z o.o. The project was aimed at the construction of interfaces which automate and optimise the process of accountant records of invoices issued for electricity supplied by PKP Energetyka for PKP S.A. The project was carried out on the basis of existing PKP S.A.'s IT infrastructure, extended to an element of integrated platform – SAP NetWeaver Process Integration (SAP PI) system. This equipment, developed in co-operation with Hicron, constitutes a significant support in accounting processes and document circulation for the client – PKP S.A. Ever since the launch of this solution, PKP S.A. recorded a significant time saving due to the automation of certain processes.

September

▶ A new 'BUY TICKET' function in the railway connections search engine on www.rozklad-pkp.pl, which redirects to the Internet ticket sale system of a given operator. PKP Informatyka, since the assumption of management over the nationwide railway connections search engine www.rozklad-pkp.pl, continuously increases the array of services available through the search engine. The 'BUY TICKET' option, available in the connections search engine, is used by PKP Intercity – part of the PKP Group – and operators of local governments: Przewozy Regionalne, Łódzka Kolej Aglomeracyjna and Koleje Wielkopolskie.

▶ Participation in the International Railway Fair TRAKO 2015. PKP Informatyka and Kolejowe Zakłady Łączności presented on the common stand of the PKP Group, next to PKP S.A., PLK, PKP CARGO, PKP LHS, PKP Intercity, PKP SKM and PKP Energetyka. Decorative elements of the PKP Group's stand consisted of equipment delivered by Kolejowe Zakłady Łączności, inter alia platform display, railway clock, ticket machine with info-board, large info-kiosk with a touch screen and a new dispatching communication system (SLK).

December

▶ The Company won a tender on carrying out documentation of lighting modernisation at Zakopane Spyrkówka railway station. It was a next order to conduct a lighting modernisation audit at railway stations.

9

www.xci.pl

XCITY
INVESTMENT

9.1 About the Company

The core function of the Company is to exploit the potential of undeveloped real estate within the assets of the PKP Group.

Xcity Investment Sp. z o.o. company (hereafter referred to as Xcity Investment) was established in 2014, but started its operations in 2015. The Company was appointed to create a specialised entity for the realisation of development projects in co-operation with external investors and facilitation of investment projects, formerly carried out by PKP S.A.

The core function of the Company is to exploit the potential of undeveloped real estate within the assets of the PKP Group, often located in attractive areas of the biggest cities in Poland. Development projects were hitherto carried out within the 'joint venture' formula, in co-operation with private investors. An additional goal of Xcity Investment is to build valuable company by creating versatile team for independent development projects realisation. The Company has the potential to

become one of the biggest commercial real estate investors in Poland in the upcoming years.

Distinctive elements of the Company:

- ▶ investments on railway premises located near communicational junctions in city centres;
- ▶ realisation of investment projects combining commercial investments and pro-social activities changing the surroundings of a property (creation of citizen- and passenger-friendly places serving as attractive meeting points);
- ▶ investments realised with respect towards heritage and history of a given place.

Until now, the only project carried out according to the presented formula is the development of Poznań (Poznań City Center) and Katowice (Galeria Katowicka) railway stations. At the end of 2015, the works were continued to plan the realisation of 7 projects in Warszawa, Kraków, Gdynia, Poznań, Konin and Mińsk Mazowiecki, totalling 1.6 billion EUR. Furthermore, operations on several additional development projects commenced.



9.2 Management and Supervisory Bodies

Management Board

- ▶ **Maciej Krzysztof Król** – President of the Management Board

Supervisory Board

- ▶ **Przemysław Ciszak** – Chairperson
- ▶ **Iwona Beata Czech-Wojdecka**
- ▶ **Paweł Jasiński**

- ▲ **Maciej Krzysztof Król**
– President of the Management Board

9.3 Finances

In the first year of its operations, Xcity Investment incurred a net loss of 3.2 million PLN. The negative financial result is a consequence of the initial phase of operations during which the operating expenses incurred by the Company substantially exceed its revenues.

In 2015, Xcity Investment achieved profit primarily from investment projects, including investment and administrative supervision, and from reinvoicing a part of the costs on business partners. Total sales revenues amounted to 2.2 million PLN.

Operating expenses in 2015 did not exceed 8.8 million PLN. The highest results occurred in outsourced services (including, primarily, services of business, legal and technical consultancy), as well as in payroll, taxes and social securities. Combined, the above items amounted to 97% in the operating expenses structure.

The Company recorded a profit of 3.3 million PLN on financial activities, which resulted from achieving a profit on investment forwarding (income resulting from the sale of shares in Poznań City Center 1 company by SPV Poznań), with a simultaneous incurrence of financial expenses as negative currency exchange rates.

FINANCIAL RESULTS FOR 2014–2015 (IN MILLION PLN)*

Item	2014	2015	Change	
			2015–2014	%
Net sales revenues and equivalent revenues	0.1	2.2	2.2	2,645.7%
Operating expenses	0.2	8.8	8.6	4,935.3%
Profit (loss) on sales	-0.1	-6.5	-6.4	-
Profit (loss) on sales margin	-113.7%	-291.8%	-178.1 p.p.	-
Other operating revenues	0.0	0.0	0.0	-
Other operating expenses	0.0	0.0	0.0	-
Profit (loss) on other operating activities	0.0	0.0	0.0	-
EBIT	-0.1	-6.6	-6.5	-
EBITDA	-0.1	-6.5	-6.4	-
EBITDA Margin	-113.7%	-288.9%	-175.2 p.p.	-
Financial revenues	83.2	5.1	-78.1	-93.9%
Financial expenses	1.5	1.8	0.3	18.2%
Profit (loss) on financial activities	81.7	3.3	-78.3	-95.9%
Gross profit (loss)	81.6	-3.2	-84.8	-
Income tax	15.6	0.0	-15.6	-
Net profit (loss)	66.0	-3.2	-69.2	-
Net profitability	80,895.5%	-143.5%	-81,039.0 p.p.	-

* Xcity Investment did not draw up a financial statement in 2014; therefore the first financial statement of the Company includes the period from 5.09.2014 to 31.12.2015. As a result of a merger of Xcity Investment with SPV Poznań, it was necessary for the financial statement to include comparative data for 2014, which contain financial data from the report of SPV Poznań for 2014. The net result achieved by SPV Poznań in 2014, was primarily influenced by the income from investment forwarding, i.e. shares in Poznań City Center 1 Sp. z o.o. company.



Total sales revenues amounted to 2.2 million PLN.

OPERATING EXPENSES IN 2014–2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015–2014	%
Total operating expenses	0.2	8.8	8.6	4,935.3%
Depreciation	0.0	0.1	0.1	-
Materials and energy consumption	0.0	0.1	0.1	27,670.2%
Outsourced services	0.1	4.8	4.7	5,303.5%
Taxes and charges	0.0	0.0	0.0	1,719.1%
Payroll	0.1	3.2	3.1	3,734.8%
Social security and other benefits	0.0	0.5	0.5	-
Other costs by kind	0.0	0.1	0.1	-
Value of goods and materials sold	0.0	0.0	0.0	-



9.4 Assets

At the end of December 2015, the balance sheet total of Xcity Investment company was equal to 33.2 million PLN. On the assets side, the most dominant items included short-term investments, including funds acquired by the Company as a consequence of the merger with SPV Poznań company. Short-term receivables, concerning

the receivables from VAT tax return and business statements, were a significant item in the sheet.

Company's assets were financed mainly from equity, which accounted for 95% of total balance sheet. The value of short-term liabilities was influenced by financial liabilities, including payroll, taxes and social securities.

Company's assets were financed mainly from equity, which accounted for 95% of total balance sheet.

BALANCE SHEET FOR 2014–2015 (IN MILLION PLN)

Item	31.12.2014	31.12.2015	Change	
			2015–2014	%
Fixed assets	0.0	0.1	0.1	-
Current assets	50.0	33.0	-17.0	-33.9%
Short-term receivables	0.0	2.6	2.6	30,637.2%
Short-term investments	50.0	30.4	-19.6	-39.3%
Total assets	50.0	33.2	-16.8	-33.6%
Equity	34.4	31.4	-3.0	-8.8%
Liabilities and provisions for liabilities	15.6	1.8	-13.8	-88.4%
Provisions for liabilities	0.0	0.2	0.2	2,865.5%
Long-term liabilities	0.0	0.0	0.0	-
Short-term liabilities	15.6	1.4	-14.2	-91.0%
Prepayments	0.0	0.2	0.2	-
Total liabilities	50.0	33.2	-16.8	-33.6%

9.5 Investment projects

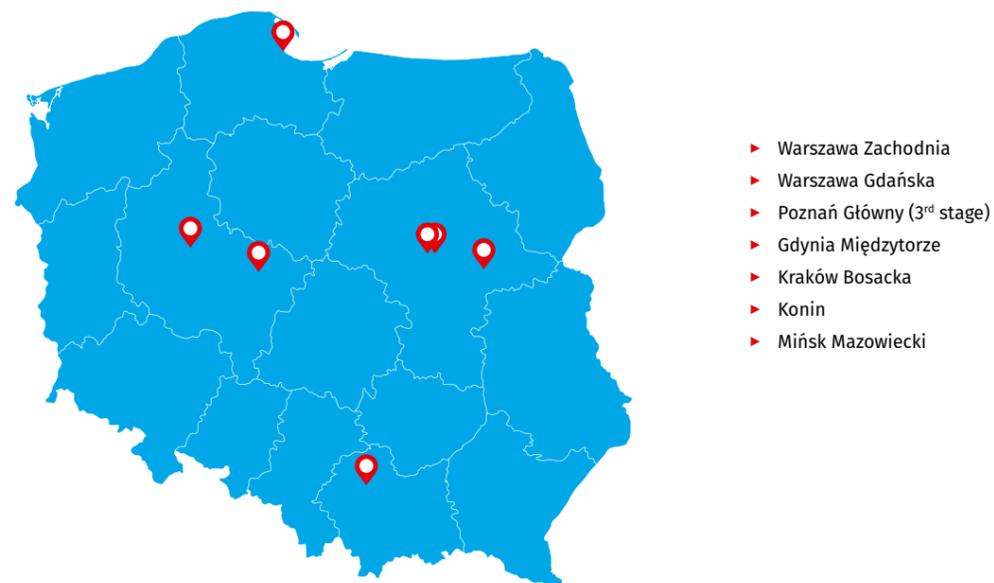
In 2015, Xcity Investment carried out operations related to 32 investment projects, 7 of which were being prepared for realisation (Gdynia Międzytorze, Warszawa Gdańska, Warszawa Zachodnia, Kraków Bosacka, Poznań Główny III, Konin and Mińsk Mazowiecki). The estimated value of the

above investments is 1.6 billion EUR. Furthermore, 3 other projects (Warszawa Główna, Warszawa Zachodnia III, and Olsztyn Główny) were at the negotiation stage, while in the case of another 17 locations, operations aimed at preparing the real estate for the purposes of the investment project were carried out.

INVESTMENT PROJECTS CARRIED OUT BY XCITY INVESTMENT IN 2015

Investment project	Estimated value of the project	Estimated date of finalisation	Investment area	GLA commercial area	Co-investor
Warszawa Zachodnia	156 million EUR	2018	1.5 ha	67,000 m ²	HB Reavis
Konin	9 million EUR	2018	1.2 ha	5,400 m ²	Dekada Realty
Mińsk Mazowiecki	7 million EUR	2018	1.0 ha	4,300 m ²	Dekada Realty
Kraków Bosacka	55 million EUR	2019	1.4 ha	21,000 m ²	GD&K Investment
Poznań Główny III	96 million EUR	2020	1.6 ha	46,000 m ²	TriGranit
Gdynia Międzytorze	722 million EUR	2026	14.4 ha	345,000 m ²	SEMEKO Grupa Inwestycyjna
Warszawa Gdańska	530 million EUR	2028	4.7 ha	177,000 m ²	Ghelamco

SEVEN PROJECTS IN THE PROCESS OF REALIZATION AT THE END OF 2015



9.6 Team

Professional team responsible for carrying out the investment projects is one of the values of Xcity Investment.

At the end of 2015, the Company employed 28 people with knowledge and experience primarily in the field of project management and development projects realisation. The largest group of employees consists of Project Managers, who are responsible

for preparation, coordination and realisation of the next stages of an investment project (an analysis and preparation of real estate for a project, proceedings for the choice of an investor, investment contract fulfilment and withdrawal from a project). The Company also employs: specialists with knowledge and experience in construction, lawyers, solicitors and people who directly support the technical staff in the project realisation processes.

The estimated value of the projects in the process of realization is 1.6 billion EUR.

9.7 Main highlights

January

- ▶ Investment contract signed with SEMEKO Grupa Inwestycyjna S.A. to carry out a commercial project for the development of Gdynia Międzytorze area.

February

- ▶ Investment contact signed with Dekada Realty Sp. z o.o. company to carry out the projects on railway station premises in Konin and Mińsk Mazowiecki.

March

- ▶ Investment contract signed with GD&K Investment Sp. z o.o. company to carry out the Kraków Bosacka project, related to the commercial development of real estate located in the vicinity of Kraków Main Railway Station.
- ▶ Company's debut at International Investment Fair MIPIM, which took place in Cannes (Xcity Investment as a patron of the City of Warszawa).

April

- ▶ Participation in European Economic Congress in Katowice.

September

- ▶ Participation in Economic Forum 2015 in Krynica-Zdrój.

October

- ▶ Announced invitations for the negotiations on the choice of investors for 15 new development projects throughout Poland. The projects concern investment realisation on attractive land of PKP in 12 Polish cities: Elbląg, Katowice, Kłodzko, Koło, Koszalin, Kutno, Łowicz, Oleśnica, Chorzów, Bielsko-Biała, Skarżysko-Kamienna and Warszawa.
- ▶ Participation in International Investments and Commercial Real Estate Fair EXPO REAL 2015 in Munich (Xcity Investment as a patron of the City of Warszawa).
- ▶ The increase of Company's share capital, due to the merger with SPV Poznań Sp. z o.o., was registered in KRS.



10

www.pkpbudownictwo.pl

PKP
BUDOWNICTWO

10.1 About the Company

The Company provides services in the area of optical fibre lines construction and telecommunication infrastructure maintenance on the railway and vehicular market.

PKP Budownictwo Sp. z o.o. company (hereafter referred to as PKP Budownictwo) was established as TK Budownictwo Sp. z o.o. in 20 January 2014, as a result of the separation of an organised business section from TK Telekom Sp. z o.o. company. Later, at 10 February 2015, the Company changed its name to PKP Budownictwo Sp. z o.o.

PKP Budownictwo provides services in the area of optical fibre lines construction and telecommunication infrastructure maintenance on the railway and vehicular market.

The Company's objects are:

- ▶ works related to the construction of telecommunication and electrical lines, as well as other specialised construction works unclassified elsewhere;
- ▶ repairs and maintenance of electronic and optic equipment;

- ▶ installation of industrial machinery, gear and equipment;
- ▶ electric installations and other construction installations;
- ▶ other services in the area of IT and computer technologies;
- ▶ engineering activities and related technical consultancy.

The Company's main asset is the employees' experience, gained on the railway market, as well as its distributed structure, which enables the provision of uniform services throughout Poland.

The Company has references for the completed construction and installation works within telecommunication engineering in the largest railway investments and railway station modernisations in Poland. By now, PKP Budownictwo has taken part in the realisation of the following projects: reconstruction of Łódź Widzew, Łódź Fabryczna and ZCK Bydgoszcz railway stations, works on Kraków – Rzeszów (E30), Warszawa Zachodnia – Skierniewice, Siedlce – Terespol lines, construction of the GSM-R system infrastructure on E20 railway line (Kunowice – Terespol).



10.2 Management and Supervisory Bodies

Management Board

- ▶ **Edyta Glinka** – President of the Management Board

Supervisory Board

- ▶ **Andrzej Pieczara** – Chairperson
- ▶ **Joanna Jurga**
- ▶ **Marta Sitko**

▲ **Edyta Glinka**

– President of the Management Board

10.3 Finances

In 2015, PKP Budownictwo recorded a net profit of 0.1 million PLN. The achieved net result is higher by 22.4 million PLN than in 2014 due to lower loss on sales and release of reserves for worker benefits. At the same time, the inability to thoroughly compare financial data from 2014 and 2015 must be addressed, because of the fact that the Company started its operations in April 2014.

In 2015, sales revenues amounted to 59.3 million PLN and were higher in comparison with 2014 by 30.5 million PLN due to higher revenues from construction activities and maintenance services, by 28.5 million PLN and 2.1 million PLN respectively. Growth of revenues was higher than the growth of costs, which transferred to lower loss on sales.

FINANCIAL RESULTS FOR 2014–2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015–2014	%
Net sales revenues and equivalent revenues	28.8	59.3	30.5	106.0%
Operating expenses	35.6	62.5	26.9	75.5%
Profit (loss) on sales	-6.9	-3.3	3.6	-52.6%
Profit (loss) on sales margin	-23.8%	-5.5%	18.3 p.p.	-
Other operating revenues	0.2	8.9	8.7	4,273.7%
Other operating expenses	16.1	3.2	-12.9	-80.1%
Profit (loss) on other operating activities	-15.9	5.7	21.6	-
EBIT	-22.8	2.5	25.2	-
EBITDA	-21.9	3.5	25.4	-
EBITDA Margin	-76.2%	5.8%	82.0 p.p.	-
Financial revenues	0.0	0.1	0.1	-
Financial expenses	0.1	0.5	0.4	716.7%
Profit (loss) on financial activities	-0.1	-0.4	-0.4	570.1%
Gross profit (loss)	-22.8	2.0	24.9	-
Income tax	-0.6	1.9	2.5	-
Net profit (loss)	-22.2	0.1	22.4	-
Net profitability	-77.3%	0.2%	77.5 p.p.	-

OPERATING EXPENSES IN 2014–2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015–2014	%
Total operating expenses	35.6	62.5	26.9	75.5%
Depreciation	0.8	1.0	0.2	18.7%
Materials and energy consumption	10.1	12.1	2.0	19.6%
Outsourced services	7.4	25.8	18.4	250.5%
Taxes and charges	0.3	0.4	0.0	8.8%
Payroll	12.6	16.0	3.4	27.2%
Social security and other benefits	3.7	4.2	0.5	13.5%
Other costs by kind	0.7	3.1	2.4	329.5%
Value of goods and materials sold	0.0	0.0	0.0	626.6%



In 2015, sales revenues amounted to 59.3 million PLN and were higher in comparison with 2014 by 30.5 million PLN (...)

Operating expenses totalled 62.5 million PLN and were higher by 26.9 million PLN. The level of deviation is influenced by the lack of comparability between the financial data from both analysed years.

Other operating income in 2015 amounted to 8.9 million PLN, which was an increase by 8.7 million PLN caused by the release of reserves for worker benefits, including reserves for jubilee bonuses.

In 2015, expenses in other operating activities were equal to 3.2 million PLN, with the decrease by 12.9 million PLN following a write-down on the value of the Company, depreciation of Company's value, as well as reserves set up for contractual penalties for the delay in a contract accepted from TK Telekom in 2014.

The Company incurred a loss on financial activities of 0.4 million PLN, mainly as a result of paying interest on a loan taken from PKP S.A. and on overdue liabilities.



10.4 Assets

At the end of 2015 the value of tangible fixed assets amounted to 5.8 million PLN, which accounted for 92.9% of the Company's total assets.

Technical equipment and machinery, together with means of transport, constituted the dominant share

in the structure of tangible fixed assets, despite the decrease in their value by 0.8 million PLN combined, as compared to 2014. At the same time during the 2015 financial year, there was an increase in the balance of intangible and legal assets, and other fixed assets, as a result of commenced investments.

SELECTED FIXED ASSETS IN 2014–2015 (IN MILLION PLN)

Item	2014	2015	Change	
			2015–2014	%
Fixed assets	9.4	5.8	-3.6	-38.7%
I. Intangible and legal assets	0.0	0.1	0.1	4,850.0%
II. Tangible fixed assets, including:	6.1	5.4	-0.7	-11.8%
1. Fixed assets, including:	6.1	5.3	-0.7	-12.0%
a. Land	0.0	0.0	0.0	-
b. Buildings, premises, civil & water engineering structures	0.0	0.0	0.0	-
c. Technical equipment and machinery	3.5	3.0	-0.5	-14.5%
d. Means of transport	2.0	1.7	-0.3	-13.2%
e. Other fixed assets	0.5	0.6	0.1	9.4%
2. Fixed assets under construction	0.0	0.0	0.0	-
3. Advance payments for fixed assets under construction	0.0	0.0	0.0	-

At the end of 2015 the value of tangible fixed assets amounted to 5.8 million PLN, which accounted for 92.9% of the Company's total assets.

10.5 Investments

In 2015, the Company incurred capital expenditures of 0.4 million PLN, which is 352.4 thousand PLN more than in 2014. The dominant positions among the tasks completed were purchases of equipment and machinery, intangible and legal assets, as well as other fixed assets purchases.

In 2015, investment expenditures were mainly related to the necessity of recreating the Company's assets, and they were financed from own funds.

The Company commenced its operations in 2014, thereby the scope of investment operations carried out in the previous year was limited, both due to shorter period of Company's existence and goals set by the Company for the first year.

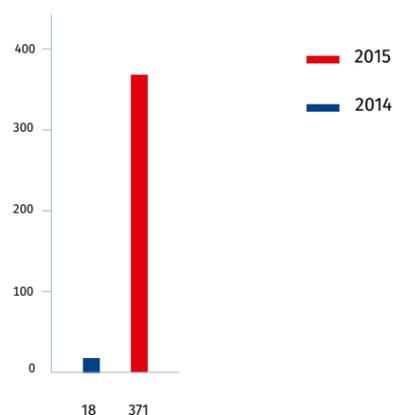
LIST OF CAPITAL EXPENDITURES INCURRED BY THE COMPANY IN 2014-2015 (IN THOUSAND PLN)

Item	2014	2015	Change	
			2015-2014	%
Total investments	18.2	370.5	352.4	1,940.3%
Construction investments	0.0	0.0	0.0	-
Other investments, including:	18.2	370.5	352.4	1,940.4%
Purchase of machines and equipment	13.3	80.3	66.9	502.1%
Other purchases of fixed assets	4.8	208.0	203.1	4,205.6%
Intangible and legal assets	0.0	82.3	82.3	-

10.6 Employment

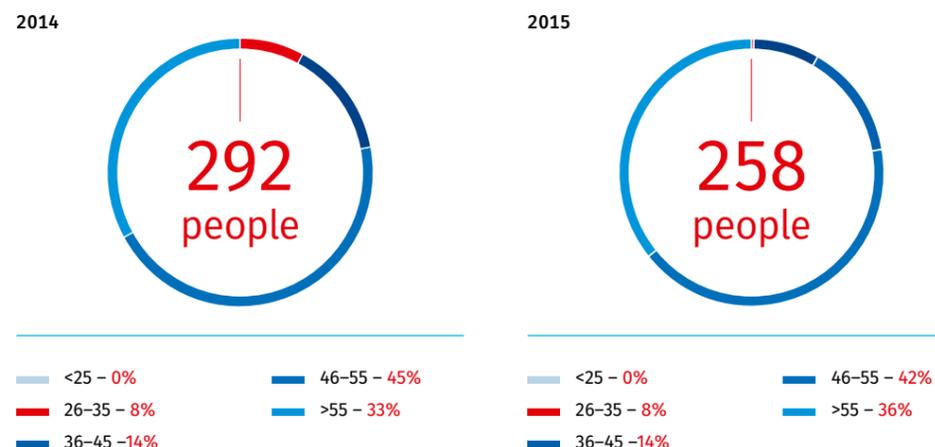
Average employment in PKP Budownictwo in 2015 was 277 full-time job positions and was lower in comparison with 2014 by 32 full-time job positions. The number of employees at the end of 2015 was 258 people, which is a decrease of 34 people in comparison with the previous year.

VALUE OF REALISED INVESTMENTS IN 2014-2015 (IN THOUSAND PLN)



The decrease in employment was mainly a result of the launch of Program Dobrowolnych Odejść (Voluntary Redundancy Programme) in 2015. Employment optimisation process was aimed at adjusting the state of employment to the current demand of the Company.

EMPLOYMENT STRUCTURE BY AGE IN 2014-2015 (IN PERSONS)



In 2015, the Company incurred capital expenditures of 0.4 million PLN, which is 352.4 thousand PLN more than in 2014.

10.7 Main highlights

March

- ▶ The institution of a specialised optical fibre team for the realisation of own and contracted operations – montage and measurement of OTK cables along with development of associated passive equipment.
- ▶ Contract signed to maintain the passenger information system at the PKP railway station in Przemyśl.

July

- ▶ Installation and launch of digital stationary radiotelephones, transportable and wearable for Straż Ochrony Kolei (Railway Security) throughout the Country. PKP Budownictwo consistently develops competencies in installation services, maintenance and servicing of digital radiotelephones. As a result of activities realised in 2015, PKP Budownictwo was the only company in Poland which signed an agreement with Koliber railway radiotelephones manufacturer, Radionika Sp. z o.o. company, concerning the co-operation in maintenance and servicing of this manufacturer's devices.

August

- ▶ Contract signed and works commenced within the project 'Modernizacja linii kolejowej nr 20 w obrębie stacji PKP Warszawa Gdańska' ('Modernisation of No. 20 railway line within the PKP Warszawa Gdańska railway station') – construction and reconstruction of the telecommunication engineering sewage system and development of passenger information system devices.
- ▶ Implementation of Corporate Collective Labour Agreement standardising the system of salaries of Company's employees.

October

- ▶ In 3 months, the construction of 120 km of GSM-R system infrastructure was finalised, in accordance with NPWERTMS,

on E20/C-E railway line, corridor F on the Kunowice – Terespol section; Pałędzie – Zbąszyń realisation section.

November

- ▶ Successful finalisation of the LCS Skierniewice project. Within the project, the Warszawa – Łódź railway line modernisation was designed and carried out, in terms of construction and reconstruction of original sewage system and HDPE pipelines, optical fibre cables, radio communication system, development of telecommunication engineering containers and SDH nodes. Moreover, the following systems were constructed: SLK, TVU for observation of 'A' and 'B' category transits, communication between guarded level crossings, station clock devices, sound system, board devices of traveller information, fire alarms and anti-theft systems.
- ▶ Construction and installation works within 'Budowa Zintegrowanego Centrum Komunikacyjnego w Bydgoszczy' ('Construction of Integrated Communication Centre in Bydgoszcz') were finalised.

December

- ▶ The Company conducted the Program Dobrowolnych Odejść (Voluntary Redundancy Programme) in construction contracts realisation crews.
- ▶ Completion of works related to the installation of Koliber stationary radiotelephones at PLK posts.

In the first quarter of 2016, PKP Budownictwo, as a result of operations carried out in 2015, acquired a license for economic operations within people and property protection realised in the form of technical security.



Corporate social responsibility activities



CORPORATE SOCIAL RESPONSIBILITY ACTIVITIES

The PKP Group – the fourth largest railway holding in Europe – has been involved in activities related to CSR for many years. These initiatives focus on building good relationships with Companies' clients, especially with travellers and local communities.

Increasing the security and comfort of passenger transport, active engagement in the support of local communities and staff development are only selected initiatives undertaken by PKP Group Companies, according to the idea of Corporate Social Responsibility (hereafter referred to as CSR).

The PKP Group – the fourth largest railway holding in Europe – has been involved in activities related to CSR for many years. These initiatives focus on building good relationships with Companies' clients, especially with travellers and local communities. Strong emphasis is also placed on promoting responsible attitudes among employees who perform the function of Company's ambassadors in communication with local communities and their environment.

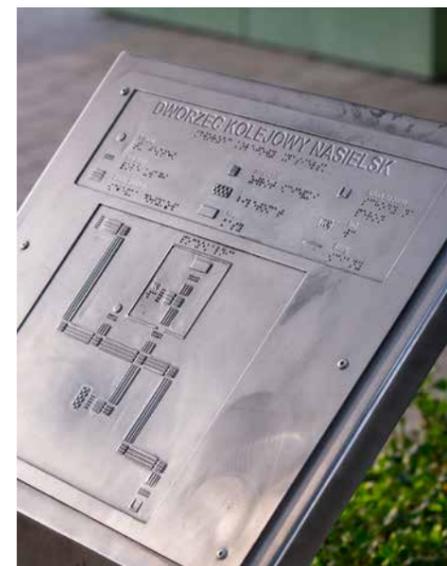
Relationships with clients

The key value for PKP Group Companies is to provide safety for travellers at railway stations, on trains and on railway routes, hence the numerous measures to modernise railway infrastructure, commissioning of modern rolling stock and improvement of safety at railway stations.

In 2015, PLK, the administrator of national railway network, renovated over 800 km of tracks and 600 km of traction system. 1,250 vehicles were replaced, 670 level crossings were modernised and 84 flyovers, which replaced level crossings, were constructed. The Company is refining and extending the programme of assistant station masters training (inter alia, due to the use of modern simulators), which transfers to higher safety on tracks. The statistics speak for themselves – over the last 10 years the number of accidents and collisions on level crossings decreased by 34%, and in 2015 it declined by 12% in comparison with the previous year. In 2015, 25 thousand people responsible for safe conduction of train traffic were trained. Additionally, the inspection system was strengthened – over 120 thousand inspections were carried out to examine the adherence to safety regulations on various positions and in organisational units, inspections on railway traffic safety within the investment



Strong emphasis is (...) placed on promoting responsible attitudes among employees who perform the function of Company's ambassadors in communication with local communities and their environment.



areas, as well as nearly 80 internal audits conducted by the Safety Management System.

PLK once again carried out one of the flagship projects, which was the year-long social campaign 'Bezpieczny przejazd' ('Safe crossing') under the slogan 'Szlaban na ryzyko!' ('Risk barrier!'). The campaign is aimed at increasing the drivers' and pedestrians' awareness of potential dangers of crossing the racks. Within the 2015 edition there were debates and conferences about safety, informative events on level crossings and so-called wild crossings, as well as educational meeting with children – 715 lectures were given concerning the safety on railway premises. Within the project 'Październik miesiącem edukacji' ('October is education month') 465 lectures were organised and 31 thousand children attended.

Aside from safety, the comfort of travellers and access to infrastructure are among the priorities of the Companies of the PKP Group. In 2015, PKP S.A. continued the programme of railway stations modernisation, adjusting them to the needs of passengers and people with reduced mobility. Travellers were given access to Innowacyjne Dworce Systemowe (Innovative Systemic Railway Stations [ISRS]) at Nasielsk, Mława, Strzelce Krajeńskie Wschód and Ciechanów railway stations. New facilities meet the international standards related to solutions for the disabled. Compact and modern stations were built from recycled elements, which are environmentally friendly and economical to maintain.

Out of concern for the comfort of deaf and hearing-impaired passengers, in 2015 PKP S.A. implemented

the service of on-line sign language interpretations 'Tłumacz Migam' ('Migam Interpreter') at railway stations. The solution is available in 10 Customer Service Centres – InfoDworce (Station Offices) – throughout the Country, and was acquired due to co-operation with PKP Group Foundation, Akademickie Inkubatory Przedsiębiorczości (Academic Business Incubators [AIP]) and Business Link Poland during the 1st edition of 'Startup Round' contest for innovative solutions for PKP S.A. The implementation of 'Tłumacz Migam' ('Migam Interpreter') is aimed at counteracting the social exclusion and gradual liquidation of barriers in access to uninhibited travel for people with reduced mobility.

Since May 2015, PKP Intercity equips Express InterCity Premium trains with lifts to ensure safe and comfortable boarding and disembarkation of people with reduced mobility. This solution allows the platform to be used not only by people moving on wheelchairs, but also with crutches. Currently all new trains owned by PKP Intercity incorporate solutions that facilitate travel for people with disabilities and reduced mobility, including spaces allocated for wheelchairs, wheelchair-accessible toilets, as well as lifts and ramps for easy boarding. Carriages are equipped with modern voice and visual information system, along with Braille markings and labels for blind passengers.

Moreover, regarding passengers' opinions, PKP Intercity held social consultations concerning the purchase of new rolling stock. Passengers, including those travelling with children, the disabled and cyclists, had the possibility to express their opinions on adjusting the carriages to their needs. During the development of a new timetable, valid from 11 December 2015, passengers were consulted

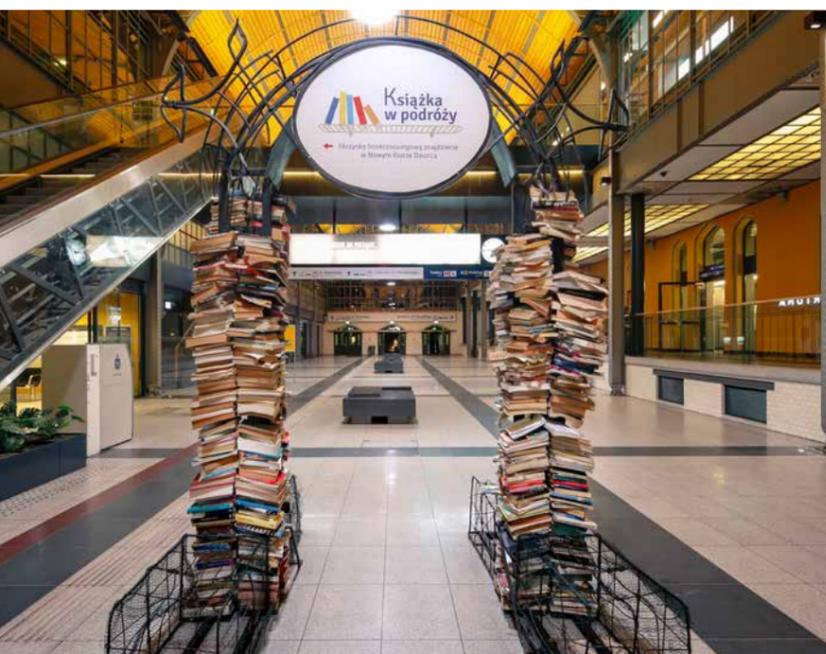


Source: PKP Intercity.

Currently all new trains owned by PKP Intercity incorporate solutions that facilitate travel for people with disabilities and reduced mobility.

about hours and dates of transits. Some suggestions were taken into consideration.

Another valuable project, carried out by PKP Intercity within the CSR strategy, was the 'Książka w podróży' ('Book in travel') project. In co-operation with Publio.pl and Matras bookstores, and the Internet library Wolne Lektury, free e-books were made available for passengers and discounts for the purchase of books were given, which promoted reading. At the same time in InfoDworzec (Station Offices) at 8 largest railway stations in Poland, due to PKP S.A.'s efforts, the bookcrossing shelves project was successfully continued. During the opening hours of InfoDworzec (Station Office) passengers could bring their own books, exchange them for other and take them along. The undertaking involved: Warszawa Centralna, Warszawa Wschodnia, Wrocław Główny, Gdańsk Główny, Gdynia Główna, Katowice and Poznań Główny railway stations.



In 2015, out of concern for the need of other stakeholders – tenants in apartments remaining in the assets of PKP S.A., Program Oddłużeniowy dla Klienta Mieszkaniowego (Debt Reduction Programme for Residential Clients) was launched. Its goal is to reduce debts from residential rentals and, at the same time, to reduce the number of cases resulting in legal proceedings and foreclosure. Debtors, which are often people in difficult financial situation, may be partially exempted from debt, are allowed to pay the debt in suitable instalments, retrieve legal rights for the residential premises and suspend a bailiff seizure.

Environment protection

Railway is one of the most ecological modes of transport; therefore environment protection plays a particularly significant role in PKP Group's CSR initiatives. PKP CARGO conducts a programme that aims at reducing the fuel and energy consumption, and gas/fumes emission to the atmosphere. The Company has well-qualified staff, equipment for charging environmental fees and data bases with access to up-to-date regulations and instructions. Activities yield promising results. In recent years there has been a remarkable decrease in traction fuel and energy consumption. Out of concern for the environment, the main boiler station in Medyka was put out of operation (due to the inability of meeting the emission standards after 31 December 2015).

For many years PKP LHS has been conducting a program of pro-environmental activities, focusing on minimizing the impact of the use of the railway line on nature in Roztoczański National Park. Activities undertaken jointly by PKP LHS and the Park Management are aimed at conducting scientific research and popularizing the idea of protecting the Roztocze natural and cultural heritage through the implementation of joint campaigns and social projects.

PKP Group Companies actively introduce ecological solutions for offices and promote pro-environmental attitudes among employees. PKP S.A. substituted traditional invoices with e-invoices, which significantly reduced orders for paper, thus contributing to a decline in waste and water pollution. Pro-ecological work standards in PKP Intercity in 2015 resulted in the award of 'Zielone Biuro' ('Green Office') certificate. Auditors from Fundacja Partnerstwo dla Środowiska (Partnership for Environment Foundation) examined, inter alia, electricity, heat energy, consumable materials, water and sewage management systems; monitoring procedures of carbon dioxide emissions and also workers' habits. Part of preparations for the certification involved an agreement on updated Environmental Policy signed by the Company.

Relationships with employees

Health and security of employees, development of their skills and competencies, improvements in organisational culture based on effectiveness, extending knowledge, and management based on proper values are the main concerns of operations



carried out by railway companies out of concern for employees.

In 2015, employees of PKP S.A. had access to a wide array of e-learning courses in social and personal effectiveness skills, such as time management, interpersonal communication and negotiations. Periodic evaluation of competencies involving the System Okresowej Oceny Kompetencji (Periodic Evaluation of Competencies System [SOOK]) was carried out. In order to facilitate the realisation of the process for the employees, an e-learning platform was launched which neatly explained how to prepare oneself for the evaluation and for an evaluation interview with supervisors. When in 2015 the Company was awarded the Information Security Management System certificate compliant with the international norm ISO/IEC27001, within the implementation of the programme employees benefited e-learning courses concerning Personal Data Security, Business Secret Protection and Information Security Management System. Throughout the year PKP S.A. spent 1,905,904 PLN on training and staff development and signed 59 contracts to subsidise post-graduate studies. Simultaneously, due to the implementation of e-learning the Company saved 703,500 PLN.

In order to raise qualifications which could transfer to increased security in railway traffic, PKP Intercity drivers had access to a modern railway traffic simulator, installed in the technical base of the Company at Olszynka Grochowska in Warszawa. Driving simulation scenarios include real-life events, such as bad weather conditions, brake malfunctions or obstacles like a fallen tree. The device

was proved to be useful in examining employees who took part in railway accidents, especially with respect to possible psycho-motor disorders resulting from the experienced stress.

Out of concern for building corporate culture based on ethical values and social engagement, the PKP Group Companies carried out activities within ethical programmes management and promoting ethics-based culture among employees. In 2015, WARS and Xcity Investment joined the Companies which signed the 'Code of Ethics'. Each Company appointed its Ethics Officers, who continued the activities of Ethics Commission commenced in the previous year. Operations of the mechanism called 'The Ethics Line' were also perpetuated, which allows for safe and anonymous conveying of information on irregularities and unethical behaviour cases by employees, subcontractors and suppliers. The majority of Company's employees were trained in relation to the Code of Ethics. In PKP S.A. the training was developed and realised on the e-learning platform. At the same time, PKP S.A. participated actively in the UN Secretary General's 'Global Compact' initiative, by a particularly strong engagement in the Coalition of Ethics Officers and the development of Ethical Standard for Polish companies and institutions.

Public Relations

Initiatives within the CSR strategy not only successfully support the development and internal relations of the organisation, but also have a positive influence on relationships with outside stakeholders, which is the environment directly shaped

Throughout the year PKP S.A. spent 1,905,904 PLN on training and staff development and signed 59 contracts to subsidise post-graduate studies.

by PKP Group Companies, and the area of their operations. Hence the engagement in charitable activities, support of cultural initiatives or local government endeavours aimed at improving the quality of life in local communities.

PKP S.A., as the owner of railway property, emphasises the dialogue and co-operation with local governments, mainly in the area of optimal use of railway infrastructure's potential for society goals. The Company already co-operates with over 200 boroughs by supporting initiatives aimed at adjusting railway station to the needs of local communities. For example, the Goleniowo railway station, owned by a local government since 2015, in the future is expected to become a base for an integrated transfer node – multi-functional railway and bus station, as well as a Culture and Local Activity Centre.

Railway stations became known as places used for cultural events and social events. This was also the case in 2015 – in Gdynia the Railway Acoustic Stage of Open'er festival was launched again, Warszawa Śródmieście Railway Station was twice converted into a concert stage, and Wrocław Świebodzki railway station turned into 'Świebodzki Targ Kultury' ('Świebodzki Culture Fair') once again. The latter provided the citizens of Wrocław and visitors from all over Poland with various attractions: concerts, lectures, debates, workshops for children and exterior cinema. In December 2015, celebration of 40th anniversary of Warszawa Centralna railway station generated high interest among travellers in Warsaw and citizens. The scenery was inspired by themes of the 70's, and the celebration included



games, plays, night marathon of 'Czterdziestolatek' series and a special souvenir line with 'Warszawa Centralna' logo.

At the same time, great attention was paid to supporting important social activities. Advertisement media at railway stations were shared with the organisers of nationwide social campaign 'Zanim podpiszesz' ('Before you sign') co-organised by Narodowy Bank Polski. Co-operation with the Ministry of Labour and Social Policy within the project 'Zmniejszanie skali zjawiska bezdomności na dworcach kolejowych i w ich otoczeniu' ('Reduction of the scale of homelessness at railway stations and in their premises') was continued. In the Company's Headquarters on Szczęśliwicka Street in Warszawa workshops for non-governmental organisations were held, which aimed at developing the best tools supporting the homeless in their return to the society.

PKP S.A. is also involved in protection and promotion of railway heritage particularly by partnerships with culture institutions and local governments. The Company takes part, inter alia, in the project of developing a new culture institution for the protection of railway heritage called Stacja Muzeum (Station Museum, formerly Muzeum Kolejnictwa [Railway Museum]). The investment involves the creation of modern, multimedia facility with recreational premises at Odolany in Warszawa. The project will not only allow proper exposition of railway antiquities, but it will also contribute to reinvigoration of that region of the capital. As a result of operations carried out by PKP S.A., a contract 'Warunkowa umowa



o utworzeniu i prowadzeniu samorządowej instytucji kultury pod nazwą Stacja Muzeum' ('Conditioned contract to create and manage a local government institution called Station Museum') was signed with Mazowieckie Province on 8 May 2015, according to which PKP allowed free access to the premises of historic 'Szczęśliwiwce' railway station for Station Museum for 50 years. Station Museum is an innovative project which joins the partnership of commercial company with local government institution in order to enrich the local and nationwide cultural offer. The undertaking has an interesting dimension of shaping urban areas through the development of unused premises in the Wola district. It will also improve the communicational and touristic potential of the area.

For another successive year, PKP CARGO put the emphasis on popularisation of railway transport. In 2015, the Company realised the 'Lato z Parowozami' ('Summer with Steam Engines') educational programme for children, which was aimed at interesting the youngest audience in railway, and with its history in particular. Within the programme, the cycle of themed weekends during holiday was organised. The youngest railway enthusiasts could get to know the profession of a driver, the character of railwayman's work, travel by antique trains and discover their history. Apart from educational activities, a notebook 'Basia i Franek w krainie pociągów' ('Basia and Franek in Trainland') was printed. PKP CARGO also organised exterior events, such as 'Parada Parowozów' ('Steam Engine Parade') in Wolsztyn Roundhouse and 'Parowozjadę' ('Steam Engine Ride') held in Open-air Rail Train Museum in Chabówka. These events, as well as the 'Lato z Parowozami' ('Summer with Steam Engines') programme, generated great interest. During the year, there were nearly 50 thousand visitors and participants in the above events.

Operations of PKP Group Companies also include participation in charity campaigns. In 2015, the employees of PKP S.A. participated in the 'Szlachetna Paczka' ('Noble Box'), collecting and

handing over 500 kg of household articles to a family in difficult financial situation. Additionally, PKP S.A. participated in the 4th edition of Poland Business Run – a charitable relay race. A similar initiative was undertaken by employees of Xcity Investment company who took part in Charytatywny Turniej Siatkówki Piłkowej Branży Nieruchomości Komercyjnych (Real Estate Charity Beach Volleyball Tournament), from which the income was given to 'Zdążyć z Pomocą' ('On time with Help') Children Foundation.

Operations carried out by the PKP Group within CSR and their results confirm that Companies of the PKP Group are modern organisations characterised by a responsible approach to business. Implementation of the rules of corporate governance, transparent internal procedures, as well as contribution to steady development strengthens the image and value of the Companies. The above is also appreciated by independent institutions, which is confirmed by another honourable mentions in a prestigious report of Responsible Business Forum of practices such as 'Tumacz Migam' ('Migam Interpreter'), 'Szkoła Przyjazna Bezpieczeństwu' ('Safety Friendly School'), Program Oddłużeniowy dla Klienta Mieszkaniowego (Debt Reduction Programme for Residential Clients) or activities concerning the homeless and Coalition of Ethics Officers.



In 2015, the employees of PKP S.A. participated in the 'Szlachetna Paczka' ('Noble Box'), collecting and handing over 500 kg of household articles to a family in difficult financial situation.

Research as an element of quality management



RESEARCH AS AN ELEMENT OF QUALITY MANAGEMENT

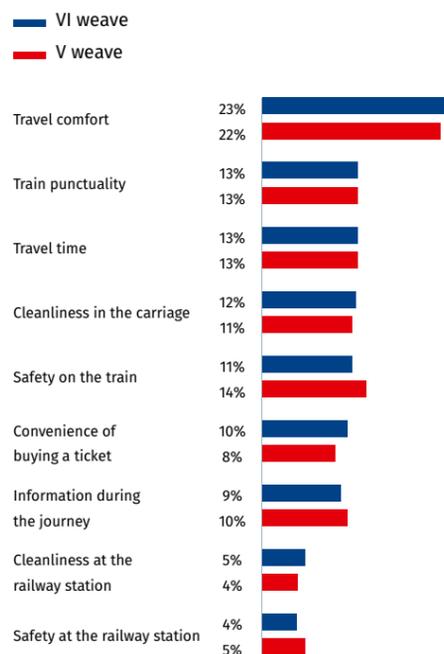
Research undertaken by PKP S.A. in 2015, just as in the past 2 years, primarily involved measuring the satisfaction of PKP Group's individual clients.

Overall satisfaction from travels by PKP Intercity trains is growing year by year. In 2015, as many as 64% of surveyed customers were satisfied with this aspect (...)

During the previous year, the V and VI waves of the project were realised. The results of the survey are not only used to monitor clients' satisfaction from services provided by particular Companies of the PKP Group, but also to plan and manage initiatives addressed to our stockholders. The satisfaction survey has a tracking character, meaning that (since 2013) twice a year on board PKP Intercity trains, using the same measurement methodology, passengers were surveyed on satisfaction within 60 areas related to transport. The design of the study allows to monitor changes in the level of satisfaction in various aspects of services provided by particular Companies, as well as to set goals for the future.

Overall satisfaction from travels by PKP Intercity trains is growing year by year. In 2015, as many

IMPORTANCE OF RESPECTIVE AREAS OF SATISFACTION



as 64% of surveyed customers were satisfied with this aspect; in comparison – in the first half of 2013, at the beginning of undertaken research, the percentage of those customers was 42% (satisfied customers are defined as persons which on the scale from 1 to 7 marked a '6' or '7'). Since the commencement of the research, travel comfort is invariably the most important of all factors.

Other research projects, which are mainly aimed at monitoring the quality of provided services, are included in the WARS client satisfaction survey (conducted for the first time in 2015 in compliance with the methodology of surveying the satisfaction of PKP Group's individual clients) and periodic 'tajemniczy klient' (mystery shopper) surveys carried out in all railway stations (including ticket counters, Customer Service Centres of PKP Intercity and PKP S.A. Station Offices) and on board PKP Intercity trains.

Research for the management of internal and external clients' experience

Detailed insight into external customers' experience and expectations can be used for optimisation and development of services provided for the clients. Hence, in 2015, a quality examination was conducted on experiences, needs and expectations of individual and business clients, related to travelling with various modes of transport, together with a quantitative survey on expectations of parents who use railway stations with their children.

Knowledge about customers' views concerning the brand and its services is necessary to ensure appropriate management of clients' experience. When it comes to the PKP Group this element appears to be significant, especially in the context of latest developments in PKP Intercity's commercial offer and its nationwide communication services. In order to acquire knowledge from this area, apart from conducting measurements of the effectiveness of realised campaigns, syndicate historical data concerning the condition of PKP brand was acquired, and a survey on brand's image

as compared to domestic competition was conducted. Gathered data will contribute to better management of communication with customers and to a precise management and communication goal-setting in the future.

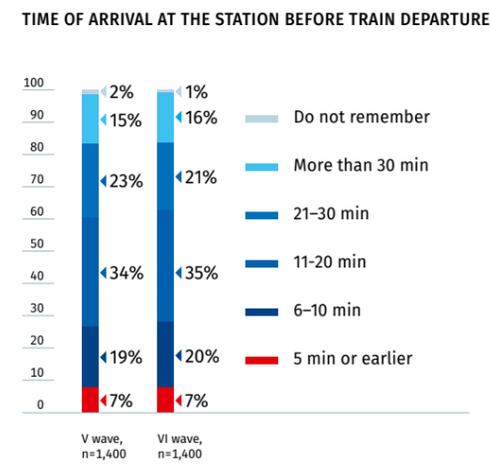
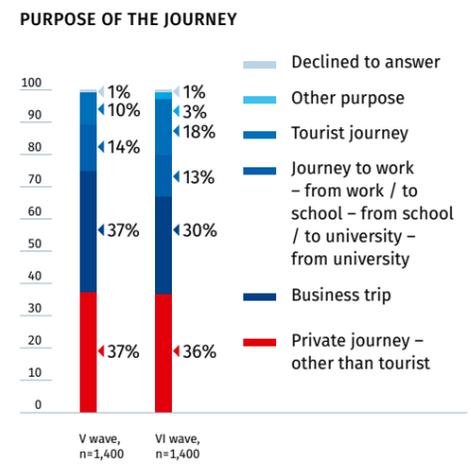
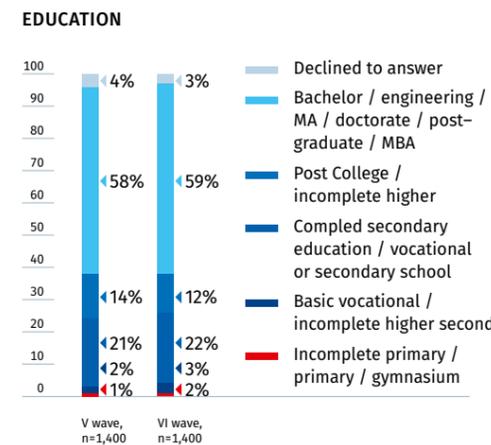
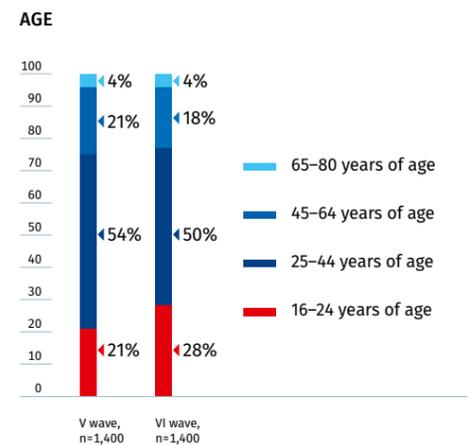
The second type of clients whose experiences and needs are worth surveying is the internal client, who is a valuable source of information on internal organisation processes. In 2015, the realisation of the periodic research on satisfaction of the internal customer was continued in PKP S.A., and its II and III wave were conducted; due to the fact that this project was realised using the tracking formula, the results could be related not only to the company's benchmark, but also to the results of previous measurements. Analogously to the previous year, the survey was quantitative with elements of qualitative elements and the results yielded from it were used to optimise internal processes by defining the quality of provided services, identifying areas that require improvement and monitoring the effectiveness of

operations – in compliance with the assumption that the project constitutes a part of a modern management model based on goals.

Own research for the current needs of business clients

Innovation in the conduct of research in PKP Group, broadly used in the previous year, is based on independent realisation of selected research projects by marketing researchers from particular Companies, due to the use of electronic Internet data gathering system. Examples of research projects conducted in the above manner include the evaluation of 'Szkoła Przyjazna Bezpieczeństwu' ('Safety Friendly School') programme carried out by PKP Group Foundation, identification and evaluation of activities carried out in co-operation with external partners related to social problems occurring at railway stations, as well as the measurement of satisfaction from services provided by Railway Occupational Medicine.

Examples of research projects (...) include the evaluation of 'Szkoła Przyjazna Bezpieczeństwu' ('Safety Friendly School') programme carried out by PKP Group Foundation (...)





SUMMARY

In 2015, the PKP Group Companies continued the multibillion investments in railway infrastructure and rolling stock. PLK expenditures in the previous year transferred to further reduction of travel times between main cities in Poland.

Passengers were gained access to updated infrastructure in numerous locations – the Company modernised, inter alia, 828 km of tracks, 607 km of traction network and 185 platforms. Finalised investments also contributed to the improvement in railway security. The number of accidents on level crossings decreased by 12% in comparison with the previous year and the result was the best since the last decade.

Additionally, the broad modernisation programme was continued by PKP S.A. In the previous year the Company finalised 22 railway station investments. A modern railway station Bydgoszcz Główna was constructed with the support from EU funds, and a new railway station in Sopot, constructed within the public and private partnership, were both commissioned. PKP S.A. provided access to the first Innowacyjne Dworce Systemowe (Innovative

Systemic Railway Stations [IDS]) – small and ecological facilities, constructed on the basis of Company's original programme.

Further facilities for the disabled appeared at railway stations and on platforms. At the biggest railway stations, an on-line interpreter service was implemented, which uses a tablet to facilitate communication for deaf and hearing-impaired people. PKP Intercity values the opinion of the disabled concerning adjustments in the rolling stock. The operator decided to hold social consultations in order to create a perfect carriage.

In 2015, the first PesaDART trains were launched, manufactured by the production plant in Bydgoszcz exclusively for PKP Intercity. All carriages of the FLIRT type ordered from the Stadler-Newag consortium also appeared on tracks. New rolling stock and shorter travel times resulted in the increase of passengers who decided to use the services of the main operator of the PKP Group. PKP Intercity ended the previous year carrying over 31 million passengers, which is 22% more than in 2014.

The previous year was also marked by changes in main management positions in PKP S.A. Ministry of Infrastructure and Construction appointed a new Management Board. Company's authorities announced a change in the foregoing railway management philosophy by moving away from the principle of marginalising experienced workers tied with the industry. There was a return to the idea of dialogue as one of the requirements for efficient business management.

Moreover, the Management Board commenced works on a new strategy in PKP S.A., highly concentrating on the role of the Company within the PKP Group. There has also been a change in the foregoing approach to real estate management. Long-term revenues became a priority, which is to be ensured by the resignation from the sale of shares in ongoing development projects. Considerable changes were also announced in relation to the investment programme. The projects are supposed to be carried out in a comprehensive manner, including both station premises and neighbouring railway stations. The co-operation between PKP S.A. and PLK in this area is expected to facilitate the rate of EU funds expenditure in the current perspective.

Long-term revenues became a priority, which is to be ensured by the resignation from the sale of shares in ongoing development projects.