



MANAGEMENT REPORT

**On the operations of the Capital Group of the "Koleje Mazowieckie - KM" sp. z o.o.
for the year 2012
(Shortened Version)**

WARSAW, POLAND, 15 MAY 2013

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Executive Summary

1. In 2012, the dominant entity - "Koleje Mazowieckie KM" sp. z o.o. has continued the operations commenced on 1 January 2005 of providing public transport services.
2. The number of passengers utilizing the services of "Koleje Mazowieckie KM" **has reached 59.11 million (59 106 665)** in 2012 which is an increase of 7.93% in relation to 2011.
3. In 2012, "Koleje Mazowieckie KM" **has performed total exploitation work of 16.57 million train-km (16 571 919.187)** which is an increase of 4.19% (by 666 643.97 train-km) in relation to 2011.
4. "Koleje Mazowieckie KM" Company has provided public service of regional passenger rail transport as ordered by the Local Authority of Mazovia Region. **The related compensation was 219.80 million PLN.**
5. The realisation of the train connection timetable 2011/2012 edition was performed using **283 rail vehicles, including 11 locomotives.**
6. In 2012, "Koleje Mazowieckie KM" has received EU funding to purchase and modernise its rolling stock in amount of 169.69 million PLN and to realize the "Kolej na przyjazną kolej" (Time for Friendly Rail) program in amount of 0.59 million PLN. **The total amount of the EU financing received is 170.27 million PLN.**
7. In 2012, "Koleje Mazowieckie KM" has undergone surveillance audit by the Italian certification body IMQ S.A. in order to maintain the validity of the Quality Management System with the ISO 9001:2008 norm.
8. In 2012, the Capital Group of the "Koleje Mazowieckie KM" Company has realized **net profit in amount of 7.34 million PLN** resulting in (according to the Profit and Loss Statement for 2012): total revenue of 605.30 million PLN, total costs of 597.3 million PLN and income tax of 0.66 million PLN.
9. The amount of **balance sheet total** of the Capital Group as of 31 December 2012 was **1 420.59 million PLN.**
10. Chapter 10.5 and Chapter 10.7 of the Statement contain review of indicators for the operations of the Capital Group and analysis of the economic situation.
11. **The operating results and conditions indicate that the continued operation of the Capital Group of the "Koleje Mazowieckie KM" Company is not endangered.**

1. General characteristic of the Capital Group of the "Koleje Mazowieckie KM" sp. o.o.

The Capital Group of the "Koleje Mazowieckie KM" Company contains the following entities:

- Dominant Entity "Koleje Mazowieckie KM" sp. z o.o. with its headquarters in Warsaw, Poland at Lubelska 26,
- Subsidiary Koleje Mazowieckie Finance AB (publ) with its headquarters in the territory of the Kingdom of Sweden.

1.1. Key data of the Dominant Entity

"Koleje Mazowieckie KM" sp. z o.o. with its headquarters in Warsaw, Poland has been established on 29 July 2004 by the Local Authority of the Mazovia Region and the "PKP Przewozy Regionalne" spółka z o.o. company.

The Company is registered with the National Court Register, conducted by the Regional Court for the city of Warsaw, XIII Economic Department of the National Court Register with the KRS number of 0000222735.

The Company's business ID number is: REGON 015876404 and its TAX ID is: NIP 1132520369.

In 2012, the share capital of the Company underwent no changes in relation to 2011 and amounted to 481 909 000.00 PLN of which 100% shares were held by the only shareholder - the Local Authority of Mazovia Region.

1.1.1. Legal basis for operations of the Dominant Entity

The Dominant Entity operates as a passenger rail transport carrier and provides most of its services in the Mazovia Region. In order to provide the above services it is necessary for the Company to hold the following certificates obtained from the Office of Rail Transportation, all of which were valid and in force in 2012:

- Licence no WPO/084/2004 for provision of passenger rail transport,
- Licence no WPO/085/2004 for provision of goods rail transport,
- licence no UPT/086/2004 for making available rail vehicles,
- Security Certificate - Part A no PL1120100023, confirming adherence of the Safety Management System on the area of the European Union to the Directive 2004/49/EC and appropriate national regulations,
- Security Certificate - Part B no PL1220100020, confirming acceptance of the regulations adopted by the rail company in order to meet the national requirements related to safety of

transport using given network in accordance with Directive 2004/49/EC and appropriate national regulations.

In 2012, the "Koleje Mazowieckie KM" Company has realised a public service of provision of passenger rail transport, ordered on basis of an Agreement for provision of passenger rail transport services on territory of the Mazovia Region concluded with the Mazovia Region.

1.1.2. Bodies of the Dominant Entity

The Board of Directors

30 June 2012 saw the end of the third 3-year term of the Members of the Board of Directors of the Company.

The Board of Directors of the third term consisted of:

- Artur Radwan – Board Chairman, General Director,
- Czesław Sulima – Member of the Board, Operations Director,
- Arkadiusz Olewnik – Member of the Board, Financial Director,
- Michał Panfil – Member of the Board, Commercial Director.

On 1 June 2012 the Supervisory Board of the "Koleje Mazowieckie KM" sp. z o.o. appointed the Chairman and the Members of the Board of Directors of "Koleje Mazowieckie KM" for the fourth 3-year term. The fourth 3-year term commenced on the first day following the General Meeting which accepted the Financial Statement of the Company for 2011, i.e. on 30 June 2012.

The appointment of the new Board of Directors of "Koleje Mazowieckie KM" Company has been preceded by a qualification procedure related to the positions of: Board Chairman - General Director, Member of the Board - Financial Director, Member of the Board - Operations Director, and Member of the Board - Commercial Director. The HR consultancy related to the qualification procedure was realized by BIGRAM S.A. Company.

The Board of Directors of the fourth 3-year term consists of:

- Artur Radwan – Board Chairman, General Director,
- Czesław Sulima – Member of the Board, Operations Director,
- Andrzej Buczkowski – Member of the Board, Financial Director,
- Dariusz Grajda – Member of the Board, Commercial Director.

The members of the Board of Directors perform the managerial tasks related to their respective scopes of responsibilities and supervise the operations of organisational units they head in the Company. The operating scope of the individual members of the Board of Directors is defined in the Rules of the Board entitled: *Regulamin Zarządu Spółki "Koleje Mazowieckie KM" spółka z*

ograniczoną odpowiedzialnością z siedzibą w Warszawie passed by resolution No 05/RN/2010 of the Supervisory Board on 26 February 2010 (with subsequent changes).

Supervisory Board

In 2012 the Company's Supervisory Board consisted of:

- Waldemar Kuliński – Chairman of the Supervisory Board,
- Marzena Okła-Anuszevska – Member of the Supervisory Board,
- Piotr Zięcik – Member of the Supervisory Board,
- Monika Sokulska – Member of the Supervisory Board.

In 2012 the Supervisory Board held 20 meetings. The first meeting was held on 11 January 2012 and the last on 17 December 2012. The Supervisory Board has passed 40 resolutions in 2012, out of which one has been passed via a telephone vote. Furthermore, the Supervisory Board has reviewed a total of 36 pieces of information related to the activities of the Company, its projects and other issues that required the Board of Directors to provide additional explanations.

Meeting of Shareholders

According to Art. 12.4 of the Act on Municipal Services dated 20 December 1996 in single-person companies of regional authorities the function of General Meeting of Shareholders (General Meeting) is realised by the executive organs of the said bodies of regional authorities.

The only Shareholder of the Company in 2012 was the Local Authority of Mazovia Region, which held 100% of the shares, therefore the General Meeting of the Company was the Management Board of Mazovia Region.

In 2012, 6 General Meetings has been held and 19 resolutions passed.

1.2. Koleje Mazowieckie Finance AB (publ) – Subsidiary

Established by the Dominant Entity "Koleje Mazowieckie KM" in 2010 and registered in Sweden, a special purpose subsidiary (a so-called SPV) under the name of Koleje Mazowieckie Finance AB, the subsidiary company has continued its operations in 2012. The headquarters of Koleje Mazowieckie Finance AB is located in Stockholm in Sweden. The share capital of Koleje Mazowieckie Finance AB is 500 000 SEK and is divided into 5 000 shares with nominal value of 100 SEK each share.

1.2.1. Legal basis for the operations of Koleje Mazowieckie Finance AB (publ)

The main area of business activity of the subsidiary is to issue or to organise an issue of securities directly or indirectly and to perform all other activities related to the main area of business activity. The first issue of securities was realised in January 2011.

1.2.2. Bodies of the Subsidiary

The Management Board

The Board Koleje Mazowieckie Finance AB consists of:

Roman Sielecki – Chairman,

Marek Dawidowicz – Member of the Board,

Ewa Oknińska – Member of the Board.

Mr Olof Waern, Managing Director, was tasked with ongoing management.

Meeting of Shareholders

The function of the Meeting of Shareholders (General Meeting) is realised by the Board of Directors of "Koleje Mazowieckie KM".

1.2.3. Business activities of the subsidiary in 2012

In 2011, Koleje Mazowieckie Finance AB has issued bonds for 40 million Euro intended for pre-financing of the investment programme of the Dominant Entity in 2011. The bonds have been paid in full using financial assets obtained from 5-year bonds worth 100 million Euro issued on the international market by Koleje Mazowieckie Finance AB on 9 March 2011. The bond's nominal value was 100 million EURO, the securities are non-subordinated and are an unconditional obligation of the issuer. The interest on the bonds is paid on basis of a fixed rate of 6.75% per annum. The payment of interest which amounts to 6.75 million Euro per year is realised in arrears on 9 March every year. The first payment was realised on 6 March 2012 and amounted to 6 750 000.00 Euro. In accordance with the Frame Agreement for Provision of Public Services of Public Transport on the territory of the Mazovia Region, the Mazovia Region is obliged, for the 15 subsequent years, starting from 1 January 2010 to 31 December 2024, to cover the interest created in relation to the debt incurred by the Company for the investments. Therefore the amount of the interest related to the bond program is covered by the compensation.

On 1 January 2012 the market value of the bonds was about 95% of their nominal value and their yield was 8.20%. In December 2012 the market price of the bonds was 100.75% of the nominal price, with yield at 6.47%.

The Koleje Mazowieckie Finance AB has realised net profit of 0.12 million PLN in 2012 (31 453.03 EUR) with balance sheet total of 431.64 million PLN (105 305 970.59 EUR).

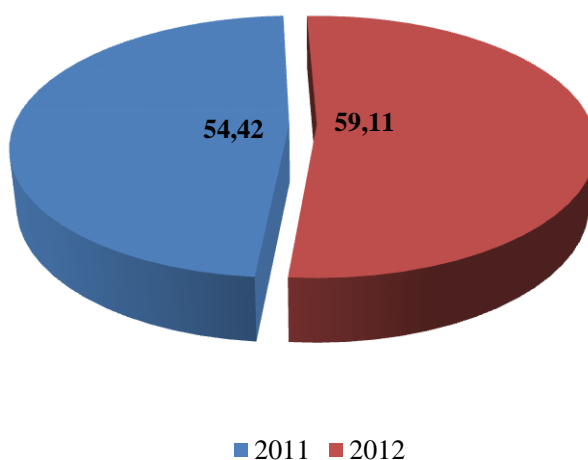
2. Trade activity of the Dominant Entity

2.1. Passenger transport and revenue from trade activities

In total, in 2012 "Koleje Mazowieckie KM" has transported **59 106 665 passengers**, i.e. 7.93% more than in 2011.

Diagram 1

Comparison of the number of transported passengers (in millions).



The Company realised revenue of 335.44 million PLN in relation to the passenger transport (sale of tickets, specific subsidy due to loss of revenue incurred due to statutory ticket price reductions, revenue for honouring the ZTM tickets and sale of transport services at reduced price).

Table 1

Revenue from trade activities

revenue	2011	2012	Dynamic in %
from ticket sales	160 153 368.24	179 837 101.80	112.29%
specific subsidy	28 289 874.06	32 413 932.40	114.58%
from ZTM (including commission on sale of ZTM tickets in Company's ticket booths)	84 991 586.05	108 201 385.17	127.31%

from sale of transport services at reduced prices	12 137 391.71	14 990 924.40	123.51%
total	285 572 220.06	335 443 343.77	117.46%

In 2012 in relation to 2011, the Company has realised revenue from ticket sales higher by 12.29%, and in result the specific subsidy was higher by 14.58%.

2.2. Transport offer

The "Koleje Mazowieckie KM" Company provides transport services mostly on the territory of Mazovia Region. Despite the territorial limits to the Company's operating scope, every year the Company is ranked among the top carriers on the national passenger rail transport market.

Taking into consideration the fact that the country's capital is located in Mazovia, which also serves as a hub of all communication routes, the main transfer node, the location of numerous workplaces, schools, public services and the area with the largest population movements, the Company plans and realises its transfer offer in such a way as to meet the various transport needs of the Mazovian citizens. The main focus of the Company is on providing the citizens of the main cities of the region with daily commuting to work, education and back to their homes.

In 2012, the Company realised the transport offer using its rolling stock and following a fixed train schedule 2011/2012 and additional timetables of seasonal and special character.

2.2.1. Fixed offer

The Company provided services of public character on base of a train schedule ordered by the organiser of the passenger transport on the territory of the Mazovia Region, i.e. the Local Authority of Mazovia Region. In 2012, the Local Authority of Mazovia Region subsidized the rail transport with an amount of 219.8 million PLN.

The priority in the arrangement of rail connections was providing direct transport during the rush hours between Warsaw and the other major regional centres of Mazovia.

In 2012 the fixed offer was supplemented by the so-called airport trains:

- from 1 June between: Warszawa Zachodnia - Warszawa Lotnisko Chopina - Warszawa Zachodnia,
- from 28 June between: Warszawa Lotnisko Chopina - Modlin,

additionally bus transport was launched connecting the Modlin train station with the Warszawa Modlin airport.

2.2.2. Exploitation work

The Company's train schedule 2011/2012 covered 15 lines, with total length of 1 342.329 km, out of which 1 175.836 km were located within the Mazovia Region.

The amount of exploitation work of passenger trains for 2012, confirmed with the organizer of the transport for the day the schedule 2011/2012 entered into force was planned to cover 16 517 912.592 train-km and was higher by 1 413 749.233 train-km than the amount of exploitation work planned for 2011.

2.2.3. Seasonal and special offers

the train schedule 2011/2012 included a special seasonal commercial train "Słoneczny". Via this train, the Company offered its passengers, and especially children and the youth, possibility of travelling to seaside resorts quickly and at a competitive price.

During the EURO 2012 soccer championships, which were held in June 2012, the Company launched (with cooperation with ZTM) over 200 additional trains (which ran during the whole championships and additional return trains during the match days).

2.2.4. Fast trains offer

The Company has enlarged its basic transport offer by special fast trains running on chosen lines during the rush hours, which connect Warsaw with the largest cities and transfer nodes in the Mazovia Region.

The train schedule 2011/2012 saw the following fast trains, among others:

- "Wiedenska" connecting: Warsaw - Skierniewice - Warsaw,
- "Bolimek" connecting: Warsaw - Żyrardów - Warsaw,
- "Łukowianka" connecting: Warsaw - Łuków - Warsaw,
- "Mazovia" connecting: Warsaw - Płock - Warsaw,
- "Radomiak" connecting: Warsaw - Radom - Warsaw.

2.2.5. The "Joint ZTM-KM-WKD Ticket" offer

The fact that the Company honours ZTM municipal transport tickets results in additional revenue to the Company, amounting to 107.59 million PLN in 2012.

The Company collaborates with the city of Warsaw (through ZTM) for a number of years in relation to public rail transport within the Warsaw agglomeration. The joint activity continued also in 2012 in form of the offer: "Joint municipal transport ticket ZTM-KM-WKD". In 2012 the basis for settlement was established as follows, for 1 train-km (net):

- 1) 21.00 PLN during the period: January-March;
- 2) 22.02 PLN during the period: April - December.

On basis of the binding offer "Joint municipal transport ticket ZTM-KM-WKD" the following ZTM tickets were honoured in the Company's trains in 2012:

- a) 24h.
- b) 3-days,
- and
- c) 30-days,
- d) 90-days,
- e) senior citizen's,

encoded on the Warsaw Municipal Card or an electronic student ID and entitlement for reduced or free tickets for local public transport in Warsaw.

2.2.6. Company and the KM

For the third consecutive year "Koleje Mazowieckie KM" has offered to all the interested employers ability to provide their employees with 33% reduced ticket price for all the Company's trains.

In 2011 the employers purchased 2379 such entitlements, and 2012 saw sales rising to 2927, which translates to 32% increase in sales.

2.2.7. Company's ticket offer

In 2012 the Company allowed travel on board of its trains on basis of the following ticket types:

- 1) single fare: "there", "there and back", "journey", family, subscription, group;
- 2) zone: time;
- 3) seasonal;
 - a) 24h tickets;
 - b) 3-day tickets,
 - c) section: weekly, bi-weekly, monthly, quarterly,
 - d) zone: monthly and quarterly.

The price of the Company's tickets may be reduced on basis of two mechanisms:

- 1) *statutory reduction* - on basis of Act on Entitlement for ticket price reduction in mass public transport of 20 June 1992 (Journal of Laws: Dz. U. of 2002, No 175, Item 1440 with subsequent changes);
- 2) *trade reduction* - established as part of the own tariff policy of the Company.

In 2012 the Company has introduced the following offers for its clients:

- 1) in period 28 April - 30 September 2012 gratuitous transfer of a dog and/or bicycle,
- 2) from 2 June the offer related to using the "Słoneczny" train has been modified
- 3) during the EURO 2012 championships introduced was the "Fan" Ticket for travelling the trains of the Company,
- 4) from 16 July 2012 the Airport Ticket offer was made available at lump price, which includes travel on basis of municipal tickets: single fare and monthly named travel card,
- 5) modification of the offer for the special connections: Radom - Drzewica, Radom - Pionki, Warszawa Wschodnia - Góra Kalwaria

3. Exploitation activity of the Dominant Entity

3.1. Used train vehicles

The Company realizes its transport activities by means of rolling stock consisting of rail vehicles in possession of the Company and rail vehicles to which the Company holds legal title. The Company realizes an ongoing program of replacing the rolling stock with newer vehicles or vehicles characterized with better technical and exploitation characteristics (via modernisation of the rolling stock). In 2012 the Company utilized 283 rail vehicles, including:

- Electric Multiple Units EN57 - 186 vehicles, (Including 5 EN57KM EMUs and 33 EN57AKM EMUs),
- Electric Multiple Units EN71/EN71KM - 6 vehicles,
- Electric Multiple Units EW60 - 2 vehicles,
- Electric Multiple Units ER75 - 10 vehicles,
- Electric Multiple Units EN76 - 16 vehicles,
- Combustion Engine Rail Buses VT627 - 7 vehicles,
- Combustion Engine Rail Buses VT628 - 4 vehicles,
- Combustion Engine Rail Buses SA135 - 4 vehicles,
- carriage sets using 11 electric locomotives E583PL and double-deck coaches - 37 vehicles.

It is also worth emphasising that in 2012 the process of replacing the old oil-fired rolling stock with new vehicles was continued. In relation to above, in December 2012 one of the combustion engine rail bus series VT627 was decommissioned. Two new combustion engine rail buses series SA135 have been introduced into service. These rail vehicles are leased from the Mazovia Region.

In case of the remaining utilized rail vehicle types their number did not change in relation to the previous year.

3.2. Exploitation work

In 2012, "Koleje Mazowieckie KM" **has performed total work of 16.57 million train-km** which is an increase of 4.18% in relation to 2011.

The exploitation work performed on basis of contract with the Mazovia Region was 16.47 million train-km. The remaining **0.10 million train-km** was realised by the trains running the Łowicz - Kutno connection on line no 3 and the commercial trains launched by the Company in 2012 (including the "Słoneczny").

3.3. Exploitation of the rolling stock

3.3.1. Utilisation of the rolling stock

The increased experience gathered by the Company during its continuous operation translates into the increased ability to utilize the rolling stock. **The operational readiness of the rolling stock, i.e. readiness of a vehicle to perform the planned transport work was at level of 94.80%.**

3.3.2. Timeliness of trains

The general indicator for the timeliness of the trains operated by the Company was **95.9%**.

The most frequent delays in train schedule were due to causes beyond the carrier's control. The timeliness was mostly influenced by faults on the part of the traffic control equipment as well as other facilities under the care of the Rail Infrastructure Supervisor. Additional causes of delays were random events and accidents involving rail vehicles.

3.3.3 Costs of electric traction energy in 2012

The costs of electric traction energy used by the Company's rolling stock increased by nearly 9.8 million PLN in relation to 2011. In 2012 the exploitation work performed by the electric vehicles was 101.06% of work performed in 2011 (additional 162 499 train-km). The use of electric traction energy in 2012 was 111.65% of energy used in 2011. The cost of the used electric traction energy in 2012 was 112.61% of energy costs in 2011. The main factors of the higher energy use were difficult weather conditions during the 1st quarter 2012 as well as introduction of the new rolling stock (EN76 and EU47). This is due to a two-fold impact of the new vehicles which, on one hand significantly increases the quality of the transport services and in the other are related to increased energy use (heating of carriages, start-ups, air conditioning, etc.).

3.4. Rolling stock investments

During 2012 the Company continued the investments initiated in preceding years aimed at improving the technical state, the aesthetics of the rolling stock and adapting the vehicles to the European and national regulations in force. The undertaken actions resulted in significant increase of the passenger comfort and safety of travel.

The total value of rolling stock repairs performed by the Company within the so-called "fourth maintenance level" including modernisation costs was 11.51 million PLN net, including 8.65 million PLN in repairs and 2.86 million PLN in modernisation.

In 2012 a total of 17 fourth maintenance level repairs have been performed with modernisation of EN57 EMUs. The scope of modernisation was similar to the modernisations performed in the preceding years.

In December 2012 the Company concluded an agreement to perform 34 repairs of the fifth maintenance level including modernisation of EN57 EMUs until the end of 2013. It should be mentioned that the Company, as the first rail carrier in Poland has introduced such wide scope of modernisation. The total value of the above-mentioned agreement is 221.9 million PLN net.

3.5. Investments and repairs of infrastructure

In 2012 the Company has realised investments and repairs consisting of construction work (work orders) related to rail surfaces utilised on basis of lease contract with PKP S.A. The total amount of infrastructure related investments and repairs was **6.10 million PLN**.

3.7. Tenders

The Company, acting as an awarding entity in tenders related to performance of services of public mass transport has awarded in 2012 a total of **109** orders for a total value of **570.39 million PLN net**, including procedures based on:

- 1) **Rules for awarding orders for delivery, provision of services or construction works by "Koleje Mazowieckie - KM" sp. zo.o.** - a total of **89** orders with total value of **29.40 million PLN net**.
- 2) **Public Procurement Law dated 29 January 2004 (Journal of laws: Dz. U. of 2010, No 113m Item 759 with subsequent changes)**- a total of **20** public orders with total value of **541.0 million PLN net**.

4. Activities of the Maintenance Services Department of the Dominant Entity

2012 was the fourth subsequent year of operation of the Maintenance Services Department, which continued its operations related to cleaning the rolling stock of the Company. The department was responsible for maintaining the cleanliness of the rolling stock on the turning stations and holding stations as well as for maintaining cleanliness the buildings, offices and industrial objects at disposal of "Koleje Mazowieckie KM" sp. z o.o. The Department has also provided services of cleaning the rolling stock of the "Szybka Kolej Miejska" Sp. z o.o. with its headquarters in Warsaw.

5. Information Policy and Public Relations of the Dominant Entity

In 2012 the body responsible for creation and realisation of the information policy of the Company was the Spokesman Office (MBR). This area of Company's activity saw undertakings aimed at providing information and strengthening the image of the company in the areas of: external communications (press conferences, press releases, participation of Company representatives in seminars and debates), internal communication (own periodical entitled 'KM - Moja Kolej', involving employees in CSR initiatives), and Public Relations (involving local communities in the undertakings of the Company). The Company and its employees participated in competitions and rankings that promoted the services provided by the carrier.

In 2012 the Company maintained a continuous contact with the press in order to ensure swift dissemination of important information and to create positive image of the Company in the media. the total number of publications related to the Company was 9114, where 85% were positive or neutral.

In order to promote the ongoing activities, the Company and its employees participated in contests and rankings. In result „Koleje Mazowieckie – KM” sp. z o.o.:

- 1) was awarded the "Fair Play Company" certificate,
 - 2) was awarded the "Mazovia Company of the Year" title,
 - 3) achieved 10th place in the Forbes Diamonds List 2012,
 - 4) was placed at 83rd place of the "100 Most Valuable Companies" ranking by Newsweek,
 - 5) increased its position in the 14th edition of "500 Biggest Polish Companies" list (from 441st to 407th place),
 - 6) has gone up on the "500 biggest companies in 2011" (from 359th place to the 331st),
 - 7) was commended in the **"Pearls of Polish Economy" ranking.**
- 1.

6. Promotion and advertising of the Dominant Entity

In 2012 the Company has realised undertakings concerning Integrated Marketing Communication and Corporate Social Responsibility. The Integrated Marketing Communications undertakings consisted of, mostly:

- 1) promotion of commercial offerings and special offerings,
- 2) promotional campaigns aimed at popularisation of rail transport,
- 3) undertakings which utilise the PR tools.

The activity related to Corporate Social Responsibility was focused on cooperation with non-government organisations, providing support to cultural and educational activities, and on creation of positive and lasting relations with local communities. Sale of advertising space was realised by the Company itself. In October 2011 an agreement has been signed with Metromedia Polska concerning lease the advertising space owned by the Company.

7. Remaining activities of the Dominant Entity

7.1. Internal systems of the Dominant Entity and Occupational Health and Safety undertakings

7.1.1. Management Systems

The Company utilizes a quality management system and a safety management system.

Taking into consideration: the need to ensure constant increase of the quality of provided services, the client satisfaction and decrease of any and all internal and external losses, the Company has implemented a **Quality Management System** which adheres to norm PN-EN ISO 9001:2009 in relation to planning and realisation of regional rail passenger transport.

2012 saw the onset of activities aimed at implementing a Work Safety and Hygiene Management System according to PN-N-18001:2004/BS OHSAS 18001:2007. The actions related to this implementation saw a top management training on "Implementation and Functioning of the Work Safety and Hygiene Management System in "Koleje Mazowieckie KM" sp. z o.o. in accordance with PN-N-18001:2004/BS OHSAS 18001" which took place in November 2012. December 2012 saw a special training for the internal auditors entitled "Internal Auditor of the Work Safety and Hygiene Management System".

7.2. Activities aimed at improving safety on the trains and their related objects

Matters related to safe travelling, safety of the rolling stock and the railroad property are treated by the Dominant Entity as of paramount importance.

In 2012 the representatives of the Company actively participated in the activities of the Central Committee on Safety of the railway objects and the Regional Committees on Safety on the railway areas of the Mazovia and Warsaw garrisons. Since mid 2010 the Company is active in the structures of the Railway Areas Safety Commission.

It also actively cooperates with the Police and the Railway Security Service (SOK).

7.3. Activities related to ecology

The Company promotes activities aimed at reduction of negative environmental impacts by a number of different initiatives.

1. In 2012 the legal basis for the office waste management of the Company has been established and proper decisions concerning the waste created have been obtained.
2. The "Koleje Mazowieckie KM" ps. z o.o. has also entered into contracts with companies providing removal of communal waste for the ticket booths and the Rolling Stock Repair and Exploitation Department.
3. Collaboration with the company collecting used batteries and small accumulators has been continued.
4. Also continued was collaboration with the company supervising the sewage treatment plant located on the premises of the Rolling Stock Repair and Exploitation Section in Tuszcz.
5. An important element of the environmental protection on the part of the Company is an aquatic legal survey for extraction of underground waters from a deep water well on the premises of the Rolling Stock Repair and Exploitation Department, which served as basis for applying for water extraction permit, filed with the Poviast Administrative Bureau in Wołomin.
6. The year saw continuation of pro-environmental activities with measurable economic effect via sale of metal waste collected in the Rolling Stock Repair and Exploitation Sections.

7.4. Debt collection related to transport of people, property and animals

All the matters related to debt collection result from the issued requests for payment in case of lack of a valid ticket by the train directors, ticket inspectors, controllers of ZW "Renoma" and other persons authorised to control the validity tickets on the Company's trains.

The inflow generated by the requests for payments enforced in 2012 by the Debt Recovery Department of the Dominant Entity, including also enforcements by external Debt Collection companies, amounted to **5.30 million PLN** which is an increase of **19.38%** of the amount enforced in 2011. The costs of the Debt Collection Department in 2012 was **5.91 million PLN** which is an increase of **1.78%** in relation to 2011.

8. Strategic undertakings of the Dominant Entity

8.1. Rolling stock investments

To this point three rolling stock projects have been completed or partially completed:

1. Within the Operational Programme of the Mazovia Region 2007 - 2013:
 - 1.1 *"Purchase of 11 new, two cab electric locomotives intended for the passenger push-pull trains"* - the project was completed (both in case of material and financial activities), gross value 206.3 million PLN, subsidy of 79 million PLN;
 - 1.2 *"Modernisation of Electric Multiple Units"* - the project was completed (both in case of material and financial activities), gross value 207.2 million PLN, obtained subsidy of 74.08 million PLN.
2. Within the framework of the Operational Programme Infrastructure and Environment 2007-2013:
 - 2.1 *"Purchase of rolling stock for airport and agglomeration connections in the corridor of the E-65 line and the Warsaw agglomeration"* the project was completed (in case of material activities), gross value 395.1 million PLN, obtained subsidy 164.69 million PLN.



The currently initiated investment projects utilising the EU subsidies obtained within the framework of the Operational Programme Infrastructure and Environment 2007-2013:

1. *"Modernisation of Electric Multiple Units Utilized for Passenger Rail Transport on Regional Scale and within the Warsaw Agglomeration"* - a project with total estimated cost of 258.6 million PLN and expected subsidy from the Cohesion Fund of 124.0 million PLN. The project, since 29 March 2013 is entered into the list of key individual projects for the Operational Programme Infrastructure and Environment. The result of this project will be 77 modernised EMUs (38 repairs of the fourth maintenance level with modernisation of EN57 EMUs, 34 repairs of the fifth maintenance level with modernisation of EN57 EMUS, 5 repairs of the fifth maintenance level with modernisation of EN57KM EMUs),

2. *"Purchase of 20 New Double-Deck Coaches and 2 New Control Cars and 2 New Locomotives for the Push-Pull Trains" (estimated gross value 267.27 million PLN), the project is entered into the list of individual projects of the Operational Programme Infrastructure and Environment 2007-2013.*

8.2. The "Park and Ride" parking lot system

The "Park and Ride" parking lots are realized by the Company on basis of agreement for investment substitution with the Local Authority of the Mazovia Region.

Until the end of 2012 9 parking lots have been built and commissioned in the following communities: Celestynów, Żyrardów, Siedlce, Brwinów, Ożarów Mazowiecki, Radom, Mińsk Mazowiecki, Teresin and Błonie.

9. Expected development of the Capital Group

9.1. Expected Long-Term Development of the Dominant Entity

In December 2012 the Company adapted a document entitled *'Strategy of Development of Koleje Mazowieckie KM"sp. z o.o. up to 2015,"* which details the key strategic activities of the Dominant Entity in the coming years.

The key objective of the Dominant Entity is to maintain and strengthen the position of an unquestioned leader in regional and agglomeration transport in the Mazovia Region who aims to provide services of the highest quality and is driven by the passenger satisfaction. Apart this key objective, a number of strategic goals have been set in order to facilitate the realisation of the key objective.

Taking into consideration the key lines of activity present in the strategic document, the Company has initiated in 2012 numerous activities related to, among others, obtaining modern rolling stock via the modernisation of the currently owned rolling stock via repairs of the 4th and 5th maintenance level as well as through initiation of purchase procedures of new rail vehicles. The plan of providing the Dominant Entity with new rolling stock foresees purchase of 20 double-deck coaches, 2 control cars and 2 locomotives for the push-pull trains. Furthermore, the Dominant Entity plans to purchase 12 new five-coach electric multiple units to realize connections within the Warsaw agglomeration and purchase of 10 new two-car electric multiple unit, the so-called "rail buses" to provide regional transport on lines with lower passenger activity.

Also planned is that the above-mentioned rolling stock investments, whose expected total value will be about 950 million PLN gross, will be realized with European subsidies available in the 2007-2013 perspective. Additionally, the Dominant Entity plans to obtain 7 combustible engine rail buses that will be utilised on basis of lease from the Mazovia Region.

What is more, the Company has initiated the necessary, in its opinion, activities to enable investments in other properties, related to purchase and modernisation of the utilized maintenance and repair bases, a planned erection of a new base for running technical maintenance of rail vehicles, as well as erection or purchase of new headquarters for the Company in order to improve working conditions for the staff of the Dominant Entity. Realisation of these investments will utilise own financing or, in case of maintenance and repair bases, will utilize EU subsidies available in the new EU perspective 2014-2020.

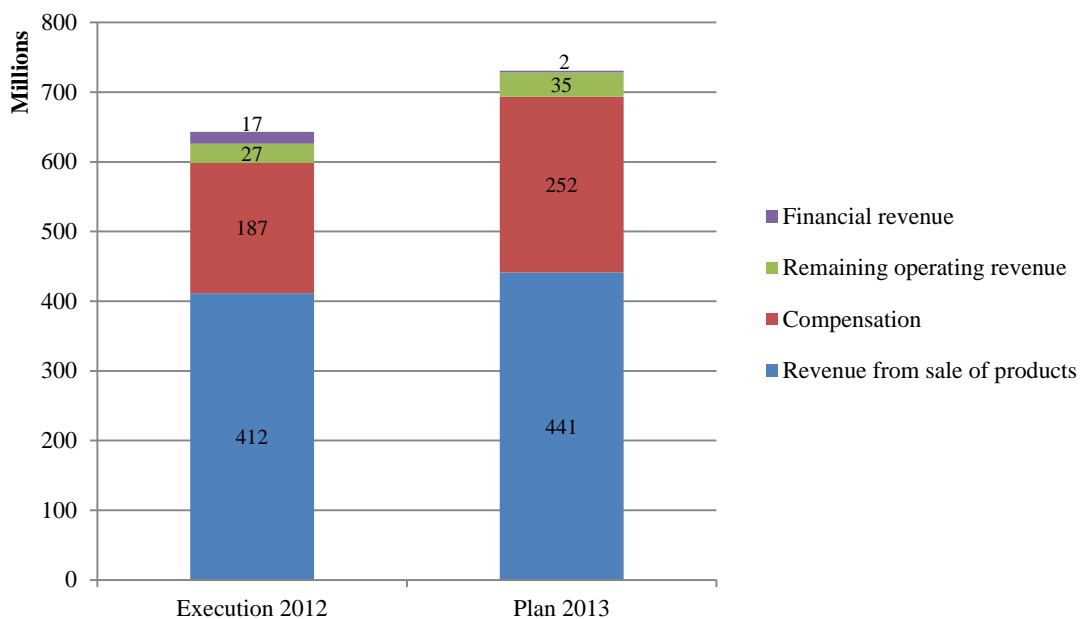
9.2. Expected short-term financial situation of the Dominant Entity

In May 2013 the Board of Directors of the Company has approved the Business Plan for 2013. It is planned that the financial result for 2013 will be 2.4 million PLN, including:

- planned revenue 730.9 million PLN,
- planned costs 727.9 million PLN,
 - gross profit 3.0 million PLN,
- planned income tax 0.6 million PLN,
 - net profit 2.4 million PLN,

Diagram 2

Planned revenue of the Dominant Entity in 2013.

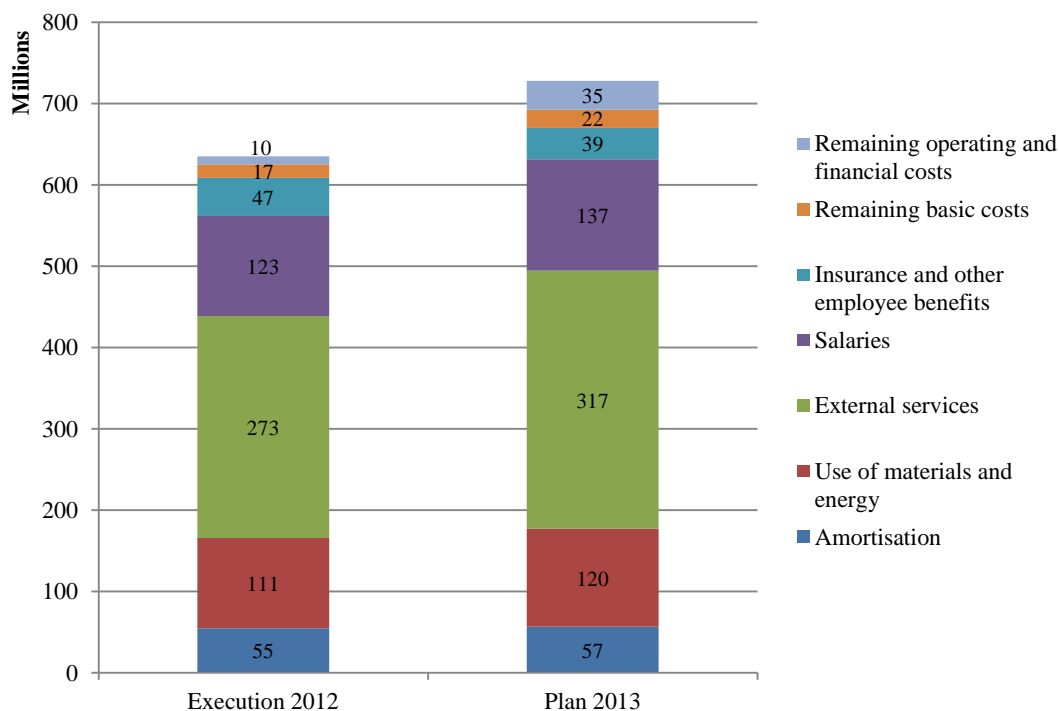


Main revenue items of products planned for 2013, are:

- compensation due to provision of public mass transport services 252.1 million PLN,
- sale of tickets 193.1 million PLN,
- revenue due to honouring of ZTM tickets in Company's trains 117.5 million PLN.

Diagram 3

Planned costs of the Dominant Entity in 2013.



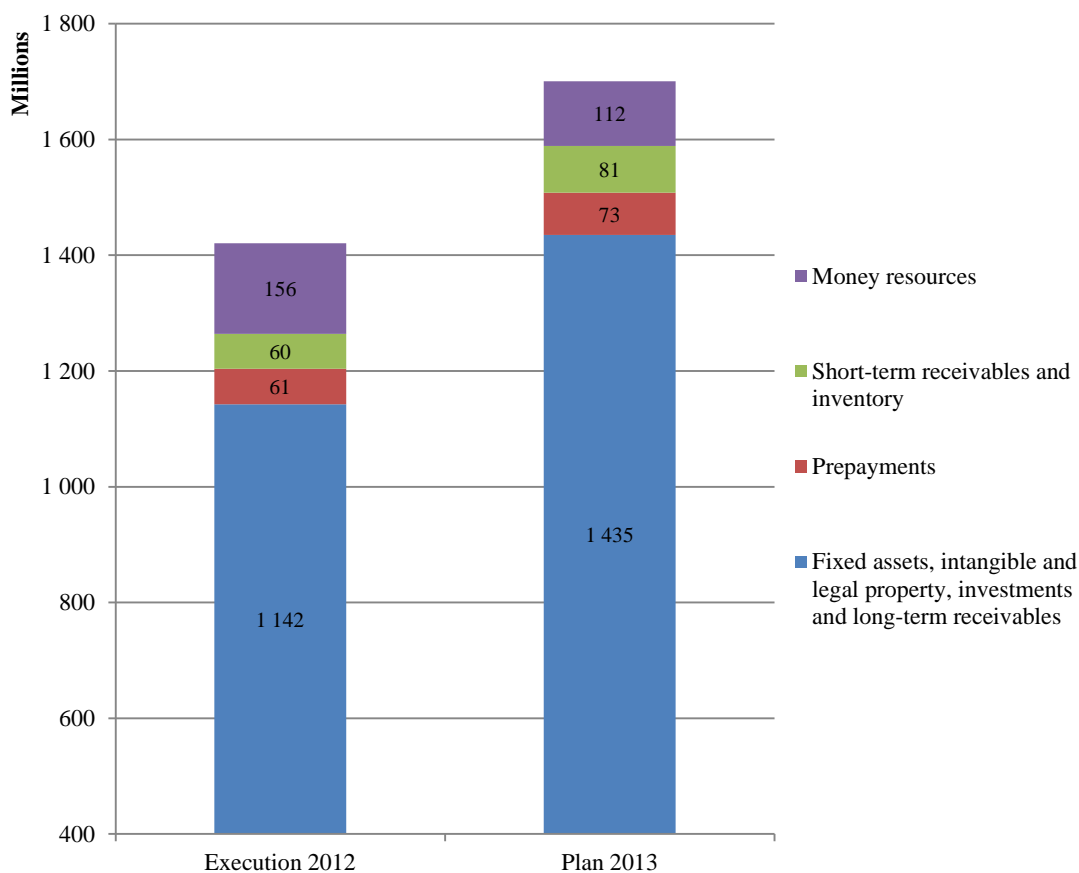
The main cost items planned for 2013 are:

- amortization 56.7 million PLN,
- materials and energy 120.5 million PLN,
 - including: electric traction energy 90.2 million PLN,
- external services 317.1 million PLN,
 - including: making available rail infrastructure 131.1 million PLN,
- salaries 137.1 million PLN,
- insurance and other employee benefits 38.7 million PLN,
- financial costs 30.8 million PLN.

Planned balance sheet total for 31 December 2013 is 1 700.6 million PLN.

Diagram 4

Planned assets of the Dominant Entity for the last day of December 2013.



Main planned asset items for 31 December 2013 are:

- fixed assets, intellectual property and legal property and investment and long-term receivables 1 434.9 million PLN,
 - including: fixed assets 1 426.7 million PLN,
- prepayments and accrued income 72.9 million PLN,
- short-term receivables and reserves 81.1 million PLN,
- money resources 111.6 million PLN,

Worth emphasising is the planned increase in value of the fixed assets in relation to the planned **investments of 305.0 million PLN**. The main item are rolling stock modernisations and repairs of the 5th maintenance level (232.6 million PLN).

Diagram 5

Planned liabilities of the Dominant Entity for the last day of December 2013.



Main planned liability items for 31 December 2013 are:

- equity 503.7 million PLN,
- reserve for commitments 88.2 million PLN,
- long-term commitments 441.0 million PLN,
- short-term commitments 129.5 million PLN,
- accruals 538.1 million PLN,

In 2013 the Company expects to receive EU financing for an amount of 303.2 million PLN in relation to refinancing of rolling stock investments.

Cash inflow for 2013 is planned at level of 961.1 million PLN, including:

- money resources from current activity, 689.9 million PLN,
including:
 - compensation due to provision of public mass transport services 238.9 million PLN,
 - including: compensation for 2013 227.0 million PLN,
 - including: compensation for 2012 11.9 million PLN,
 - sale of tickets 193.0 million PLN,
 - Joint ZTM ticket 117.5 million PLN,

- specific subsidy 35.2 million PLN,
- modernisation subsidy for years 2012-2013 116.2 million PLN,
- subsidy for purchase of 10 EMUs type ER75 (Flirt) 66.3 million PLN,
- subsidy for 16 EMUs type EN76 (Elf) 56.6 million PLN,
- subsidy for purchase of locomotives, double-deck and control coaches 32.1 million PLN,

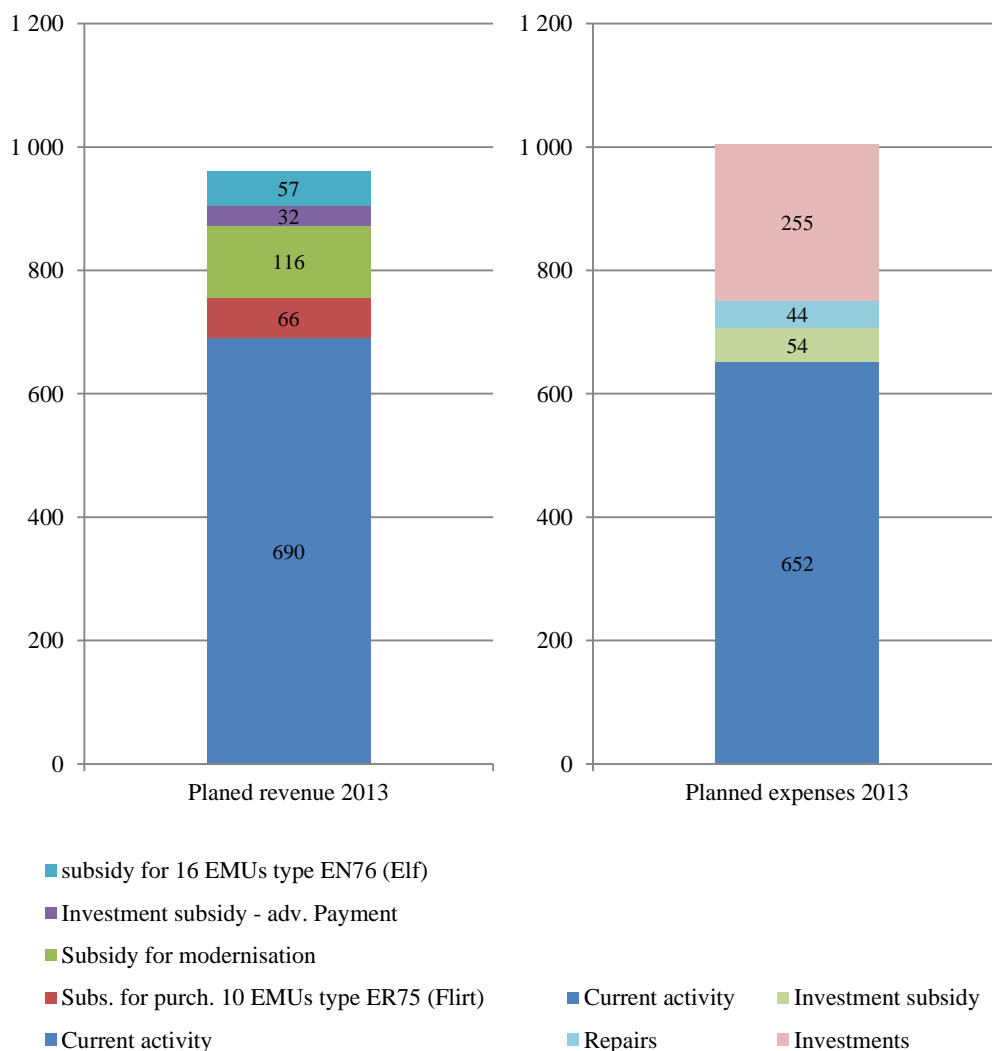
Cash expenses in 2013 are planned at 1 005.7 million PLN, and include:

- current activity expenses 652.4 million PLN,
including:
 - salaries 137.1 million PLN,
 - making available rail infrastructure 131.1 million PLN,
 - traction energy 90.2 million PLN,
- planned revenue 730.9 million PLN,
○ including: main repairs and rolling stock modernisation 211.0 million PLN,
- investment advance payments for purchase of locomotives, control cars
and control cars 54.3 million PLN,
- planned repairs 44.4 million PLN,

On basis of planned inflows and cash expenses, the calculated money resources money resources for the end of 2013 are to amount to 111.6 million PLN. These resources are intended for repayment of investment commitments of 2013, with due dates in 2014 and investments planned for 2014.

Diagram 6

Planned inflows and cash expenses of the Dominant Entity in 2013.



Realisation of the business plan's assumptions requires proper financing of the Company's activities. It is planned that in 2013 the Company shall utilize money resources obtained from:

- operational activity,
- EU financing,

Such assumptions allow for assuming that the Company is able to finance its current operations and the investment and repair plans while maintaining financial liquidity.

10. Financial situation of the Capital Group

10.1. Financial result of the Capital Group

Table 2
Profit and loss account of the Capital Group for 2011 and 2012

Profit and loss account		2011 approved	2011 acc to presentation introduced in 2012	2012	Value change	Percent change in relation to 2011
		1	2	3	4 (3-2)	5 (4/2)
A	Net revenues from sales and equivalent revenues	581 587 527.61	519 385 672.26	562 516 607.70	43 130 935.44	8.30%
B	Operating expenses	550 301 068.51	488 099 213.16	556 561 277.76	68 462 064.60	14.03%
C	Profit (loss) from sales (A-B)	31 286 459.10	31 286 459.10	5 955 329.94	-25 331 129.16	-80.97%
D	Remaining operating revenues	19 663 410.61	19 663 410.61	27 317 354.50	7 653 943.89	38.92%
E	Remaining operating expenses	5 392 964.36	5 392 964.36	6 829 159.32	1 436 194.96	26.63%
F	Profit (loss) from operating activities (C+D-E)	45 556 905.35	45 556 905.35	26 443 525.12	-19 113 380.23	-41.95%
G	Financial revenues	6 536 546.75	6 536 546.75	15 472 347.95	8 935 801.20	136.71%
H	Financial Expenses	32 536 557.43	32 536 557.43	33 910 619.20	1 374 061.77	4.22%
I	Profit (loss) from business activity (F + G - H)	19 556 894.67	19 556 894.67	8 005 253.88	-11 551 640.79	-59.07%
J	Results of extraordinary events	0.00	0.00	0.00	0.00	
K	Gross profit (loss)	19 556 894.67	19 556 894.67	8 005 253.88	-11 551 640.79	-59.07%
L	Income tax	5 075 811.00	5 075 811.00	661 807.78	-4 414 003.22	-86.96%
M	Net profit (net loss)	14 481 083.67	14 481 083.67	7 343 446.10	-7 137 637.57	-49.29%

In 2012 the Capital Group has realised net profit of 7.34 million PLN, which was lower from the net profit for 2011 by 7.14 million PLN, i.e. by about 49.29%.

Net revenues from sales (Item A) increased in relation to 2011 by 8.3%, and Operating expenses (Item B) were higher by 14.03%. Result on sales (Item C) was closed with profit of 5.96 million PLN and was lower in relation to 2011 by over 25 million PLN.

The result on business of activity (Item I) is in the green, amounted 8.01 million PLN and was equal to gross profit (Item K). The income tax (Item L) for 2012 was 0.66 million PLN, and Net profit (Item M) was 7.34 million PLN.

10.1.1. Revenues

In 2012 the Capital Group has realised **total revenues from business activity amounting to 642.94 million PLN**. The total revenue due to presentation of the Profit and loss account are lower by 37.63 million PLN in relation to total revenue indicated in the books of the Dominant Entity and amount to 605.31 million PLN.

The difference is due to the amount of compensation of revenues and expenses for the needs of presentation of the Profit and loss account. The following revenues have been compensated:

- due to sale of transport services performed by external companies and sale of tickets of different companies for transport services, for an amount of 68.93 million PLN, in compensation with costs of external services related to their performance by external carriers,
- realised exchange rate differences - decrease in financial revenues by 1.56 million PLN in compensation with financial expenses,
- calculated balance sheet difference due to changes in value of issued bonds - decrease of net revenues from sales and equivalent revenues by 32.86 million PLN in compensation with the financial expenses.

The realisation of revenue was influenced mostly by:

- revenues from sale of tickets and transport services were 303.03 million PLN and in relation to 2011 have increased by 17.78%. The increase is due to the increased number of passengers carried.
- The revenue from sale of tickets of different companies in the ticket booths of the Dominant Entity was 68.93 million PLN and in relation to 2011 has increased by 10.82%. This is due to the increased number of charge-ups of the ZTM municipal transport card.
- revenue from specific subsidy was 32.41 million PLN and in relation to 2011 have increased by 14.58%. The increase is due to higher revenue due to sale of tickets with statutory reductions in price.
- In 2012 the Dominant Entity did not provide transport services for the Capital City of Warsaw (line S-9 Legionowo), which resulted in lower revenue from sale of transport services to external entities amounting to 13.90 million PLN.
- revenue due to compensation to cover the balance sheet difference calculated for the 100 million EUR in bonds, issued in 2011 for investment purposes - in 2012 experienced was significant decrease of exchange rate for the EUR, and the decrease in compensation by 32.86 million EUR.

According to provisions of the Accountancy Act, the Dominant Entity have been evaluated for the balance sheet day using the exchange rate of 31 December 2012. The balance sheet valuation of bonds does not establish tax revenue/expense and is not connected with inflow/outflow of money resources, and only influence the presentation of costs and expenses in the Profit and loss account. According to an agreement between the Mazovia Region and the Company dated 10 April 2012, the balance sheet valuation of bonds and its related expenses or revenues does not impact the amount of compensation in a current year. Last settlement of revenues or financial costs related to valuation of bonds that will impact the amount of compensation will take place at the maturity date i.e. 9 March 2016.

The balance sheet valuation for 31 December 2011 and for 31 December 2012 have resulted in increase of value of bonds in the following manner - for 31 December 2011 saw inclusion of negative exchange rate difference amounting to (+) 44.1 million PLN, at EUR exchange rate of 4.4168; and for 31 December 2012 the EUR exchange rate has fallen to 4.0882 which resulted in lowering of bond value by 32.9 million PLN. The amount remaining to settle was 11.2 million PLN of negative exchange rate differences calculated for 31 December 2011.

- **the remaining operating revenues** for 2012 were **27.32 million PLN** which was increase in relation to 2011 by 1.67 million PLN, i.e. by 6.51%. This was due to, among other things increased EU subsidizing, especially in relation to the purchase of 16 EMUs series EN76 (Elfs) and increased revenue from additional fees related to ticket-free travel. The decrease in revenue is mostly due to settlement of revenue from contractual penalties included in 2011 in relation to a settlement with PESA Bydgoszcz SA. dated 15 October 2012.
- the amount of **financial revenue for 2012 was 17.03 million PLN and was lower than in 2011 by 3.58 million PLN.**

In 2012 the positive exchange rate differences are 11.01 million PLN, and negative exchange rate differences 1.56 million PLN. According to Art. 30. 1. 1. of the Accountancy Act states that the Profit and loss account presents financial revenue in compensation with financial costs related to exchange rate differences, therefore the amount is decreased by 1.56 million PLN and is equal to 15.47 million PLN.

The decrease of the financial revenues in 2012 is mostly due to lower revenue from exchange rate differences and decreased interest rates on invested free money resources than in 2011.

10.1.2. Costs

In 2012 the **total costs were 634.93 million PLN** and were higher than the costs indicated in the Profit and loss account by 37.63 million PLN. The total costs stemming from the Profit and loss account are 597.30 million EUR.

The difference is due to the amount of compensation of revenues and expenses for the needs of presentation of the Profit and loss account. The cost compensation was due to:

- transport services provided by external carriers - decrease of operating expenses by 68.93 million PLN,
- exchange rate differences (decrease in financial expenses) by 1.56 million PLN,
- calculated balance sheet differences due to exchange rate differences on bonds (increase in financial expenses) by 32.86 million PLN.

The amount of operating expenses for 2012 was 625.49 million PLN, which is an increase of 75.34 million PLN (13.69%) in relation to 2011.

The highest changes of operating expenses have been experienced in the following items:

- **the amortization was 54.89 million PLN and in relation to 2011 rose by 18.95 million PLN, i.e. by 52.72%. The increase is due to calculation of amortization on the rolling stock purchased in the second part of 2011 (11 locomotives EU47 - TRAXX, 16 EMUs EN76 - Elf), that was amortized during the whole 2012.**
- **costs of technical materials were 10.74 million PLN and in relation to 2011 have increased by 3.78 million PLN, i.e. by 54.31%. The increase was due to higher prices of brake system elements (increase of 23%) in relation to the wider ranging repairs of the vehicle reserve (replacement of mostly traction motors, rotary converters and wheel assemblies) and due to requirement of the Rail Infrastructure Supervisor who introduced requirement to use carbon contact pads in pantographs in place of copper ones which were much less expensive.**
- **costs of electric traction energy were 87.37 million PLN and in relation to 2011 have increased by 9.79 million PLN, i.e. by 12.61%. The increase was due to increased energy prices and the fact that the Dominant Entity utilizes a more modern rolling stock than it did in 2011 which ensures better passenger conditions, including air conditioning, which increases the energy used by the Company.**
- costs of making available rail infrastructure were 120.67 million PLN and in relation to 2011 have increased by 13.29 million PLN, i.e. by 12.37%. The increase is due to increase in exploitation work (by 4.2%) in relation to 2011 and increased number of rail vehicles utilized.
- **costs of lease were 15.03 million PLN and in relation to 2011 have decreased by 6.29 million PLN, i.e. by 29.49%. The decrease is due to the fact that the Dominant Entity has**

purchased locomotives for double-deck coaches in mid 2011, which resulted in no lease costs for locomotives in 2012.

- **costs of repair works were 30.83 million PLN and in relation to 2011 have increased by 6.77 million PLN, i.e. by 28.14%. The increase** is due to costs of preventive maintenance and after warranty services of double-deck coaches and ER75 (flirt) which are no longer covered by a warranty period.
- **costs of salaries were 123.18 million PLN and in relation to 2011 have increased by 5.70 million PLN, i.e. by 4.85%.** This level of cost increase is related to the growth of the Dominant Entity and allows it to maintain the effectiveness of work and to maintain the safety requirements as well as appropriate levels of services performed, to which the Company is contractually obliged. Furthermore the increase of these costs was due to increase of the minimal salary by 8.2%.
- **The costs of transport services performed by external carriers were 68.93 million PLN and in relation to 2011 have risen by 6.73 million PLN, i.e. by 10.82%.** This increase is due to the higher number of charge-ups of the ZTM municipal transport card.
- **the remaining operating expenses in 2012 were 6.83 million PLN and were lower by 4.55 million PLN, i.e. by 39.99% in relation to 2011.** The decrease in the remaining operating expenses is mostly due to lower reserves created in 2012 in relation to 2011. After correction with reserves established for contractual fees the increase of the remaining operating expenses is due to increase of costs of losses financed from the
- **financial expenses in 2012 were 2.61 million PLN and have been lower by 87.94 million PLN in relation to costs in 2011.** The decrease in financial expenses was due mostly to the valuation of bonds for balance sheet day at the exchange rate from 31 December 2012. 31 December 2011 saw inclusion of negative exchange rate difference amounting to (+) 44.1 million PLN, at EUR exchange rate of 4.4168; and for 31 December 2012 the EUR exchange rate has fallen to 4.0882 which resulted in lowering of bond value by 32.9 million PLN. Additionally, the commission on bond issue has decreased due to lower cost of Euro. Furthermore in 2011 the Company experienced negative exchange rate differences related to purchase of the new rolling stock.

For presentation, the financial expenses presented in the Profit and loss statement have been increased by exchange rate differences calculated on the bonds (compensation of costs with revenues from compensation for providing services of the mass public transport character equal to 32.86 million PLN).

furthermore the financial expenses indicated in the Profit and loss account are decreased by costs due to exchange rate differences of 1.56, which were compensated with revenues from

the exchange rate differences. The financial costs due to Profit and loss account are 34.18 million PLN.

10.2. Assets and its financing (liabilities) of the Capital Group

The amount of balance sheet total for the day of 31 December 2012 was 1 420.59 million PLN, and was lower by 33.92 million PLN (i.e. 2.33%) in relation to 2011.

The balance sheet total on the assets side has decreased mostly due to:

- decrease in value of fixed assets (Accumulated depreciation) 55.11 million PLN,
- decrease in amount of short-term receivables due to
lower balance sheet difference of exchange rates related to
balance sheet valuation of bonds 32.86 million PLN,
- increase in money resources balance 71.86 million PLN.

Table 3 presents the assets structure as well as value change and percentage change of individual items.

Table 3
Assets structure for 2011 and 2012

No.	Details	2011 version from approved Statement for 2011	Assets Structure	2011 presentation version on basis of 2012	Assets Structure	2012	Assets Structure	Value change in relation to 2011	% change in relation to 2011
1	2	3	4	5	6	7	8	9	10
A.	Fixed assets	1 231 969 573.69	84.70%	1 234 006 564.08	84.84%	1 180 069 081.03	83.07%	-53 937 483.05	-4.37%
I.	Intangible and legal property	210 997.49	0.01%	210 997.49	0.01%	186 846.30	0.01%	-24 151.19	-11.45%
II.	Tangible assets	1 184 526 064.84	81.44%	1 184 526 064.84	81.44%	1 139 762 396.30	80.23%	-44 763 668.54	-3.78%
III.	Long-term receivables	0.00	0.00%	2 036 990.39	0.14%	2 254 376.79	0.16%	217 386.40	10.67%
IV.	Long-term investments	0.00	0.00%	0.00	0.00%	0.00	0.00%	0.00	---
V.	Long-term prepayments	47 232 511.36	3.25%	47 232 511.36	3.25%	37 865 461.64	2.67%	-9 367 049.72	-19.83%
B.	Current assets	222 534 181.73	15.30%	220 497 191.34	15.16%	240 517 414.69	16.93%	20 020 223.35	9.08%
I.	Reserves	10 093 930.31	0.69%	10 093 930.31	0.69%	11 685 078.93	0.82%	1 591 148.62	15.76%
II.	Short-term receivables	97 871 690.95	6.73%	95 834 700.56	6.59%	48 574 835.06	3.42%	-47 259 865.50	-49.31%
III.	Short-term investments	85 025 225.46	5.85%	85 025 225.46	5.85%	156 885 781.41	11.04%	71 860 555.95	84.52%
IV.	Short-term prepayments	29 543 335.01	2.03%	29 543 335.01	2.03%	23 371 719.29	1.65%	-6 171 615.72	-20.89%
	Assets	1 454 503 755.42	100.00%	1 454 503 755.42	100.00%	1 420 586 495.72	100.00%	-33 917 259.70	-2.33%

In order to ensure data comparability, the asset balance above for 31 December 2011 includes correction of presentation of granted loans from the Company Social Benefits Fund (ZFŚS) to the

short-term and long-term part, moving an amount of 2.04 million PLN from, the short-term receivables to long-term receivables. Loans from the Company Social Benefits Fund have been divided into short-term and long-term for the first time in 2012.

Fixed assets has decreased in relation to 2011 by 4.37% and account for 83.07% total assets and the current assets increased by 9.08% and accounts for 16.93% of total assets. The highest % change related to the assets is in the short-term receivables item (decreased by 49.31%) and money resources (increase by 84.52%). The Dominant Entity has experienced decrease in short-term and long-term prepayments of about 20%, however the above items have little bearing in the total structure of Company's assets (short-term prepayments: 1.65%, long-term prepayments: 2,67%).

In 2012 the value of fixed assets of the Company has increased due to modernisation of the rolling stock and other investments. Increase in tangible assets amounted to **10.13 million PLN**, including:

- buildings, constructions and premises (+) 5.31 million PLN,
- transport means (+) 2.89 million PLN,
- technical devices and machines (+) 1.65 million PLN,
- other fixes assets (+) 0.29 million PLN,

During its trading year the Company has performed partial and total decommissioning of worn-out fixed assets. Due to this the tangible assets item decreased by **0.36 million PLN** including:

- transport means (-) 0.30 million PLN,
- technical devices and machines (-) 0.06 million PLN,

The changes in value of fixed assets were also due:

- amortization write-offs - decrease (-) 55.0 million PLN,
- verification of accounting books from preceding years - increase(+) 0.16 million PLN,

Long-term prepayments for 31 December 2012 were 37.87 million PLN and in relation to 2011 they decreased by 9.37 million PLN, i.e. about 19.83%. The biggest changes were related to the deferred tax item and the long-term prepayments and accruals.

The amount of deferred income tax was influenced, among others, by calculated balance sheet differences in exchange rates on bonds, calculated interest on bonds and reserve for severance payments and jubilee awards. The deferred tax in relation to 2011 decreased by 0.96 million PLN.

In relation to 2011 long-term prepayments due to rolling stock repairs and warranty service have decreased by 8.41 million PLN.

Current assets for 31 December 2012 account for 16.93% of total assets of the Company. Current assets in relation to 2011 have increased by 20.02 million PLN, i.e. 9.08% and amounted to 240.52 million PLN.

The increase in Current assets in relation to 2011 was mostly due to:

- increase in Reserves (+) 1.59 million PLN,
- increase in money resources balance (+) 71.86 million PLN.

Decrease of Current assets has influenced one position:

- short-term receivables (-) 47.26 million PLN,
 - including: decrease of balance sheet difference in exchange rate due to valuation of bonds on 31 December 2012 (-) 32.86 million PLN.
- Short-term prepayments (-) 6.17 million PLN,

As for 31 December 2012, the Dominant Entity owns 31.86 million PLN of overdue short-term receivables.

All overdue receivables are covered by a write-down. Such write-down covers also the entirety of receivables being subject to court and debt collection proceedings (amount of 25.18 million PLN).

The balance sheet total on the liabilities side has decreased mostly due to:

- decrease in obligations due to reverse factoring by 58.84 million PLN,
- decrease in investment obligations by 80.90 million PLN,
- decrease in obligations due to balance sheet valuation of bonds by 34.66 million PLN,
- increase in revenue in future periods indicated in the accruals item due to EU subsidies by 154.92 million PLN.

Table 4 presents the liabilities structure as well as value change and percentage change of individual items.

Table 4
Liabilities structure for 2011 and 2012

No.	Details	2011 from approved Statement for 2011	Liabilities structure in 2011	State on 31 December 2011	Liabilities structure in 2012	Value change in relation to 2011	Percent change in relation to 2011
1	2	3	4	5	6	7 (5-3)	8 (7/3)
A.	Equity	508 547 855.78	34.96%	501 338 360.72	35.29%	-7 209 495.06	-1.42%
I.	Base capital	481 909 000.00	33.13%	481 909 000.00	33.92%	0.00	0.00%
II.	Revaluation capital	950 944.17	0.07%	0.00	0.00%	-950 944.17	-100.00%
III.	Reserve capital	11 206 827.94	0.77%	21 206 827.94	1.49%	10 000 000.00	89.23%
IV.	Currency translation profit/loss	0.00	0.00%	88 672.01	0.01%	88 672.01	---
V.	Profit (loss) from previous years	0.00	0.00%	-9 209 585.33	-0.65%	-9 209 585.33	---
VI.	Net profit (loss)	14 481 083.67	1.00%	7 343 446.10	0.52%	-7 137 637.57	-49.29%
B.	Liabilities and reserves for commitments	945 955 899.64	65.04%	919 248 135.00	64.71%	-26 707 764.64	-2.82%
I.	Reserves for commitments	78 635 503.12	5.41%	88 175 640.77	6.21%	9 540 137.65	12.13%
II.	Long-term liabilities	488 442 917.85	33.58%	450 688 169.79	31.73%	-37 754 748.06	-7.73%
III.	Short-term liabilities	236 827 760.88	16.28%	85 610 584.19	6.03%	-151 217 176.69	-63.85%
IV.	Long-term accruals	142 049 717.79	9.77%	294 773 740.25	20.75%	152 724 022.46	107.51%
Liabilities		1 454 503 755.42	100.00%	1 420 586 495.72	100.00%	-33 917 259.70	-2.33%

In 2012 observed was increase of equity in the total liabilities from 34.96% in 2011 to 35.29% in 2012 and decrease of external capital from 54.04% in 2011 to 64.71% in 2011.

The Base capital for 31 December 2012 was 481.91 million PLN and did not change in relation to 2011. The increase in reserve capital by 10 million PLN is due to Resolution No 05/ZW/2012 of the Ordinary Meeting of Shareholders of "Koleje Mazowieckie KM" sp. z o.o. dated 29 June 2012, which transferred the net profit from 2011, equal to 14.54 million PLN to the reserve capital of the Company - 10.0 million PLN, and the remaining 4.54 was transferred to Mazovia Region as dividend. The net financial result of 2012 was lower than the result of 2011 by 7.14 million PLN.

In 2012 introduced were corrections based on entering into the books of the Company events related to previous years, which translated into the loss from previous years of 9.21 million PLN in the above balance.

The decrease in external capital was influenced by decrease (over 190 million PLN) in commitments and 100% increase in accruals related to EU subsidies to the investment projects.

reserve for commitments cover such commitments that have no well-defined due date or amount or that could result in future use of the Company's Assets. The reserve for commitments for 31 December 2012 was 88.18 million PLN, including a long-term reserve equal to 47.20 million PLN, and a short-term reserve of 40.98 million PLN.

On 31 December 2012 the **Long-term liabilities** were 450.69 million PLN and are lower than in 2011 by 37.75 million PLN, i.e. by 7.73%.

On 31 December 2012 the Short-term liabilities were 85.61 million PLN and are lower than in 2011 by 151.22 million PLN, i.e. by 63.85%.

On 31 December 2012 the accruals were 294.77 million PLN and are higher than in 2011 by 152.72 million PLN, i.e. by 107.51%.

A significant increase in accruals was realised in the EU subsidies item. In 2012 the Company was awarded subsidies amounting to 170.27 million PLN, including:

- for purchase of 11 locomotives type EU47 4.99 million PLN,
- to purchase 16 EMUs type EN76 164.69 million PLN,
- for the "Kolej na przyjazną kolej" 0.59 million PLN.

The Dominant Entity owns the following **conditional liabilities**:

- bank guarantees safeguarding the repayment of 4 loans obtained from the Regional Fund for Environmental Protection and Water Management (WFOŚiGW) - total value of guarantees is 2.15 million PLN,
- open notes safeguarding performance of agreements co-financed by the European Regional Development Fund for an amount of 83.07 million PLN and 79.62 million PLN,
- open note safeguarding performance of agreements co-financed by the Cohesion Fund for an amount of 182.99 million PLN,
- open notes safeguarding leasing liabilities for an amount of 22.84 million PLN,
- open notes safeguarding liabilities due to loans as per balance for 31 December 2012 for an amount of 0.81 million PLN,
- authorisation to utilize money assets on banking account due to credit line on a current account for an amount of 45.00 million PLN.

10.3. Cash flow statement of the Capital Group

The balance change of money resources in 2012 was (+) 71.86 million PLN and was due the below activities:

- operational activity (+) 77.91 million PLN,
- investment activity (-) 74.84 million PLN,
- financial activity (+) 68.79 million PLN,

The amount of (+) **77.91 million PLN in cash flows due to operational activity consists of the following items:**

- net profit for 12 months in 2012 amounting to (+) 7.34 million PLN,
- amortisation for 12 months in 2012 amounting to (+) 54.89 million PLN,
- profit on exchange rate differences amounting to (-) 8.28 million PLN,
- interest on financial activities amounting to (+) 29.28 million PLN,
- increase in reserve for commitments in relation to
state on 31 December 2011 by (+) 9.54 million PLN,
- increase in Reserves in relation to the state on 31 December 2011 by (-) 1.59 million PLN,
- decrease in receivables in relation to the state on 31 December 2011 by (-) 14.18 million PLN,
- decrease in Short-term liabilities with exception of
credit and loans which were indicated in the financial activity in relation
to state on 31 December 2011 by (-) 16.29 million PLN,
- decrease in accruals in relation to
state on 31 December 2011 by (-) 2.01 million PLN,
- other correction (related to correction of the financial result
from previous years) in amount of (-) 9.15 million PLN.

Cash flows due to investment activity were (-) **74.84 million PLN.**

This amount includes investment expenses, including purchase, general repairs and modernisation of the rolling stock and modernisation of the track.

Cash flows from financial activity was in the green and amounted to (+) **68.79 million PLN,** including:

- financial inflow due to obtaining EU financing of (+) 170.27 million PLN,
- inflow due to reverse factoring amounting to (+) 79.63 million PLN,
- expenses due to repayment of credits and loans in an amount of (-) 11.40 million PLN,
- payment of liabilities related to financial leasing agreements (-) 4.14 million PLN,
- payment of liabilities related to reverse factoring for amount of (-) 132.04 million PLN,
- payment of interest on credit and loans, on bonds
and due to leasing of fixed assets in an amount of (-) 28.99 million PLN,
- payment of dividend to the owner in an amount of (-) 4.54 million PLN.

10.4 Settlement of contract for provision of services of mass public transport on the territory of the Mazovia Region

The Dominant Entity "Koleje Mazowieckie KM" sp. z o.o. has been established in order to provide public service of regional passenger rail transport ordered on basis of a contract for provision of services of regional rail passenger transport on the territory of the Mazovia Region concluded with the Mazovia Region.

On 28 December 2011, Mazovia Region and "Koleje Mazowieckie KM" sp. z o.o. entered into contract for provision of services of mass public transport on the territory of the Mazovia Region.

The Contract period was from 1 January to 31 December 2012. According to the Contract, the Company was entitled to compensation equal to 246 million PLN for the train schedule ordered by the Mazovia Region.

On 9 March 2012, Appendix 1 to the Contract was signed, which decreased the compensation amount to 234.91 PLN. On 21 December 2012, Appendix 2 to the Contract was signed according to which, the compensation amount to be received by the Company in 2012 was 204.54 million PLN, and the remaining amount of 30.37 million PLN is to be transferred to the Company in 2013.

According to the final settlement of contract for provision of services of mass public transport on the territory of the Mazovia Region the compensation in 2012 was 219.8 million PLN, including:

to cover the deficit related to launching of trains217.62 million PLN,
fair profit stemming from the Contact.....1.39 million PLN,
effectiveness bonus0.79 million PLN.

Table 5

Calculation of compensation amount for 2012 on basis of the Algorithm for verification of the compensation amount.

<i>No.</i>	<i>Details</i>	<i>Revenues and Costs</i>
A.	<i>Operational revenues and equivalent revenues</i>	334 066 987.88
B.	<i>Operating expenses</i>	547 467 001.97
C.	<i>Profit (loss) on sales (A-B)</i>	-213 400 014.09
D.	<i>Remaining operating revenues</i>	24 761 993.82
E.	<i>Remaining operating expenses</i>	6 134 592.59

No.	Details	Revenues and Costs
F.	<i>Profit (loss) on operating activity (C+D-E)</i>	-194 772 612.86
G.	<i>Financial revenues</i>	11 757 969.30
H.	<i>Financial Expenses</i>	34 093 678.86
I.	<i>Profit (loss) from business activity (F + G - H)</i>	-217 108 322.42
J.	<i>Income tax</i>	509 024.48
K.	<i>Calculation of compensation amount (J-I)</i>	217 617 346.90
L.	<i>Fair profit from the business activity (including effectiveness bonus)</i>	2 187 316.07
M.	<i>Calculation of compensation amount with inclusion of fair profit (K+L)</i>	219 804 662.97
	<i>including: costs financed with a subsidy from the Railway Fund</i>	24 416 646.67

The calculation and result from transport and non-transport activity has been approved by an Expert Auditor as being in accordance with the current Accounting Policy Guidelines, Act on Public Rail Transport dated 16 December 2010 and Regulation (EC) no 1370/2007 of the European Parliament and the Council no 1370/2007 dated 23 October 1007 on public passenger transport services by rail and by road and repealing Council Regulations (EEC) No 1191/69 and 1107/70.

The "Koleje Mazowieckie - KM" sp. z o.o. in 2012 has performed work of 16 046 986.424 commercial train-km on the area covered by the Contract. In relation to the planned 16 517 899.440 train-km foreseen by the Contract, the Company did not perform 470 913.016 train-km (i.e. 2,85%). The lack of performance of the contracted work was due to causes beyond the Company's control and was mostly due to repair work performed by "PKP Polskie Linie Kolejowe" S.A. on the track sections utilized by the Company.

The timeliness indicator for trains running in 2012 was 95.87% and exceeded the contractual minimum by 0.87%.

The final calculation shall be provided to the Department of Real Property and Infrastructure of the Marshal Office after the Financial Statement is approved by the Ordinary Meeting of Shareholders.

10.5 Indicators of economic situation of the Capital Group

Table 6
Liquidity indicators of the Capital Group
of the „Koleje Mazowieckie – KM” sp. z o.o. Company in the year 2011 and 2012

No.	Name of indicator	Description	Value of indicator		norm	Tendency
			2011	2012		

No.	Name of indicator	Description	Value of indicator		norm	Tendency
			2011	2012		
1	Current ratio	Current assets/ Short-term liabilities	0.94	2.81	1.2 – 2.0	rising
2	Quick ratio	(Current assets - Reserves) / Short-term liabilities	0.90	2.67	1	rising
3	Cash ratio (immediate)	Money resources / Short-term liabilities	0.36	1.83	0.2	rising
4	Long-term liquidity indicator	Assets / Short and long-term liabilities	2.01	2.65	1.8 – 2.0	rising

1. The Current ratio measures ability of a given entity to repay all the current liabilities by liquidation of current assets. The value of this indicator should be between 1.2 - 2.0 in which case there should be no problem with timely repayment of liabilities (including credit and interest). In 2012 this indicator was 2.81 which means that the current assets cover 281% of current liabilities. Increase in the indicator's value is to decrease in Short-term liabilities (including reverse factoring and investment liabilities) and due increase in Current assets (including Money resources).

2. Quick ratio measures ability of a given entity to repay its Short-term liabilities with the liquid current assets, i.e. mostly cash on hand and short-term receivables. The level of this indicator should be at least one. On 2012 the value of the Quick liquidity indicator was 2.67 and was higher by 1.77 in relation to 2011. The reasons for decrease in the level of the indicator is analogous to the reasons for the rise of the Current liquidity indicator.

3. Cash ratio is used to measure the short-term liquidity of a given entity. It informs of the part of the current liabilities that may be repaid by the cash on hand. On practice, it is assumed that this indicator should be no lower than 0.2. In 2012 the Cash liquidity indicator was 1.83 and was higher by 1.47 in relation to 2011. This means that the entirety of the current liabilities may be repaid by the Capital Group immediately with the cash on hand.

4. The Long-term ratio's level was at 2.65 (range 1.8-2.0), which guarantees ability to fully secure repayment of liabilities. Reason for the growth of this indicator in relation to 2011 (by 1.87) was decrease in commitments, especially in relation to reverse factoring and investment commitments.

Table 7

**Chosen effectiveness indicators for administration and indebtedness of the Capital Group
of the „Koleje Mazowieckie – KM” sp. z o.o. Company in the year 2011 and 2012**

No.	Name of indicator	Description	Value of indicator		Tendency
			2011	2012	

No.	Name of indicator	Description	Value of indicator		Tendency
			2011	2012	
1	Total asset turnover	Total revenue / Total assets	0.42	0.43	rising
2	Asset Turnover ratio	Sales revenue / Current Assets	2.61	2.34	falling
3	Debt ratio	Short and long-term liabilities / Total Assets	0.50	0.38	falling
4	Return on sales	Net profit x 100 / Total revenue	2.38%	1.21%	falling
5	Return on Assets	Net profit x 100 / Total assets	1.00%	0.52%	falling
6	Return on equity	Net profit x 100 / Equity	2.85%	1.46%	falling
7	Leverage ratio	Return on equity / Return on assets	1.85%	0.94%	falling
8	EBITDA	Net profit before income tax, amortization and interest	82 256 973.19	93 132 193.83	rising
9	Fixed capital to fixed assets ratio	Equity / Fixed assets	0.41	0.42	rising

1. Total asset turnover ratio allows to measure the effectiveness of use of assets in relation to the realised sales. An acceptable level of the ratio is any value above 1.7. It's value depends on the character of the Company's enterprises. Low level is characteristic for companies with high capital intensity, and high level is typical of companies with high level of human work. In 2012 this ratio was 0.43 and was slightly higher than the ratio in 2011.

2. The Asset Turnover ratio measures how many times a year the value of current assets are recreated via the sales. The higher the ratio the better the financial situation of the entity, unless the level is not due to frozen turnover capital. In 2012 this ratio was 2.34 and was lower by 0.27 in relation to 2011. The increase of Current assets which resulted in lowering of the ratio was mostly due to increase of money resources (mostly due to EU subsidies).

3. The Debt ratio presents the structure of financing for the entity's assets. It informs what part of assets are financed by external capital. The higher the ratio the higher the debt and financial risk. Too high a ratio may raise suspicion concerning financial reliability of a company. According to standards, this ratio should be between 0.57 - 0.67. In 2012 Debt Ratio was 0.38 and has fallen in relation to 2011 by 0.12.

4. The Return on Sales informs about the level of profit margins realized via sales. This ratio in 2012 was 1.21% and decreased by 1.17% in relation the the previous year.

5. The Return on Assets informs about the part of the net profit in the general value of assets. In 2012 the Return on Assets was 0.52% and was lower by 0.48% from its level in 2011. This means that in 2012 for every 1 PLN involved in the operations of the Capital Group, a lower level of profit was generated than in 2011.

6. Return on Equity presents the relation between the net profit to the equity value.. In 2012 this ratio was 1.46% and has fallen in relation to 2011 by 1.39%. The decrease indicates less effective use of equity than in 2011.

7. Leverage ratio indicates the effects achieved by utilisation of external assets by the entity. A positive value indicates that the entity generates profits from financing its activities via external assets. In 2012 the Leverage ratio was 0.94% and has fallen by 0.91% in relation to 2011. 2012 was characterized by lower level of use of external assets for financing business activity.

8. EBITDA in 2012 rose by 13.22% in relation to 2011. This indicates a significant growth in the Company's ability to obtain assets required for its growth. At the same time it strengthens the financial reliability of the Capital Group in the eyes of its creditors. This ratio is used by the creditors to assess the financial situation of commercial entities.

9. Fixed capital to fixed assets ratio shows the what part of company's assets are financed by its equity. The closer the ratio gets to 1 the stronger is the financial base of the entity's activities. In 2012 this indicator in relation to the Capital Group was 0.42 which marks a slight increase in relation to 2011.

10.6. Financial instruments

The subsidiary Koleje Mazowieckie Finance AB has been established by the Dominant Entity "Koleje Mazowieckie KM" sp. z o.o. in order to issue bonds. The bonds are covered by a unconditional and irrevocable guaranty by the Company, which bears main risks related to financial instruments.

10.6.1 Risks related to financial instruments

General policy of the Capital Group

The strategy of the Capital Group in relation to financial instruments may be called natural or adaptive. This is due the fact, that changes in exchange rates and the interest rates are considered as external risk and as general economic risk. At the same time it is a speculative risk which may result in loss or generate profits. This means that the Capital Group analyses the current situation

on the currency market and the interest rate in light of tendency of certain trends to form. These observations allow the Dominant Entity to actively react to market changes in order to optimize the cost of concluded financial transactions. The Company analyses the main exchange rates for Euro and interest rates for these currencies. During the historically high exchange rates for the said currencies, the Company undertakes action to use financing in these currencies, expecting their value to decrease to historically average levels which allows to generate additional profits on such transactions. The Capital Group does not utilize hedge accounting for liabilities in currencies other than PLN.

Interest rate risk

The Dominant Entity analyses the situation on the interest rate market and undertakes action in order to obtain financing at the lowest possible cost to the company. If there is significant disparity of interest rates between PLN and EUR, the Dominant Entity decides for financing based on EUR interest rates. In situations where market rates for financing in EUR are at a level close to historic lows, the Dominant Entity tries to obtain financing in that value based on fixed rate. In situations where disparity of interest rates between EUR and PLN is not significant, Dominant Entity takes into consideration financing in PLN. Additionally, in cases of historic high levels of interest rates, the Dominant Entity chooses variable interest rate, expecting additional gains due to further decrease of the rate level.

Currency risk

The Dominant Entity has no significant inflows in foreign currencies, therefore it does not have to safeguard its revenues against currency risk. The Company utilizes financing in EUR in situations when such course of action is beneficial. In case the exchange rate EUR - PLN is close to its historic high, the Dominant Entity chooses financing that utilizes financing in the currency which exchange rate is above its average value. When the exchange rate nears the average value, the Dominant Entity is more keen to use PLN based financing and closes, if it's possible, previous transactions in foreign currencies. In consequence, then the exchange rate is below the average value, Dominant Entity chooses financing in that currency. Additionally, in case of long-term commitment related to investment expenses in EUR, the Dominant Entity purchases currency intended for payment in favourable conditions, i.e. when its exchange rate is close to average.

Situation in 2012.

Euro-bonds

In 2011 the Dominant Entity "Koleje Mazowieckie - KM" sp. z o.o. and its subsidiary Koleje Mazowieckie Finance AB has issued 5-year bonds with nominal value of 100 million EUR. The funds obtained have been used for rolling stock investments. Payment of bond obligations is safeguarded by an unconditional and irrevocable guaranty. The amount of the guaranty is limited to 150 million EUR and covers all payments related to the bonds (capital and interest) that will amount to 133.75 million Euro. The interest on the bonds is paid on basis of a fixed rate of 6.75% per annum. Payment of annual interest amounting to 6.75 million EUR (total value 33.75 million EUR) is realized in arrears on 9 March each year. On the balance sheet day the liability resulting from the bonds was 105.49 million Euro, including interest calculated for 31 December 2012 that amounted to 5.49 million EUR.

The liability and interest related to the bonds are not safeguarded against the currency risk in form of derivatives. A set of talks performed in 2011 aimed at safeguarding against the currency risk did not yield any results, due to high costs that the Company would have to bear and that would have incremental effect on the compensation from the Mazovia Region.

There is however the interest rate risk related to valuation of the bonds at the balance sheet day. The interest rate on the bonds is fixed, therefore there is a risk that the fair value of this liability may be lower in case of significant increase of the market interest rates.

Reverse factoring.

2011 saw transactions of the reverse factoring type, which allowed the Dominant Entity to obtain short-term financing for payments for investment expenses related to purchase of new rolling stock - pre-financed by the EU Funds. The currency of the transaction was the Euro and its interest rate dependant on the market rate for financing in Euro and a fixed margin.

In 2012 the Dominant Entity has repaid in full its commitments due to reverse factoring transactions. The Dominant Entity, taking into consideration the currency exchange rates, chose the most beneficial payment dates. In effect, all the liabilities have been fulfilled up to 10 August 2012.

10.6.2. Currency risk management

The currency risk related to currency transactions is taken into consideration in a structural manner. This is due to situation, that in accordance with the Framework Contract 4/KM/NL.IT.I./09 for provision of public services of mass public transport on the territory of the Mazovia Region in the next 15 years, i.e. in a period from 1 January 2010 to 31 December 2024 the financial expenses related to rolling stock investments are settled, in principle, in the compensation due from the Mazovia Region for the services of mass public transport provided by the Company.

The above have been confirmed by an agreement signed on 10 April 201 between the Mazovia Region and the Dominant Entity "Koleje Mazowieckie - KM" sp. z o.o.

10.7. Assessment of financial situation of the Dominant Entity

The results achieved in 2012 have been maintained at relatively high level. The revenues and costs have increased in 2012. The increase in revenues was due mostly to sale of tickets, honouring of ZTM tickets in Company's trains and EU subsidies. The costs were higher especially due to amortization, making available the rail infrastructure and electric traction energy, which was related to increased exploitation work and purchase, in the second part of 2011, 11 locomotives type EU47, and 16 EMUs type EN76 (higher amortization, higher power usage - air conditioning, more power).

The Assets of the Dominant Entity is characterized by high level of fixed assets in its structure (83.10%) in relation to current assets (16.90%). This is characteristic of the market in which the Company operates. Primarily, the fixed assets include transport means used to perform the public transport services. For counter-parties, high level of fixed assets is one of the indicators of high reliability and position of the Company. The structure of liabilities was at comparable level as in 2011.

Equity is responsible for 35.29% and commitments and reserve for commitments for 64.71% of total liabilities. The structure of liabilities is influenced by the amount of obtained EU financing that is included into revenues of future periods, increasing the commitments and reserves for commitments.

Main liabilities are long-term commitments. Investments into the rolling stock are capital intensive, however the company is able to settle all its liabilities without any problems. At the same time liquidity ratios for 2012 have become better,

Table 8
Fixed capital to fixed assets ratio of the Dominant Entity

No.	Details	State as of 31 December 2011	State as of 31 December 2012
1	2	3	4
1	Fixed assets	1 234 261 489.08	1 180 314 066.53
2	Equity	507 656 356.96	501 292 712.14
3	Long-term liabilities	489 636 067.97	450 688 169.79
4	Reserves for commitments	33 770 247.00	47 195 116.00
5	Reserve due deferred income tax.	20 472 598.00	16 630 432.00

No.	Details	State as of 31 December 2011	State as of 31 December 2012
1	2	3	4
6	Long-term prepayments	131 077 970.39	280 028 568.47
7	Fixed capital (2+3+4+5+6)	1 182 613 240.32	1 295 834 998.40
Equity to fixed assets ratio (2/1)		41,13%	42.47%
Fixed capital to fixed assets ratio (7/1)		95,82%	109.79%
Fixed assets financed with short-term liabilities		1.32%	0%
Current assets financed with equity		0%	0%
Current assets financed with fixed capital		0%	48.11%

Value of Fixed capital to fixed assets ratio and coverage with fixed capital in 2012 is increasing in relation to the previous year, confirming the strong financial situation of the Dominant Entity. At the same time the silver balance sheet rule because the Company covered fixed assets in 100% with equity.

When analysing the Cash flow statement the Dominant Entity has achieved in the operating area a positive balance of (+) 77.60 million PLN, which allowed to cover the expenses in the investment activity area (-) 74.84 million PLN. The area of financial activity indicates positive balance (+) 68.79 PLN. Such structure is typical for developing companies. The money resources generated by the Company were mostly used for rolling stock repairs including its modernisation, repayment of commitments due to purchase of rolling stock and for purchase of other fixed assets.

Good condition is indicated by increase in Cash flow as a sum total of net profit and amortization from 50.48 million PLN in 2011 to 62.22 million PLN in 2012.

The current situation of the Dominant Entity in 2012 confirms that the chosen strategy of development and investment by modernisation and purchases of new rolling stock is effective. This is reflected by a growing, year by year, number of passengers and the resulting increased revenues from sale of tickets. Better results of business activity is also confirmed by the indicators of work efficiency, the cost per 1 train-km and average revenue on 1 train-km by achieving more beneficial values in relation to the previous year. In order to further develop the standard of the services provided, the Company plans further investments into the rolling stock and development of maintenance and repair facilities.

11. Significant events after the balance sheet day related to the Dominant Entity

The Dominant Entity "Koleje Mazowieckie KM" on 20 March 2013 has concluded Attachment 4 to Frame Agreement with the Mazovia Region. The Attachment introduces clarification of definitions so the same meaning is carried by both the Frame Agreement and Annual Agreements. It introduces new elements in the scheme of the Agreement settlement such as effectiveness bonus and network effect. Furthermore the Agreement expands the catalogue of investments that will be performed in order to provide services of public transport, including: development of exploitation and repair facilities, purchase of double-deck coaches and locomotives, purchase of Multiple Electric Units.

On 20 March 2013 the Company concluded an Annual Agreement with the Mazovia Region for provision of public transport services in 2013. The Agreement safeguards financial resources for business activity in 2013.

After the balance sheet day the address of the headquarters was changed from Lubelska 1 to Lubelska 26. The change has been registered with the court register on 23 April 2013.

12. Listing

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12.3. Attachments

1. Consolidated Profit and loss account of Capital Group of "Koleje Mazowieckie KM" in Warsaw for 2012.
2. Consolidated Balance of Capital Group of "Koleje Mazowieckie KM" in Warsaw as of 31 Dec 2012.
3. Consolidated Cash Flow Statement of Capital Group of "Koleje Mazowieckie KM" List of changes in Consolidated Equity of Capital Group of "Koleje Mazowieckie KM"