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Confirmation of Your Representation: You have accessed the attached document on the basis that you have confirmed your representation to Koleje Mazowieckie Finance AB (publ) (the ''**Issuer**''), Koleje Mazowieckie - KM sp. z o.o. (Mazovian Railways - KM Ltd.) (the ''**Guarantor**'') and Standard Bank Plc, Banco Espírito Santo de Investimento, S.A. and Polski Bank Przedsiębiorczości Spółka Akcyjna (the **''Joint Lead Managers**'') that (1) you are outside the United States and are not a US Person, as defined in Regulation S under the U.S. Securities Act of 1933, as amended (the ''**Securities Act**''), nor acting on behalf of a US Person and, to the extent you purchase the securities described in the attached prospectus, you will be doing so pursuant to Regulation S under the Securities Act, (2) the electronic mail address to which the attached prospectus has been delivered is not located in the United States of America (including the States and the District of Columbia), its territories, its possessions and other areas subject to its jurisdiction; and its possessions include Puerto Rico, the U.S. Virgin Islands, Guam. American Samoa, Wake Island and the Northern Mariana Islands, and (3) you consent to delivery of the attached prospectus and any amendments or supplements thereto by electronic transmission. The attached document has been made available to you in electronic form.

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The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. No action has been or will be taken in any jurisdiction by the Joint Lead Managers or the Issuer or the Guarantor that would or is intended to, permit a public offering of the securities, or possession or distribution of the prospectus or any other offering or publicity material relating to the securities, in any country or jurisdiction where action for that purpose is required. If a jurisdiction requires that the offering be made by a licensed broker or dealer and either of the Joint Lead Managers or any affiliate of the Joint Lead Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Joint Lead Manager or such affiliate on behalf of the Issuer or the Guarantor in such jurisdiction. This prospectus is being distributed only to and directed only at (i) persons who are outside the United Kingdom, (ii) persons who have professional experience in matters relating to investments failing within Article 19(5) of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, or (iii) those persons to whom it may otherwise lawfully be distributed (all such persons together being referred to as ''**relevant persons**''). This prospectus is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this prospectus relates is available only to relevant persons and will be engaged in only with relevant persons.

You are reminded that you have accessed the attached prospectus on the basis that you are a person into whose possession this prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not nor are you authorised to deliver this document, electronically or otherwise, to any other person. If you have gained access to this document contrary to the foregoing restrictions, you will be unable to purchase any of the securities described therein. If you receive this document by e-mail, you should not reply by e-mail to this announcement, and you may not purchase any securities by doing so. Any reply e-mail communications, including those you generate by using the ''Reply'' function on your e-mail software, will be ignored or rejected. If you receive this document by e-mail, your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

KOLEJE MAZOWIECKIE FINANCE AB (publ)

(incorporated with limited liability under the laws of the Kingdom of Sweden)

€100,000,000
6.750 per cent. Guaranteed Notes due 2016

guaranteed by

KOLEJE MAZOWIECKIE – KM sp. z o.o.
(Mazovian Railways – KM Ltd.)

(incorporated with limited liability under the laws of the Republic of Poland)

The issue price of the €100,000,000 6.750 per cent. guaranteed notes due 2016 (the "**Notes**") of Koleje Mazowieckie Finance AB (publ) (the "**Issuer**") is 99.486 per cent. of their principal amount.

Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 9 March 2016. The Notes are subject to redemption in whole at their principal amount at the option of the Issuer at any time in the event of certain changes affecting taxation in Poland or Sweden. The holder of a Note may, by the exercise of the relevant option, require the Issuer to redeem such Note at the Change of Control Redemption Amount (as defined herein) upon the occurrence of a Change of Control (as defined herein). See "*Terms and Conditions of the Notes — Redemption and Purchase*".

The Notes will bear interest from 9 March 2011 (the "**Issue Date**") at the rate of 6.750 per cent. per annum payable annually in arrear on 9 March each year commencing on 9 March 2012. Payments on the Notes will be made in euro without deduction for or on account of taxes imposed or levied by Sweden or Poland to the extent described under "*Terms and Conditions of the Notes — Taxation*". Koleje Mazowieckie – KM sp. z o.o. (Mazovian Railways – KM Ltd.) ("**Mazovian Railways**" or the "**Guarantor**") will unconditionally (subject to the limitations described herein) and irrevocably guarantee the due and punctual payment of all amounts at any time becoming due and payable in respect of the Notes.

This Prospectus has been approved by the United Kingdom Financial Services Authority (the "**FSA**"), which is the United Kingdom competent authority for the purposes of Directive 2003/71/EC, as amended (the "**Prospectus Directive**") and relevant implementing measures in the United Kingdom as a prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of the Notes. Applications will be made for the Notes to be admitted to listing on the Official List of the FSA and to trading on the Regulated Market of the London Stock Exchange plc (the "**London Stock Exchange**"). The Regulated Market of the London Stock Exchange is a regulated market for the purposes of Directive 2004/39/EC on markets in financial instruments.

The Notes have not been, and will not be, registered under the United States Securities Act of 1933 (the "**Securities Act**"). The Notes are being offered outside the United States by Banco Espírito Santo de Investimento, S.A., Polski Bank Przedsiębiorczości Spółka Akcyina and Standard Bank Plc (the "**Joint Lead Managers**") in accordance with Regulation S under the Securities Act ("**Regulation S**"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Notes will be in registered form and in the denomination of €100,000 and integral multiples of €1,000 in excess thereof. The Notes will initially be in the form of a global note certificate (the "**Global Note Certificate**"), without interest coupons, which will be registered in the name of a nominee for, and shall be deposited on or around the Issue Date with, a common safekeeper for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream, Luxembourg**"). Interests in the Global Note Certificate will be exchangeable in certain limited circumstances, in whole but not in part, for individual note certificates (each, an "**Individual Note Certificate**") in the denomination of €100,000 and integral multiples of €1,000 in excess thereof and with interest coupons attached upon the occurrence of an Exchange Event (as defined herein). See "*Summary of Provisions Relating to the Notes in Global Form*".

JOINT LEAD MANAGER AND BOOKRUNNER

STANDARD BANK

JOINT LEAD MANAGERS

ESPIRITO SANTO INVESTMENT BANK **PBP BANK**

CO-MANAGER

KOMMUNALKREDIT AUSTRIA AG

7 March 2011

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IMPORTANT NOTICES

General

Each of the Issuer and the Guarantor accepts responsibility for the information contained in this Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus to the best of its knowledge is in accordance with the facts and contains no omission likely to affect its import.

Each of the Issuer and the Guarantor has confirmed to the Joint Lead Managers that this Prospectus contains all information regarding the Issuer, the Guarantor and the Notes which is (in the context of the issue of the Notes) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Prospectus on the part of the Issuer or (as the case may be) the Guarantor are honestly held or made and are not misleading in any material respect; this Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and all proper enquiries will be made to ascertain and to verify the foregoing.

Neither the Issuer nor the Guarantor has authorised the making or provision of any representation or information regarding the Issuer, the Guarantor or the Notes other than as contained in this Prospectus or as approved for such purpose by the Issuer and the Guarantor. Any such representation or information should not be relied upon as having been authorised by the Issuer, the Guarantor or the Joint Lead Managers.

Neither the Joint Lead Managers nor any of their respective affiliates have authorised the whole or any part of this Prospectus and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Prospectus. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Issuer or the Guarantor since the date of this Prospectus.

This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes.

The distribution of this Prospectus and the offering, sale and delivery of Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Guarantor and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of Notes and on distribution of this Prospectus and other offering material relating to the Notes, see "*Subscription and Sale*".

In particular, the Notes have not been and will not be registered under the Securities Act. Subject to certain exceptions, Notes may not be offered, sold or delivered within the United States or to U.S. persons.

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

Definitions

In this Prospectus, unless otherwise specified:

- references to "**Poland**" are to the Republic of Poland;
- references to the "**EU**" are to the European Union;
- references to the "**EIB**" are to the European Investment Bank;
- references to the "**EBRD**" are to the European Bank for Reconstruction and Development;
- references to a "**Member State**" are references to a Member State of the European Economic Area;
- references to "**€**", "**EUR**" or "**Euro**" are to the currency introduced at the start of the third stage of European economic and monetary union, and as defined in Article 2 of Council Regulation (EC) No 974/98 of 3 May 1998 on the introduction of the Euro, as amended;
- references to "**złoty**", "**zł**" or "**PLN**" are to Polish złoty;
- references to "**U.S.$**", "**U.S. dollars**" or "**dollars**" are to United States dollars;

- references to ‘‘**billions**’’ are to thousands of millions;
- references to ‘‘**Mass Public Transportation Act**’’ mean the Act dated 16 December 2010 on mass public transportation;
- references to ‘‘**PKP**’’ mean Polskie Koleje Państwowe, which was the railway transport monopoly owned by the Polish State until 2001, when it was split into 17 companies (collectively, the ‘‘**PKP Group**’’);
- references to ‘‘**Przewozy Regionalne**’’ mean Przewozy Regionalne Sp. z o.o, formerly PKP Przewozy Regionalne, largest provider of passenger railway services in Poland and neighbouring countries including Germany and the Czech Republic;
- references to ‘‘**PKP PLK**’’ mean PKP Polskie Linie Kolejowe S.A., the owner and manager of railway lines;
- references to ‘‘**PKP InterCity**’’ mean PKP InterCity Sp. z o.o., operator of fast trains;
- references to ‘‘**SKM**’’ mean Fast Urban Railways (*Szybka Kolej Miejska*), provider of railway transport services in the greater Warsaw area and Trójmiasto (a territorial administrative area including the cities of Gdynia, Gdansk and Sopot);
- references to ‘‘**WKD**’’ mean Warszawska Kolej Dojazdowa, provider of passenger railway services in the greater Warsaw area;
- references to ‘‘**Regulation 1370/2007**’’ mean Regulation (EC) No 1370/2007 of the European Parliament and of the Council of 23 October 2007 on public passenger transport services by rail and by road and repealing Council Regulations (EEC) Nos 1191/69 and 1107/70, which governs the provision of public passenger transport services;
- references to the ‘‘**Regional Local Government Act**’’ mean the Act dated 5 June 1998 on the Local Government of Provinces, which sets forth the legal framework regarding the organization of provinces, which are local government entities in Poland;
- references to the ‘‘**Public Procurement Act**’’ mean the Act dated 29 January 2004 – Public Procurement Act, which sets out the principles and procedures related to the public procurement of certain services in Poland;
- references to the ‘‘**Salaries Cap Act**’’ mean the Act dated 3 March 2000 on Paying Remuneration to the Managers of Certain Legal Entities;
- references to ‘‘**Standard Bank**’’ mean Standard Bank Plc as lead manager of the Step Up Notes;
- references to the ‘‘**Step Up Notes**’’ mean EUR 40 million Step Up Guaranteed Notes due 7 January 2012 issued by the Issuer on 7 January 2011 and guaranteed by the Guarantor up to EUR 50 million; and
- references to the ‘‘**Accounting Act**’’ are to the Polish Accounting Act dated 29 September 1994.

Ratings

References in this Prospectus to ratings issued by ‘‘**Fitch**’’ are to credit ratings issued by Fitch Ratings Limited, which is established in the European Union and which has applied to be registered under Regulation (EU) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies, although as of the date of this Prospectus notification of the corresponding registration decision has not yet been provided by the relevant competent authority. Such ratings reflect only the views of Fitch. A rating is not a recommendation to buy, sell or hold securities and may be subject to review, revision, suspension, reduction or withdrawal at any time by the assigning rating agency.

THIRD-PARTY INFORMATION REGARDING THE GUARANTOR'S MARKET AND INDUSTRY AND MAZOWIECKIE PROVINCE

Statistical data appearing in this Prospectus has, unless otherwise stated, been obtained from the National Bank of Poland (the "**NBP**"), the Central Statistical Office of Poland (*Główny Urząd Statystyczny*) ("**GUS**") and the Polish Railway Transportation Agency (*Urząd Transportu Kolejowego*) ("**UTK**"). Certain data relating to the railway transport industry in Poland has been prepared by Zespół Doradców Gospodarczych "TOR" Sp. z o.o. ("**TOR**"). Statistics are maintained by these sources in PLN and Euro, as applicable. Certain statistics recorded in currencies other than PLN will be converted into PLN at the exchange rates indicated in this Prospectus. Unless otherwise indicated, statistical data in the Prospectus is quoted as at or for the year ended 31 December 2009. Similar statistics may be obtained from other sources, although the underlying assumptions and methodology, and consequently the resulting data, may vary from source to source. Although every effort has been made to include in this Prospectus the most reliable and the most consistently presented data, no assurance can be given that such data was compiled or prepared on a basis consistent with international standards.

The information described above has been accurately reproduced and, as far as the Guarantor is aware and is able to ascertain from the information published by such sources, no facts will be omitted which would render the reproduced information inaccurate or misleading. Where third-party information has been used in this Prospectus, the source of such information has been identified.

Presentation of Financial Information

The Guarantor prepares its financial statements in accordance with the Accounting Act (i.e., in accordance with Polish Accounting Standards). Under applicable Polish law, the Guarantor is not required to prepare its financial statements in accordance with International Financial Reporting Standards ("**IFRS**") as adopted by the EU.

FORWARD LOOKING STATEMENTS

This Prospectus contains certain forward-looking statements with respect to the financial condition, results of operations and business of the Guarantor and certain of the plans, intentions, expectations, assumptions, goals and beliefs of the Guarantor regarding such items. These statements include all matters that are not historical fact and generally, but not always, may be identified by the use of words such as ''believes'', ''expects'', ''are expected to'', ''anticipates'', ''intends'', ''estimates'', ''should'', ''will'', ''will continue'', ''may'', ''is likely to'', ''plans'' or similar expressions, including variations and the negatives thereof or comparable terminology.

Prospective investors should be aware that forward-looking statements are not guarantees of future performance and that the Guarantor's actual results of operations, financial condition and business and the development of the industry in which it operates may differ significantly from those made in or suggested by the forward-looking statements contained in this Prospectus. In addition, even if the Guarantor's results of operations, financial condition and business and the development of the industry in which it operates are consistent with the forward-looking statements contained in this Prospectus, those results or developments may not be indicative of results or developments in subsequent periods.

Factors that could cause actual results to differ materially from the Guarantor's expectations are contained in cautionary statements in this Prospectus and include, among other things, the following:

- its dependence on Mazowieckie Province;
- operational limitations, including equipment failures, maintenance and rehabilitation issues and labour disputes;
- unplanned events or accidents affecting the Guarantor's infrastructure;
- overall economic and business conditions in Poland and the surrounding region and the continuing effects of the global financial crisis, whose duration and magnitude cannot be ascertained;
- changes in laws, regulations, taxation or accounting standards or practices in Poland;
- changes in tax requirements, including tax rate changes, new tax laws and revised tax law interpretations (including by Polish courts);
- inflation, interest rate and exchange rate fluctuations in Poland;
- the Guarantor's ability to overcome competition from different modes of transport; and
- the Guarantor's success at managing the risks associated with the aforementioned factors.

The sections of this Prospectus entitled ''*Risk Factors*'' and ''*Description of the Guarantor*'' contain a more complete discussion of the factors that could affect the Guarantor's future performance and the industry in which it operates. In light of these risks, uncertainties and assumptions, the forward looking events described in this Prospectus may not occur.

The Guarantor does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to the Guarantor or to persons acting on its behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Prospectus.

EXCHANGE RATE HISTORY

The following table sets forth the exchange rate history for the periods indicated, expressed in PLN per Euro, and not adjusted for inflation, as published by the NBP:

	Euro to PLN Exchange Rate History			
	High	**Low**	**Average**	**Period End**
2005	4.276	3.822	4.025	3.860
2006	4.107	3.757	3.895	3.831
2007	3.939	3.570	3.783	3.582
2008	4.185	3.203	3.517	4.172
2009	4.900	3.917	4.327	4.108
2010	4.177	3.836	3.994	3.960
2011 (up to and including 28 February)	3.992	3.840	3.910	3.976

Source: NBP.

As at 2 March 2011, the exchange rate published by the NBP was PLN 3.978 = EUR 1.00.

The rates in the above table may differ from the actual rates used in the preparation of the information appearing in this Prospectus. The inclusion of these exchange rates should not be construed as a representation that the PLN amounts have been or could be converted into Euro at this rate or any other rate.

OVERVIEW OF MAZOVIAN RAILWAYS

Overview

Mazovian Railways is a limited liability company, established on 29 July 2004 in Warsaw, Poland, by Mazowieckie Province and PKP Przewozy Regionalne in accordance with Polish law. The Guarantor is wholly-owned by Mazowieckie Province, which provides it with compensation pursuant to a fifteen-year framework agreement. Mazovian Railways operates on a non-commercial basis.

The Guarantor has been a provider of passenger rail services throughout the greater Warsaw area and other parts of Mazowieckie Province since 1 January 2005 as part of an integrated public transport system in Mazowieckie Province designed to provide the region's residents with effective commuting options.

The Guarantor's total revenues from business activities in the year ended 31 December 2009 and in the six months ended 30 June 2010 were PLN 500.0 million and PLN 259.9 million, respectively. The Guarantor's total costs from business activities in the year ended 31 December 2009 and in the six months ended 30 June 2010 were PLN 492.1 million and PLN 258.7 million, respectively. The Guarantor generated a gross profit of PLN 7.9 million in the year ended 31 December 2009 and a gross profit of PLN 1.2 million in the six months ended 30 June 2010.

The Guarantor believes that its principal competitive strengths are the Guarantor's strategic location; the planned significant investments in railway infrastructure; the stable demand for the Guarantor's services; the Guarantor's revenue per employee generation ability; its well-maintained rolling stock; long-term support of Mazowieckie Province, the Guarantor's sole shareholder; and the high barriers to entry of the Polish regional passenger rail transport market in Mazowieckie Province. The Guarantor wants to leverage its strong position to modernise its rolling stock and launch additional transport services to increase passenger numbers, improve service quality and reduce costs.

Recent Developments

Share capital increase and in-kind contribution

On 20 October 2010, the general meeting of the shareholders of the Guarantor adopted a resolution on a share capital increase of PLN 184.5 million by issuing 369,060 new shares. All the new shares were acquired by Mazowieckie Province in exchange for an in-kind contribution in the form of 11 double-decker steering carriage units and 26 double-decker inner carriage units manufactured by Bombardier Transportation GmbH (''**Bombardier**''). All units were already used by the Guarantor pursuant to a lease agreement with Mazowieckie Province. Mazowieckie Province subscribed for the shares on 28 December 2010 and the share capital increase was registered on 13 January 2011. As at the date of this Prospectus the Guarantor's share capital amounts to PLN 481.9 million.

Offering of the Step Up Notes

Pursuant to a subscription agreement dated 5 January 2011 between the Issuer, the Guarantor and Standard Bank, the Issuer issued the Step Up Notes on 7 January 2011. The Step Up Notes bear interest from 7 January 2011 to (but excluding) 7 April 2011 at the rate of 5 per cent. per annum, from 7 April 2011 to (but excluding) 7 July 2011 at the rate of 6 per cent. per annum, from 7 July 2011 to (but excluding) 7 October 2011 at the rate of 7 per cent. per annum, and from 7 October 2011 at the rate of 8 per cent. per annum. The proceeds of the issue of the Step Up Notes were used by the Issuer to finance the acquisition of corporate notes issued by the Guarantor. The Guarantor used the proceeds from such issue to finance its investment programme, including approximately PLN 90 million for the purchase of six Flirt ER-75 EMUs manufactured by Stadler (see ''*Description of the Guarantor — Material Agreements — Agreement for the purchase of EMUs*'') and approximately PLN 70 million for a 20 per cent. down payment for the purchase of 16 EMUs from PESA (see ''*Description of the Guarantor — Material Agreements — Agreement for the purchase of EMUs from PESA*''). The Step Up Notes were assigned an unsolicited long-term foreign currency rating of ''BBB'' by Fitch on 12 January 2011. The conditions of the Step Up Notes provide that the Step Up Notes may be redeemed, *inter alia*, at the option of the Issuer or the noteholders upon the occurrence of an alternative funding event, such as an issuance of debt instruments. Consequently, the Step Up Notes will be repaid in full with the proceeds of the issue of the Notes. See ''*Use of Proceeds*''.

Promissory notes

On 9 August 2010 the Guarantor issued two blank promissory notes to secure its obligations under the agreement dated 26 July 2010 entered into between the Guarantor and the Mazowieckie Province regarding the co-financing from the European Fund for Regional Development as part of the Regional Transport System Operational Programme in connection with the purchase of new locomotives and under the agreement dated 26 July 2010 entered into between the Guarantor and the Mazowieckie Province regarding the co-financing from the European Fund for Regional Development as part of the Regional Transport System Operational Programme in connection with the modernisation of its electrical rolling stock, as amended on 6 September 2010. As of the date of this Prospectus, the blank promissory notes secure the obligations of the Guarantor to repay PLN 83.8 million and PLN 79.6 million together with applicable interest and enforcement costs, respectively, if the Guarantor breaches any of the conditions prescribed by the European Fund for Regional Development in making the co-financing available. See ''*Description of the Guarantor — Material Agreements — Promissory Notes*''.

SELECTED FINANCIAL AND OPERATING INFORMATION

The financial information of the Guarantor set forth below as at and for the years ended 31 December 2009, 2008 and 2007 has been derived from, should be read in conjunction with, and is qualified in its entirety by, the consolidated financial statements, contained elsewhere in this Prospectus. The financial information of the Guarantor set forth below as at and for the six months ended 30 June 2010 has been derived from, should be read in conjunction with, and is qualified in its entirety by, the condensed consolidated financial statements as at and for the six months ended 30 June 2010, contained elsewhere in this Prospectus. See ''*Index to Financial Statements*''.

Prospective investors should read this selected financial information in conjunction with the information contained in the ''*Risk Factors*'', ''*Description of the Guarantor*'', the consolidated financial statements and other financial data appearing elsewhere in this Prospectus.

The following table presents total revenues and total costs from business activities of the Guarantor for the periods indicated:

	For the year ended 31 December			**For the six months ended 30 June**		
	2007	**2008**	**2009**	**2009**	**2010**	**2010**
		(in PLN million) (audited)		*(in PLN million) (reviewed)*		*(in EUR million)**
Total revenues from business activities	383.5	450.1	500.0	236.6	259.9	64.9
of which						
Revenue from sales and sales equivalent	375.6	439.9	488.8	231.7	253.4	63.3
Other operating revenues	5.1	7.0	8.6	3.9	4.6	1.1
Total costs from business activities	381.7	449.0	492.1	237.2	258.7	64.6
of which						
Operating costs	380.5	446.7	488.0	236.1	251.5	62.8
Other operating costs	0.7	1.6	2.7	0.8	5.5	1.4
Net profit	**0.5**	**0.6**	**0.7**	**1.0**	**1.5**	**0.4**
Gross profit	**1.8**	**1.1**	**7.9**	**(0.6)**	**1.2**	**0.3**

* Convenience recalculation only based on the NBP exchange rate of PLN 1 to Euro 4.0042 as at 30 June 2010.

The following table presents the number of passengers transported by the Guarantor, the average number of trains per day, the number of railway lines utilised and the number of train kilometres (''**km**'') of the Guarantor in the periods presented:

	For the year ended 31 December		**For the six months ended 30 June**	
	2007	**2008**	**2009**	**2010**
Number of passengers (in million)	45.2	49.9	51.6	26.7
Trains (daily)	705	703	711	716
Railway lines utilised	14	14	16	15
Train km (in million)	14.2	14.9	14.7	7.2

OVERVIEW OF THE OFFERING

This overview must be read as an introduction to this Prospectus and any decision to invest in the Notes should be based on a consideration of the Prospectus as a whole. Words and expressions defined in the "Terms and Conditions of the Notes" below or elsewhere in this Prospectus have the same meanings in this overview.

The Issuer:	Koleje Mazowieckie Finance AB (publ).
The Guarantor:	Koleje Mazowieckie – KM sp. z o.o. (Mazovian Railways – KM Ltd.).
Joint Lead Manager and Bookrunner:	Standard Bank Plc.
Joint Lead Managers	Banco Espírito Santo de Investimento S.A. and Polski Bank Przedsiębiorczości S.A.
Fiscal Agent:	The Bank of New York Mellon.
Registrar and Paying Agent:	The Bank of New York Mellon (Luxembourg) S.A.
Transfer Agents:	The Bank of New York Mellon and The Bank of New York Mellon (Luxembourg) S.A.
The Notes:	€100,000,000 6.750 per cent. Guaranteed Notes due 2016.
Issue Price:	99.486 per cent. of the principal amount of the Notes.
Issue Date:	9 March 2011.
Use of Proceeds:	The net proceeds of the issue of the Notes will be used by the Issuer to finance the acquisition of corporate notes issued by the Guarantor. The Guarantor will use the proceeds from such issue to repay in full the Step Up Notes and the remaining funds will be used to finance a portion of its capital investment programme. See "*Use of Proceeds*".
Interest:	The Notes will bear interest from the Issue Date at a rate of 6.750 per cent. per annum payable annually in arrear on 9 March in each year commencing 9 March 2012.
Status of the Notes:	The Notes are senior, unsubordinated, unconditional and unsecured obligations of the Issuer.
Status of the Guarantee:	The guarantee is a senior, unsubordinated, unconditional (subject as provided in "*Limitation of Guarantor's Liability*" below) and unsecured obligation of the Guarantor.
Limitation of Guarantor's Liability:	The total amount of the Guarantor's liability for any and all obligations assumed by it in respect of or in connection with the Guarantee will not in any case exceed €150,000,000 in aggregate. Without prejudice to any other mandatory provisions of law, any liability of the Guarantor for any amount will expire after ten years from the date when any such amount becomes due and payable by the Guarantor. See Condition 1(d) (*Form, Denomination, Status and Guarantee — Limitation of the Guarantor's liability*), Condition 9 (*Prescription*) and "*Guarantee*".
Form and Denomination:	The Notes will be issued in registered form in the denomination of €100,000 and integral multiples of €1,000 in excess thereof. The Notes will initially be in the form of the Global Note Certificate, without interest coupons, held under the new safekeeping structure ("**New Safekeeping Structure**" or "**NSS**") and registered in the name of a nominee for, and shall be deposited on or around the Issue Date with, a common safekeeper for Euroclear and Clearstream, Luxembourg. Interests in the Global Note Certificate will be exchangeable, in whole but not in part, on the occurrence of an Exchange Event for Individual Note Certificates in the denomination of €100,000 and integral multiples of €1,000 in excess thereof and with interest coupons attached.

Final Redemption:	Unless previously redeemed or purchased and cancelled in accordance with the Terms and Conditions of the Notes, the Notes will be redeemed at their principal amount on 9 March 2016 (the "**Maturity Date**").
Tax Redemption:	Early redemption at the option of the Issuer prior to the Maturity Date will only be permitted for tax reasons as further described in Condition 5(b) (*Redemption and Purchase — Redemption for tax reasons*).
Optional Redemption:	Early redemption at the option of the Noteholders prior to the Maturity Date will only be permitted following a Change of Control as further described in Condition 5(c) (*Redemption and Purchase — Redemption upon a change of control*).
Negative Pledge:	The Notes contain a negative pledge provision as further described in Condition 3 (*Negative Pledge*).
Cross Default:	The Notes contain a cross default provision as further described in Condition 8 (*Events of Default*).
Rating:	Fitch has assigned a long-term foreign currency rating of "BBB" with negative outlook to the Guarantor. Such rating reflects only the views of Fitch. A rating is not a recommendation to buy, sell or hold securities and may be subject to review, revision, suspension, reduction or withdrawal at any time by the assigning rating agency.
Withholding Tax:	All payments in respect of the Notes by or on behalf of the Issuer or the Guarantor will be made free and clear of withholding taxes of Poland or Sweden, unless the withholding is required by law. In that event the Issuer or Guarantor will (subject as provided in Condition 7 (*Taxation*)) pay such additional amounts as will result in the Noteholders receiving such amounts as would have been received by them had no such withholding been required.
Governing Law:	The Notes, the Agency Agreement, the Deed of Covenant, the Deed of Guarantee and the Subscription Agreement will be governed by English law.
Listing and Trading:	Applications will be made for the Notes to be admitted to listing on the FSA's Official List and trading on the London Stock Exchange's Regulated Market.
Clearing Systems:	Euroclear and Clearstream, Luxembourg.
Selling Restrictions:	There are certain selling restrictions applicable to the Notes, as described in "*Subscription and Sale*".
Risk Factors:	Investing in the Notes involves risks. See "*Risk Factors*".

RISK FACTORS

The following is a description of risk factors which are material in respect of the Notes and the financial situation of the Issuer and the Guarantor and which may affect the Issuer's and Guarantor's ability to fulfil their obligations under the Notes and/or the Guarantee, as the case may be. In addition, each of the risks highlighted below could adversely affect the trading price of the Notes or the rights of investors under the Notes. As a result, investors could lose some or all of their investment.

Prospective investors should carefully read and consider all the risk factors set forth below and all of the information provided in this Prospectus and should make their own independent evaluations of all the risk factors and all such information, and consult with their own professional advisers if they consider it necessary, prior to making any investment decision with respect to the Notes. There may be additional risks that the Issuer and the Guarantor currently consider not to be material or of which they are not currently aware and any of these risks could have the effects set forth above. Terms defined in the Conditions or elsewhere in this Prospectus shall have the same meanings where used in this section.

Risks relating to the Issuer

The Issuer is a special purpose financing entity.

The Issuer is a special purpose financing entity with no business operations other than the entry into of financing arrangements (including the issuance of the Notes) and the entry into of certain ancillary arrangements including the subscription and purchase of notes issued by the Guarantor (the ''**Guarantor Notes**'') as an intra-group financing arrangement. Following the repayment of the Step Up Notes (see ''*Use of Proceeds*'') the Issuer's only material assets will be the Guarantor's obligation to repay amounts outstanding under the corporate notes issued by the Guarantor. Therefore, the Issuer is subject to all risks to which the Guarantor is subject, to the extent that such risks could limit the Guarantor's ability to satisfy in full and on a timely basis its obligations to the Issuer and under the Deed of Guarantee. See ''*Risks relating to the Guarantor*'' below.

The Issuer's centre of main interests is in Sweden.

The Issuer has its registered office in Sweden. As a result there is a rebuttable presumption that its centre of main interest (''**COMI**'') is in Sweden and consequently that any main insolvency proceedings applicable to it would be governed by Swedish law. In the recent decision by the European Court of Justice in relation to *Eurofood IFSC Limited*, the European Court of Justice restated the presumption in Council Regulation (EC) No. 1346/2000 of 29 May 2000 on Insolvency Proceedings that the place of a company's registered office is presumed to be the company's COMI and stated that the presumption can only be rebutted if ''factors which are both objective and ascertainable by third parties enable it to be established that an actual situation exists which is different from that which locating it at the registered office is deemed to reflect''. As the Issuer has its registered office in Sweden, has a Swedish managing director, is registered for tax in Sweden and has a Swedish corporate services provider, the Issuer and the Guarantor do not believe that factors exist that would rebut this presumption, although this would ultimately be a matter for the relevant court to decide, based on the circumstances existing at the time when it was asked to make that decision.

Risks relating to the Guarantor

A portion of the Guarantor's revenues depend on the level of compensation from Mazowieckie Province paid pursuant to the Framework Agreement.

The Guarantor is an internal operator and operates public passenger transport services pursuant to a public service contract that it entered into with Mazowieckie Province, which acts as the competent authority in accordance with Regulation 1370/2007.

The Guarantor conducts its business activity pursuant to the Framework Agreement between the Guarantor and Mazowieckie Province. The Framework Agreement covers the provision of the Services within Mazowieckie Province for a term of 15 subsequent years between 1 January 2010 and 31 December 2024. Pursuant to the Framework Agreement, Mazowieckie Province undertakes to provide a compensation for the performance of the Services during the term of the Framework Agreement of no less than an estimated PLN 2.5 billion, subject to any amendment agreed pursuant to an Annual Agreement. Each year the Guarantor and Mazowieckie Province enter into an Annual Agreement that specifies the obligations of the parties for a given year, including the scope of the Services to be rendered by the Guarantor and the level of the compensation, which should be equal to the shortfall between the Guarantor's actual costs and actual revenues. There can be no assurance that the parties will be able to enter into an Annual Agreement on a timely basis or at all or that such an Annual Agreement will require the same scope of Services as currently provided pursuant to the 2011 Annual Agreement.

As part of its obligation regarding the compensation, Mazowieckie Province undertakes to finance the costs of the Guarantor's investment projects necessary for the provision of the Services by the Guarantor in the territory of Mazowieckie Province, upon their prior approval. The Annual Agreements specify the form and amount of any such financing. Mazowieckie Province undertakes to cover the costs that the Guarantor incurs by entering into loan agreements, lease agreements and other similar agreements necessary for the Guarantor to finance the Guarantor's investments necessary to provide the Services. There can be no assurance that the parties will be able to agree on the scope and cost of the Guarantor's investment programme and, therefore, the Guarantor faces the risk that it may not be able to fully satisfy its investment needs or obtain full reimbursement of the investment cost it incurs. The failure by the Guarantor to fully satisfy its investment needs or to obtain full reimbursement of its investment costs could have a material adverse effect on the Guarantor's business, financial condition and results of operations.

Finally, the Framework Agreement terminates if the Guarantor loses any of its licences to perform the Services. The Framework Agreement may be terminated by mutual agreement. Each party may unilaterally terminate the Framework Agreement if the other party breaches the material terms of the Framework Agreement and does not remedy such breach within a period of time specified by the party terminating the Framework Agreement. Therefore, there can be no assurance that the Framework Agreement will not be terminated before 31 December 2024, which could have a material adverse effect on the Guarantor's business, financial condition and results of operations.

The deterioration of the financial condition of Mazowieckie Province may negatively affect the scale of the Guarantor's business, its financial condition and results of operations.

The revenues of Mazowieckie Province depend primarily on the amount of its share in the personal and corporate income taxes that the state collects from residents of Mazowieckie Province, which share changes from time to time, and the amount of EU funding that it receives. For example, the 2010 budget of Mazowieckie Province assumed that such taxes and EU funding will represent 60.68 per cent. and 13.64 per cent. of the total revenues of Mazowieckie Province, respectively, and the compensation payable to the Guarantor would represent 6.7 per cent. of total spending.

If such revenues decrease, Mazowieckie Province may be forced to make a corresponding decrease in its spending, including a reduction in the scope of the train schedule, which could decrease the amount of compensation paid to the Guarantor. Moreover, Mazowieckie Province may not be able to transfer the full amount of the compensation to the Guarantor on a timely basis, which could have an effect on the Guarantor's liquidity position. There can be no assurance that the financial position of Mazowieckie Province will not deteriorate and the compensation that the Guarantor receives from Mazowieckie Province will not be reduced, which could have a material adverse effect on the scale of the Guarantor's business, its financial condition and results of operations.

The Guarantor may be unable to complete its upgrade of rolling stock assets.

According to the UTK, in 2007 the average age of passenger rolling stock in Poland was 29 years for regional transportation and 22 years for long distance transportation. As at the date of this Prospectus, the average age of the Guarantor's rolling stock is 26 years. The Guarantor's rolling stock is in need of continual maintenance and significant improvements. There can be no assurance that portions of the Guarantor's rolling stock and other infrastructure assets are not currently or will not in the future become outdated or require significant further improvements. Any failure of the Guarantor's assets to operate properly could lead to material disruptions in the Guarantor's business, increase the Guarantor's operating expenses or require significant capital expenditures.

Currently, the Guarantor's major focus is to upgrade the rolling stock it uses to provide railway services through the acquisition of new rolling stock and the modernisation of the units already in its possession. The Guarantor is actively pursuing several major investment plans, see "*Description of the Guarantor — Investment Programme*". The failure to complete all or a portion of such planned investments or the imposition of a requirement to replace or repair a significant portion of the Guarantor's remaining rolling stock could have a material adverse effect on the Guarantor's business, financial condition and results of operations.

The Guarantor's operations are dependent on the condition of the railway lines owned by a third party as well as the fees it pays for the use of such lines.

Railway transport in Poland is inefficient as compared to other EU member states. Although the entire railway network is dense, rail transport is characterised by a low level of competition and poor quality of services. It is only recently that Poland has begun investing in railway modernisation in order to increase quality standards and increase the number of trains to meet passenger demands.

The Guarantor operates its rolling stock on railway lines owned and managed by PKP PLK. While the modernisation of such lines is underway, there can be no assurance that such investments will be completed on a timely basis and that the funds that have been budgeted for such works will be sufficient. Delays in the modernisation of the railway lines may restrict the Guarantor from expanding the number of connections offered, improving service and maintaining its competitive position, especially in light of the significant investments being made in the Polish highway and road system, which could have a material adverse effect on the Guarantor's business, financial condition and results of operations.

Moreover, PKP PLK charges the Guarantor fees for the access to its railway lines, the amount of which is approved by the UTK. Such railway access fees vary from year to year and may be increased. There can be no assurance that the Guarantor will be able to pass on such increases to its passengers, which will require the Guarantor to request further compensation from Mazowieckie Province. As at the date of this Prospectus, the imposition of an additional station access fee to increase funds available for the modernisation of railway stations, which could come into effect at the beginning of 2012, is being considered. If the Guarantor is unable to make a corresponding increase in its ticket prices such increases in costs of operations could further expose the Guarantor to the risks relating to Mazowieckie Province and obtaining sufficient compensation as described above.

The Guarantor's operations are dependent on the schedules established with third parties.

The Guarantor determines the schedule for its trains, which includes the frequency of trains and the connections to be offered, on an annual basis through consultations with Mazowieckie Province and PKP PLK, the owner and manager of the railway lines used by the Guarantor, based on the existing train schedule, taking into account the preferences of PKP InterCity. Given the limitations of such railway network, the Guarantor's final train schedule is agreed with PKP PLK following the determination of the schedules of express and international trains of PKP InterCity. Moreover, while the Framework Agreement provides that the Services are to cover in the aggregate approximately ten million train km per year, there can be no assurance the Guarantor's schedule will not be limited by Mazowieckie Province and PKP PLK and the Annual Agreements to be entered into by the Guarantor in furtherance of the provisions of the Framework Agreement will not provide for less train km. The limitation of the Guarantor's schedule could have a material adverse effect on the Guarantor's business, financial condition and results of operations.

The Guarantor's strategy and further development are dependent on Mazowieckie Province.

Given that Mazowieckie Province is the Guarantor's sole shareholder, its strategy and further development depends on the decisions of Mazowieckie Province's officials. As at the date of this Prospectus, the Guarantor has not adopted a strategy, and expects to adopt a strategy for 2011 to 2015 in the second quarter of 2011. There can be no assurance that Mazowieckie Province officials will not revise the strategy of the Guarantor, or decide to change certain members of the Guarantor's corporate bodies. Any future elections may also impact the Guarantor's corporate body composition or its strategy, which could have a material adverse effect on the Guarantor's business, financial condition and results of operations.

The Guarantor may be unable to realise its strategy.

While the Guarantor plans to invest in new rolling stock in order to increase the number of its passengers, which would result in the increase in revenues from tickets sold, there can be no assurance that the Guarantor will attain its objective of increasing the number of passengers using its services. Moreover, there can be no assurance that the Guarantor will be able to expand the scope of its public services, given the limitations inherent in the budget of Mazowieckie Province and resulting constraints on the level of compensation that the Guarantor can obtain from Mazowieckie Province. The inability of the Guarantor to realise its strategy, could have a material adverse effect on the Guarantor's business, financial condition and results of operations.

The Guarantor may only enter into certain agreements following public procurement procedures.

The Public Procurement Act sets out the principles and procedures related to the public procurement of certain services. The Public Procurement Act applies to the Guarantor as it is controlled by a local government entity (i.e., Mazowieckie Province) and was created in order to provide services to the public which are not of a commercial nature. Generally, pursuant to the Public Procurement Act, the Guarantor may enter into agreements providing for the delivery of goods or services only after the completion of one of the public procurement procedures specified in the Act. If the Guarantor enters into utilities contracts under the Public Procurement Act, i.e., contracts which are concluded for the purpose of rendering public railway transportation services, it must complete the tender procedures in connection with supply and service contracts the value of which exceeds EUR 387,000 and construction work contracts, the value of which exceeds EUR 4,845,000.

Compliance with the Public Procurement Act may delay the purchase of rolling stock and of certain supplies by the Guarantor. Furthermore, such compliance is costly and requires a great deal of administrative effort. In addition, there is a risk that the results of the tender may be questioned and appealed to the court. Such factors could have a material adverse effect on the Guarantor's business, financial condition and results of operations.

The Guarantor is exposed to foreign currency risk.

Substantially all of the Guarantor's revenues are denominated in złoty. In addition, as at the date of this Prospectus, the Guarantor's borrowings are largely denominated in PLN. As at 30 June 2010, the Guarantor's PLN-denominated interest-bearing liabilities totalled PLN 11.3 million; the Notes will be denominated in Euro.

Historically, the Guarantor has not utilised forward exchange contracts, currency swaps or other hedging arrangements in respect of its foreign currency risk and there can be no assurance that the Guarantor will be successful in managing any exchange rate risk relating to its operations or the Notes. Thus, the mismatch between the Guarantor's PLN-denominated revenues and its Euro-denominated borrowings, and fluctuations of these currencies against each other, could limit the Guarantor's ability to meet its day-to-day obligations and service its outstanding short-term and long-term borrowings, including the Notes, and could otherwise have a material adverse effect on the Guarantor's business, financial condition and results of operations.

The Guarantor may be unable to finance further capital investments.

The capital expenditures in respect of the modernisation of the Guarantor's rolling stock are expected to be funded from external financing, as well as internally generated cash flows, mainly through the depreciation and amortisation charges. The Guarantor may, in the future, from time to time, seek financing from the capital markets (in addition to the Notes) and through bilateral or syndicated loans, and the Guarantor may also seek financing from Mazowieckie Province, as its sole shareholder, through further capital contributions or otherwise. There can be no assurance, however, that external financing can be arranged on terms acceptable to the Guarantor in an amount sufficient to finance any balance of capital expenditures not otherwise provided for. If the Guarantor is unable to raise the necessary financing, it may have to reduce the planned capital expenditures and downsize, curtail or slowdown its current plans for these projects. Any such reduction in capital expenditure could adversely affect the Guarantor's ability to expand its business and, if severe enough, its ability to maintain its operations at current levels.

The Guarantor may be unable to arrange and receive EU funds.

The Guarantor's investments in the rolling stock and the modernisation thereof are largely co-financed from the resources procured by the Guarantor under the EU support programmes, including the European Regional Development Fund and the Operational Programme ''Infrastructure and Environment''. There can be no assurance that once such programmes are completed, new support programmes will be established whereunder the Guarantor would be able to raise additional funds allowing it to co-finance its planned capital investments. Furthermore, no assurance may be given that the Guarantor will be capable of satisfying the criteria for the grant of funds under the support programmes or that it will obtain the support from Mazowieckie Province necessary to participate in such programmes. The failure of the Guarantor to raise funds from the EU support programmes may impair the Guarantor's ability to replace or repair the Guarantor's rolling stock or carry out other capital investments, which could have a material adverse effect on the Guarantor's business, financial condition and results of operations.

The Guarantor may be subject to increased competition.

The passenger railway transport market in Mazowieckie Province is currently not competitive and the Guarantor enjoys the position of being the most significant operator in the market without facing much competition for the provision of similar and/or substitute services. Following the implementation of regulatory reforms or any potential sale or reduction in the shareholding held in the Guarantor by Mazowieckie Province, however, the Guarantor may face competition from both existing companies offering passenger railway transportation services as well as new entrants.

The Guarantor's competitors may be companies that have more rolling stock, better access to maintenance facilities, substantially greater financial, marketing and other resources than the Guarantor, and there can be no assurance that they will not in the future engage in more extensive development efforts, launch successful promotional campaigns, or adopt more aggressive pricing policies.

The Guarantor's failure to compete successfully could adversely affect its business, financial condition, results of operations and cash flow.

The Guarantor's commercial activities are subject to a changing regulatory regime.

As at the date of this Prospectus, the introduction of a comprehensive set of reforms of the railway transport laws in Poland is anticipated. While as at the date of this Prospectus no relevant amendments to the railway transport laws have been presented to the Parliament, the implementation of certain of the amendments, for example changes aimed at opening up the market to new entrants and facilitating increased competition, could have a material adverse effect on the Guarantor's business, financial condition and results of operations. Moreover, on 1 March 2011 the Mass Public Transportation Act will enter into force. See "*Regulatory Framework — Proposed reforms of the railway transport laws*".

Moreover, there can be no assurance that EU politics as to public passenger transport will not change and result in amendments to Regulation 1370/2007 as a result of which the Guarantor, for instance, could be required to participate in public tenders in order to enter into the public transport services contract with Mazowieckie Province, irrespective of the Guarantor's status of an internal operator or the fact that it is a party to the Framework Agreement. Moreover, it is uncertain whether any such amendments will continue to permit the Guarantor to receive the compensation from Mazowieckie Province in whole or in part. Any such changes could have a material adverse effect on the Guarantor's business, financial condition and results of operations.

The Guarantor's licences may be revoked or not renewed in the future.

The Guarantor has a licence to provide the Services as well as a safety certificate that are critical to its operations. The revocation or failure of renewal of such licence or certificate could result in the termination of the Framework Agreement and could have a material adverse effect on the Guarantor's business, financial condition and results of operations.

The Guarantor may be subject to sale by Mazowieckie Province.

On 31 May 2010, taking into consideration the reduced income corporate and personal income taxes that constitute the majority of its revenues, Mazowieckie Province adopted a resolution approving the undertaking of steps leading to the privatisation of the Guarantor. Such steps include the carrying out of the so-called privatisation analyses required by law. As at the date of this Prospectus, such privatisation analyses are not being prepared and a decision on the approval of the actual sale of the Guarantor has not yet been taken.

There is a risk that following the sale of Mazowieckie Province's stake in the Guarantor the Guarantor would no longer be able to be awarded a public service contract without a competitive tender process. There can be no assurance that the Guarantor will be the only company able to provide such services. Moreover, ownership changes could result in changes in the composition of its corporate bodies as well as the Guarantor's strategy. Any such changes could have a material adverse effect on the Guarantor's business, financial condition and results of operations. If a change in the control of the Guarantor occurs, a Noteholder can require that the Issuer repurchase its Notes at par. See Condition 5(c) (*Redemption and Purchase — Redemption upon a change of control*) and "*Risks relating to the Notes — The Change of Control put*" below.

The Guarantor may not be able to retain or attract key personnel.

The Guarantor's success generally depends, in part, on its ability to continue to attract, retain and motivate qualified personnel. As the Guarantor is owned by Mazowieckie Province, the remuneration paid to the Guarantor's top management is subject to restrictions under the Salaries Cap Act. Moreover, Mazowieckie Province as the sole shareholder of the Guarantor, has the right to make changes in the composition of the membership of the corporate bodies. There can be no assurance that the Guarantor will be able to attract and retain the key personnel that it will need to achieve its business objectives, and its ability to retain its workforce may depend on its ability to meet demands for higher wages. Should some of the Guarantor's management personnel decide to leave the Guarantor, the Guarantor may find it difficult to replace them promptly with other managers of sufficient expertise and experience or at all. In addition, the Guarantor does not have key man insurance in place in respect of its senior managers. If the Guarantor is unable to retain key personnel without prompt and equivalent replacement, or attract new qualified personnel to support the growth of its business, the Guarantor could experience a material adverse effect on its business, financial condition and results of operations.

The Guarantor's operations may be subject to interruptions.

Rail operators are subject to accidents and derailments. Although there have been no major incidents on the Guarantor's railway network in recent years, a major rail accident or derailment could also result in damage to or loss of the Guarantor's rolling stock and may also disrupt the Guarantor's services. In addition, the Guarantor may not be able to rebuild or repair its rolling stock or restore operations in a timely manner. Any negative publicity concerning any accident or derailment could also have a material adverse effect on the Guarantor's reputation and the attractiveness of its services in the future. Accordingly, a major accident or derailment could have a material adverse effect on the Guarantor's business, financial condition and results of operations.

The Guarantor does not carry business interruption insurance.

The Guarantor does not have business interruption insurance and the insurance with respect to its property does not cover the full replacement value thereof. The Guarantor's failure to carry business interruption insurance means that if the Guarantor suffers an interruption in its ability to operate, the Guarantor will have reduced income available to pay its obligations. Therefore, there is a risk that business interruption or the loss or destruction of certain assets could have a material adverse effect on the Guarantor's business, financial condition and results of operations.

The Guarantor may be unable to renew some of the agreements concluded in the ordinary course of its business on the same terms.

Several of the agreements concluded by the Guarantor in the ordinary course of its business, including agreements on the use of railway lines, the use of engines and the Integrated Ticket Agreement, are customarily entered into with a term of one or two years (see ''*Description of the Guarantor — The Guarantor's operations — Material Agreements*''). The Guarantor's ability to properly operate and both maintain and improve its cost-efficiency depends in part on timely renewals of such contracts on satisfactory terms. The parties thereof have no obligation, however, to renew such agreements after their terms expire, and these agreements may not be renewed on the original terms on a timely basis, if at all. Moreover, it may be difficult or impossible for the Guarantor to identify alternative providers of such services. As a result, the inability to timely renew or extend these agreements on the same terms may have a material adverse effect on the Guarantor's business, financial condition and results of operations.

The Guarantor's operating results depend on general economic conditions and will be affected by a deterioration in the Polish economy.

The financial turmoil affecting the global financial markets and banking system has resulted in curtailing the availability of credit, a low level of liquidity and a widespread withdrawal of investment funding in countries across Central and Eastern Europe, which has had an adverse impact on economic growth and caused many of these countries to fall into a recession. Additionally, the recession has resulted in increased levels of unemployment. The results of the Guarantor's operations depend to a large degree on revenues from sales of passenger tickets, and demand for railway transport services is affected by general and regional economic conditions. Moreover, the ability of Mazowieckie Province, the Guarantor's sole shareholder, to provide the Guarantor with additional capital may be impaired by lower tax revenues, as well as an increased ''Robin Hood tax'' (a mandatory payment which the most affluent local government units in Poland are required to pay for the benefit of poorer units). See ''*Description of Mazowieckie*

Province — Finance — Budget of the Province''. Adverse economic conditions in the region generally and downturns in the Polish economy specifically may have a negative impact on the Polish railway industry and, consequently, on the Guarantor's revenues and results of operations.

Risk relating to the Notes

There is no active trading market for the Notes.

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Issuer and the Guarantor. Although application has been made for the Notes to be admitted to listing on the FSA's Official List and trading on the London Stock Exchange's Regulated Market, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes.

The Notes are fixed-rate securities and are vulnerable to fluctuations in market interest rates.

The Notes will carry fixed interest. A holder of a security with a fixed interest rate is exposed to the risk that the price of such security falls as a result of changes in the current interest rate on the capital markets (the ''**Market Interest Rate**''). While the nominal interest rate of a security with a fixed interest rate is fixed during the life of such security or during a certain period of time, the Market Interest Rate typically changes on a daily basis. As the Market Interest Rate changes, the price of such security changes in the opposite direction. If the Market Interest Rate increases, the price of such security typically falls, until the yield of such security is approximately equal to the Market Interest Rate. Conversely, if the Market Interest Rate falls, the price of a security with a fixed interest rate typically increases, until the yield of such security is approximately equal to the Market Interest Rate. Consequently, investors should be aware that movements of the Market Interest Rate could adversely affect the market price of the Notes.

The Notes may be redeemed prior to maturity due to taxation reasons.

In the event that the Issuer or the Guarantor would be obliged to increase the amounts payable in respect of any Notes due to any withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Sweden, Poland or any political subdivision thereof or any authority therein or thereof having power to tax, the Issuer may redeem all outstanding Notes in accordance with the Conditions.

Accordingly, the Issuer may choose to redeem the Notes at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Notes.

The Change of Control put.

The Conditions provide that the Notes are redeemable at the option of Noteholders at the Change of Control Redemption Amount upon the occurrence of a Change of Control. See ''*Redemption and Purchase — Redemption upon a change of control*''.

Accordingly, the put option may arise, at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that of the Notes. Investors should also be aware that the put option may only be exercised in the specified circumstances of a Change of Control as defined in the Conditions, which may not cover all situations where a change of control may occur or where successive changes of control occur in relation to the Issuer. Once given, a Put Notice is irrevocable.

In the event that some, but not all, Noteholders exercise their put option, this may reduce the liquidity of any trading market for the Notes. See ''*There is no active trading market for the Notes*'' above.

Because the Global Note Certificate is held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer and/or the Guarantor.

The Notes will upon issue be represented by the Global Note Certificate, which will be deposited with a common safekeeper for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Global Note Certificate, investors will not be entitled to receive Individual Note Certificates. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by the Global Note Certificate, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer and the Guarantor will discharge their payment obligations under the Notes by making payments to or to the order of the common safekeeper for Euroclear and Clearstream, Luxembourg for distribution to their Accountholders. A holder of a beneficial interest in the Global Note Certificate must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer and the Guarantor have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Note Certificate.

Holders of beneficial interests in the Global Note Certificate will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Note Certificate will not have a direct right under the Global Note Certificate to take enforcement action against the Issuer or the Guarantor in the event of a default under the Notes but will have to rely upon their rights under the Deed of Covenant.

Minimum denomination.

As the Notes have a denomination consisting of the minimum denomination plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of €100,000 (or its equivalent) that are not integral multiples of €100,000 (or its equivalent). In such case a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum denomination may not receive an Individual Note Certificate in respect of such holding (should Individual Note Certificates be printed) and would need to purchase a principal amount of Notes such that its holding amounts to the minimum denomination.

Credit rating.

Fitch has assigned a long-term foreign currency rating of ''BBB'' with negative outlook to the Guarantor. Although the Guarantor receives a separate, and different, rating to Mazowieckie Province such rating is linked to the ratings assigned by Fitch to Mazowieckie Province (see ''*Description of Mazowieckie Province – Finance – Financial ratings*'') and any downgrade of the rating of Mazowieckie Province will trigger the downgrade of the Guarantor's rating. Any change in ownership of the Guarantor, which would change the status of the company, or failure to sign an Annual Agreement on time could also result in the Guarantor's rating being downgraded. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes.

Modification and waiver.

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders, who voted in a manner contrary to the majority.

Risks relating to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

The secondary market generally.

The Notes may have no established trading market when issued and one may never develop. If a market does develop, it may not be very liquid and, consequently, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of the Notes. The market value of the Notes may also be significantly affected by factors such as variations in the Guarantor's results of operations, news announcements or changes in general market conditions. In addition, broad market fluctuations and general economic and political conditions may adversely affect the market value of the Notes, regardless of the actual performance of the Guarantor.

Legal investment considerations may restrict certain investments.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) Notes are legal investments for it, (ii) Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to the purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk based capital or similar rules.

Exchange rate risks and exchange controls.

The Issuer will pay principal and interest on the Notes in Euro. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than Euro. These include the risk that exchange rates may change significantly (including changes due to devaluation of the Euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to the Euro would decrease (i) the Investor's Currency equivalent yield on the Notes, (ii) the Investor's Currency equivalent value of the principal payable on the Notes and (iii) the Investor's Currency equivalent market value of the Notes.

In addition, government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Change of law.

The structure of the transaction and, *inter alia*, the issue of the Notes is based on the law (including tax law) and administrative practice in effect at the date hereof, and having due regard to the expected tax treatment of all relevant entities under such law and administrative practice. No assurance can be given that there will not be any change to such law (including tax law) or administrative practice after the Issue Date, which change might impact on the Notes and the expected payments of interest and repayment of principal. See also "*Change in tax status or taxation legislation or practice*" below.

Risks relating to taxation

Investors in the Notes may be required to pay taxes or other charges or duties.

Potential purchasers and sellers of the Notes should be aware that they may be required to pay taxes or other documentary charges or duties in accordance with the laws and practices of the country where the Notes are transferred or other jurisdictions. Potential investors are advised not to rely upon the tax summary contained in this Prospectus but to ask for their own tax advisers' advice on their individual taxation with respect to the acquisition, sale and redemption of the Notes and receiving payments of interest, principal and/or other amounts under the Notes, including in particular the effect of any state, regional or local tax laws of any country or territory. Only such advisors are in a position to duly consider the specific situation of the potential investors. This investment consideration has to be read in connection with the taxation sections of this Prospectus.

Payments in respect of the Notes and the Guarantee may in certain circumstances be made subject to withholding or deduction of tax.

All payments in respect of Notes and the Guarantee will be made free and clear of withholding or deduction of Polish or Swedish taxation, unless the withholding or deduction is required by law. In that event, the Issuer or the Guarantor will pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding or deduction been required. The Issuer's and Guarantor's obligation to gross up is, however, subject to a number of exceptions, including withholding or deduction of withholding tax operated in certain EU Member States pursuant to the EU Savings Tax Directive and similar measures agreed with the EU by certain non EU countries and territories. In addition, the Issuer will, in such event, have the option (but not the obligation) of redeeming all outstanding Notes in full (see Condition 5(b) (*Redemption and Purchase — Redemption for tax reasons*) and "*Risks relating to the Notes — The Notes may be redeemed prior to maturity due to taxation reasons*" above). See "*Taxation*" and "*Taxation — EU Savings Tax Directive*" below.

EU Savings Tax Directive.

The EU has adopted a directive regarding the taxation of savings income, the EU Savings Tax Directive. The EU Savings Tax Directive requires Member States to provide to the tax authorities of another Member State details of payments of interest and except that Luxembourg and Austria will instead impose a withholding system for a transitional period unless during such period they elect otherwise. A number of third countries and territories including Switzerland have adopted similar measures to the Directive. See ''*Taxation — EU Savings Tax Directive*''.

Frequent changes in tax regulations may have an adverse effect on the Guarantor's results of operations and financial condition.

The Polish tax system is characterised by a lack of stability. Tax regulations are frequently amended, often to the detriment of taxpayers. Tax laws may also need to be amended in order to implement new EU legislation. The frequent changes in regulations governing the taxation of business activities can be unfavourable to the Guarantor and may consequently have a material adverse effect on its business, financial condition, results of operations and prospects.

In practice, tax authorities rely not only on regulations but also on interpretations thereof by higher authorities or the courts when applying the law. Such interpretations are also subject to change, or can be replaced by new acts, or remain in force but conflict with other regulations. The lack of consistency is further exacerbated by the lack of clarity of many regulations in the Polish tax system, and, to a limited extent, by the lack of clarity of judicial decisions. Because of different interpretations of tax law, the risk connected with Polish tax law may be greater than that of other tax jurisdictions in developed markets. The Guarantor cannot guarantee that the Polish tax authorities will not take a different, unfavourable, interpretation of tax provisions implemented by the Guarantor.

Taxes and other similar payments, such as customs duties and foreign currency payments, may be audited by tax authorities and, should any discrepancy be found, interest and penalties may be imposed. Tax returns submitted by the Guarantor may be audited by tax authorities for five prior years calculated from the end of the year on which the respective tax return was submitted. The Guarantor may be required to pay material additional taxes, as well as interest and penalties.

The above factors may have a material adverse effect on the Guarantor's business, financial condition, results of operations and prospects.

Change in tax status or taxation legislation or practice.

Any change in the Issuer's or the Guarantor's tax status or in the taxation legislation or practice in a relevant jurisdiction could adversely impact (i) the ability of the Issuer to service the Notes or, as the case may be, the Guarantor to make payments under the Guarantee and (ii) the market value of the Notes. See also ''*Change of law*'' and ''*Frequent changes in tax regulations may have an adverse effect on the Guarantor's results of operations and financial condition*'' above.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Terms and Conditions of the Notes which (subject to completion and amendment) will be endorsed on each Individual Note Certificate:

The €100,000,000 6.750 per cent. Guaranteed Notes due 2016 (the "**Notes**", which expression includes any further notes issued pursuant to Condition 13 *(Further issues)* and forming a single series therewith) of Koleje Mazowieckie Finance AB (publ) (the "**Issuer**") are constituted by a deed of covenant dated 9 March 2011 (as amended or supplemented from time to time, the "**Deed of Covenant**") entered into by the Issuer and are the subject of (a) a deed of guarantee dated 9 March 2011 (as amended or supplemented from time to time, the "**Deed of Guarantee**") entered into by Koleje Mazowieckie – KM sp. z o.o. (Mazovian Railways – KM Ltd.) (the "**Guarantor**") and, (b) a fiscal agency agreement dated 9 March 2011 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Issuer, the Guarantor, The Bank of New York Mellon (Luxembourg) S.A. as registrar (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), The Bank of New York Mellon as fiscal agent (the "**Fiscal Agent**", which expression includes any successor fiscal agent appointed from time to time in connection with the Notes), the transfer agents named therein (the "**Transfer Agents**", which expression includes any successor or additional transfer agents appointed from time to time in connection with the Notes) and the paying agents named therein (together with the Fiscal Agent, the "**Paying Agents**", which expression includes any successor or additional paying agents appointed from time to time in connection with the Notes). References herein to the "**Agents**" are to the Registrar, the Fiscal Agent, the Transfer Agents and the Paying Agents and any reference to an "**Agent**" is to any one of them. Certain provisions of these Conditions are summaries of the Agency Agreement, the Deed of Covenant and the Deed of Guarantee and subject to their detailed provisions.

The Noteholders (as defined below) are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement, the Deed of Covenant and the Deed of Guarantee applicable to them. Copies of the Agency Agreement, the Deed of Covenant and Deed of Guarantee are available for inspection by Noteholders during normal business hours at the Specified Offices (as defined in the Agency Agreement) of each of the Agents, the initial Specified Offices of which are set out below.

1. **Form, Denomination, Status and Guarantee**

   (a) *Form and denomination:* The Notes are in registered form in the denominations of €100,000 and integral multiples of €1,000 in excess thereof (each, an "**Authorised Denomination**").

   (b) *Status of the Notes*: The Notes constitute direct, general, unsubordinated and unconditional obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

   (c) *Guarantee of the Notes*: The Guarantor has in the Deed of Guarantee unconditionally (subject as set out in (d) (*Limitation of the Guarantor's liability*) below) and irrevocably guaranteed the due and punctual payment of all sums from time to time payable by the Issuer in respect of the Notes. This guarantee (the "**Guarantee of the Notes**") constitutes direct, general, unsubordinated and unconditional obligations of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

   (d) *Limitation of the Guarantor's liability*: The total amount of the Guarantor's liability for any and all obligations assumed by it in respect of or in connection with the Guarantee of the Notes will not in any case exceed €150,000,000 in aggregate.

2. **Register, Title and Transfers**

   (a) *Register*: The Registrar will maintain a register (the "**Register**") in respect of the Notes in accordance with the provisions of the Agency Agreement. In these Conditions, the "**Holder**" of a Note means the person in whose name such Note is for the time being registered in the Register (or, in the case of a joint holding, the first named thereof) and "**Noteholder**" shall be construed accordingly. A certificate (each, a "**Note Certificate**") will be issued to each

Noteholder in respect of its registered holding. Each Note Certificate will be numbered serially with an identifying number which will be recorded in the Register.

(b) *Title*: The Holder of each Note shall (except as otherwise required by law) be treated as the absolute owner of such Note for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing on the Note Certificate relating thereto (other than the endorsed form of transfer) or any notice of any previous loss or theft of such Note Certificate) and no person shall be liable for so treating such Holder. No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999.

(c) *Transfers*: Subject to paragraphs (f) (*Closed periods*) and (g) (*Regulations concerning transfers and registration*) below, a Note may be transferred upon surrender of the relevant Note Certificate, with the endorsed form of transfer duly completed, at the Specified Office of the Registrar or any Transfer Agent, together with such evidence as the Registrar or (as the case may be) such Transfer Agent may reasonably require to prove the title of the transferor and the authority of the individuals who have executed the form of transfer; *provided, however, that* (i) a Note may not be transferred unless the principal amount of Notes transferred and (where not all of the Notes held by a Holder are being transferred) the principal amount of the balance of Notes not transferred are Authorised Denominations. Where not all the Notes represented by the surrendered Note Certificate are the subject of the transfer, a new Note Certificate in respect of the balance of the Notes will be issued to the transferor.

(d) *Registration and delivery of Note Certificates*: Within five business days of the surrender of a Note Certificate in accordance with paragraph (c) (*Transfers*) above, the Registrar will register the transfer in question and deliver a new Note Certificate of a like principal amount to the Notes transferred to each relevant Holder at its Specified Office or (as the case may be) the Specified Office of any Transfer Agent or (at the request and risk of any such relevant Holder) by uninsured first class mail (airmail if overseas) to the address specified for the purpose by such relevant Holder. In this paragraph, "**business day**" means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Transfer Agent has its Specified Office.

(e) *No charge*: The transfer of a Note will be effected without charge by or on behalf of the Issuer, the Registrar or any Transfer Agent but against such indemnity as the Registrar or (as the case may be) such Transfer Agent may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such transfer.

(f) *Closed periods*: Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

(g) *Regulations concerning transfers and registration*: All transfers of Notes and entries on the Register are subject to the detailed regulations concerning the transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests in writing a copy of such regulations.

3. Negative Pledge

So long as any Note remains outstanding (as defined in the Agency Agreement), neither the Issuer nor the Guarantor shall create or permit to subsist any Security Interest, other than a Permitted Security Interest, upon the whole or any part of its present or future undertaking, assets or revenues (including uncalled capital) to secure any Indebtedness or Guarantee of Indebtedness without (a) at the same time or prior thereto securing the Notes equally and rateably therewith or (b) providing such other security for the Notes as may be approved by an Extraordinary Resolution (as defined in the Agency Agreement) of Noteholders, to the extent permitted by Polish or any other applicable law or regulation.

In these Conditions:

"**2010 Agreement**" means the annual agreement dated 23 February 2010, as amended on 10 September 2010, entered into by the Guarantor and Mazowieckie Province pursuant to the Framework Agreement, which covers the period from 1 January 2010 to 31 December 2010;

"**2011 Agreement**" means the annual agreement dated 14 February 2011, as the same may be amended and/or revised from time to time, entered into by the Guarantor and Mazowieckie Province pursuant to the Framework Agreement, which covers the period from 1 January 2011 to 31 December 2011;

"**Annual Agreement**" means, on the Issue Date, the 2011 Agreement and at any subsequent time, the annual agreement entered into by the Guarantor and Mazowieckie Province pursuant to the Framework Agreement most recently before that time;

"**Framework Agreement**" means the framework agreement dated 19 May 2009 and as amended on 31 August 2009 and 12 January 2010 between the Guarantor and Mazowieckie Province, as amended from time to time;

"**Guarantee**" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

(a) any obligation to purchase such Indebtedness;

(b) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(c) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(d) any other agreement to be responsible for such Indebtedness;

"**Hedging Obligations**" means, with respect to the Issuer or the Guarantor, the obligations of such entity pursuant to:

(a) any interest rate swap agreement, interest rate cap agreement or interest rate collar agreement or any other agreement or arrangement designed to protect such entity against fluctuations in interest rates; or

(b) any foreign currency futures contract or option agreement or any other agreement or arrangement designed to protect such entity against fluctuations in foreign currency rates;

"**Indebtedness**" means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

(a) amounts raised by acceptance under any acceptance credit facility;

(b) amounts raised under any note purchase facility;

(c) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as capital lease obligations;

(d) the amount of any liability in respect of any purchase price for assets or services, excluding trade accounts payable and other accrued liabilities arising in the ordinary course of business that are not overdue by 120 days or more or being contested in good faith by the appropriate proceedings promptly and diligently conducted; and

(e) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

"**Mazowieckie Province**" means the Mazowieckie province in the Republic of Poland;

"**Permitted Security Interest**" means any Security Interest:

(a) subject to paragraph (g) below, outstanding at the Issue Date;

(b) being liens or rights of set-off arising by operation of law and in the ordinary course of business, including, without limitation, any rights of setoff with respect to demand or time deposits maintained with financial institutions and bankers' liens with respect to property of the Issuer or the Guarantor held by financial institutions;

(c) granted upon or with regard to any property or assets to secure the purchase price thereof or the cost of improvement or repair of all or any part of such property or assets or to secure Indebtedness incurred solely for the purpose of financing the acquisition, improvement or repair of all or any part of such property or assets and transactional expenses related thereto *provided that* such Security Interest is not created over the Framework Agreement or any revenue or rights of the Guarantor under any Annual Agreement, subject to paragraphs (a) above and (g) below, and the maximum amount of Indebtedness thereafter secured by any such Security Interest does not exceed the purchase price or cost of improvement or repair of such property or assets (including transactional expenses) or the Indebtedness incurred solely for the purpose of financing the acquisition, construction, improvement or repair of such property or assets;

(d) on or relating to any property or assets hereafter acquired by the Issuer or the Guarantor and existing on the date of acquisition (so long as such Security Interest was not created in contemplation of the acquisition of such property or assets);

(e) granted pursuant to Hedging Obligations of the Issuer or the Guarantor;

(f) on or relating to an easement, right of way, restriction (including zoning restriction), reservation, permit, servitude, minor defect or irregularity in title and other similar charge or encumbrance, and any Security Interest arising under leases or subleases granted to others, in each case not interfering in any material respect with the business of the Issuer or the Guarantor and existing, arising or incurred in the ordinary course of business;

(g) created over the revenue derived from the 2010 Agreement pursuant to (i) the PLN 10,000,000 loan agreement dated 27 April 2007 between the Guarantor and Bank Gospodarstwa Krajowego I Oddział w Warszawie for the sole purpose of financing modernisation of 27 electric multiple units (the "**Loan Agreement**") and (ii) the assignment agreement dated 7 June 2010 between the Guarantor and Bank Gospodarstwa Krajowego I Oddzial w Warszawie for the sole purpose of securing the Loan Agreement (as described in the Prospectus dated 7 March 2011 relating to the issue of the Notes), *provided that* any such Security Interest that has been granted by the Guarantor over the revenue derived from the 2010 Agreement is discharged as soon as the Guarantor has repaid such financing on or earlier than its original due date for payment and no such financing has been renewed, extended or refinanced in such a manner where the Guarantor is required to grant a further Security Interest over the Framework Agreement or the revenue derived from the 2010 Agreement or any further Annual Agreement;

(h) not covered by any of paragraphs (a) through (g), inclusive, of this definition of Permitted Security Interest which secures Indebtedness with an aggregate principal amount at any time not exceeding €15,000,000; or

(i) arising out of the refinancing, extension, renewal or refunding of any Indebtedness secured by a Security Interest permitted by any of the above exceptions, *provided that* the Indebtedness thereafter secured by such Security Interest does not exceed the amount of the original Indebtedness and such Security Interest is not extended to cover any property not previously subject to such Security Interest and that no Security Interest is granted over the Framework Agreement or the 2011 Agreement or any further Annual Agreement;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality; and

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction.

4. **Interest**

The Notes bear interest from 9 March 2011 (the "**Issue Date**") at the rate of 6.750 per cent. per annum, (the "**Rate of Interest**") payable in arrear on 9 March in each year (each, an "**Interest Payment Date**"), subject as provided in Condition 6 (*Payments*).

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at such rate (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Fiscal Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be €6,750 in respect of each Note of €100,000 denomination and €67.50 in respect of each Note of €1,000 denomination. If interest is required to be paid in respect of a Note on any other date, it shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest cent (half a cent being rounded upwards) and multiplying such rounded figure by a fraction equal to the Authorised Denomination of such Note divided by the Calculation Amount, where:

"**Calculation Amount**" means €1,000;

"**Day Count Fraction**" means, in respect of any period, the actual number of days in the relevant period, from (and including) the first day in such period to (but excluding) the last day in such period, divided by the number of days in the Regular Period in which the relevant period falls; and

"**Regular Period**" means each period from (and including) the Issue Date or any Interest Payment Date to (but excluding) the next Interest Payment Date.

5. **Redemption and Purchase**

(a) *Scheduled redemption*: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 9 March 2016, subject as provided in Condition 6 (*Payments*).

(b) *Redemption for tax reasons*: The Notes may be redeemed at the option of the Issuer in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their principal amount, together with interest accrued to the date fixed for redemption, if:

(i) (A) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 7 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of Kingdom of Sweden or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 7 March 2011; and (B) such obligation cannot be avoided by the Issuer taking reasonable measures available to it; or

(ii) (A) the Guarantor has or (if a demand was made under the Guarantee of the Notes) would become obliged to pay additional amounts as provided or referred to in Condition 7 (*Taxation*) or the Guarantee of the Notes, as the case may be, as a result of any change in, or amendment to, the laws or regulations of Republic of Poland or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective on or after 7 March 2011; and (B) such obligation cannot be avoided by the Guarantor taking reasonable measures available to it;

provided, however, that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or the Guarantor would be obliged to pay such additional amounts if a payment in respect of the Notes were then due or (as the case may be) a demand under the Guarantee of the Notes were then made.

Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver or procure that there is delivered to the Fiscal Agent:

(A) a certificate signed by two directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and

(B) an opinion of independent legal advisers of recognised standing to the effect that the Issuer or (as the case may be) the Guarantor has or will become obliged to pay such additional amounts as a result of such change or amendment.

Upon the expiry of any such notice as is referred to in this Condition 5(b), the Issuer shall be bound to redeem the Notes in accordance with this Condition 5(b).

(c) *Redemption upon a change of control*: If a Change of Control occurs, the Issuer will, upon the holder of any Note giving notice within the Change of Control Put Period to the Issuer as described below (whether or not prior to the giving of the relevant Change of Control Notice (as defined below) the Issuer has given notice of redemption under Condition 5(b) (*Redemption for tax reasons*)), redeem such Note on the Change of Control Put Date at the Change of Control Redemption Amount together (if applicable) with interest accrued to but excluding the Change of Control Put Date.

Promptly upon the Issuer or the Guarantor becoming aware that a Change of Control has occurred, the Issuer shall give notice (a ''**Change of Control Notice**'') to the Noteholders in accordance with Condition 14 (*Notices*) to that effect.

To exercise the right to require redemption or purchase of this Note the holder of this Note must deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the notice period, a duly completed and signed notice of exercise in the form obtainable from any specified office of any Paying Agent (a ''**Put Notice**'') and in which the holder must specify a bank account to which payment is to be made under this Condition 5(c) (*Redemption upon a change of control)*. The Put Notice must be accompanied by the relevant Note Certificates or evidence satisfactory to the Paying Agent concerned that the relevant Note Certificates will, following delivery of the Put Notice, be held to its order or under its control. A Put Notice given by a holder of any Note shall be irrevocable except where, prior to the Change of Control Put Date, an Event of Default has occurred and is continuing, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the Put Notice.

(d) *No other redemption*: The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) (*Scheduled redemption*) to (c) (*Redemption upon a change of control*) above.

(e) *Purchase*: The Issuer or the Guarantor may at any time purchase Notes in the open market or otherwise and at any price.

(f) *Cancellation*: All Notes so redeemed or purchased by the Issuer or the Guarantor shall be cancelled and may not be reissued or resold.

(g) *Interpretation*: In this Condition 5:

''**business day**'' means a day on which commercial banks are open for general business (including dealings in foreign currencies) in the city where the Registrar or (as the case may be) the relevant Paying Agent has its Specified Office and a TARGET Settlement Day;

''**Change of Control**'' shall be deemed to have occurred at each time that any person or persons acting in concert (other than Mazowieckie Province) or any person or persons acting on behalf of any such person(s) (the ''**Relevant Person(s)**'') at any time directly or indirectly come(s) to own or acquire(s) (A) 50 per cent. or more of the issued ordinary share capital of the Guarantor; or (B) such number of the shares in the capital of the Guarantor as carries 50 per cent. or more of the voting rights normally exercisable at a general meeting of the Guarantor, *provided that*, a Change of Control will be deemed to not have occurred if (i) the Guarantor becomes a direct or indirect wholly-owned subsidiary of another company and (ii) (A) the direct or indirect holders of the issued ordinary share capital of such other company immediately following that transaction are substantially the same as the holders of the Guarantor's issued ordinary share capital immediately prior to that transaction or (B) the shares of the Guarantor's issued ordinary share capital outstanding immediately prior to such Change of Control are converted into or exchanged for a majority of the issued ordinary share capital of such other company immediately after giving effect to such Change of Control;

''**Change of Control Put Date**'' shall be the tenth day after the expiry of the Change of Control Put Period *provided that*, if such day is not a business day, the Change of Control Put Date shall be the next following day which is a business day;

''**Change of Control Put Period**'' shall be the period of 30 days commencing on the date that a Change of Control Notice is given; and

"**Change of Control Redemption Amount**" shall mean, in relation to each Note to be redeemed or purchased pursuant to this Condition 5(c) (*Redemption upon a change of control*), an amount equal to 100 per cent. of the principal amount of such Note.

6. **Payments**

(a) *Principal*: Payments of principal shall be made by transfer to a Euro account (or other account to which Euro may be credited or transferred) maintained by the payee with, a bank in a city in which banks have access to the TARGET System and (in the case of redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificate at the Specified Office of any Paying Agent.

(b) *Interest*: Payments of interest shall be made by transfer to a Euro account (or other account to which Euro may be credited or transferred) maintained by the payee with, a bank in a city in which banks have access to the TARGET System and (in the case of interest payable on redemption) upon surrender (or, in the case of part payment only, endorsement) of the relevant Note Certificate at the Specified Office of any Paying Agent.

(c) *Interpretation*: In these Conditions:

"**TARGET2**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"**TARGET Settlement Day**" means any day on which TARGET2 is open for the settlement of payments in euro; and

"**TARGET System**" means TARGET2.

(d) *Payments subject to fiscal laws*: All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commissions or expenses shall be charged to the Noteholders in respect of such payments.

(e) *Payments on business days*: Where payment is to be made by transfer to a Euro account (or other account to which Euro may be credited or transferred), payment instructions (for value the due date, or, if the due date is not a business day, for value the next succeeding business day) will be initiated (i) (in the case of payments of principal and interest payable on redemption) on the later of the due date for payment and the day on which the relevant Note Certificate is surrendered (or, in the case of part payment only, endorsed) at the Specified Office of a Paying Agent and (ii) (in the case of payments of interest payable other than on redemption) on the due date for payment. A Holder of a Note shall not be entitled to any interest or other payment in respect of any delay in payment resulting from the due date for a payment not being a business day. In this paragraph "**business day**" means:

(i) in the case of payment by transfer to a Euro account (or other account to which Euro may be credited or transferred) as referred to above, any day which is a TARGET Settlement Day; and

(ii) in the case of surrender (or, in the case of part payment only, endorsement) of a Note Certificate, any day on which banks are open for general business (including dealings in foreign currencies) in the place in which the Note Certificate is surrendered (or, as the case may be, endorsed).

(f) *Partial payments*: If a Paying Agent makes a partial payment in respect of any Note, the Issuer shall procure that the amount and date of such payment are noted on the Register and, in the case of partial payment upon presentation of a Note Certificate, that a statement indicating the amount and the date of such payment is endorsed on the relevant Note Certificate.

(g) *Record date*: Each payment in respect of a Note will be made to the person shown as the Holder in the Register at the opening of business in the place of the Registrar's Specified Office on the fifteenth day before the due date for such payment (the "**Record Date**").

7. **Taxation**

All payments of principal and interest in respect of the Notes by or on behalf of the Issuer or the Guarantor shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of Kingdom of Sweden or the Republic of Poland or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is as required by law. In that event the Issuer or (as the case may be) the Guarantor shall pay such additional amounts as will result in receipt by the Noteholders of such amounts after such withholding or deduction as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note:

(a) held by a Holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or charges have been imposed, levied, collected, withheld or assessed other than the mere holding of the Note; or

(b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(c) held by a Holder who would have been able to avoid such withholding or deduction by arranging to receive the relevant payment through another Paying Agent in a member state of the European Union; or

(d) where (in the case of a payment of principal or interest on redemption) the relevant Note Certificate is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant Holder would have been entitled to such additional amounts if it had surrendered the relevant Note Certificate on the last day of such period of 30 days.

In these Conditions, "**Relevant Date**" means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received in a city in which banks have access to the TARGET System by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*).

If the Issuer or the Guarantor becomes subject at any time to any taxing jurisdiction other than the Kingdom of Sweden or the Republic of Poland respectively, references in these Conditions to Kingdom of Sweden or Republic of Poland shall be construed as references to Kingdom of Sweden or (as the case may be) Republic of Poland and/or such other jurisdiction.

8. **Events of Default**

(a) If any of the following events occurs:

(i) *Non-payment*: the Issuer fails to pay any amount of principal in respect of the Notes within seven days of the due date for payment thereof or fails to pay any amount of interest in respect of the Notes within fourteen days of the due date for payment thereof; or

(ii) *Breach of other obligations*: the Issuer or the Guarantor defaults in the performance or observance of any of its other obligations under or in respect of the Notes, the Deed of Covenant or the Guarantee of the Notes and such default remains unremedied for 30 days after written notice thereof, addressed to the Issuer and the Guarantor by any Noteholder, has been delivered to the Issuer and the Guarantor or to the Specified Office of the Fiscal Agent; or

(iii) *Cross-default of Issuer or Guarantor*:

(A) any Indebtedness of the Issuer or the Guarantor is not paid when due or (as the case may be) within any originally applicable grace period;

(B) any such Indebtedness becomes (or becomes capable of being declared) due and payable prior to its stated maturity otherwise than at the option of the Issuer or the Guarantor or (*provided that* no event of default, howsoever described, has occurred) any person entitled to such Indebtedness; or

(C) the Issuer or the Guarantor fails to pay when due any amount payable by it under any Guarantee of any Indebtedness;

provided that the amount of Indebtedness referred to in sub-paragraph (A) and/or sub-paragraph (B) above and/or the amount payable under any Guarantee referred to in sub-paragraph (C) above, individually or in the aggregate, exceeds €10,000,000 (or its equivalent in any other currency or currencies); or

(iv) *Unsatisfied judgment*: one or more judgment(s) or order(s) for the payment an amount in excess of €10,000,000 (or its equivalent in any other currency or currencies, whether individually or in aggregate) is rendered against the Issuer or the Guarantor and continue(s) unsatisfied and unstayed for a period of 30 days after the date(s) thereof or, if later, the date therein specified for payment; or

(v) *Security enforced*: a secured party takes possession, or a receiver, manager or other similar officer is appointed, of the whole or a substantial part of the undertaking, assets and revenues of the Issuer or the Guarantor; or

(vi) *Insolvency, etc.:* (A) the Issuer or the Guarantor becomes insolvent or is unable to pay its debts as they fall due, (B) an administrator or liquidator of the Issuer or the Guarantor or the whole or a substantial part of the undertaking, assets and revenues of the Issuer or the Guarantor is appointed (or application for any such appointment is made), (C) the Issuer or the Guarantor takes any action for a readjustment or deferment of any of its obligations or makes a general assignment or an arrangement or composition with or for the benefit of its creditors or declares a moratorium in respect of any of its Indebtedness or any Guarantee of any Indebtedness given by it or (D) the Issuer or the Guarantor ceases or threatens to cease to carry on all or any substantial part of its business; or

(vii) *Winding up, etc.*: an order is made or an effective resolution is passed for the winding up, liquidation or dissolution of the Issuer or the Guarantor; or

(viii) *Analogous event*: any event occurs which under the laws of the Kingdom of Sweden or the Republic of Poland has an analogous effect to any of the events referred to in paragraphs (iv) (*Unsatisfied judgment*) to (vii) (*Winding up etc.*) above; or

(ix) *Failure to take action etc*: any action, condition or thing at any time required to be taken, fulfilled or done in order (A) to enable the Issuer and the Guarantor lawfully to enter into, exercise their respective rights and perform and comply with their respective obligations under and in respect of the Notes, the Deed of Covenant and the Deed of Guarantee, (B) to ensure that those obligations are legal, valid, binding and enforceable and (C) to make the Note Certificates, the Deed of Covenant or the Deed of Guarantee admissible in evidence in the courts of the Kingdom of Sweden and Republic of Poland is not taken, fulfilled or done; or

(x) *Unlawfulness*: it is or will become unlawful for the Issuer or the Guarantor to perform or comply with any of its obligations under or in respect of the Notes, the Deed of Covenant or the Deed of Guarantee; or

(xi) *Guarantee not in force*: the Guarantee of the Notes is not (or is claimed by the Guarantor not to be) in full force and effect; or

(xii) *Government intervention*: (A) all or any substantial part of the undertaking, assets and revenues of the Issuer or the Guarantor is condemned, seized or otherwise appropriated by any person acting under the authority of any national, regional or local government or (B) the Issuer or the Guarantor is prevented by any such person from exercising normal control over all or any substantial part of its undertaking, assets and revenues; or

(xiii) *Controlling shareholder*: the Issuer ceases to be a Subsidiary of the Guarantor; or

(xiv) *Compensation agreements*: either the Framework Agreement or the then currently valid Annual Agreement is terminated, and in the case of the Annual Agreement, it is not renewed for the following period; or

(xv) *Authorisations*: the Guarantor ceases to be duly authorised and/or licensed to provide railway transport services for passengers in Mazowieckie Province; or

(xvi) *Use of proceeds:* the Issuer or the Guarantor applies the proceeds from the issue of the Notes for the financing of capital expenditure which is not approved by Mazowieckie Province, either in the form of a resolution of the Management Board (*zarząd*) of Mazowieckie Province or otherwise by Mazowieckie Province (not acting in its capacity as the sole shareholder of the Guarantor) or if the Issuer or the Guarantor applies the proceeds from the issue of the Notes for the financing of operating expenditure (whether or not approved by Mazowieckie Province); or

(xvii) *Disposal of Fixed Assets (Aktywa Trwałe)*: the Guarantor disposes, either in a single transaction or a series of transactions (whether related or not), of all or any part of its Fixed Assets to any Person other than in connection with a Permitted Disposal,

then any Note may, by written notice addressed by the Holder thereof to the Issuer and the Guarantor and delivered to the Issuer and the Guarantor or to the Specified Office of the Fiscal Agent, be declared immediately due and payable, whereupon it shall become immediately due and payable at its principal amount together with accrued interest without further action or formality.

(b) In these Conditions:

''**Basket Amount**'' means the lower of (A) 15 per cent. of the Guarantor's Fixed Assets amount of its balance sheet as at the date of the end of the period of the most recent published audited annual financial statements of the Guarantor; and (B) €45,000,000;

''**Fixed Asset**'' means an asset that is or should be recognised as ''Aktywa Trwałe'' in the balance sheet of the Guarantor as at the date of the end of the period of the most recent published audited annual financial statements of the Guarantor, or in the case of an asset to be acquired, that should be recognised as ''Aktywa Trwałe'' as at the date of the end of the period of the next audited annual financial statements of the Guarantor;

''**Net Proceeds**'' means the proceeds of any asset disposal after deducting:

(i) reasonable fees, costs and expenses incurred by the Guarantor with respect to that disposal, payable or paid to any person;

(ii) any tax incurred and required to be paid by the Guarantor in connection with that disposal (as reasonably determined by the Guarantor at the time of such disposal); and

(iii) amounts reasonably retained to cover possible liabilities in connection with a relevant disposal (as reasonably determined by the Guarantor at the time of such disposal);

''**Permitted Disposal**'' means a single transaction or a series of transactions where:

(i) such disposal of the asset is made on arm's length terms and the Net Proceeds are used to invest in or purchase Replacement Assets or repay or pre-pay, and permanently reduce any commitment related to, any senior Indebtedness or *pari passu* Indebtedness to the Guarantor's creditors within 365 days from the receipt of such Net Proceeds; and

(ii) if the disposal of the asset is not already permitted under sub-paragraph (i), the Net Proceeds of all such asset disposals from the Issue Date do not exceed the Basket Amount, where the assets disposed are credited to the Basket Amount at their respective book value, *provided that* any such disposal is on arm's length terms (the book value of any asset disposed shall be credited to the Basket Amount in the chronological order of the relevant asset disposal taking effect);

''**Replacement Asset**'' means a Fixed Asset that is or will be used or useful in the business of the Guarantor, such business being substantially the same business as conducted by the Guarantor on the Issue Date; and

''**Subsidiary**'' means, in relation to any Person (the ''**first Person**'') at any particular time, any other Person (the ''**second Person**''):

(i) whose affairs and policies the first Person controls or has the power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or

(ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person.

9. **Prescription**

Claims for principal and interest on redemption shall become void unless the relevant Note Certificates are surrendered for payment within ten years of the appropriate Relevant Date.

Without prejudice to any other mandatory provisions of law, any liability of the Guarantor for any amount will expire after ten years from the date when any such amount becomes due and payable by the Guarantor.

10. **Replacement of Note Certificates**

If any Note Certificate is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Registrar or the Transfer Agent having its Specified Office in London, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Note Certificates must be surrendered before replacements will be issued.

11. **Agents**

In acting under the Agency Agreement and in connection with the Notes, the Agents act solely as agents of the Issuer and the Guarantor and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders.

The initial Agents and their initial Specified Offices are listed below. The Issuer and the Guarantor reserve the right at any time to vary or terminate the appointment of any Agent and to appoint a successor registrar or fiscal agent and additional or successor paying agents and transfer agents; *provided, however, that* the Issuer and the Guarantor shall at all times maintain (a) a fiscal agent and a registrar, (b) a paying agent and a transfer agent in London and (c) a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders.

12. **Meetings of Noteholders; Modification**

(a) *Meetings of Noteholders*: The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer and the Guarantor (acting together) and shall be convened by them upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing one more than half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more persons being or representing Noteholders whatever the principal amount of the Notes held or represented; *provided, however, that* certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of payments under the Notes, to amend the terms of the Guarantee of the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution (each, a "**Reserved Matter**")) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters or, at any adjourned meeting, one quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any

Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) *Modification*: The Notes, these Conditions, the Deed of Covenant and the Deed of Guarantee may be amended without the consent of the Noteholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error or it is, in the opinion of such parties, not materially prejudicial to the interests of the Noteholders.

13. **Further Issues**

The Issuer may from time to time, without the consent of the Noteholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes *provided, however, that* as a condition precedent to the issue of any such further notes the limit on the Guarantor's liability for any and all obligations assumed by it in respect of or in connection with the Guarantee of the Notes described in Condition 1(d) (*Form, Denomination, Status and Guarantee — Limitation of the Guarantor's liability*) is increased in proportion to the aggregate principal amount of such further notes.

14. **Notices**

Subject to Condition 15 (*Compensation agreements*), notices to the Noteholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day after the date of mailing.

15. **Compensation agreements**

(a) The Issuer, failing whom the Guarantor, shall within 30 days of an Annual Agreement (other than the 2011 Agreement) or any amendment to the Framework Agreement or an Annual Agreement being entered into between the Guarantor and Mazowieckie Province, publish a notice in the English language in accordance with Condition 14 (*Notices*) and the listing rules of the regulated market of the London Stock Exchange plc, advising the Noteholders that such an agreement has been entered into and/or amended and that an English translation of such an agreement (as amended) has been deposited at the Specified Office of the Fiscal Agent for inspection by Noteholders.

(b) So long as any Note remains outstanding (as defined in the Agency Agreement), the Guarantor shall not permit any amendment to the Framework Agreement which would prejudice Mazowieckie Province's obligation to fund the Issuer and/or the Guarantor's obligations under the Notes and/or the Guarantee.

16. **Currency Indemnity**

If any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

17. **Governing Law and Jurisdiction**

(a) *Governing law*: The Notes, the Agency Agreement, the Deed of Covenant, the Deed of Guarantee and any non-contractual obligations arising out of or in connection with them are governed by English law.

(b) *English courts*: The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**") arising out of or in connection with the Notes, the Agency Agreement, the Deed of Covenant or the Deed of Guarantee (including any non-contractual obligation arising out of or in connection with them).

(c) *Appropriate forum*: The Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

(d) *Rights of the Noteholders to take proceedings outside England*: Condition 17(b) (*English courts*) is for the benefit of the Noteholders only. As a result, nothing in this Condition 17 (*Governing law and jurisdiction*) prevents any Noteholder from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, Noteholders may take concurrent Proceedings in any number of jurisdictions.

(e) *Process agent*: Each of the Issuer and the Guarantor agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX or, if different, its registered office for the time being or at any address of the Issuer or the Guarantor (as the case may be), in Great Britain at which process may be served on it in accordance with the Companies Act 2006. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Issuer or the Guarantor (as the case may be), the Issuer or the Guarantor (as the case may be) shall, on the written demand of any Noteholder addressed to the Issuer or the Guarantor (as the case may be) and delivered to the Issuer or to the Specified Office of the Fiscal Agent appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Noteholder shall be entitled to appoint such a person by written notice addressed to the Issuer and delivered to the Issuer or to the Specified Office of the Fiscal Agent. Nothing in this paragraph shall affect the right of any Noteholder to serve process in any other manner permitted by law. This Condition applies to Proceedings in England and to Proceedings elsewhere.

(f) *Consent to enforcement etc.*: Each of the Issuer and the Guarantor consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such Proceedings.

(g) *Waiver of immunity*: To the extent that the Issuer or the Guarantor may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Issuer or the Guarantor (as the case may be) or its assets or revenues, each of the Issuer and the Guarantor agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

There will appear at the foot of the Conditions endorsed on each Note the names and specified offices of the Paying Agents as set out at the end of this Prospectus.

SUMMARY OF PROVISIONS RELATING TO THE NOTES IN GLOBAL FORM

Clearing system accountholders

While the Notes are represented by the Global Note Certificate, references in the Terms and Conditions of the Notes to ''Noteholder'' are references to the person in whose name such Global Note Certificate is for the time being registered in the Register (the ''**Registered Holder**'') which, for so long as the Global Registered Note is held by or on behalf of a depositary or a common depositary or a common safekeeper for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary or a nominee for that depositary or common depositary or a common safekeeper.

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in the Global Note Certificate (each an ''**Accountholder**'') must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Issuer or the Guarantor to the holder of such Global Note Certificate and in relation to all other rights arising under such Global Note Certificate. The extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Note Certificate will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by the Global Note Certificate, Accountholders shall have no claim directly against the Issuer or the Guarantor in respect of payments due under the Notes and such obligations of the Issuer and the Guarantor will be discharged by payment to the holder of such Global Note Certificate.

Eurosystem eligibility

In a press release dated 22 October 2008, ''*Evolution of the custody arrangement for international debt securities and their eligibility in Eurosystem credit operations*'', the European Central Bank announced that it had assessed the new holding structure and custody arrangements for registered notes which the ICSDs had designed in cooperation with market participants and that Notes to be held under the New Safekeeping Structure would be in compliance with the ''*Standards for the use of EU securities settlement systems in ESCB credit operations*'' of the central banking system for the euro (the ''**Eurosystem**''), subject to the conclusion of the necessary legal and contractual arrangements. The press release also stated that the new arrangements for notes to be held in NSS form will be offered by Euroclear and Clearstream, Luxembourg. As at 30 June 2010 and that registered debt securities in global registered form held through Euroclear and Clearstream, Luxembourg after 30 September 2010 will only be eligible as collateral in Eurosystem operations if the New Safekeeping Structure is used.

The Notes are intended to be held in a manner which would allow Eurosystem eligibility. This simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper and does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Exchange for Individual Note Certificates

Interests in the Global Note Certificate will become exchangeable, in whole but not in part, for Individual Note Certificates if (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in Condition 8 (*Events of Default*) occur (each an ''**Exchange Event**''). The Issuer shall notify the Registered Holder of the Exchange Event as soon as practicable thereafter.

Whenever the Global Note Certificate is to be exchanged for Individual Note Certificates, such Individual Note Certificates will be issued in an aggregate principal amount equal to the principal amount of the Global Certificate within 30 days of the occurrence of the relevant Exchange Event upon presentation of the Global Note Certificate and such information as is required to complete and deliver such Individual Note Certificates (including, without limitation, the names and addresses of the persons in whose names the Individual Note Certificates are to be registered and the principal amount of each such person's holding) by the person in whose name it is registered in the Register on any day (other than a Saturday or Sunday) on which banks are open for business in the city in which the Registrar has its specified office. Such exchange will be effected in accordance with the provisions of the Agency Agreement and, in particular, shall be effected without charge to any Registered Holder of Notes, but against such indemnity as the Registrar may require in respect of any tax or other duty of whatsoever nature which may be levied or imposed in connection with such exchange.

If (a) Individual Note Certificates have not been issued and delivered by 5.00 p.m. (London time) on the thirtieth day after the date on which the same are due to be issued and delivered in accordance with the terms of the Global Note Certificate or (b) any of the Notes evidenced by the Global Note Certificate has become due and payable in accordance with the Conditions or the date for final redemption of the Notes has occurred and, in either case, payment in full of the amount of principal falling due with all accrued interest thereon has not been made to the Registered Holder of the Global Note Certificate on the date due for payment in accordance with the terms of the Global Note Certificate, then, at 5.00 p.m. (London time) on such thirtieth day (in the case of (a) above) or at 5.00 p.m. (London time) on such due date (in the case of (b) above), the Registrar shall enter in the Register the name of each person shown in the records of Euroclear and/or Clearstream, Luxembourg (or any other relevant clearing system) as being entitled to an interest in the Notes (each an ''**Accountholder**'') as holder of direct rights under the Deed of Covenant in respect of the Notes in an aggregate principal amount equal to the principal amount shown in the records of Euroclear and/or Clearstream, Luxembourg (or any other relevant clearing system) of such Accountholder's interest in the Notes. To the extent that the Registrar makes such entries in the Register, the Holder will have no further rights under the Global Note Certificate, but without prejudice to the rights which the Holder or Accountholders may have under the Deed of Covenant. Under the Deed of Covenant, Accountholders will acquire directly against the Issuer, subject to their rights being entered in the Register as described above, all those rights to which they would have been entitled if, immediately before the date on which the Registrar is required to enter in the Register the rights of the Accountholders, they had been the Registered Holders of Notes in an aggregate principal amount equal to the principal amount of Notes they were shown as holding in the records of Euroclear, Clearstream, Luxembourg or any other relevant clearing system (as the case may be).

Conditions applicable to the Global Note Certificate

The Global Note Certificate will contain provisions which modify the Terms and Conditions of the Notes as they apply to the Global Note Certificate. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Global Note Certificate which, according to the Terms and Conditions of the Notes, require presentation and/or surrender of a Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note Certificate to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Issuer shall procure that the payment is entered pro rata in the records of Euroclear and Clearstream, Luxembourg.

Payment Record Date: Each payment in respect of the Global Note Certificate will be made to the person shown as the holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment (the ''**Record Date**'') where ''**Clearing System Business Day**'' means a day on which each clearing system for which the Global Note Certificate is being held is open for business.

Notices: Notwithstanding Condition 14 (*Notices*), while all the Notes are represented by the Global Note Certificate and the Global Note Certificate is deposited with a depositary or a common depositary or a common safekeeper for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system and, in any case, such notices shall be deemed to will be given to the Noteholders in accordance with Condition 14 (*Notices*) on the date of delivery to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system *provided that*, for so long as such Notes are admitted to trading on the London Stock Exchange and it is a requirement of applicable law or regulations, such notices shall be published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*) or published on the website of the Regulatory News Service operated by the London Stock Exchange (*www.londonstockexchange.com/exchange/news/market-news/market-news-home.html*).

GUARANTEE

The following is the text of the Guarantee:

"**THIS DEED OF GUARANTEE** is made on 9 March 2011

BY

(1) **KOLEJE MAZOWIECKIE – KM sp. z o.o. (MAZOVIAN RAILWAYS – KM LTD.)** (the "**Guarantor**")

IN FAVOUR OF

(2) **THE PERSONS** for the time being and from time to time registered as holders of the Notes referred to below (including each person who is for the time being and from time to time entitled to be registered as a holder) (each a "**Noteholder**" or the "**holder**" of a Note); and

(3) **THE ACCOUNTHOLDERS** (together with the Noteholders, the "**Beneficiaries**").

WHEREAS

(A) Koleje Mazowieckie Finance AB (publ) (the "**Issuer**") has authorised the creation and issue of €100,000,000 in aggregate principal amount of 6.750 per cent. Guaranteed Notes due 2016 (the "**Notes**").

(B) The Notes will be in registered form and in the denomination of €100,000 and integral multiples of €1,000 in excess thereof. The Notes will be represented by a global note certificate (the "**Global Note Certificate**"), which will be exchangeable for individual note certificates ("**Individual Note Certificates**" and, together with the Global Note Certificate, "**Note Certificates**") in the circumstances specified therein.

(C) The Notes will be constituted by a deed of covenant (the "**Deed of Covenant**").

(D) The Issuer and the Guarantor will, in relation to the Notes, enter into an Agency Agreement (the "**Agency Agreement**") with The Bank of New York Mellon (Luxembourg) S.A. (the "**Registrar**", which expression includes any successor registrar appointed from time to time in connection with the Notes), The Bank of New York Mellon as fiscal agent and the other paying agents and the transfer agents named therein.

(E) The Guarantor has agreed to guarantee the payment of all sums expressed to be payable from time to time by the Issuer to the Noteholders in respect of the Notes and to the Accountholders under the Deed of Covenant.

NOW THIS DEED OF GUARANTEE WITNESSES as follows:

1. INTERPRETATION

1.1 Definitions

All terms and expressions which have defined meanings in the Deed of Covenant shall have the same meanings in this Deed of Guarantee except where the context requires otherwise or unless otherwise stated.

1.2 Other Defined Terms

Terms defined in the Conditions have the same meanings in this Deed of Guarantee.

1.3 Deed of Covenant

Any reference in this Deed of Guarantee to any obligation or payment under or in respect of the Notes shall be construed to include a reference to any obligation or payment under or pursuant to the Deed of Covenant.

1.4 Clauses

Any reference in this Deed of Guarantee to a Clause is, unless otherwise stated, to a clause hereof.

1.5 **Headings**

Headings and sub-headings are for ease of reference only and shall not affect the construction of this Deed of Guarantee.

1.6 **Legislation**

Any reference in this Deed of Guarantee to any legislation (whether primary legislation or regulations or other subsidiary legislation made pursuant to primary legislation) shall be construed as a reference to such legislation as the same may have been, or may from time to time be, amended or re-enacted.

2. **GUARANTEE AND INDEMNITY**

2.1 **Guarantee**

The Guarantor hereby unconditionally and irrevocably guarantees:

2.1.1 *The Notes*: to the holder of each Note the due and punctual payment of all sums from time to time payable by the Issuer in respect of such Note as and when the same become due and payable and accordingly undertakes to pay to such Noteholder, in the manner and currency prescribed by the Conditions for payments by the Issuer in respect of the Notes, any and every sum or sums which the Issuer is at any time liable to pay in respect of such Note and which the Issuer has failed to pay; and

2.1.2 *The Direct Rights*: to each Accountholder the due and punctual payment of all sums from time to time payable by the Issuer to such Accountholder in respect of the Direct Rights as and when the same become due and payable and accordingly undertakes to pay to such Accountholder, in the manner and currency prescribed by the Conditions for payments by the Issuer in respect of the Notes, any and every sum or sums which the Issuer is at any time liable to pay to such Accountholder in respect of the Notes and which the Issuer has failed to pay.

2.2 **Indemnity**

The Guarantor irrevocably and unconditionally agrees as a primary obligation to indemnify each Beneficiary from time to time from and against any loss incurred by such Beneficiary as a result of any of the obligations of the Issuer under or pursuant to any Note, the Deed of Covenant or any provision thereof being or becoming void, voidable, unenforceable or ineffective for any reason whatsoever, whether or not known to such Beneficiary or any other person, the amount of such loss being the amount which such Beneficiary would otherwise have been entitled to recover from the Issuer. Any amount payable pursuant to this indemnity shall be payable in the manner and currency prescribed by the Conditions for payments by the Issuer in respect of the Notes. This indemnity constitutes a separate and independent obligation from the other obligations under this Deed of Guarantee and shall give rise to a separate and independent cause of action.

3. **COMPLIANCE WITH CONDITIONS**

The Guarantor covenants in favour of each Beneficiary that it will duly perform and comply with the obligations expressed to be undertaken by it in the Conditions.

4. **PRESERVATION OF RIGHTS**

4.1 **Principal obligor**

The obligations of the Guarantor hereunder shall be deemed to be undertaken as principal obligor and not merely as surety.

4.2 **Continuing obligations**

The obligations of the Guarantor herein contained shall constitute and be continuing obligations notwithstanding any settlement of account or other matter or thing whatsoever and shall not be considered satisfied by any intermediate payment or satisfaction of all or any of the Issuer's obligations under or in respect of any Note or the Deed of Covenant and shall continue in full force and effect until all sums due from the Issuer in respect of the Notes and under the Deed of Covenant have been paid, and all other actual or contingent obligations of the Issuer thereunder or in respect thereof have been satisfied, in full.

4.3 **Obligations not discharged**

Neither the obligations of the Guarantor herein contained nor the rights, powers and remedies conferred upon the Beneficiaries by this Deed of Guarantee or by law shall be discharged, impaired or otherwise affected by:

4.3.1 *Winding up*: the winding up, dissolution, administration, re-organisation or moratorium of the Issuer or any change in its status, function, control or ownership;

4.3.2 *Illegality*: any of the obligations of the Issuer under or in respect of the Notes or the Deed of Covenant being or becoming illegal, invalid, unenforceable or ineffective in any respect;

4.3.3 *Indulgence*: time or other indulgence (including, for the avoidance of doubt, any composition) being granted or agreed to be granted to the Issuer in respect of any of its obligations under or in respect of the Notes or the Deed of Covenant;

4.3.4 *Amendment*: any amendment, novation, supplement, extension (whether of maturity or otherwise) or restatement (in each case, however fundamental and of whatsoever nature) or replacement, waiver or release of, any obligation of the Issuer under or in respect of the Notes or the Deed of Covenant or any security or other guarantee or indemnity in respect thereof including without limitation any change in the purposes for which the proceeds of the issue of any Note are to be applied and any extension of or any increase of the obligations of the Issuer in respect of any Note or the addition of any new obligations for the Issuer under the Deed of Covenant; or

4.3.5 *Analogous events*: any other act, event or omission which, but for this sub-clause, might operate to discharge, impair or otherwise affect the obligations expressed to be assumed by the Guarantor herein or any of the rights, powers or remedies conferred upon the Beneficiaries or any of them by this Deed of Guarantee or by law.

4.4 **Settlement conditional**

Any settlement or discharge between the Guarantor and the Beneficiaries or any of them shall be conditional upon no payment to the Beneficiaries or any of them by the Issuer or any other person on the Issuer's behalf being avoided or reduced by virtue of any laws relating to bankruptcy, insolvency, liquidation or similar laws of general application for the time being in force and, in the event of any such payment being so avoided or reduced, the Beneficiaries shall be entitled to recover the amount by which such payment is so avoided or reduced from the Guarantor subsequently as if such settlement or discharge had not occurred.

4.5 **Exercise of rights**

No Beneficiary shall be obliged before exercising any of the rights, powers or remedies conferred upon it by this Deed of Guarantee or by law:

4.5.1 *Demand*: to make any demand of the Issuer, save for the presentation of the relevant Note;

4.5.2 *Take action*: to take any action or obtain judgment in any court against the Issuer; or

4.5.3 *Claim or proof*: to make or file any claim or proof in a winding up or dissolution of the Issuer,

and (save as aforesaid) the Guarantor hereby expressly waives presentment, demand, protest and notice of dishonour in respect of each Note.

4.6 **Deferral of Guarantor's Rights**

The Guarantor agrees that, so long as any sums are or may be owed by the Issuer in respect of the Notes or under the Deed of Covenant or the Issuer is under any other actual or contingent obligation thereunder or in respect thereof, the Guarantor will not exercise any right which the Guarantor may at any time have by reason of the performance by the Guarantor of its obligations hereunder:

4.6.1 *Indemnity*: to be indemnified by the Issuer;

4.6.2 *Contribution*: to claim any contribution from any other guarantor of the Issuer's obligations under or in respect of the Notes or the Deed of Covenant;

4.6.3 *Benefit of Security*: to take the benefit (in whole or in part) of any security enjoyed in connection with the Notes or the Deed of Covenant by any Beneficiary; and/or

4.6.4 *Subrogation*: to be subrogated to the rights of any Beneficiary against the Issuer in respect of amounts paid by the Guarantor under this Deed of Guarantee.

4.7 **Pari Passu**

The Guarantor undertakes that its obligations hereunder will at all times rank at least *pari passu* with all other present and future unsecured obligations of the Guarantor, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

5. **TOTAL LIABILITY**

Notwithstanding anything to the contrary in this Deed of Guarantee, the Deed of Covenant, the Conditions or in any other document relating to the Notes, the total amount of the Guarantor's liability for any and all obligations assumed by the Guarantor under this Deed of Guarantee or in connection therewith shall not in any case exceed EUR 150,000,000 in aggregate. Without prejudice to any other mandatory provisions of law, any liability of the Guarantor for any amount due to the Beneficiaries hereunder shall expire after ten years from the date when any such amount becomes due and payable by the Guarantor on the terms set forth herein.

6. **DEPOSIT OF DEED OF GUARANTEE**

This Deed of Guarantee shall be deposited with and held by the Fiscal Agent until all the obligations of the Issuer under or in respect of the Notes and the Deed of Covenant have been discharged in full. The Guarantor hereby acknowledges the right of every Beneficiary to the production of this Deed of Guarantee.

7. **STAMP DUTIES**

The Guarantor shall pay all stamp, registration and other taxes and duties (including any interest and penalties thereon or in connection therewith) which are payable upon or in connection with the execution and delivery of this Deed of Guarantee, and shall indemnify each Beneficiary against any claim, demand, action, liability, damages, cost, loss or expense (including, without limitation, legal fees and any applicable value added tax) which it incurs as a result or arising out of or in relation to any failure to pay or delay in paying any of the same.

8. **BENEFIT OF DEED OF GUARANTEE**

8.1 **Deed poll**

This Deed of Guarantee shall take effect as a deed poll for the benefit of the Beneficiaries from time to time.

8.2 **Benefit**

This Deed of Guarantee shall enure to the benefit of each Beneficiary and its (and any subsequent) successors and assigns, each of which shall be entitled severally to enforce this Deed of Guarantee against the Guarantor.

8.3 **Assignment**

The Guarantor shall not be entitled to assign or transfer all or any of its rights, benefits and obligations hereunder. Each Beneficiary shall be entitled to assign all or any of its rights and benefits hereunder.

9. **PARTIAL INVALIDITY**

If at any time any provision hereof is or becomes illegal, invalid or unenforceable in any respect under the laws of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions hereof nor the legality, validity or enforceability of such provision under the laws of any other jurisdiction shall in any way be affected or impaired thereby.

10. NOTICES

10.1 Address for notices

All notices and other communications to the Guarantor hereunder shall be made in writing (by letter or fax) and shall be sent to the Guarantor at:

ul. Lubelska 1
03-802 Warszawa
Poland

Fax: +48 22 47 38 814
Attention: Arkadiusz Olewnik, Chief Financial Officer

or to such other address or fax number or for the attention of such other person or department as the Guarantor has notified to the Noteholders in the manner prescribed for the giving of notices in connection with the Notes.

10.2 Effectiveness

Every notice or other communication sent in accordance with Clause 10.1 (*Address for notices*) shall be effective upon receipt by the Guarantor, *provided that* any such notice or other communication which would otherwise take effect after 4.00 p.m. on any particular day shall not take effect until 10.00 a.m. on the immediately succeeding business day in the place of the Guarantor.

11. CURRENCY INDEMNITY

If any sum due from the Guarantor under this Deed of Guarantee or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under this Deed of Guarantee or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Guarantor, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to this Deed of Guarantee, the Guarantor shall indemnify each Beneficiary on demand against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Beneficiary may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Guarantor and shall give rise to a separate and independent cause of action.

12. LAW AND JURISDICTION

12.1 Governing law

This Deed of Guarantee and any non-contractual obligations arising out of or in connection with it are governed by English law.

12.2 English courts

The courts of England have exclusive jurisdiction to settle any dispute (a "**Dispute**"), arising out of or in connection with this Deed of Guarantee (including a dispute relating to the existence, validity or termination of this Deed of Guarantee or any non-contractual obligation arising out of or in connection with this Deed of Guarantee) or the consequences of its nullity.

12.3 Appropriate forum

The Guarantor agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary.

12.4 Rights of the Beneficiaries to take proceedings outside England

Clause 12.2 (*English courts*) is for the benefit of the Beneficiaries only. As a result, nothing in this Clause 12 (*Law and jurisdiction*) prevents the Beneficiaries from taking proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, the Beneficiaries may take concurrent Proceedings in any number of jurisdictions.

12.5 **Process agent**

The Guarantor agrees that the documents which start any Proceedings and any other documents required to be served in relation to those Proceedings may be served on it by being delivered to Law Debenture Corporate Services Limited at Fifth Floor, 100 Wood Street, London EC2V 7EX or, if different, its registered office for the time being or at any address of the Guarantor in Great Britain at which process may be served on it in accordance with the Companies Act 2006. If such person is not or ceases to be effectively appointed to accept service of process on behalf of the Guarantor, the Guarantor shall, on the written demand of any Beneficiary addressed and delivered to the Guarantor appoint a further person in England to accept service of process on its behalf and, failing such appointment within 15 days, any Beneficiary shall be entitled to appoint such a person by written notice addressed to the Guarantor and delivered to the Guarantor. Nothing in this paragraph shall affect the right of any Beneficiary to serve process in any other manner permitted by law. This clause applies to Proceedings in England and to Proceedings elsewhere.

12.6 **Consent to enforcement etc.**

The Guarantor consents generally in respect of any Proceedings to the giving of any relief or the issue of any process in connection with such Proceedings including (without limitation) the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment which is made or given in such Proceedings.

12.7 **Waiver of immunity**

To the extent that the Guarantor may in any jurisdiction claim for itself or its assets or revenues immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process and to the extent that such immunity (whether or not claimed) may be attributed in any such jurisdiction to the Guarantor or its assets or revenues, the Guarantor agrees not to claim and irrevocably waives such immunity to the full extent permitted by the laws of such jurisdiction.

13. **MODIFICATION**

The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of this Deed of Guarantee. Any such modification may be made by supplemental deed poll if sanctioned by an Extraordinary Resolution and shall be binding on all Beneficiaries.

IN WITNESS whereof this Deed of Guarantee has been executed by the Guarantor and is intended to be and is hereby delivered on the date first before written.

EXECUTED as a **deed**)
by **KOLEJE MAZOWIECKIE – KM sp. z o.o.**)
(Mazovian Railways – KM Ltd.))
acting by:)

....	....
Name:	Name:"

USE OF PROCEEDS

The net proceeds of the issue of the Notes, expected to amount to €97,801,280 after deduction of expenses incurred in connection with the issue of the Notes, will be used by the Issuer to finance the acquisition of corporate notes issued by the Guarantor. The Guarantor will use €40,016,400 of the proceeds from such issue to repay in full the Step Up Notes and the remaining funds will be used to finance a portion of its capital investment programme, including approximately EUR 37.1 million for the purchase of 16 EMUs from Pojazdy Szynowe PESA Bydgoszcz Spolka Akcyjna Holding and Zaklady Naprawcze Taboru Kolejowego ''Minsk Mazowiecki'' Spolka Akcyjna (''**PESA**''), approximately EUR 10 million for the purchase of locomotives and approximately EUR 13 million for the modernisation of the existing rolling stock. See ''*Description of the Guarantor — Investment Programme*''.

DESCRIPTION OF THE ISSUER

Establishment, Duration and Domicile

The Issuer's legal and commercial name is Koleje Mazowieckie Finance AB (publ). The Issuer changed its name from Lagrummet nr 1883 AB to Koleje Mazowieckie Finance AB (publ) on 27 October 2010.

The Issuer was incorporated in the Kingdom of Sweden as a public limited liability company registered in the Swedish Companies Register under number 556812-4258 on 23 June 2010 for indefinite time.

Business of the Issuer

The Issuer's registered office is c/o Matrisen, Box 22059, 104 22 Stockholm, Sweden and the telephone number of its registered office is +46 8 506 59 100.

The main object of the Issuer is to, directly or indirectly, issue or organise the issuance of debt securities, and any other activities compatible therewith. Consequently, the Issuer is a special purpose vehicle existing for the sole purpose of issuing the Notes and other notes provided that such other notes are issued in compliance with the relevant limitations as provided in the Conditions. The Issuer has no subsidiaries and no employees.

The Issuer has not produced any financial statements as of the date of this Prospectus. Jan Larsson, a registered auditor qualified to practise in the Kingdom of Sweden, is the responsible auditor.

Management of the Issuer

The Issuer has a board of directors consisting of four directors:

Name	Position	Director since	Term expires
Roman Sielecki	Chairman	27 October 2010	At the next annual meeting in 2011
Marek Dawidowicz	Member	27 October 2010	At the next annual meeting in 2011
Ewa Oknińska	Member	27 October 2010	At the next annual meeting in 2011
Olof Wærn	Managing Director	21 October 2010	Until terminated by either party or until otherwise mutually agreed

The business address for all the members of the board of directors is c/o Matrisen, Box 22059, 104 22 Stockholm, Sweden.

There are no conflicts of interest between the duties of the persons listed above to the Issuer and their private interests or other duties.

Share Capital and Shareholders' Structure

The Issuer has fully paid up share capital of SEK 500,000 made up of 5,000 shares, each with a quota of SEK 100 per one share.

All shares in the Issuer were bought by the Guarantor from Advokatfirman Vinge KB on 21 October 2010. As a sole shareholder, the Guarantor may exercise control over the Issuer, in particular, to adopt resolutions as to appointment of the members of the board of directors of the Issuer. The Issuer's articles of association do not contain provisions which specifically prevent the possible abuse of control by its sole shareholder, i.e., the Guarantor.

DESCRIPTION OF THE GUARANTOR

Overview

The Guarantor has been a significant provider of passenger rail services throughout the greater Warsaw area and other parts of Mazowieckie Province since 1 January 2005 as part of an integrated public transport system in Mazowieckie Province designed to provide the region's residents with effective commuting options. The Guarantor operates on a non-commercial basis. As at 30 June 2010 the Guarantor offered services on 15 railway lines with an aggregate length of 1,144 km, primarily within the territory of Mazowieckie Province. As at 30 June 2010, the rail assets of the Guarantor included 193 electric multiple units (''**EMUs**''), ten Flirt ER-75 EMUs manufactured by Stadler Bussnang AG (''**Stadler**''), 37 double-decker carriage units (steering and inner) manufactured by Bombardier, 11 light rail units, and 11 double-cabin electric locomotives EU-07. In the year ended 31 December 2009 the Guarantor carried 51.6 million passengers and operated an average of 711 trains per day on 14.5 million train km.

The Guarantor's total revenues from business activities in the year ended 31 December 2009 and in the six months ended 30 June 2010 were PLN 500.0 million and PLN 259.9 million, respectively. The Guarantor's total costs from business activities in the year ended 31 December 2009 and in the six months ended 30 June 2010 were PLN 492.1 million and PLN 258.7 million, respectively. The Guarantor generated a gross profit of PLN 7.9 million in the year ended 31 December 2009 and a gross profit of PLN 1.2 million in the six months ended 30 June 2010.

The Guarantor believes that its principal competitive strengths are the Guarantor's strategic location; the planned significant investments in railway infrastructure in the territory of Mazowieckie Province; the stable demand for the Guarantor's services; the Guarantor's revenue per employee generation ability; its well-maintained rolling stock; long-term support of Mazowieckie Province, the Guarantor's sole shareholder; and the high barriers to entry of the Polish regional passenger rail transport market in Mazowieckie Province. The Guarantor wants to leverage its strong position to modernise its rolling stock and launch additional transport services to increase passenger numbers, improve service quality and reduce costs.

As at 30 June 2010 the Guarantor employed approximately 2,600 employees.

The Guarantor is a limited liability company, established on 29 July 2004 in Warsaw, Poland, by Mazowieckie Province and PKP Przewozy Regionalne in accordance with Polish law for an indefinite period of time. The Guarantor is registered in the register of business entities of the National Court Register, District Court for the capital city of Warsaw, XIII Commercial Division of the National Court Register, under KRS No. 222735. As at the date of this Prospectus, the Guarantor is wholly-owned by Mazowieckie Province, which has been providing it with compensation pursuant to a fifteen-year framework agreement. See ''*Management and Corporate Governance — The Sole Shareholder*'' and ''*Material Agreements*''.

The Guarantor's registered office is at ul. Lubelska 1, 03-802 Warsaw, Poland. The telephone number of the Guarantor's office is +48 22 47 37 900.

History of the Guarantor

The Guarantor was established on 29 July 2004 when the Guarantor's articles of association were executed in Warsaw, Poland, by Mazowieckie Province and PKP Przewozy Regionalne. The Guarantor's initial share capital was PLN 50 thousand. Mazowieckie Province held 51 of the Guarantor's shares, with a value of PLN 25.5 thousand, and PKP Przewozy Regionalne held 49 of the Guarantor's shares with a value of PLN 24.5 thousand. Following share capital increases on 3 November 2005, 30 November 2006, 5 February 2008, 24 June 2008 and 21 April 2009, and the share capital increase described under "*Recent Developments — Share capital increase and in-kind contribution*" below, the initial share capital was increased and as at the date of this Prospectus amounts to PLN 481.9 million. On 8 January 2008, Mazowieckie Province acquired the stake held by PKP Przewozy Regionalne and became the sole shareholder of the Guarantor.

The Guarantor commenced to perform transport services on 1 January 2005 after obtaining the necessary certificates and licences from the UTK. Initially, the Guarantor utilised assets owned by the Warsaw branch of PKP Przewozy Regionalne for its operations. Eventually, such assets were acquired by the Guarantor on 1 July 2008.

Recent Developments

Share capital increase and in-kind contribution

On 20 October 2010, the general meeting of the shareholders of the Guarantor adopted a resolution on a share capital increase of PLN 184.5 million by issuing 369,060 new shares. All the new shares were acquired by Mazowieckie Province in exchange for an in-kind contribution in the form of 11 double-decker steering carriage units and 26 double-decker inner carriage units manufactured by Bombardier. All units were already used by the Guarantor pursuant to a lease agreement with Mazowieckie Province. Mazowieckie Province subscribed for the shares on 28 December 2010 and the share capital increase was registered on 13 January 2011. As the date of this Prospectus the Guarantor's share capital amounts to PLN 481.9 million.

Offering of the Step Up Notes

Pursuant to a subscription agreement dated 5 January 2011 between the Issuer, the Guarantor and Standard Bank, on 7 January 2011 the Issuer issued the Step Up Notes, which were guaranteed by the Guarantor up to EUR 50 million. The Step Up Notes bear interest from 7 January 2011 to (but excluding) 7 April 2011 at the rate of 5 per cent. per annum, from 7 April 2011 to (but excluding) 7 July 2011 at the rate of 6 per cent. per annum, from 7 July 2011 to (but excluding) 7 October 2011 at the rate of 7 per cent. per annum, and from 7 October 2011 at the rate of 8 per cent. per annum. The proceeds of the issue of the Step Up Notes were used by the Issuer to finance the acquisition of corporate notes issued by the Guarantor. The Guarantor used the proceeds from such issue to finance its investment programme, including approximately PLN 90 million for the purchase of six Flirt ER-75 EMUs manufactured by Stadler (see "*Description of the Guarantor — Material Agreements — Agreement for the purchase of EMUs*") and approximately PLN 70 million for a 20 per cent. down payment for the purchase of 16 EMUs from PESA (see "*Description of the Guarantor — Material Agreements — Agreement for the purchase of EMUs from PESA*"). The Step Up Notes were assigned an unsolicited long-term foreign currency rating of "BBB" by Fitch on 12 January 2011. The conditions of the Step Up Notes set forth that the Step Up Notes may be redeemed, *inter alia*, at the option of the Issuer or the noteholders upon the occurrence of an alternative funding event, such as an issuance of debt instruments. Consequently, the Step Up Notes will be repaid with the proceeds of the issue of the Notes. See "*Use of Proceeds*".

Promissory notes

On 9 August 2010 the Guarantor issued two blank promissory notes to secure its obligations under the agreement dated 26 July 2010 entered into between the Guarantor and the Mazowieckie Province regarding the co-financing from the European Fund for Regional Development as part of the Regional Transport System Operational Programme in connection with the purchase of new locomotives and under the agreement dated 26 July 2010 entered into between the Guarantor and the Mazowieckie Province regarding the co-financing from the European Fund for Regional Development as part of the Regional Transport System Operational Programme in connection with the modernisation of its electrical rolling stock, as amended on 6 September 2010. As of the date of this Prospectus, the blank promissory notes secure the obligations of the Guarantor to repay PLN 83.8 million and PLN 79.6 million, together with applicable interest and enforcement costs, respectively, if the Guarantor breaches any of the conditions prescribed by the European Fund for Regional Development in making the co-financing available. See "*Description of the Guarantor — Material Agreements — Promissory Notes*".

Relationship with Mazowieckie Province

Mazowieckie Province, as the Guarantor's sole shareholder, exercises broad control over the Guarantor. Pursuant to the Guarantor's articles of association issues that are critical to the Guarantor's operations must be approved by the Guarantor's general meeting. The Guarantor's articles of association do not contain provisions which specifically prevent the possible abuse of control by its sole shareholder, i.e., Mazowieckie Province. All the rights from the Guarantor's shares are exercised by Mazowieckie Province's management board. See "*Management and Corporate Governance — The Sole Shareholder*" below and "*Description of Mazowieckie Province*".

Given that the Guarantor provides public services to the public and receives compensation from Mazowieckie Province, its profitability is limited by applicable law. The compensation it receives from Mazowieckie Province may not exceed the amount corresponding to the net financial effect equivalent to the total of the effects, positive or negative, of compliance with the public service obligation on the costs and revenue of the public service operator. The effects shall be assessed by comparing the situation where the public service obligation is met with the situation which would have existed if the obligation had not been met. The net financial effect is calculated taking into account the costs incurred by the Guarantor in relation to the public service obligations agreed pursuant to the Framework Agreement, as decreased by any positive financial effects generated within the network operated under the public service obligations, minus receipts from tariff or any other revenue generated while fulfilling the public service obligations, increased by a reasonable profit. Reasonable profit is defined as a rate of return on capital that is normal for the passenger railway sector in Poland and takes account of the risk, or absence of risk, incurred by the Guarantor by virtue of public authority intervention. The reasonable profit is determined following the end of a given year by Mazowieckie Province and may be challenged by the Guarantor's competitors.

On 31 January 2011 the provincial legislature of Mazowieckie Province approved the budget for the year ending 31 December 2011. Such budget provides that the amount of compensation for the Guarantor will be PLN 214.5 million. See "*Description of Mazowieckie Province — Recent developments — Budget for 2011*".

Key Strengths

The Guarantor believes that its principal competitive strengths are as follows:

- *Strategic location.* The Guarantor offers transport services in the largest Polish province by area (accounting for 11 per cent. of the territory of Poland) and the most populated (5,188 thousand, representing 13 per cent. of the total population of Poland). Mazowieckie Province is also the financial and business centre of the country with the lowest level of unemployment in Poland (9 per cent., as compared to 11.4 per cent. national average in July 2010) and the highest gross regional product per capita, amounting to 160 per cent. of the national average (according to GUS) and 87.1 per cent. of the average for the 27 countries of the EU (according to Eurostat) in 2007.

- *Significant investments in railway infrastructure.* While the Polish railway infrastructure remains underdeveloped, significant funds have been designated by the EU for the construction of new tracks and the modernisation of the existing infrastructure by 2015. The Guarantor hopes to benefit from such infrastructure investments, which will allow it to offer services on new and modernised lines, increasing passenger volumes. Moreover, given the shortage of available public parking space in Warsaw, Mazowieckie Province intends to place more emphasis on developing the rail transport to provide an alternative means of transport to automobile commuters.

- *Stable demand for Services.* The Guarantor believes that, based on data from TOR, the demand for its services will continue to increase. With limited competition on the market in which it operates, the Guarantor is uniquely positioned to benefit from an increase in passenger numbers. Following completion of the modernisation of its rolling stock assets, the Guarantor will have additional capacity to meet increased demand.

- *High revenue per employee generation.* The Guarantor believes that, as compared to other Polish companies providing railway transport services, it has high revenue per employee, which is a ratio commonly used in the industry to measure efficiency of railway transport companies. Based on information presented in the daily Gazeta Finansowa in October 2010, the revenues per employee in the year ended 31 December 2009 of the Guarantor's competitors ranged from PLN 0.05 million (PKP Przewozy Regionalne) to PLN 0.08 million (PKP PLK), whereas the Guarantor's revenue per employee in the year ended 31 December 2009 stood at PLN 0.19 million. The Guarantor believes that, unlike most of its competitors, it does not need to downsize its workforce.

- *Well-maintained rolling stock*. According to the UTK, in 2007 the average age of passenger rolling stock in Poland was 29 years for regional transportation and 22 years for long distance transportation. As at the date of this Prospectus, the average age of the Guarantor's rolling stock is 26 years. The Guarantor believes that it has a larger share of modern rolling stock in its total rolling stock assets than any of its competitors. The Guarantor believes that its well-maintained rolling stock gives it a competitive advantage over its competitors whose rolling stock assets are more depreciated.

- *Long-term support of Mazowieckie Province.* The Guarantor is party to a fifteen-year agreement pursuant to which Mazowieckie Province has agreed to subsidise certain of the Guarantor's operations and investment projects pursuant to annual agreements. Moreover, Mazowieckie Province has provided the Guarantor with additional equity capital. As a result, the Guarantor benefits from the financial support of the local government.

- *High barriers to entry*. The Guarantor enjoys an almost monopolistic position in the regional passenger rail transport segment in Mazowieckie Province. Due to high barriers of entry consisting of the requirements relating to rolling stock, qualified personnel, safety permits and licences as well as access to maintenance facilities, the Guarantor believes that it is highly unlikely that it will have to compete with a new market entrant in the near future.

Strategy

The principal elements of the Guarantor's strategy are as follows:

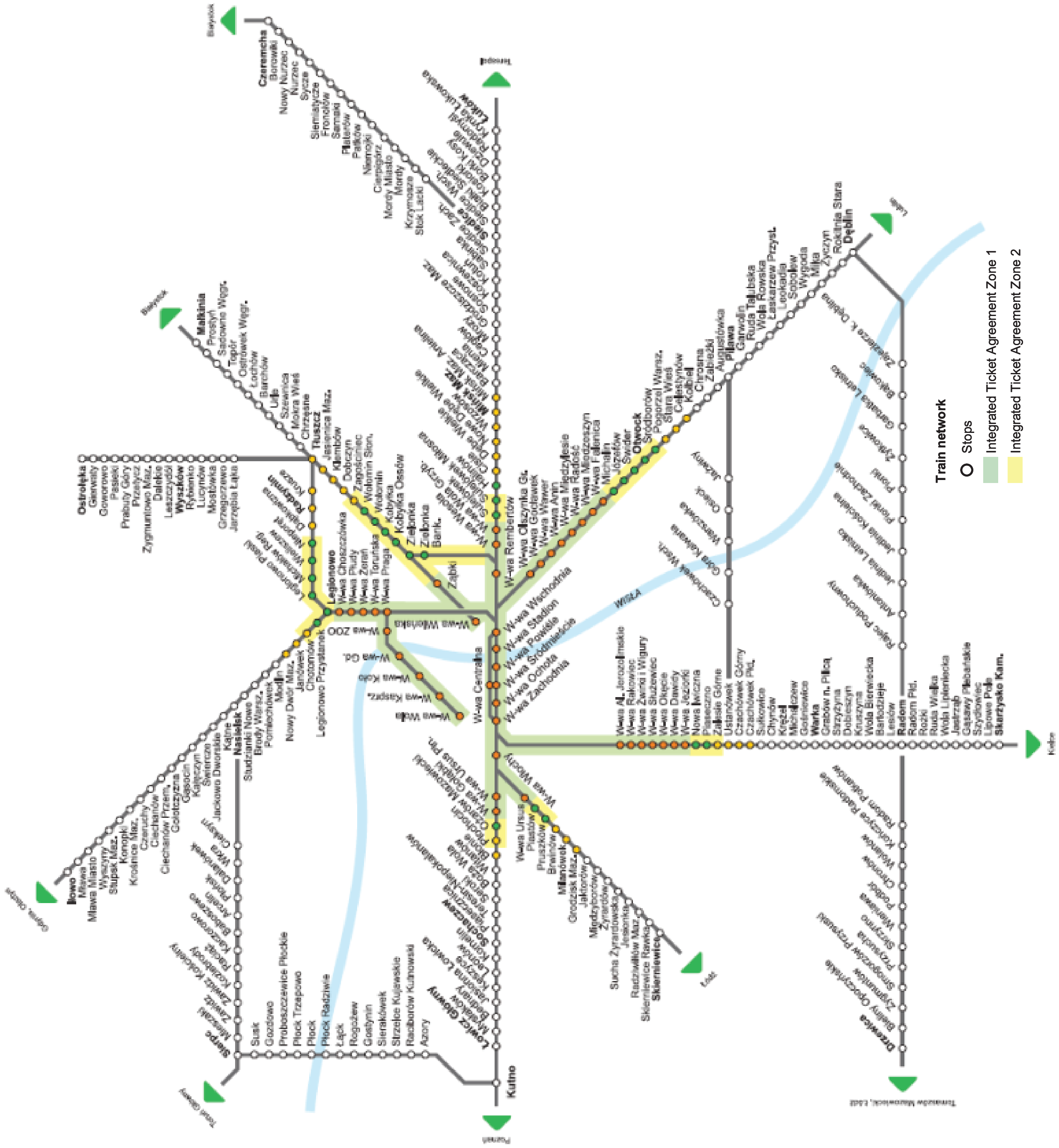
- *Modernisation of rolling stock*. Using the proceeds from the issue of the Notes, as well as funds from Mazowieckie Province and the EU, the Guarantor expects it will be able to modernise existing rolling stock, replace older trains and add new EMUs and locomotives. The Guarantor believes such investments will increase passenger numbers, improve service quality and reduce costs. The value of the Guarantor's investment programme for the period 2011-2015 is estimated at approximately PLN 1.6 billion. See ''*Investment Programme*''.
- *Launching of additional transport services*. The Guarantor will focus its efforts on maintaining the positive growth trends in the number of its passengers through launching additional public transport services in Mazowieckie Province and by launching new commercial connections. The Guarantor intends to improve the accessibility to the Warsaw metropolitan area for the inhabitants of the larger municipalities within the region (including Płock, Ciechanów, Ostrołęka, Siedlce and Radom), also on metropolitan express trains. Due to higher availability of the Guarantor's rolling stock during the weekends, the Guarantor intends to offer new commercial connections partially using the rolling stock that is utilised for the transport of passengers in Mazowieckie Province during the week and offer new connections from Warsaw to Łódź, Poznan, Katowice and the Silesian region, as well as the Trójmiasto (Gdansk, Gdynia and Sopot).

Guarantor's Operations

The Guarantor has been a significant provider of passenger rail services throughout the greater Warsaw area and other parts of Mazowieckie Province since 1 January 2005 as part of an integrated public transport system in Mazowieckie Province designed to provide the region's residents with effective commuting options. As at 30 June 2010 the Guarantor offered services on 15 railway lines with an aggregate length of 1,144 km, primarily within the territory of Mazowieckie Province. The Guarantor receives compensation for such services from Mazowieckie Province. As at 30 June 2010, the rail assets of the Guarantor included 193 EMUs, ten Flirt ER-75 EMUs manufactured by Stadler, 37 double-decker carriage units (steering and inner) manufactured by Bombardier, 11 light rail units, and 11 double-cabin electric locomotives EU-07. In the year ended 31 December 2009 the Guarantor carried 51.6 million passengers and operated an average of 711 trains per day.

As at 30 June 2010 the Guarantor employed approximately 2,600 employees.

The Guarantor is licensed to provide rail services throughout the entire country, but as at the date of this Prospectus provides services primarily in Mazowieckie Province. The following maps illustrate the train network of the Guarantor in Mazowieckie Province:


Train network
Stops
Integrated Ticket Agreement Zone 1
Integrated Ticket Agreement Zone 2

The Guarantor's services outside Mazowieckie Province are provided along passages between the border of Mazowieckie Province and the nearest junction station outside Mazowieckie Province, which has a railroad turnaround enabling trains to change direction. The Guarantor receives compensation for such services from Mazowieckie Province. As at 30 June 2010 the Guarantor offered services outside Mazowieckie Province covering a total distance of 170 km.

On a seasonal basis, during the summer months, the Guarantor offers rail services between Warsaw and Gdynia, covering 354 km, named the "Sunny Train". The Guarantor does not receive compensation for operating the Sunny Train because such service is performed outside Mazowieckie Province, rather it provides the connection on a completely commercial basis. The Sunny Train carried 109,918 passengers in 2009 and the revenue from the sales of tickets for such train was PLN 2.3 million.

Revenues and Operating Expenses

The following table presents total revenues and total costs from business activities of the Guarantor for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June		
	2007	**2008**	**2009**	**2009**	**2010**	**2010**
		(in PLN million) (audited)		*(in PLN million) (reviewed)*		*(in EUR million)**
Total revenues from business activities	383.5	450.1	500.0	236.6	259.9	64.9
of which						
Revenue from sales and sales equivalent	375.6	439.9	488.8	231.7	253.4	63.3
Other operating revenues	5.1	7.0	8.6	3.9	4.6	1.1
Total costs from business activities	381.7	449.0	492.1	237.2	258.7	64.6
of which						
Operating costs	380.5	446.7	488.0	236.1	251.5	62.8
Other operating costs	0.7	1.6	2.7	0.8	5.5	1.4
Net profit	**0.5**	**0.6**	**0.7**	**1.0**	**1.5**	**0.4**
Gross profit	**1.8**	**1.1**	**7.9**	**(0.6)**	**1.2**	**0.3**

* Convenience recalculation only based on the NBP exchange rate of PLN 1 to Euro 4.0042 as at 30 June 2010.

The following table presents the revenue from sales of the Guarantor's service and sales equivalent for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June		
	2007	**2008**	**2009**	**2009**	**2010**	**2010**
		(in PLN million) (audited)		*(in PLN million) (reviewed)*		*(in EUR million)**
Revenue from sales and sales equivalent	375.6	439.9	488.7	231.7	253.4	63.3
of which						
Sales of tickets and entitlements for passage discounts	156.5	179.0	214.8	105.4	113.4	28.3
Revenues from Office of the Marshal on account of an agreement for organisation and financing of railway passenger traffic in Mazowieckie Province – received grant; second grant due	152.0	182.0	183.7	82.8	93.7	23.4
Sales of services to other companies	41.3	51.2	60.5	28.9	27.5	6.9
Grant from the Ministry of Infrastructure	23.8	25.1	23.8	12.3	12.3	3
Other revenues	1.3	1.8	5.1	2.0	6.1	1.6

* Convenience recalculation only based on the NBP exchange rate of PLN 1 to Euro 4.0042 as at 30 June 2010.

The following table presents the operating costs of the Guarantor for the periods indicated:

	For the year ended 31 December			For the six months ended 30 June		
	2007	2008	2009	2009	2010	2010
	(in PLN million) (audited)			(in PLN million) (reviewed)		(in EUR million)*
Operating costs	380.5	446.7	488.0	236.1	251.5	62.8
of which						
Third party services	201.2	210.2	230.3	113.6	117.3	29.3
Use of materials and energy	73.1	84.6	102.4	52.1	55.2	13.8
Remunerations	72.5	93.6	102.6	48.5	53.5	13.4
Social insurance and other employee benefits	24.3	43.9	31.7	12.2	12.7	3.2
Depreciation	3.4	5.7	12.0	5.1	7.9	2
Taxes and charges	2.2	4.0	2.9	1.4	1.5	0.4
Other costs by type	3.3	3.9	5.3	2.8	2.9	0.7

* Convenience recalculation only based on the NBP exchange rate of PLN 1 to Euro 4.0042 as at 30 June 2010.

The following table presents the number of passengers transported by the Guarantor, the average number of trains per day, the number of railway lines utilised and the number of train km of the Guarantor in the periods presented:

	For the year ended 31 December		For the six months ended 30 June	
	2007	2008	2009	2010
Number of passengers (in million)	45.2	49.9	51.6	26.7
Trains (daily)	705	703	711	716
Railway lines utilised	14	14	16	15
Train km (in million)	14.2	14.9	14.7	7.2

Rolling Stock, Repair and Maintenance

As at 30 June 2010, the Guarantor owned 188 EMUs consisting of 169 EN-57 EMUs, five EN-57-KM EMUs, ten EN-57-AKM EMUs (thoroughly modernised) and four EN-71 EMUs.

As at 30 June 2010 the Guarantor leased from Mazowieckie Province two EW-60 EMUs, ten Flirt ER-75 EMUs manufactured by Stadler, as well as 11 double-decker steering carriage units and 26 double-decker inner carriage units manufactured by Bombardier. The Guarantor also leased seven VT-627 light rail units and four VT-628 light rail units from Mazowiecka Spółka Taborowa Sp. z o.o. and 11 double-cabin electric locomotives EU-07 from PKP Cargo. In addition, the Guarantor utilised the services of engine drivers employed by PKP Cargo.

As at 30 June 2010 the Guarantor leased two EN-57 EMUs from BPH Leasing and one EN-71 EMUs from Energo Utech.

According to the UTK, in 2007 the average age of passenger rolling stock in Poland was 29 years for regional transportation and 22 years for long distance transportation. As at the date of this Prospectus, the average age of the Guarantor's rolling stock is 26 years. The Guarantor believes that it has a larger share of modern rolling stock in its total rolling stock assets than any of its competitors.

The following table presents a breakdown of the Guarantor's rolling stock setting forth the age of each asset:

Item	Vehicle series	Year of production	Producer	Legal title	Age (from year of production)	Number
1.	EN57	1963	Pafawag	Ownership	46	1
2.		1972			37	1
3.		1974			35	1
4.		1978			31	1
5.		1979			30	3
6.		1980			29	1
7.		1983			26	2
8.		1984			25	19
9.		1985			24	22
10.		1986			23	28

Item	Vehicle series	Year of production	Producer	Legal title	Age (from year of production)	Number
11.		1987			22	14
12.		1988			21	9
13.		1989			20	15
14.		1990			19	20
15.		1991			18	30
16.		1992			17	3
17.	EN57	1976/2006*	Pafawag	Leasing	33	1
18.		1977/2006*			32	1
19.	EN57KM	1982/2007*	Pafawag	Ownership	27	1
20.		1983/2007*			26	4
21.	EN57AKM	1973/2009*	Pafawag	Ownership	36	1
22.		1984/2009*			25	8
23.	EN71	1969/2010*	Pafawag	Ownership**	40	2
24.	EN71	1975/2010*	Pafawag	Ownership**	34	2
25.	EN71	1976/2007*	Pafawag	Leasing	33	1
26.	EW60	1990/2007*	Pafawag	Lease from Mazowieckie Province	19	2
27.	VT627	1974	LHB Salzgitter/Krupp MAK Kilonia	Lease from Mazowiecka Spółka Taborowa sp. z o.o.	35	1
28.		1975			34	2
29.		1981			28	3
30.		1982			27	1
31.	VT628	1974	LHB Salzgitter		25	4
32.	ER75 (Flirt Polska)	2008	Stadler Polska Sp. z o.o.	Lease from Mazowieckie Province	1	10
33.	Bpz/ ABpbdzf	2008	Bombardier	Lease from Mazowieckie Province***	1	37

* Date of modernisation.

** Subject to the registered pledge in favour of SG Equipment Leasing Polska Sp. z.o.o. pursuant to certain registered pledge agreements in connection with financing arrangements with a value of PLN 42.7 million.

*** Subject to in-kind contribution; see "*Recent Developments - Share capital increase and in-kind contribution*".

In accordance with the Guarantor's policy of improving passenger safety and comfort, the Guarantor continues to improve the technical condition and quality of the Guarantor's rolling stock. In 2009 nine EMUs underwent major repairs, 47 EMUs underwent routine maintenance which included modernisation and ten light rail units underwent routine maintenance. Furthermore, in 2009 the Guarantor also carried out spot repairs on one electric multiple unit and one light rail unit.

Due to improved technological servicing, increased supervision and periodical modernisation projects, the Guarantor believes that its rolling stock is well maintained and in 2009 97 per cent. of its EMUs and 89 per cent. of its light rail units were in working condition.

Maintenance and repair works are conducted in four service halls and maintenance facilities in the railroad depots leased by the Guarantor from PKP S.A. pursuant to a ten-year contract entered into on 27 October 2010, which are located in Warszawa Praga Południe, Warszawa Wola, Tłuszcz and Sochaczew. See "*Material Agreements — Leases*". Such services are performed on the Guarantor's rolling stock by Guarantor employees as well as a third party contractors. Moreover, the Guarantor performs maintenance and repair services on SKM's rolling stock. The Guarantor believes that such service halls and maintenance facilities strengthen its competitive position, as given the shortage of such facilities, new entrants in the rail passenger service market would encounter difficulties in finding locations to service and maintain their rolling stock.

As at the date of this Prospectus, the Guarantor is considering the acquisition of at least two additional maintenance facilities and is evaluating sites in Radom, Nasielsk and Siedlce.

Investment Programme

Currently, the Guarantor's major focus is to upgrade the rolling stock it uses to provide railway services through the acquisition of new rolling stock and the modernisation of the units already in its possession. The Guarantor intends to invest approximately €57 million received from the issue of the Notes into the expansion and upgrading of its rolling stock. See "*Use of Proceeds*".

In the period 2011-2015 the Guarantor will actively pursue a number of major investment plans:

- The Guarantor is in the process of modernising the electric traction units owned by the Guarantor. The aggregate value of the investment in the years 2007-2011 is PLN 204.4 million, out of which PLN 83.1 million net is financed by third-party sources (the European Regional Development Fund and the Polish state).
- The Guarantor plans to carry out repairs to its carriages, and has budgeted up to PLN 556.4 million for such repairs. In addition, the Guarantor budgeted PLN 50.3 million for repairs to and the maintenance of the new rolling stock provided by, *inter alia*, Mazowieckie Province. In total, the Guarantor budgeted PLN 606.7 million for the maintenance of and repairs to its rolling stock.
- The Guarantor has purchased 11 new double-cab electric locomotives with a ''push-pull'' feature manufactured by Bombardier which will be used for the operation of passenger carriages. The Guarantor entered into an agreement for the purchase of such carriages with Bombardier on 20 April 2010 and delivery is planned for June 2011. The aggregate value of the investment is PLN 204.5 million gross, out of which PLN 83.8 million net will be financed by third-party sources (the European Regional Development Fund and the Polish state). See ''*Material Agreements — Agreement for the purchase of locomotives*''.
- The Guarantor has purchased from Mazowieckie Province 10 Flirt ER-75 EMUs manufactured by Stadler. The aggregate purchase price is PLN 149.8 million net. See ''*Material Agreements — Agreement for the purchase of EMUs*''.
- The Guarantor has purchased from PESA 16 ''Elf'' type four-car EMUs. The aggregate purchase price is EUR 75.2 million. See ''*Material Agreements — Agreements for the purchase of EMUs from PESA*''.

Tariffs

In Poland the tariffs for railway transport services are regulated by the market. However, there are legal provisions which establish statutory discounts on fares for certain groups of passengers. These privileged groups include, among others: young children, students, academic teachers, passengers with disabilities, retirees, combatants, public officials, senators and members of parliament. The discount rates range from 37 per cent. up to 100 per cent. Service providers are required to honour these discounts and are entitled to receive appropriate compensation from the state budget as compensation for the losses incurred by selling fares which have been statutorily discounted.

The Guarantor establishes its own tariff for transport services on an annual basis (the ''**Tariff**''). The Tariff specifies the fares applicable to passengers, their animals and certain baggage as well as additional fees imposed on passengers travelling without a valid fare. According to the Tariff, each fare depends on the distance of the trip. The Guarantor sells one-way fares, zone fares and passes for various time periods. In addition to the statutory discounts, the Tariff sets forth various business discounts designed to attract more business. The Guarantor's business discount offer consists of discounts applied to: senior card holders; youths under 26 years of age; round-trip fares; family fares; sightseeing fares; group fares; 12-trip passes; and discounts based on contracts entered into with the Guarantor and its clients and which benefit such clients' employees.

Fares for the Guarantor's services are sold at ticket counters at the stations operated by the Guarantor or its agents, as well as in the trains and at the ticket counters of other rail service providers across Poland.

Since 2005 the Guarantor has been offering an ''Integrated ZTM-KM-WKD Ticket'' (''**Integrated Ticket**'') which entitles the holders of certain passes issued by Zarząd Transportu Miejskiego Warszawa (Management of the City Transport in Warsaw) (''**ZTM**'') to use the Guarantor's services throughout the greater Warsaw area without having to purchase a separate fare from the Guarantor. Such co-operation is based on a contract that the Guarantor executes with ZTM on an annual basis. Pursuant to the contract, ZTM reimburses the Guarantor for the revenue that the Guarantor loses by not selling fares for the services rendered to the holders of Integrated Tickets. See ''*Material Agreements — Integrated Ticket Agreement*''.

Licences

On 21 December 2010 the Guarantor obtained a safety certificate from the UTK which will expire on 20 December 2015. This safety certificate, as amended on 24 January 2011, allows the Guarantor to render passenger transportation services, excluding high speed railway services, for 200 million train km per annum or more. Prior to granting the safety certificate to the Guarantor, on 29 November 2010 the UTK approved a Security Management System prepared by the Guarantor. The Security Management System ensures that the procedures adopted by the Guarantor comply with local, international and EU safety laws. The approval is valid until 28 November 2015.

The Guarantor holds the following licences issued by the UTK that are critical to its operations:

- a licence for the railway transport of passengers;
- a licence for the railway transport of goods; and
- a licence for the lease of traction vehicles.

All such licences were issued on 28 December 2004 for an unlimited period of time. Such licences may be revoked if, among other things, the Guarantor fails to comply with the Railway Transport Act.

Material Agreements

The Framework Agreement

The Guarantor's core business is the performance of regional public railway passenger transport services (the "**Services**" or the "**public service obligations**") that constitute a part of the activities of Mazowieckie Province. The Guarantor conducts its business activity pursuant to a framework agreement (the "**Framework Agreement**") concluded on 19 May 2009 between the Guarantor and Mazowieckie Province. The Framework Agreement, as amended on 31 August 2009 and 12 January 2010, covers the provision of rail passenger transport services within Mazowieckie Province for a term of 15 years between 1 January 2010 and 31 December 2024. Pursuant to the Framework Agreement, Mazowieckie Province undertakes to provide compensation for the performance of the Services during the term of the Framework Agreement of no less than an estimated PLN 2,525 million over 15 years, subject to any amendment agreed pursuant to an annual agreement, which may increase or reduce the amount of such compensation based on the level of Services to be provided. Each year the Guarantor and Mazowieckie Province enter into an annual agreement that specifies the obligations of the parties for a given year, including the scope of the Services to be rendered by the Guarantor and the level of the compensation (each such agreement, an "**Annual Agreement**").

Under the Framework Agreement the Guarantor undertakes to provide the Services and to carry out modernisation projects on its rolling stock. The Services provided by the Guarantor cover in the aggregate approximately ten million train km each year. The final volume of the Services to be provided by the Guarantor in a given year is specified in the respective Annual Agreement. The scope of the Guarantor's Services is set forth in an annual schedule of railway services which constitutes a part of the respective Annual Agreement. The annual schedules are drafted by the Guarantor in accordance with the data approved by Mazowieckie Province reflecting the demand for the railway services and subsequently agreed with PKP PLK.

The Guarantor undertakes to renovate its rolling stock in accordance with the Guarantor's business plan, in particular, through the purchase of new units and the modernisation of existing units of rolling stock. The Guarantor also undertakes to upgrade and expand the infrastructure necessary for the provision of the Services, including buildings, halls, tracks, power and control systems.

Under the Framework Agreement Mazowieckie Province undertakes to provide compensation for the performance of the Services during the term of the Framework Agreement in the aggregate amount of no less than PLN 2,525 million over 15 years, that is, to provide the following amounts in respect of the following Annual Agreements (which are yet to be finalised, other than the Annual Agreement relating to 2010 and 2011):

- 2010 Agreement – approximately PLN 193.5 million
- 2011 Agreement – approximately PLN 159.5 million
- 2012 Agreement – approximately PLN 179.6 million
- 2013 Agreement – approximately PLN 178.1 million
- 2014 Agreement – approximately PLN 176.7 million
- 2015 Agreement – approximately PLN 175.3 million
- 2016 Agreement – approximately PLN 173.9 million

- 2017 Agreement – approximately PLN 172.5 million
- 2018 Agreement – approximately PLN 171.1 million
- 2019 Agreement – approximately PLN 169.7 million
- 2020 Agreement – approximately PLN 168.3 million
- 2021 Agreement – approximately PLN 166.9 million
- 2022 Agreement – approximately PLN 165.4 million
- 2023 Agreement – approximately PLN 164.0 million
- 2024 Agreement – approximately PLN 162.7 million

The exact amounts of compensation are calculated in accordance with a formula set forth in Regulation 1370/2007 and are to be specified in the respective Annual Agreements. If, based on an annual analysis, the shortfall between the Guarantor's actual costs and actual revenues is greater than the amount of the compensation for that year, Mazowieckie Province is required to adjust the compensation in order to meet the Guarantor's shortfall. If Mazowieckie Province fails to comply with such obligation, the Guarantor may demand the appropriate adjustment of the amount of its Services and the appropriate changes to the annual schedule. The Guarantor is required to reimburse Mazowieckie Province for all undue amounts of the compensation as well as amounts thereof used in an improper manner.

As part of its obligation regarding compensation, Mazowieckie Province undertakes to finance the costs of the Guarantor's investment projects necessary for the provision of the Services by the Guarantor in the territory of Mazowieckie Province, upon their prior approval. The Annual Agreements specify the form and amount of any such financing. Mazowieckie Province undertakes to cover the costs that the Guarantor incurs by entering into loan agreements, lease agreements and other similar agreements necessary for the Guarantor to finance the Guarantor's investments necessary to provide the Services.

Pursuant to the Framework Agreement Mazowieckie Province undertakes, in particular, to finance the following three investment projects, which have been approved as part of the compensation payment to be made:

- the purchase of 11 new, double cab electric locomotives to be used for the operation of passenger carriages with a ''push-pull'' feature, with an approximate value of PLN 182 million net (PLN 222.1 million gross). In addition, the Guarantor's employees will receive training and the Guarantor will be entitled to be compensated for the costs of maintenance services of the locomotives for four years;
- the modernisation of electric traction units valued at approximately PLN 112.2 million net (PLN 136.86 million gross) which constitutes a part of a larger modernisation project valued at approximately PLN 204.4 million net (PLN 249.3 million gross); and
- the purchase of 16 four-section electric traction units to be used for the provision of services to the airports and in the greater Warsaw area, with a value of approximately PLN 267.9 million net (PLN 326.8 million gross).

Pursuant to the Framework Agreement, Mazowieckie Province is entitled to conduct ad hoc reviews to verify whether the Guarantor is fulfilling its contractual obligations. If the Guarantor fails to provide the Services in accordance with the relevant Annual Agreement, the Guarantor will be required to pay contractual penalties as specified in the Annual Agreement. In general, the contractual penalties are paid by the Guarantor using funds collected from other entities as contractual penalties for breaches of agreements concluded with the Guarantor. The funds collected by the Guarantor for the above-mentioned breaches are sufficient to cover any contractual penalties under the Annual Agreement.

The Framework Agreement terminates if the Guarantor loses its license to perform the Services. The Framework Agreement may be terminated by mutual agreement. Each party may unilaterally terminate the Framework Agreement if the other party breaches the material terms of the Framework Agreement and does not remedy such breach within a period of time specified by the party terminating the Framework Agreement. Such termination is effective immediately.

2010 Agreement

The Annual Agreement concluded on 23 February 2010, as amended on 10 September 2010, by the Guarantor and Mazowieckie Province covered the period from 1 January 2010 to 31 December 2010 (the

"**2010 Agreement**"). Pursuant to the 2010 Agreement, the Guarantor undertook to provide the Services within Mazowieckie Province and up to the nearest junction station outside Mazowieckie Province. The Guarantor's Services covered in the aggregate 14,550,139.22 train km. Mazowieckie Province undertook to provide compensation for the performance of the Services in the amount of PLN 193.5 million, provided to the Guarantor in 12 equal monthly instalments. The 2010 Agreement provided for procedures to be followed in case the amount of compensation needed to be adjusted at the end of the year. The adjustment would be made pursuant to a statement delivered by the Guarantor to Mazowieckie Province within 14 days of the approval of the Guarantor's audited financial statements for the year ended 31 December 2010 by the Shareholders' Meeting of the Guarantor.

2011 Agreement

The Annual Agreement concluded on 14 February 2011 by the Guarantor and Mazowieckie Province covers the period from 1 January 2011 to 31 December 2011 (the "**2011 Agreement**"). Pursuant to the 2011 Agreement, the Guarantor undertakes to provide the Services within Mazowieckie Province and up to the nearest junction station outside Mazowieckie Province. The Guarantor's Services cover in the aggregate 15,104,163.36 train km. Mazowieckie Province undertakes to provide compensation for the performance of the Services in the amount of not less than PLN 203.0 million, provided to the Guarantor in 12 equal monthly instalments. The compensation is to be used to satisfy the shortfall between the Guarantor's documented actual costs and revenues resulting from the provision of the Services within Mazowieckie Province and up to the nearest junction station outside Mazowieckie Province. The costs and revenues related to services other than the transport of passengers or any services rendered outside the area covered by the 2011 Agreement are explicitly excluded from the calculation of the compensation. The compensation includes reasonable profit of the Guarantor in accordance with the provisions of Regulation 1370/2007 amounting to PLN 0.52 million (equivalent to 0.17 per cent. of the Guarantor's equity). The 2011 Agreement provides for procedures to be followed in case the amount of compensation needs to be adjusted at the end of the year. The adjustment is made pursuant to a statement delivered by the Guarantor to Mazowieckie Province within 14 days of the approval of the Guarantor's audited financial statements by the Shareholders' Meeting of the Guarantor. Pursuant to the 2011 Agreement the Guarantor is required to submit by 30 November 2011 an application to Mazowieckie Province for compensation for planned Services during 2012 and to state the amount of compensation for the Services rendered in 2012. Under the 2011 Agreement, Mazowieckie Province is entitled to inspect the quality of the Services rendered by the Guarantor, in particular: the tidiness, composition and punctuality of trains and the performance of interim bus communication, as well as charge contractual penalties in case the Guarantor breaches the 2011 Agreement. The loss of the licence to conduct Services by the Guarantor would result in the termination of the 2011 Agreement.

As of the date of this Prospectus, the Guarantor is negotiating an annex to the 2011 Agreement to reflect the increased budgeted compensation amount of PLN 214.5 million (see "*Description of Mazowieckie Province — Recent developments — Budget for 2011*").

Agreement with PKP PLK on the use of railway lines

On 15 April 2010 the Guarantor entered into an agreement with PKP PLK regarding the use of railway lines. Pursuant to this agreement, PKP PLK makes the railway lines, which it manages and operates, accessible for the Guarantor's use from 13 December 2009 until 11 December 2010 (i.e., within the timeframe of the validity of the 2009/2010 train schedule). The total estimated remuneration of PKP PLK under the agreement amounts to PLN 125.8 million gross. In cases of the improper performance of the agreement, including a delay in payment for 90 days, the Guarantor may be included in the Register of PKP Group Dishonest Contractors (*Rejestr Nierzetelnych Kontrahentów Spółek Grupy PKP*) run by PKP S.A.'s department of control and audit. As at the date of this Prospectus, the Guarantor expects to enter into a new agreement with PKP PLK regarding the use of railway lines in the second quarter of 2011.

Agreement with PKP Cargo on the lease of locomotives

On 3 August 2010 the Guarantor entered into an agreement with PKP Cargo regarding the lease of locomotives and operation services. Pursuant to this agreement, PKP Cargo will lease 11 locomotives to the Guarantor and provide the services of qualified engine drivers and technicians. PKP Cargo will provide such services to the Guarantor from 1 September 2010 until 31 August 2011. The total estimated remuneration of PKP Cargo under the agreement amounts to PLN 13.7 million gross. PKP Cargo is required to pay contractual penalties in case of train delays on the part of PKP Cargo or in case PKP Cargo fails to deliver a given locomotive to the train service point on time.

Agreement for the purchase of locomotives

On 14 April 2010 the Guarantor entered into an agreement with Bombardier regarding the purchase of 11 new, double-cab, electric locomotives to be used for the operation of passenger carriages with "push-pull" features, to be delivered to the Guarantor in June 2011. The agreement was concluded pursuant to the procedures of the Public Procurement Law.

The value of the agreement is EUR 40.5 million net (the VAT rate is 0 per cent.) and includes the price of locomotives and remuneration for maintenance services for four years after delivery, the training of the Guarantor's employees and the repair services package in case of collision. Bombardier issued a warranty for the delivered locomotives for 48 months. In the case of improper performance or non-performance of the agreement, Bombardier will pay contractual penalties to the Guarantor. Bombardier provided the Guarantor with a guarantee of the proper performance of the agreement in the amount of 3 per cent. of the total contractual remuneration.

Agreement for the purchase of EMUs from PESA

On 20 January 2011 the Guarantor entered into an agreement with PESA regarding the purchase of 16 "Elf" type four-car EMUs. Under the agreement, the EMUs will be delivered throughout the year ended 31 December 2011. The total value of the agreement, including the price of the EMUs, their servicing as well as the training of the Guarantor's crew amounts to EUR 75.2 million net. PESA granted the Guarantor a 48-month warranty for the purchased EMUs. The purchase price will be paid in 16 equal instalments within 30 days of the delivery of each EMU. The Guarantor may terminate the agreement in the case of delays in deliveries of the EMUs or the relevant documentation exceeding three months or delays in repairing system errors. The Guarantor expects that half of the purchase price under the agreement will be co-financed using European funds.

Agreement for the purchase of EMUs

On 29 December 2010 the Guarantor entered into an agreement with Mazowieckie Province regarding the purchase of ten Flirt ER-75 EMUs manufactured by Stadler, previously and currently leased by the Guarantor from Mazowieckie Province. The aggregate purchase price is PLN 149.8 million net. Four of the EMUs were purchased in 2010 for the price of PLN 59.6 million net and six EMUs will be purchased in 2011 for the price of PLN 90.3 million net, to be paid within seven days of invoicing but no later than 31 January 2011. The transfer of the ownership title to the EMUs follows the payment of the price. Under the agreement, the Guarantor will use the EMUs purchased to perform regional passenger transportation services within the territory of Mazowieckie Province.

The Integrated Ticket Agreement

On 14 April 2010 the Guarantor and ZTM concluded an agreement pursuant to the procedures of the Public Procurement Law, on passenger transport services with the use of the Guarantor's trains (the "**Integrated Ticket Agreement**"). Under the Integrated Ticket Agreement, as amended on 29 April 2010, ZTM passengers who are holders of certain passes issued by ZTM are entitled to use the Guarantor's services without having to purchase separate fare from the Guarantor. The contractual provisions are valid within the area specified in the Integrated Ticket Agreement. Pursuant to the Integrated Ticket Agreement, for the services rendered to ZTM the Guarantor is entitled to remuneration in the amount of PLN 15.04 for one train km, and for additional services the Guarantor is entitled to reimbursement of the relevant costs. The Integrated Ticket Agreement was in force from 1 January 2010 to 31 December 2010 and may be extended by the parties. Each party may unilaterally terminate the Integrated Ticket Agreement if the other party breaches the material terms of the Integrated Ticket Agreement and does not cure such breach within a period of 14 days. Such termination is effective immediately. As of the date of this Prospectus, the Integrated Ticket Agreement has not been extended: the Guarantor is in the process of negotiating a new agreement with ZTM which would replace the Integrated Ticket Agreement and services continue to be rendered in accordance with the provisions of the Integrated Ticket Agreement.

Agreements related to the "Park and Ride" project

The Guarantor co-operates with Mazowieckie Province on the "Park and Ride" project. The aim of this project is to encourage commuters to leave their cars in parking lots situated conveniently near train stations and continue their commute by train. As at the date of the Prospectus, five parking lots operate as part of the "Park and Ride" project (in Celestynów, Żyrardów, Siedlce, Ożarów Mazowiecki and Brwinów) and the Guarantor plans to open four additional parking lots within the next several months.

On 4 March 2008 the Guarantor and Mazowieckie Province entered into an Investment Substitution Agreement (the "**Investment Agreement**"). Pursuant to the Investment Agreement, during the term of the execution of the "Park and Ride" project the Guarantor carries out investment substitution actions, i.e., it performs the rights and obligations arising out of the contracts for the construction of parking lots that are, or will be, executed by Mazowieckie Province and a contractor selected through public procurement procedure. The Guarantor is reimbursed for the expenses incurred in connection with the performance of the obligations under the Investment Agreement and receives consideration for its services. The Investment Agreement has been entered into for the duration of the "Park and Ride" project. It may terminated by each party with three months' notice or unilaterally by Mazowieckie Province if the Guarantor fails to perform its material contractual obligations or is in liquidation or is declared bankrupt, or if the execution of the Investment Agreement no longer serves the public interest.

On 27 January 2011 the Guarantor and Mazowieckie Province entered into five agreements for administering the "Park and Ride" parking lots for a term of one year. The Guarantor's obligations pursuant to such agreement include charging parking lot fees, maintaining the lot and making lease payments under separate agreements the Guarantor has entered into with PKP S.A. which are described in the paragraph below. In exchange for administering the lots the Guarantor receives payments from Mazowieckie Province in monthly instalments. All the money collected from the parking lot fees is applied toward expenses incurred by the Guarantor in connection with administering the parking lots. If the Guarantor's expenses are higher, the payments by Mazowieckie Province are adjusted at the end of the term of the agreement to ensure that the Guarantor receives full reimbursement of its expenses. The agreements may be terminated unilaterally with 30 days' notice or with immediate effect if one party breaches the agreement or is unable to continue to perform its contractual obligations for reasons such as liquidation or reorganisation proceedings.

The Guarantor is a party to several lease agreements with respect to the real properties on which the "Park and Ride" parking lots have been located or will be located. Generally, the Guarantor leases such real properties from PKP S.A. The term of such agreements is unspecified and commences when a given parking lot is opened for use, which is confirmed by a technical acceptance protocol. The Guarantor pays monthly lease payments to PKP S.A. for the use of such real properties. PKP S.A. may terminate such agreements with immediate effect if the Guarantor is in default with lease payments for two months or if the Guarantor, without prior approval from PKP S.A. allows for the gratuitous use of, subleases or changes the subjects of the leases.

Agreement with PKP S.A. on the lease of maintenance facilities

On 27 October 2010, the Guarantor entered into an agreement with PKP S.A. regarding the lease of maintenance facilities, including both real properties and tangible assets, located in: (i) Warsaw, district of Wola; (ii) Warsaw, district of Praga Południe; (iii) Sochaczew; and (iv) Tłuszcz.

Under the agreement, the Guarantor is required to pay monthly rent, the amount of which is indexed with the inflation rate quoted by GUS and moreover, has to be reassessed for three-year periods in accordance with the estimates prepared by the experts appointed by the parties to the agreement. The total net rent throughout the term of the agreement is estimated to amount to approximately PLN 64.1 million.

The agreement was concluded for a period of ten years beginning on 1 January 2010 and its entry into force is conditional upon both parties obtaining the relevant corporate consents. It is subject to automatic termination in the event the Guarantor is no longer authorised to conduct its business activities or if it purchases the leased properties. It may also be terminated by PKP S.A. if the Guarantor fails to pay rent for at least two months.

Agreement with PKP Energetyka S.A. regarding the supply of traction electricity

On 30 December 2010 the Guarantor entered into agreements with PKP Energetyka S.A. regarding the supply of traction electricity. The agreement covers the delivery period of 1 January 2010 to 31 December 2010. As at the date of this Prospectus, the Guarantor is negotiating an agreement with PKP Energetyka S.A. which would cover the period of 1 January 2011 to 31 March 2012.

Loan agreements

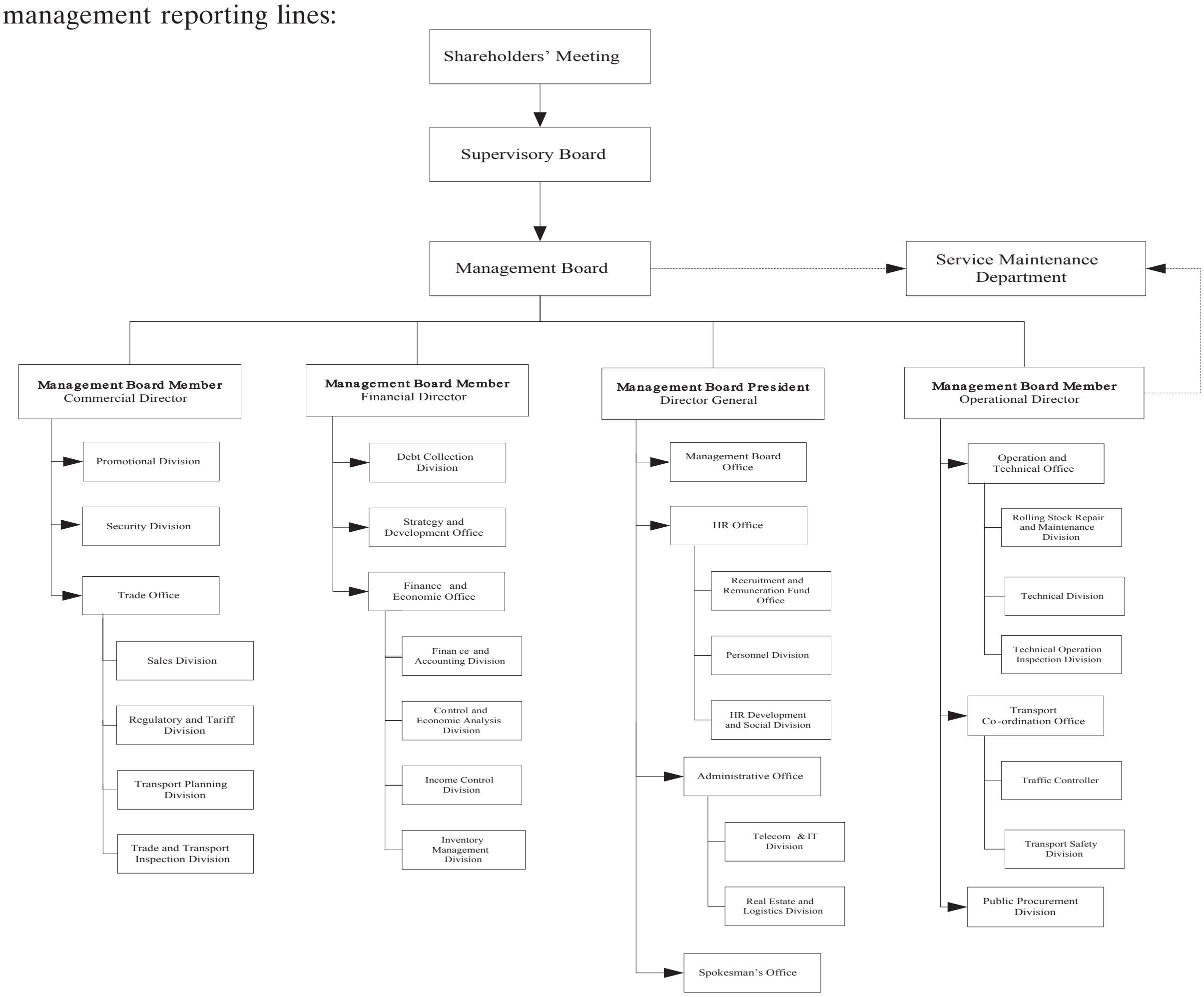
The Guarantor has entered into several loan agreements within the ordinary course of its business, which are listed in its financial statements (see "*Index to Financial Statements*"). Currently the Guarantor is considering the repayment of a loan granted by Bank Gospodarstwa Krajowego I Oddzial w Warszawie, the repayment of which is secured against revenue to be received under the 2010 Agreement, which requires the approval of the Supervisory Board. As of the date of this Prospectus the amount outstanding under this loan is PLN 6.5 million. The Guarantor expects to repay this loan in full in March 2011.

Promissory notes

On 9 August 2010 the Guarantor issued two blank promissory notes to secure its obligations under the agreement dated 26 July 2010 entered into between the Guarantor and the Mazowieckie Province regarding the co-financing from the European Fund for Regional Development as part of the Regional Transport System Operational Programme in connection with the purchase of new locomotives (the ''**Co-financing Agreement for the Purchase of Locomotives**'') and under the agreement dated 26 July 2010 entered into between the Guarantor and the Mazowieckie Province regarding the co-financing from the European Fund for Regional Development as part of the Regional Transport System Operational Programme in connection with the modernisation of its electrical rolling stock, as amended on 6 September 2010 (the ''**Co-financing Agreement for Modernisation**''). As of the date of this Prospectus, the blank promissory notes secure the obligations of the Guarantor to repay PLN 83.8 million and PLN 79.6 million together with applicable interest and enforcement costs, respectively, if the Guarantor breaches any of the conditions prescribed by the European Fund for Regional Development in making the co-financing available. The Co-financing Agreement for the Purchase of Locomotives covers the purchase of 11 new, double-cab electric locomotives by the Guarantor. The aggregate value of the investment is PLN 204.4 million, out of which PLN 83.8 million PLN will be financed by the European Fund for Regional Development. The Co-financing Agreement for Modernisation covers investment costs of PLN 204.5 million, out of which PLN 79.6 million PLN will be financed by the European Fund for Regional Development.

Corporate Structure

The following diagram illustrates the Guarantor's corporate organisational structure and principal management reporting lines:



The Guarantor has three governing bodies: the General Meeting, the Supervisory Board and the Management Board.

The Management Board represents the Guarantor and manages the Guarantor's affairs. It is organised into four units (the administration-employment unit, the exploitation-technical unit, the financial-economic unit and the commercial unit) led by the members of Management Board.

The administration-employment unit consists of the Management Board Office, the HR Office, the Administrative Office and the Spokesman's Office. The Management Board Office is responsible for servicing the current needs of the Guarantor's governing bodies, co-ordinating the Guarantor's normative activities and dealing with a range of complaints and motions submitted to the Guarantor. The HR Office is in charge of various employment matters such as: preparing employment strategy, recruitment, controlling employment documentation and fulfilling the Guarantor's employment reporting obligations. The Administrative Office is responsible for maintaining information technology systems and preparing policies and procedures. Moreover, it sets the standards for administration of real estate used by the Guarantor. The Spokesman's Office co-operates with the media and contributes to the promotional activities of the Promotional Division.

The Operations unit is comprised of the Operation and Technical Office, the Transport Coordination Office and the Public Procurement Division. The Operation and Technical Office is responsible, among others, for developing and executing plans for maintenance and modernisation services of the Guarantor's rolling stock, supervising the track infrastructure as well as controlling transportation security and technical condition of the rolling stock. The Transport Co-ordination Office is responsible for supervision of passenger transportation services, reviewing the services to ensure compliance with the train schedule, and organising substitute transportation services. The Public Procurement Division is in charge of planning, organising, executing and supervising public procurement procedures held by the Guarantor.

The Financial unit consists of the Finance and Economic Office, the Strategy and Development Office and the Debt Collection Division. The Finance and Economic Office is responsible for preparing forecasts of the Guarantor's business plans and budgets, analysing the Guarantor's monthly income and maintaining the Guarantor's books in accordance with appropriate legal and accounting standards. The Strategy and Development Office analyses the Guarantor's execution of current strategy, co-ordinates the preparation of investment plans which include obtaining outside sources for such investments. The Debt Collection Division conducts debt collection activities and co-operates in this respect with the state authorities, such as courts and debt collection officers.

The Commercial unit is comprised of the Trade Office, the Security Division and the Promotional Division. The Trade Office, among others, organises sales of the Guarantor's services, and prepares schedules, tariffs and regulations regarding the services provided by the Guarantor. The Security Division monitors criminal activities conducted against the Guarantor and its passengers, co-operates with various state and local authorities in order to prevent such crimes and proposes initiatives to ensure security of data and information, as well as the safety of buildings, land and other property used by the Guarantor. The Promotional Division deals with the Guarantor's promotional and informational activities. It also co-operates with outside promotional agencies as well as coordinates the Guarantor's participation in industry-specific events.

Rating

The Guarantor has a long-term foreign currency rating of ''BBB'' with negative outlook from Fitch. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency.

Property

The Guarantor does not own or exercise perpetual usufruct rights to any real estate and rents all real estate required for the conduct of its operations. For a description of the material leases of real estate, see ''*Material Agreements*''.

As at the date of this Prospectus, the Guarantor is considering the acquisition of at least two additional maintenance facilities and is evaluating sites in Radom, Nasielsk and Siedlce.

Employees

In the period covered by the financial statements presented in this Prospectus, the number of full-time employees of the Guarantor has increased, from 2,294 employees as at 31 December 2007, to 2,519 employees as at 31 December 2008, to 2,561 employees as at 31 December 2009 and 2,590 as at 30 June 2010.

The Guarantor is a party to the Inter-Guarantor Collective Bargaining Agreement for staff employed by employers associated with the Railway Employers' Association dated 2 December 2002, recorded in the Register of Inter-Guarantor Collective Bargaining Agreements on 20 December 2002; the Guarantor Collective Bargaining Agreement for the Employees of PKP Przewozy Regionalne of 5 November 2004, as amended, which was adopted by the Guarantor. Such collective bargaining agreements grant the employees certain additional benefits, including bonuses paid on account of the position held by an employee, other bonuses, free meals, pay for working in hazardous conditions, additional remuneration for the one-man servicing of railroad tracks and additional km-based remuneration (that applies to train drivers), as well as severance payments in the event of retirement.

The Guarantor offers its employees and their families voluntary group life insurance. The insurance premiums are deducted by the Guarantor from the salaries of the employees who participate in the programme. As at 31 December 2009, approximately 2,600 employees and their family members participated in the programme.

As at the date of this Prospectus there are no binding understandings or packages that would restrict the ability of the Guarantor to terminate employees or guarantee additional payments to terminated employees.

There are nine trade union organisations active in the Guarantor, including:

- Independent Self-governing Trade Union "Solidarity", Multi-Entity Trade Union Commission, 86th Divisional Commission of "Koleje Mazowieckie – KM" sp. z o.o. (*Niezależny Samorządny Związek Zawodowy "Solidarność" Międzyzakładowa Komisja Związkowa 86 Komisja Wydziałowa "Koleje Mazowieckie – KM" sp. z o.o.*);
- Trade Union of Railway Workers of the Central District, Multi-Entity Trade Union Organisation of Pasażerskie Przewozy Regionalne (*Regional Passenger Transportation Services) (Związek Zawodowy Kolejarzy Okręgu Centralnego Międzyzakładowa Organisacja Związkowa Pasażerskich Przewozów Regionalnych*);
- All-Poland Alliance of Trade Unions of Transport Workers, Multi-Entity Trade Union Organisation in Warsaw (*Ogólnopolski Związek Zawodowy Pracowników Transportu Międzyzakładowa Organisacja Związkowa w Warszawie*); and
- Multi-Entity Trade Union of the Rolling Stock Auditors, Multi-Entity Management Board at "Koleje Mazowieckie – KM" sp. z o.o. (*Międzyzakładowy Związek Zawodowy Rewidentów Taboru Zarząd Międzyzakładowy przy "Koleje Mazowieckie – KM" sp. z o.o.*).

In aggregate, as at 30 June 2010, approximately 90 per cent. of the Guarantor's employees were unionised.

In the period covered by the financial statements presented in this Prospectus, there were three collective disputes at the Guarantor, two of which related to salary levels and one of which related to the organisation of the Guarantor. Such disputes have been resolved and as at the date of this Prospectus, the Guarantor is not involved in any collective disputes with labour unions.

In the period covered by the financial statements presented in this Prospectus, there were no strikes at the Guarantor and, according to the best knowledge of the Guarantor, none are currently threatened.

Environment

In the Guarantor's judgment, the business of the Guarantor meets all of its obligations with respect to the use of the natural environment and does not materially infringe upon any environmental protection regulations that are in force in Poland. Moreover, the Guarantor has no information about any pending proceedings or any real threat of proceedings being instigated against the Guarantor in connection with the infringement of such regulations.

Insurance

The Guarantor maintains commercial liability insurance. The Guarantor's insurance covers rolling stock; cash/money in transit insurance; directors and officers liability insurance and employer's liability insurance. In 2009 the Guarantor paid in aggregate approximately PLN 1.9 million in insurance premia and received approximately PLN 1.2 million in compensation from such insurance contracts. As at

31 December 2009, proceedings regarding the payment of PLN 0.6 million in compensation were still pending.

Legal Proceedings

General

In the ordinary course of business the Guarantor is routinely involved in legal proceedings concerning its operational activities. To the Guarantor's best knowledge, as at 30 June 2010, the Group was a party to eleven court proceedings. The total disputed amount of any individual claim does not exceed PLN 0.005 million. Three of those proceedings were instituted by the Guarantor as the plaintiff/claimant, and in eight of the proceedings the Guarantor is either a defendant or a participant. The above proceedings include mostly civil law cases, including commercial and enforcement proceedings, as well as matters regarding labour law. According to the Guarantor's best knowledge, as at 30 June 2010, the total value of claims subject to court dispute where the Guarantor is the defendant amounted to PLN 0.059 million. As at 30 June 2010 the total value of provisions created against any litigation amounted to PLN 0.059 million.

According to the information held by the Guarantor as at the date of this Prospectus, within the 12 months preceding the date of this Prospectus there were no administrative proceedings, proceedings before administrative courts or civil, criminal or arbitration proceedings pending or instituted against the Guarantor which could significantly affect or have recently affected the financial standing or operations of the Guarantor.

The cancellation of the contract award procedure of a contract for the delivery of 16 new four-section EMUs

In November 2009, the Guarantor announced an open tender procedure for a contract for 16 new four-section EMUs, with maintenance services for four years and training of the Guarantor's employees. On 31 December 2009 two tenders were submitted and opened. A tender submitted by a Swiss entity, Stadler ("**Stadler's Tender**"), contained the net price of EUR 76.6 million. Because Stadler is not an entity from within the EU, a gross price inclusive of VAT was not provided as it would have been inapplicable. A tender submitted jointly by PESA ("**PESA's Tender**") contained a net price of EUR 75.2 million and a gross price of EUR 91.7 million. During the opening of the tenders, the Guarantor announced that the amount it could allocate to finance the contract was EUR 79.2 million gross, i.e., including 22 per cent. VAT.

The submitted tenders were reviewed based on criteria such as price, energy usage, term of guarantee and time of delivery. In order to treat all operators equally, the Guarantor adjusted the price of the non-EU tender to include VAT. Based on this approach the gross price in PESA's Tender was compared to the amount obtained by adding 22 per cent. VAT (i.e., EUR 16.9 million) to the net price of Stadler's Tender. The calculation resulted in a gross price of EUR 93.5 million.

In the review process, Stadler's Tender obtained the best score. However, no contract was awarded as on 12 January 2010 the Guarantor cancelled the contract award procedure on the basis that the price of the best tender, increased by the amount of 22 per cent. VAT, exceeded the amount the Guarantor was able to allocate to finance the contract.

Stadler appealed the cancellation of the contract award procedure and requested the awarding of the contract. After a series of administrative and court proceedings, on 20 July 2010, the Guarantor was ordered by a court to annul the cancellation of the contract award procedure. The Guarantor complied with such order on 6 August 2010. Thereafter, PESA filed a protest against such annulment and appealed the matter to the National Appeal Chamber. On 22 September 2010, PESA withdrew its claim. On 22 October 2010 and on 8 November 2010, the Guarantor submitted to Stadler formal requests to enter into the contract. On 25 November 2010 the Guarantor received a response from Stadler stating that it would not enter into the contract due to its inability to meet the contractual delivery deadlines. On 21 December 2010 the Guarantor announced that in accordance with the Public Procurement Act, it had selected the offer which obtained the second best score, i.e., PESA's Tender. On 18 January 2011 the President of the Public Procurement Office confirmed that the Guarantor did not breach the tender regulations in connection with the selection process. On 20 January 2011 the Guarantor entered into an agreement with PESA regarding the purchase of the EMUs. See "*Material Agreements — Agreement for the purchase of EMUs from PESA*".

Competition

Prior to 2001, when reforms aimed at the creation of a competitive market were introduced, railway transport in Poland was a monopoly held by the State-owned Polskie Koleje Państwowe. As at the date of this Prospectus, the largest company in railway transport is Polskie Koleje Państwowe SA Holding (Polish State-Owned Railways) which includes 17 independent companies, the most important of which are PKP PLK, the national railway infrastructure manager, Przewozy Regionalne Sp. z o.o, responsible for railway passenger services, PKP Cargo, the national railway freight transport operator and PKP InterCity, which deals with the operation of fast trains, EuroCity, InterCity, Tanie Linie Kolejowe, as well as express trains.

Except for companies from the PKP Group, there are few operators certified for passenger transport services, and such companies operate primarily on light track lines. In certain regions of Poland, Przewozy Regionalne and local bodies created independent companies, for example Koleje Mazowieckie as well as SKM, which operates in Warsaw and Trójmiasto (a territorial administrative area including the cities of Gdynia, Gdansk and Sopot).

The following table presents the Guarantor's main competitors and the number of passengers they transported in the years ended 31 December 2008 and 31 December 2009, respectively:

	For the year ended 31 December					For the six months ended	
	2008		2009		2009/2008	30 June 2010	
Name of operator	**Number of passengers**	**Market share**	**Number of passengers**	**Market share**	**Increase in number of passengers (y-o-y)**	**Number of passengers**	**Market share**
	(in thousand)	*(per cent.)*	*(in thousand)*	*(per cent.)*	*(per cent.)*	*(in thousand)*	*(per cent.)*
Przewozy Regionalne	168,612	57.91	121,381	43.12	(28.01)	60,433	45.26
Mazovian Railways	49,918	17.14	51,604	18.33	3.38	26,331	19.72
PKP Szybka Kolej Miejska w Trójmieście	39,004	13.40	37,820	13.44	(3.04)	18,613	13.94
PKP InterCity	14,805	5.08	51,764	18.39	249.64	17,972	13.46
Szybka Kolej Miejska w Warszawie	8,764	3.01	9,789	3.48	11.7	4,940	3.70
WKD	7,076	2.43	6,631	2.36	(6.29)	3,485	2.61
Other	2,989	1.03	36,521	0.88	1121.9	1,749	1.31
Total	**291,168**	**100.00**	**281,472**	**100.00**	**(3.33)**	**133,523**	**100.00**

Source: UTK.

In the greater Warsaw area, where most of the Guarantor's services are performed, WKD and SKM are the only two other providers of passenger railway services.

The Guarantor does not, however, consider WKD to be its competitor. As its rolling stock is custom-made for tracks which are a different width than all other tracks in Poland, WKD is able to operate one particular light track line only, and is the only operator on such line. Moreover, based on publicly available information, it does not plan to compete in the region by expanding its services.

Both the Guarantor and SKM operate on the same lines. Nonetheless, there is virtually no competition between them as the demand for the two companies' services is greater than their combined ability to provide such services.

There is competition in the region between the Guarantor and Przewozy Regionalne InterRegio regarding the strategic connection between Łódź and western Warsaw. Due to the large number of passengers travelling between the two cities, there is potential for an increase in business. The conflict between the operators involves InterRegio's long distance services which reach western Warsaw, and which, because of the compensation InterRegio receives, undercut the Guarantor's position on the market. Western Warsaw is the nearest junction station after the border between the Łódzkie and Mazowieckie Provinces, thus, under the current law, Łódzkie Province's compensation to InterRegio for the provision of services within Łódzkie Province is extended to the passage between the border and western Warsaw.

Outside the region, the Guarantor competes against Przewozy Regionalne InterRegio as well as PKP InterCity. Due to the limited scope of the long distance services provided by the Guarantor, this competition is relatively modest. However, the Guarantor has already launched the Sunny Train connection between Warsaw and Gdynia, which is located on the Polish seacoast.

Infrastructure

The total length of Poland's lines is of 19,419 km, 11,831 km of which are electrified railways. Most of these lines are the property of PKP Polskie Linie Kolejowe SA, which in turn, as infrastructure manager, receives the railway infrastructure access charge from rail operators.

The entire Polish railway network includes 1,600 railway stations, all managed by PKP PLK. There are also 14,200 level crossings and PKP PLK manages over 26,000 buildings, 7,000 of which railway bridges and viaducts. The most important railway lines in Poland are E20 (German border — Poznań Główny — Warszawa Centralna — Belarus border), E30 (German border — Wroclaw Główny — Katowice Główne — Kraków Główny — Ukrainian border) and E65 (Czech border — Katowice Główne — Warszawa Centralna — Tczew — Gdynia Glówna). The most important railway lines in Poland have been under modernisation since 2000, most of the projects being scheduled for completion by 2012. Part of E65 line between Katowice Główne and Warszawa Zachodnia is known as the Central Railway Line (*Centralna Magistrala Kolejowa*) and has already been modernised for high speed trains.

Railway transport in Poland is still inefficient as compared to other EU member states. Although the entire railway network is dense, rail transport is characterized by a low level of competition and poor quality of services. Recently Poland has begun investing in railway modernisation in order to increase quality standards and meet passenger demands. Poland has divided its railway lines into national interest lines, urban interest and international interest lines, the latter being already included in the European Agreement on Main International Railway Lines and the European Agreement on Important International Combined Transport Lines and Related Installations. Lines of strategic interest for international traffic will be gradually upgraded to European standards and also upgraded to ensure the interoperability of the Polish network included in the trans-European network of high speed lines, as well as the interoperability of the trans-European conventional railway system. In general, the modernisation of railway lines in Poland is carried out from state-budget funds and through non-reimbursable European funding, as well as various agreements signed with the EIB, the EBRD and the World Bank.

According to the Polish newspaper Rzeczpospolita of 9 September 2010, the European Union will commit approximately PLN 100 billion to the development of the Polish transportation system by 2015. Almost PLN 20 billion, including approximately PLN 1.3 billion contributed by local governments from the regional operating programmes funded by the EU, will be designated for the construction of new railway tracks. On 8 September 2010 the Polish website www.dziennik.pl reported that in 2011 the state budget is expected to commit PLN 1 billion for the maintenance of the railway infrastructure and PLN 0.9 billion for investments on railway lines and stations.

Management and Corporate Governance

Management Board

The Management Board is responsible for the day-to-day management of the Guarantor's business and may make representations on behalf of the Guarantor. The president of the Management Board and a member of the Management Board acting jointly, or two members of the Management Board acting jointly, or one member of the Management Board acting jointly with a commercial proxy are entitled to represent the Guarantor. The Articles of Association, the Guarantor Organisation By-Laws of the Management Board and the Commercial Companies Code (''**CCC**'') govern the powers, organisation and procedures of the Management Board. The members of the Management Board are appointed by the Supervisory Board. The Management Board may consist of between one and four persons. The number of members of the Management Board is determined by the Supervisory Board.

As at the date of this Prospectus, the Management Board is composed of four members. The table below sets forth certain information about each Management Board member, including age and position held within the Guarantor as at the date of this Prospectus. The President and members of the Management Board are appointed for concurrent three-year terms which expire on 28 June 2012. The mandates of the Management Board members expire, at the latest, on the date of the General Meeting approving the financial statements for 2011. The official address of the Management Board members is ul. Lubelska 1, 03-802 Warsaw, Poland.

Full Name	Position	Date of Appointment	Age
Artur Radwan	President of the Management Board	11 January 2010	39
Arkadiusz Olewnik	Member of the Management Board responsible for financial affairs	3 August 2009	43
Michał Panfil	Member of the Management Board responsible for corporate affairs	30 July 2010	55
Czesław Sulima	Member of the Management Board responsible for strategy and development	11 October 2004	54

Artur Radwan, President of the Management Board

Prior to becoming a member of the Management Board Artur Radwan was the Head of the District Council Office of the Capital City of Warsaw. From 2006 until 2008 he was a member of the management board of Przewozy Regionalne Sp. z o.o. – director of human resources department. He has been a member of the Management Board since 11 January 2010.

Artur Radwan graduated from the Faculty of Journalism and Political Science of the University of Warsaw in 2005. He also completed postgraduate management studies at the Koźminski University in 2007 and several courses and workshops, including: liability of the management board and supervisory board members; strategic management of a company; internal control and audit in a company. Mr Radwan is currently completing doctoral studies in economics at the University of Warmia and Mazury in Olsztyn.

Business address of Artur Radwan: ul. Lubelska 1, 03-802 Warsaw, Poland.

Arkadiusz Olewnik, member of the Management Board – Finance Manager

Prior to becoming a member of the Management Board Arkadiusz Olewnik was a marketing manager in companies unrelated to the railway industry. He also held a position in the department of finance of the District Council Office, the Capital City of Warsaw. From 2005 until 2008 he was a member of the management board of Polskie Koleje Państwowe S.A. – Director of the Ownership Supervision and Privatisation Department. A former member of the supervisory board of PKP Cargo S.A., he has been a member of the Management Board since 3 August 2009.

Arkadiusz Olewnik graduated from the Warsaw School of Economics in 1992.

Business address of Arkadiusz Olewnik: ul. Lubelska 1, 03-802 Warsaw, Poland.

Michał Panfil, member of the Management Board – Sales Manager

Michał Panfil has been working for the Polskie Koleje Państwowe S.A. since 1980 where he held various specialist and managerial positions, including the position of the deputy finance manager of the infrastructure department in Kutno, the liquidator of the infrastructure department in Warsaw and most recently the main specialist in one of the departments of PKP PLK in Warsaw.

From 4 March 2009 to 30 July 2010 Michał Panfil was a member of the Supervisory Board, he has been a member of the Management Board since 30 July 2010.

Michał Panfil graduated from the Leningrad Institute of Railway Transport Engineers in 1980. He also completed a course for supervisory board members in 2000 and postgraduate studies in finance, controlling and marketing at the University of Szczecin in 2002.

Business address of Michał Panfil: ul. Lubelska 1, 03-802 Warsaw, Poland.

Czesław Sulima, member of the Management Board – Operations Manager

Czesław Sulima has been working in the railway industry since 1980. He has held various specialist and managerial positions in railway companies, including the position of transportation supervisor and deputy operations and technical manager.

Czesław Sulima has been a member of the Management Board since 2004, firstly as a technical and development manager, and as operations manager since 2010.

Czesław Sulima graduated from the Faculty of Economy and Administration of the University of Warsaw, branch in Białystok, in 1980. He also completed postgraduate studies in Management and

Marketing of Railway Companies at the Faculty of Transportation of the Warsaw University of Technology in 2000.

Business address of Czesław Sulima: ul. Lubelska 1, 03-802 Warsaw, Poland.

Conflicts of Interest

There are no conflicts of interest between any duties to the Guarantor of the Management Board members and their private interests and or other duties.

There are no agreements or arrangements with principal shareholders, clients, suppliers or other persons on the basis of which the members of the Management Board have been appointed to their current positions.

Supervisory Board

The CCC, the Articles of Association, the Guarantor Organisation By-Laws and the By-Laws of the Supervisory Board govern the powers, organisation and procedures of the Supervisory Board. The Supervisory Board oversees all aspects of the Guarantor's business. The specific duties of the Supervisory Board include: (i) appointment and dismissal of the members of the Management Board as well as the determination of their remuneration; (ii) the evaluation of the Management Board's report on the Guarantor's operations and financial statements for the previous fiscal year, specifically in view of their compliance with accounting records and documents and the actual state of affairs; (iii) the evaluation of resolutions prepared by the Management Board with respect to the allocation of profits or the coverage of losses; and (iv) the submission of a written annual report to the General Meeting. Moreover, pursuant to section 20 sub-section 4 of the Articles of Association, the Supervisory Board has, *inter alia*, the following duties: (i) to appoint a chartered accountant to audit the Guarantor's financial statements from amongst the candidates presented by the Management Board; (ii) to suspend any Management Board members from their duties and to delegate Supervisory Board members to perform the duties of such Management Board member for a period of time which is not to exceed three months; (iii) to approve certain transactions the value of which exceed PLN 5 million and do not exceed PLN 50 million; (iv) to approve the granting by the Guarantor of any guarantees; and (v) to approve the establishment of the Guarantor's branches.

The Supervisory Board is composed of between three and five members appointed by the General Meeting. The number of Supervisory Board members is decided by the General Meeting.

As at the date of this Prospectus, the Supervisory Board is composed of four members. The table below presents certain information about each Supervisory Board member, including age and position with the Guarantor as at the date of this Prospectus. The Supervisory Board members have been appointed for a joint three-year term of office which expires on 1 July 2011. The mandates of Supervisory Board members expire, at the latest, on the date of the General Meeting approving the financial statements for the year 2010.

Full Name	Position	Date of Appointment	Age
Jan Waldemar Kuliński	Chairman of the Supervisory Board	5 October 2004	47
Marzena Okła-Anuszewska	Member of the Supervisory Board	2 July 2008	38
Monika Sokulska	Member of the Supervisory Board	10 August 2010	32
Piotr Zięcik	Member of the Supervisory Board	24 November 2009	35

Jan Waldemar Kuliński – Chairman of the Supervisory Board

Jan Waldemar Kuliński served as the head of Mazowieckie Province Office between 1976 and 1998. He has been the head of the Office of the Marshal of Mazowieckie Province since 1999.

Jan Waldemar Kuliński graduated from the Faculty of Law and Administration of the University of Warsaw in 1986. He also completed postgraduate studies at the Faculty of Management of the University of Warsaw and a course for supervisory board members, as well as courses in public procurement law and management.

Business address of Jan Waldemar Kuliński: ul. Jagiellońska 26, 03-719 Warsaw, Poland.

Marzena Okła-Anuszewska – Member of the Supervisory Board

In the last five years Marzena Okła-Anuszewska was a member of the supervisory boards of Ciech S.A. and TBS Bemowo sp. z o.o., but currently is not holding any of the mentioned positions.

Marzena Okła-Anuszewska graduated from the Faculty of Polish Philology of the Jagiellonian University in 1996 and from the Faculty of Law and Administration of the Jagiellonian University in 1998. Since 2003 she has had her own law practice as a legal advisor.

Business address of Marzena Okła-Anuszewska: ul. Lwowska 6/2, 00-658 Warsaw, Poland.

Monika Sokulska – Member of the Supervisory Board

Within the period of the last five years Monika Sokulska was a member of the supervisory board of Towarzystwo Budowlane Probud S.A., a real property company, but currently is not holding the mentioned position.

Monika Sokulska graduated from the Faculty of Law and Administration of the University of Warsaw in 2002. Since 2008 she has been admitted to the bar as a legal advisor.

Business address of Monika Sykulska: ul. Okrzei 35, 03-715 Warsaw, Poland.

Piotr Zięcik – Member of the Supervisory Board

Piotr Zięcik is an attorney, since 2004 has been a partner at Zgutka, Zięcik, Falkiewicz and Partners – Attorneys-at-Law and Legal Advisors.

Piotr Zięcik graduated from the Faculty of Law and Administration of the Jagiellonian University in 1999. In 1999 he completed studies in European law at the Catholic University of Leuven (Belgium).

Business address of Piotr Zięcik: ul. Dworkowa 3, 00-784 Warsaw, Poland.

Conflicts of Interests

According to representations made by each member of the Supervisory Board, there are no conflicts of interest or agreements concluded between any duties to the Guarantor of the Supervisory Board members and their private interests and or other duties.

According to representations made by each member of the Supervisory Board, there are no agreements or arrangements with Mazowieckie Province, in its capacity as sole shareholder of the Guarantor, clients or other persons on the basis of which the members of the Supervisory Board have been appointed to their current positions.

Remuneration

Remuneration for members of the Management Board is established in accordance with the Salaries Cap Act. Pursuant to the Salaries Cap Act, the maximum monthly remuneration for persons employed in companies in which local government entities hold more than 50 per cent. of the shares may not exceed the average remuneration for six months in the enterprise unit, excluding bonuses from the profit in the fourth quarter of the preceding year, as announced by the President of the Polish Central Statistical Office. Upon a motion of the Supervisory Board, members of the Management Board may be awarded an annual bonus the value of which may not exceed three months' remuneration of an employee paid in the year preceding the year in which the bonus is to be granted and other benefits under the Inter-company Collective Bargaining Agreement and Guarantor Collective Bargaining Agreement. Such bargaining agreements do not, however, contain rules relating to the remuneration of the members of the Management and Supervisory Boards.

The members of the Management Board have entered into employment contracts with the Guarantor which provide for three months' notice of termination. Furthermore, the members of the Management Board signed non-compete agreements for the duration of the employment relationship and for twelve months thereafter. During the term of the non-compete obligation, the members of the Management Board will have the right to monthly compensation equal to the monthly salary received prior to the completion of the employment relationship.

Remuneration for the members of the Supervisory Board is established by the General Meeting.

Third party liability insurance

The Management Board is covered by insurance protection for the possible damages caused to the Guarantor or to third parties with regard to the performance of the Management Board's duties for which the members are liable according to the binding provisions of law. The scope of the insurance covers damages caused by improper action or failure to take action. Pursuant to the agreement, ''damage'' means only the financial damage borne by the Guarantor or a third party, excluding injury to a person or the obligation to pay taxes or court and administrative fines. According to the third-party insurance agreement dated 29 December 2009 entered into between the Guarantor and Powszechny Zakład Ubezpieczeń S.A. acting together with Sopockie Towarzystwo Ubezpieczeń ERGO HESTIA S.A. (the ''**Insurers**'') the warranty sum amounts PLN 2 million for each and every occurrence and for each Management Board Member. In 2009 the Guarantor paid to the Insurers an annual contribution in the amount of PLN 0.03 million.

General Meeting

The CCC and the Articles of Association govern the powers, organisation and procedures of the General Meeting.

General Meetings may be ordinary (annual) or extraordinary. The Annual General Meeting is convened not later than six months after the end of each financial year. The subjects covered at the Annual Meeting are: (i) the examination and approval of the Management Board's report on the Guarantor's activity and the financial statement for the past financial year; (ii) the adoption of a resolution on the distribution of profits or the coverage of losses; and (iii) acknowledgement of the fulfilment of the duties of the members of the corporate bodies of the Guarantor.

The General Meetings are held at the Guarantor's registered office.

The specific powers of the General Meeting under the CCC include, *inter alia*: (i) consideration and approval of the management board report on the operations of the company, the financial report for the previous financial year and the acknowledgement of the fulfilment of the duties of the members of the corporate bodies of the Guarantor; (ii) decisions on claims for redress of damage caused upon the formation of the company or its management or supervision; (iii) disposal or encumbrance of the enterprise or its organised part and the creation of a limited right in rem thereover; (iv) acquisition and disposal of real estate, the right of perpetual usufruct, or a share in real estate; (v) repayment of additional contributions; (vi) amendments to the Articles of Association, including share capital increases or decreases; (vii) share redemptions; and (viii) the merger, demerger or transformation of the Guarantor.

Moreover, pursuant to section 28 sub-section 1 of the Articles of Association, a resolution of the General Meeting is required, *inter alia*, for the following: (i) the transfer or encumbrance of shares in the Guarantor; (ii) the establishment of a foreign subsidiary; (iii) approval for entry into certain transactions the value of which exceed PLN 50 million; (iii) the issuance of bonds; (iv) the acquisition of shares in another company; and (v) the approval of the Guarantor's corporate identity.

The Sole Shareholder

Mazowieckie Province, a local government entity, is the sole shareholder of the Guarantor and exercises the shareholder's rights set forth in the CCC and in the Articles of Association of the Guarantor.

The organisation of provinces, which are local government entities, is regulated by the Regional Local Government Act, pursuant to which they comprise two types of authorities: a *sejmik*, i.e., province legislature, which is a legislative and overseeing body; and a *zarząd* - the management board of the province, which is an executive body. The province legislature of Mazowieckie Province consists of 51 persons elected by the residents of the province for four-year terms. The management board of the province consists of five persons elected by the province legislature, including the Marshal of the Province, who simultaneously serves as the chairman of the management board.

Administration of the assets held by Mazowieckie Province, including exercising the shareholder's rights from the shares held by Mazowieckie Province, is the task of the management board of Mazowieckie Province. However, the general principles of such administration are set by Mazowieckie Province legislature.

DESCRIPTION OF MAZOWIECKIE PROVINCE

General

Mazowieckie Province is the largest Polish province by area, accounting for 11.4 per cent. of the territory of Poland, and the most populated, with 5,188 thousand inhabitants, representing 13.7 per cent. of the total population of the country. It is also the wealthiest Polish province: in 2009 its gross regional product per capita amounted to 160 per cent. of the national average (PLN 49,415 compared to PLN 30,873) and 87.1 per cent. of the average for the 27 countries of the EU (according to Eurostat) in 2007.

Mazowieckie Province's major cities include the capital city of Warsaw (with a population of 1,701 thousand); Radom (with a population of 226 thousand); Płock (with a population of 127 thousand); Siedlce (with a population of 76 thousand) and Ciechanów (with a population of 46 thousand).

According to data from GUS, in July 2010 the unemployment rate in Mazowieckie Province was 9 per cent., compared to the 11.4 per cent. national average.

The average monthly salary in Mazowieckie Province is PLN 4,246, compared to the national average of PLN 3,433.

As at 30 June 2010 there were 85,817 commercial companies with their registered seats within the territory of Mazowieckie Province. Of these, 24,857 had foreign capital participation (in comparison to the national total of 293,005 and 66,910, respectively).

The address of the Office of the Marshal of Mazowieckie Province is Jagiellońska 26, 03-719 Warsaw, Poland. The telephone number of the Office of the Marshal of Mazowieckie Province is +48 22 597 91 00.

Administration and institutional framework

The responsibilities of a province

There are three types of local government units in Poland: the smallest are municipalities (*gmina*); next are districts (*powiat*); and the largest are provinces (*województwo*).

The responsibilities of a province generally include: public education; healthcare (regional hospitals and specialised healthcare services); social care; public order; culture (operas, theatres and museums, regional cultural activities and preservation of regional culture); regional public transport; environmental protection; establishing regional development programmes; developing international economic relations on a regional level; and constructing and maintaining regional roads. A province is also responsible for creating a suitable environment for regional development, shaping the regional labour market and developing the regional infrastructure.

Organisation

The organisation of provinces, which are local government entities, is regulated by the Regional Local Government Act, pursuant to which they comprise two types of authorities: a *sejmik*, i.e., provincial legislature, which is the legislative and overseeing body; and a *zarząd* - the management board of the province, which is the executive body. The provincial legislature of Mazowieckie Province consists of 51 persons elected by the residents of the province for four-year terms. The management board of the province consists of five persons elected by the provincial legislature, including the Marshal of the Province, who simultaneously serves as the chairman of the management board.

Administration of the assets held by the province, including exercising the shareholder's rights from the shares held by Mazowieckie Province, is the task of the management board of Mazowieckie Province. However, the general principles of such administration are set by the provincial legislature.

Supervision

Local governments are generally supervised by the regional auditing chambers (*Regionalne Izby Obrachunkowe*), which represent the Ministry of Finance at the regional level, and the Supreme Chamber of Control (*Najwyzsza Izba Kontroli*).

Finance

Budget of the Province

A budget of a province is an annual plan of its estimated income (including tax income and subsidies) and revenues (such as proceeds from bond offerings and loans), as well as expenses (funds spent on the fulfilment of the responsibilities of a province) and disbursements (for example, the repayment of loans and bonds).

The following table presents the major line items in the budget of Mazowieckie Province in the years ended 31 December 2007, 2008, 2009 (actual) and 2010 (budgeted), as well as for the six months periods ended 30 June 2009 and 2010 (actual):

	For the year ended 31 December				**For the six months ended 30 June**		
	2007	**2008**	**2009**	**2010 (bud-geted)**	**2009**	**2010 (actual)**	
		(in PLN million)			*(in PLN million)*		*(in EUR million)**
Income, *of which*	2,482.6	2,565.4	2,950.9	2,503.3	1,277.6	943.2	235.6
Corporate income tax	1,805.0	1,653.7	1,426.1	1,211.6	742.9	497.8	124,3
Personal income tax	194.1	210.1	205.2	207.0	91.1	83.6	20.9
RPO subsidy**	–	14.2	306.8	188.4	20.5	39.8	9.9
PO KL subsidy***	–	67.8	231.2		123.4	42.3	10.6
General budgetary subsidy	159.0	180.8	258.3	247.1	136.8	135.7	33.9
Revenue, *of which*	**433.9**	**734.1**	**1,135.4**	**435.6**	**286.6**	**266.0**	**66.4**
Loans	259.8	580.2	662.2	260.0	–	89.6	22.4
Bond offerings	–	–	354.3	–	223.6	–	–
Expenses, *of which*	**2,728.3**	**3,079.3**	**3,244.3**	**2,838.9**	**1,174.4**	**1,044.7**	**260.9**
Various expenses, including the "Robin Hood tax"	642.3	708.6	875.6	699.8	437.8	469.6	117.3
Transportation and communication	925.8	1.164.0	832.2	655.6	259.9	198.1	49.5
Administration	127.1	162.6	195.7	218.0	82.6	85.1	21.3
Culture and heritage	256.9	236.7	240.6	178.9	90.4	76.5	19.1
Health care	304.5	261.6	345.8	132.1	42.2	17.0	4.2
Public education	121.6	159.8	176.1	123.1	71.2	59.4	14.8
Disbursements, *of which*	**79.0**	**159.1**	**672.4**	**100.0**	**37.9**	**134.5**	**33.6**
Loan repayment	–	–	600.0	100.0	–	100.0	25
Repayment of loans granted for EU projects	39.5	59.3	57.4	–	27.9	–	–

* Convenience recalculation only based on the NBP exchange rate of PLN 1 to Euro 4.0042 as at 30 June 2010.

** Subsidy received under the Regional Operational Program for Mazowieckie Province (Regionalny Program Operacyjny Województwa Mazowieckiego) for the years 2007 to 2013, financed by the EU Cohesion Fund and managed by the management board of Mazowieckie Province.

*** Subsidy received under Human Capital Operational Program (Program Operacyjny Kapitał Ludzki) for the years 2007 to 2013, financed by the EU Social Fund and managed by the Ministry of Regional Development.

Share in tax revenues

Under the Polish Act dated 13 November 2003 on the revenues of local government units (the "**Local Government Revenue Act**"), provinces receive a certain share in the revenues from income taxes levied on entities and natural persons registered for tax purposes within their territory. The following table presents the percentage of such personal income tax and corporate income tax revenues that provinces were entitled to receive in the years ended 31 December 2007, 31 December 2008, 31 December 2009 and 31 December 2010:

	Regional share in personal income tax and corporate income tax revenues			
Tax	**2007**	**2008**	**2009**	**2010**
		(in per cent.)		
Corporate income tax	15.9	14.0	14.0	14.75
Personal income tax	1.6	1.6	1.6	1.6

Source: Polish Act dated 13 November 2003 on the revenues of local government units.

"Robin Hood tax"

The so-called "Robin Hood tax" is a mandatory payment which the most affluent local government units are required to pay for the benefit of poorer units under the Local Government Revenue Act. It constitutes a certain fraction of the revenues from taxes which a given local government unit levied two years before the year when the payment is effected (i.e. payments for 2011 are assessed on the basis of revenues from 2009). Mazowieckie Province has generally paid approximately 10 per cent. of its total annual budget as the "Robin Hood tax".

In 2010 the "Robin Hood tax" constitutes an unusually high percentage (approximately 70 per cent. at the end of June 2010) of the total tax income of Mazowieckie Province when compared to decreased tax income received in 2010 and exceptionally high tax income received in 2008. It will be required to pay PLN 939.3 million, the highest amount it has ever been required to pay.

In February 2010 the Marshal of Mazowieckie Province and in September 2010 the City Council of Warsaw filed motions with the Polish Constitutional Tribunal seeking to declare the "Robin Hood tax" provisions unconstitutional.

Debt limits

According to the Act dated 27 August 2009 on Public Finance, local governments must comply with certain debt and debt-servicing ratios. In particular, the total amount of debt may not exceed 60 per cent. of the total revenues and the costs of debt-servicing may not exceed 15 per cent. of total revenues of the local government. As at 30 September 2010 the total amount of debt of Mazowieckie Province amounted to 56.85 per cent. of its total revenues, with the costs of debt-servicing amounting to 5.10 per cent. of total revenues.

Under the Act dated 28 February 2003 on Insolvency Law, a province is incapable of being declared bankrupt.

Financial ratings

Mazowieckie Province has been assigned the following ratings by Fitch (in December 2007, upheld on 6 November 2008, on 15 December 2009 and on 2 June 2010):

- long-term foreign currency rating at "A–"; and
- long-term local currency rating at "A".

Both ratings have negative outlooks as of 2 June 2010. According to Fitch's definitions, "A" ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings. Fitch may append a "+" or "–" modifier to a rating to denote relative status within major rating categories.

Debt structure

As at 30 June 2010 the liabilities of Mazowieckie Province amounted to PLN 1,259.1 million, including PLN 340.0 million in long-term bonds and PLN 918.9 million in loan agreements.

Below is a summary of the material liabilities of Mazowieckie Province:

EUR 50 million loan agreement with the EIB

On 5 September 2006, Mazowieckie Province entered into a loan agreement with the EIB for EUR 50 million for the purpose of purchasing trains for the Guarantor. The loan has a grace period of four years (which applies to the principal and not to the interest) and a final maturity of 25 years. Interest is paid on a quarterly basis and calculated according to a variable-spread floating interest rate. The EIB has agreed that the interest will not be higher than the Warsaw Interbank Offer Rate (''**WIBOR**'') increased by a margin of 0.13 percentage points throughout the duration of the loan period.

PLN 310 million loan agreement with the EIB

On 16 April 2008, Mazowieckie Province entered into a loan agreement with the EIB for PLN 310 million for the purpose of financing infrastructure investments in Mazowieckie Province. The loan was drawn in two tranches: (i) PLN 90 million on 2 September 2008; and (ii) PLN 220 million on 15 December 2009. The loan has a grace period of six years (which applies to the principal and not to the interest) and a final maturity of 20 years. Interest is paid on a quarterly basis and calculated according to a variable-spread floating interest rate. The EIB has agreed that the interest will not be higher than WIBOR increased by a margin of 0.13 percentage points throughout the duration of the loan period.

PLN 330 million loan agreement with the Council of Europe Development Bank

On 13 December 2007, Mazowieckie Province entered into a loan agreement with the Council of Europe Development Bank for PLN 330 million. The loan was drawn in two tranches: (i) PLN 165 million on 20 December 2007, to be repaid in equal instalments between 2013 and 2027, with the interest rate equal to EURIBOR increased by a margin of 0.11 percentage points; and (ii) PLN 152.2 million on 31 July 2009, to be repaid between 2015 and 2029, with the interest rate equal to EURIBOR increased by a margin of 1.40 percentage points. The grace period applies to the principal and not to the interest, which has been paid since March 2008. Interest is paid on a quarterly basis.

PLN 360 million loan agreement with the EIB

On 23 December 2009, Mazowieckie Province entered into a loan agreement with the EIB for PLN 360 million for the purpose of financing infrastructure investments in Mazowieckie Province. As of the date of this Prospectus, one tranche amounting to PLN 260 million was drawn on 4 October 2010. The loan has a grace period of five years (which applies to the principal and not to the interest) and a final maturity of 14 years and is to be repaid in ten instalments. Interest is paid on a quarterly basis and calculated according to a variable-spread floating interest rate. The EIB has agreed that the interest will not be higher than WIBOR increased by a margin of 0.13 percentage points throughout a period of ten years.

Bond offerings

Under a resolution of its provincial legislature dated 16 March 2009, Mazowieckie Province may issue bonds of a maximum value amounting to PLN 360 million. On 22 June 2009, bonds amounting to EUR 50 million, due on 21 June 2019, were issued. On 7 July 2010 their ''A-'' rating of these bonds was confirmed by Fitch. On 22 December 2009 bonds amounting to EUR 32 million, due on 21 December 2019, were issued and Fitch confirmed their ''A-'' rating of these bonds on 20 January 2010. Both tranches of bonds bear variable interest based on the Deutsche Bank Forward Rate Bias (FRB) Index, such interest not to be lower than 1 per cent. and not higher than 10.95 per cent. per annum. Interest is paid on a semi-annual basis. The nominal value of one bond is EUR 50,000.

Recent developments

In 2010 revenues from income taxes levied on entities and natural persons registered for tax purposes within the territory of Mazowieckie Province were lower than expected. Planned revenues from corporate income taxes had to be lowered by a resolution of the provincial legislature by 21.48 per cent. (from PLN 1,527.0 million to PLN 1,199.1 million) and budgeted investment expenditures by 35.44 per cent. (from PLN 952.9 million to PLN 615.2 million).

Budget for 2011

On 31 January 2011, the provincial legislature of Mazowieckie Province approved the budget for 2011. Such budget provides, *inter alia*, that the amount of compensation for the Guarantor in 2011 will be PLN 214.5 million.

REGULATORY FRAMEWORK

Current railway transport laws

The services provided by the Guarantor are subject to EU and Polish laws.

Council Directive 91/440/EEC of 29 July 1991 on the development of the Community's railways is the main piece of legislation that provides the framework for open access to operations on railways in the European Union. It was further extended by Directive 95/18/EC of 19 June 1995 on the licensing of railway undertakings and Directive 2001/14/EC of the European Parliament and of the Council of 26 February 2001 on the allocation of railway infrastructure capacity and the levying of charges for the use of railway infrastructure and safety certification.

In the years following the adoption of the above-mentioned directives the railway industry was further regulated by a new series of directives and regulations which are referred to as ''railway packages''. The First and Second Railway Packages, adopted in 2001 and 2004 respectively, cover issues involving interoperation on the railway system, improvement of competition, improvement of the efficiency of infrastructure capacity, as well as the liberalisation of cargo transportation services and safety concerns within the industry. The Third Railway Package of 2007 is of the most significance for providers of passenger transportation services and deals with the liberalisation of international passenger transportation services, rail passenger rights and obligations, certification of train drivers and quality of rail cargo services. It consists of the following legislation:

- Directive 2007/58/EC of the European Parliament and of the Council of 23 October 2007 amending Council Directive 91/440/EEC on the development of the Community's railways and Directive 2001/14/EC on the allocation of railway infrastructure capacity and the levying of charges for the use of railway infrastructure;
- Directive 2007/59/EC of the European Parliament and of the Council of 23 October 2007 on the certification of train drivers operating locomotives and trains on the railway system in the Community;
- Regulation 1370/2007; and
- Regulation (EC) No. 1371/2007 of the European Parliament and of the Council of 23 October 2007 on rail passenger rights and obligations.

Regulation 1370/2007 provides for the conditions under which a public authority from a Member State, in imposing or contracting public service obligations in the field of public passenger transport, compensates public service operators for the costs incurred and/or grants exclusive rights in return for the performance of public service obligations. Public service obligations are defined as requirements determined by a competent authority in order to ensure the provision of public passenger transport services which are in the general interest but which an operator, if considering its own interests, would not provide, or would not provide to the same extent or under the same conditions without reward. Public service obligations are to be performed within the framework of public service contracts. Public service obligations aimed at establishing maximum tariffs for all passengers or for certain categories of passengers may be subject to the general rules, i.e. measures applicable without discrimination to all public passenger transport services of the same type in a given geographical area for which a relevant competent authority is responsible.

Regulation 1370/2007 provides for the mandatory content of public service contracts, which includes a clear definition of the public service obligations, the geographical areas concerned, the basis for the calculation of the compensation payment, the nature and extent of any exclusive rights granted, and the cost allocation. The manner in which an operator is compensated or is granted any exclusive rights must ensure such operator does not receive greater benefit than that which is appropriate under applicable law. The revenue allocation should be determined both in the public service contract and the general rules for the operation of public transport contained in Regulation 1370/2007. Article 4 provides that the term of public service contracts with regard to the railway industry may not exceed 15 years. This period may be extended by a maximum of 50 per cent. if the public service operator provides assets which are significant in relation to the overall assets needed to carry out the passenger transport services covered by the public service contract and are linked predominantly to such services, or if it is justified by the costs deriving from a given geographical situation. Regulation 1370/2007 allows for longer terms of contracts awarded in a fair competitive tender procedure if it is justified by the amortisation of capital in relation to nonstandard infrastructure, rolling stock or vehicle investments.

Public service contracts within the rail industry are to be awarded in accordance with the rules laid down in Regulation 1370/2007, on the basis of a competitive tender procedure except in specified cases, including, *inter alia*, a direct award by a Member State authority of a rail transport public service contract. The term of public service contracts concerning rail transport which were awarded directly is generally limited to ten years and the major provisions of such contracts should be made public by the authority which awarded them. The above rules of awarding public service contracts are to be complied with from 3 December 2019. Until that date transition measures are to taken by the Member States. Regulation 1370/2007 describes the circumstances that may impact the term of contracts executed prior to 3 December 2009, the date on which Regulation 1370/2007 entered into force. While contracts entered into before 26 July 2000 on the basis of a fair competitive tender procedure may continue until they expire, contracts entered into before 26 July 2000 on the basis of a procedure other than a fair competitive tender procedure and contracts entered into between 26 July 2000 and 3 December 2009 on the basis of a fair competitive tender procedure may continue until they expire, however no longer than 30 years. Contracts entered into between 26 July 2000 and 3 December 2009 on the basis of a procedure other than a fair competitive tender procedure may continue until they expire provided that their term is comparable to the term specified in Article 4 of Regulation 1370/2007.

An annex to Regulation 1370/2007 provides for the manner of calculation of the compensation connected with the general rule or public service contracts awarded directly. The amount of such compensation cannot exceed the net financial result which is calculated pursuant to the following formula: costs incurred in relation to a public service obligation imposed by the competent authority set out in a public service contract and/or in the general rule, minus any positive financial results generated under such public service obligation, minus revenues from tariffs or any other revenues generated in the performance of the public service obligation, plus reasonable profit, equals the net financial result. Reasonable profit is the rate of return on capital that is standard for the sector in a given Member State and that reflects the risk incurred, or its absence, due to the intervention of public authorities. To increase transparency, a public service operator that pursues other activities in addition to performing public transport service obligations for which it is compensated must establish a separate account for such activities.

In the Polish legal system the legal framework for the Guarantor's operation is based on the following legislation:

- the Transportation Act of 15 November 1984, which covers the provision of passenger and baggage transportation services, as well as certain railway cargo transportation services, based on contracts entered into between passengers and service providers, the liability of service providers and issues related to the claims and damages arising from a breach of such contracts;
- the Railway Transport Act of 28 March 2003, which regulates the use, maintenance and management of the railway infrastructure, the provision of railway transportation services, the required technical condition of the rolling stock used to provide such services, the requirements regarding the interoperation of the trans-European railway system, and the rules and regulations governing railway transport;
- the Entitlement to Discounted Fares for Passengers Public Transportation Act of 20 June 1992, and certain other acts, which establish discounts for individuals who meet particular requirements; and
- the Council of Ministers decree of 21 April 2004 regarding regional railway passenger transportation services, which regulates the procedures for selecting service providers, in particular, it sets forth the criteria for determining the need for such services, the criteria for assessing the offers of providers, and the specific organisational requirements such providers must satisfy.

Proposed reforms of the railway transport laws

As at the date of this Prospectus the introduction of a comprehensive set of reforms of the railway transport laws is anticipated. In August 2010 the Consumer and Competition Protection Office (the "**UOKiK**") addressed a number of the major problems facing the railroad industry in a special report. The report suggests that clear rules to differentiate between public services and services which may be performed commercially should be introduced and as a result service providers should be entitled to compensation strictly for the provision of public services, and not for all the services they currently provide. Additionally, in pursuing fair access to the infrastructure, the UOKiK proposes that infrastructure assets should be transferred outside of the PKP Group to prevent discrimination against entities unrelated to such companies and thereby reduce the high barriers to entry. Moreover, the report proposes that the rights of the Railway Transportation Agency to regulate the railway industry should be strengthened. While as at the date of this Prospectus no amendments to the railway transport laws have been presented to the Parliament, it is likely that the railway transportation regulations will be subject to changes in the near future.

Moreover, the Mass Public Transportation Act was adopted on 16 December 2010 and published on 7 January 2011. The Mass Public Transportation Act aims to transpose all the provisions of Regulation 1370/2007 and is designed to create a comprehensive legal framework for the provision of public transportation services. Pursuant to the Mass Public Transportation Act, the duties of organising transportation services within local communities will be delegated to the local governments. The service providers will primarily be selected through a public tender procedure and will be subject to transparent rules regarding competition. In order to better address the needs of the community, the legislation will introduce a ''transportation plan'' which is to set forth a plan for a balanced development of the public transport services within the area of the respective operator. The Mass Public Transportation Act promotes integrated ticket systems entitling the passengers to use multiple transportation services within the area. The majority of the provisions of the Mass Public Transportation Act will enter into force on 1 March 2011.

On 18 August 2010 the Polish Council of Ministers, in response to the requirements imposed by the EU, adopted draft amendments to the Act on Commercialisation, Restructuring and Privatisation of a State Enterprise – Polskie Koleje Państwowe, the Bankruptcy and Reorganisation Law and the Act on Rail Transportation which will abolish the current provision on the exemption of railway transportation companies from bankruptcy. Pursuant to the draft, the amendments will come into force after a period of 12 months from publication in the Polish Journal of Laws. If bankruptcy is declared, a company's license to operate will expire following the lapse of six months. As a result, in order to ensure undisrupted transportation services, the local governments would have six months to find a substitute for the bankrupt company. The draft received a negative recommendation from the Infrastructure Commission and the State Treasury Commission and pursuant to resolution of the lower house of Parliament was sent once again to be examined by such commissions. Further legislative actions on the draft are pending and it is not clear whether it will be adopted by the Parliament and enter into force, nor is it known when this might occur.

Public Procurement Act

The Public Procurement Act sets out the principles and procedures related to the public procurement of certain services. The Public Procurement Act applies to the Guarantor as it is controlled by a local government entity (i.e., Mazowieckie Province) and was created in order to provide services to the public that are not of a commercial nature. Generally, pursuant to the Public Procurement Act, the Guarantor may enter into agreements providing for the delivery of goods or services only after the completion of one of the public procurement procedures specified in the Act. If the Guarantor enters into utilities contracts under the Public Procurement Act, i.e. contracts which are concluded for the purpose of rendering public railway transportation services, it must complete the tender procedures in connection with supply and service contracts, the value of which exceeds EUR 387 thousand and construction work contracts with value of which exceeds EUR 4,845 thousand. According to the Public Procurement Act, any agreement concluded contrary to the Public Procurement Act before 29 January 2010 is unconditionally invalid as a matter of law. On 29 January 2010, an amendment to the Public Procurement Act implemented a conditional invalidity sanction, which means that only a final court judgment can result in the invalidation of an agreement concluded contrary to the Public Procurement Act.

TAXATION

The following is a general description of certain Polish, Swedish and EU tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes whether in those countries or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Poland, Sweden and the EU of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Also investors should note that the appointment by an investor in Notes, or any person through which an investor holds Notes, of a custodian, collection agent or similar person in relation to such Notes in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment.

Polish Taxation

Taxation of income from the disposal of securities in exchange for consideration (including the Notes) and from interest (discount) on securities earned by individuals who are Polish tax residents (i.e., subject to unlimited tax liability in Poland)

Under Article 3.1 of the Personal Income Tax Act (the "**PIT Act**"), individuals residing in Poland are required to pay taxes on all of their income (revenue) regardless of the location of the source of the revenue (unlimited tax liability). A person residing in Poland is an individual: (i) whose centre of personal or economic interests (the centre of life affairs) is in Poland; or (ii) who stays in Poland more than 183 days in a year. Tax residency should also be analysed under the provisions of double tax treaties concluded by Poland.

According to Article 13 section 4 of the Tax Treaty between Poland and Sweden, gains from the disposal of securities are taxed exclusively in the state in which the person disposing of property is resident. Pursuant to Article 11 of the Tax Treaty between Poland and Sweden, any interest on securities earned in Sweden by Polish individuals is exempted from withholding tax in Sweden. Under Article 30b section 5 of the PIT Act, income from a disposal of securities (e.g., the Notes) for remuneration is not subject to the general, progressive tax scale, but pursuant to Article 30b section 1 of the PIT Act it is subject to a 19 per cent. flat rate tax. Under Article 30b section 2 item 1) of the PIT Act income is calculated as the difference between the sum of revenues earned from the disposal of the securities for remuneration and the tax deductible costs, calculated in accordance with the relevant provisions of the PIT Act. Pursuant to Article 17 section 2 of the PIT Act in conjunction with Article 19 section 1 of the PIT Act, if the price set out in the agreement is unreasonably different from the market value of the securities, the revenues from their disposal against consideration are determined by the tax authority in the amount reflecting their market value.

Income from a disposal of securities is not aggregated with any other income of the individual and is taxed separately. During the tax year natural persons who earn income from the disposal of securities in exchange for consideration are not required to make any income tax prepayment. Tax (or tax prepayment) on the above mentioned transaction is not charged by the tax remitters. However, after the end of a given tax year, which in the case of natural person is the same as the calendar year, taxpayers earning income from the disposal of securities in exchange for consideration are required to disclose such income in the annual tax return, calculate the due amount of tax and pay it to the account of the appropriate tax office. Annual tax returns are prepared by taxpayers by the end of April of the year immediately following the year in which the gains are made.

Pursuant to Article 30a section 1 item 2) of the PIT Act interest and discounts on securities earned by Polish individuals are subject to income tax in Poland at the flat rate of 19 per cent. Such income is not aggregated with any other income of the individual and is taxed separately on a cash basis. The above-mentioned regulation should be applied in connection with the provisions of applicable double tax treaties to which Poland is a party.

During the tax year individuals who obtain interest and discount on securities issued by a Swedish entity are not required to make any income tax prepayment. However, after the end of a given tax year, which in the case of individuals is the same as the calendar year, tax payers earning income from interest and discounts are required to disclose such income in the annual tax return, calculate the due amount of tax and pay it to the account of the appropriate tax office

The above regulations will not apply if the securities are sold or interest (discount) is obtained as a result of the performance of any business activities, as in such case the revenues from the sale of securities, interest or discount should be qualified as originating from the performance of such activities and should be settled according to general terms.

Taxation of income from the disposition of securities (including the Notes) and from interest (discount) earned by persons subject to corporate income tax who have their registered office or management board within the territory of Poland (i.e., subject to unlimited tax liability in Poland)

According to Article 13 section 4 of the Tax Treaty between Poland and Sweden, gains from the disposal of securities are taxed exclusively in the state in which the entity disposing of property is resident. Pursuant to Article 11 of the Tax Treaty between Poland and Sweden, any interest on securities earned in Sweden by Polish individuals are exempted from withholding tax in Sweden.

Pursuant to Article 3.1 of the Corporate Income Tax Act (the "**CIT Act**"), taxpayers who have their registered seat or place of management in Poland are subject to Polish income tax on all their income regardless of where it is earned (unlimited tax liability).

Income from a disposal of securities (e.g., the Notes) and interest (discount) is taxable on the basis of the general terms and conditions. The revenues obtained (the selling price) and the costs incurred are aggregated with the other revenues obtained and costs incurred in the given fiscal period. Costs are recognised on the revenue earning date. If the price set out in the agreement is unreasonably different from the market value of the securities, the revenues from their disposal for consideration are determined by the tax authorities at a level reflecting their market value. The corporate income tax rate is 19 per cent. and as the taxpayer must settle the tax, the remitter is not obliged to withhold it.

Tax on civil law transactions

In the light of Article 1 section 1 item 1) letter a of the Tax on Civil Law Transactions Act, agreements for the sale and exchange of assets and property rights (including securities) are subject to civil law transaction tax. These transactions are taxable if their subjects are:

- assets located in Poland or property rights exercisable in Poland, irrespective of the place of the transaction or the place of residence or the registered office of the purchaser; or
- assets located abroad or property rights exercisable abroad if the purchaser's place of residence or registered office is located in Poland and the civil law transaction was carried out in Poland.

Sale and exchange of securities is subject to the tax on civil law transactions at a rate of 1 per cent., which is payable by the buyer and should be settled within 14 days from the day on which the transaction was performed (i.e., effectively from the day on which the sale agreement was concluded). The taxable base is the market value of the property or property right. If the agreement is executed in the form of a notarial deed, then the tax must be remitted by the notary public.

Simultaneously, under Article 9 item 9 of the Act on Tax on Civil Law Transactions, the sale of property rights that are brokerage financial instruments (e.g., the Notes) are exempt from the tax on civil law transactions under the following circumstances, if they are sold: (i) to investment companies (including foreign investment companies), (ii) through the intermediation of an investment company, (iii) in organised trading or (iv) outside the organised trading by investment companies (including foreign investment companies) if such financial instruments had been acquired by such firms as a part of organised trading – within the meaning of the Act on Trading in Financial Instruments.

Tax on inheritance and donations

Pursuant to Article 1 section 1 in conjunction with Article 2 of the Act on Tax on Inheritances and Donations, tax on inheritances and donations applies to the acquisition by natural persons of proprietary rights including, rights attached to securities, through an inheritance, bequest, will or donation, if the property rights are exercisable in Poland, or at the moment of opening of the succession or on the date of the donation agreement the property rights were exercisable abroad and the heir or beneficiary is a Polish citizen or a permanent resident of Poland.

In the light of Article 7 section 1 of the Act on Tax on Inheritances and Donations, the tax base is, in principle, the value of acquired assets and property rights after deducting debts and encumbrances (net value), established according to the balance of assets and property rights on the acquisition day and market prices as at the day the tax obligation arose.

The rates of the tax on inheritances and donations vary and are determined by the degree of consanguinity or affinity or any other personal relationship between the heir and the testator or the donor and the donee.

If the agreement has the form of a notarial deed, the tax on inheritances and donations is collected and remitted by the notary public.

Under Article 4a of the Act on Tax on Inheritances and Donations, the acquisition of assets or proprietary rights (including securities) by a spouse, descendants, ascendants, stepchildren, siblings or stepparents is exempt from tax on inheritances and donations if they report the acquisition of assets or proprietary rights to the head of the competent tax authority within six months from the tax obligation arising or, in the event of acquisition by inheritance, within six months of the date the court decision acknowledging the acquisition of the inheritance becomes legally binding. Should this condition not be satisfied, the acquisition of assets or proprietary rights by such persons shall be taxable on the principles applicable to the acquirers included in the first tax group, unless the circumstances set forth in the Act occur, allowing for the extension of the period specified in the previous sentence.

Additionally, pursuant to Article 3 section 1 of the Act on Tax on Inheritances and Donations, the acquisition of property rights (including securities) exercisable in Poland is not subject to this tax if, on the day of acquisition, neither the acquirer nor the testator (or the donor) were Polish citizens, permanent residents or had their registered offices in Poland.

Payments under the Deed of Guarantee

In the case of any payment under the Deed of Guarantee to be made by the Guarantor to the Noteholders, any such payments should not be subject to withholding tax in Poland. However, due to a lack of precise regulations or a universal practice in that respect, it cannot be excluded that such amounts payable by the Guarantor to the Noteholders may be treated as the realisation of the obligations of the Issuer resulting from the Notes to which Polish withholding tax would be applicable. Such an assumption would lead to a conclusion that such amounts would be subject to the regime of the convention on the avoidance of double taxation concluded between Poland and the country where the Noteholder is a resident. If on the basis of such convention, or in the absence of an applicable convention any withholding tax applies, the Guarantor is obliged to increase such payment to the extent necessary so that the Noteholder receives a net amount equal to the full amount it would have received in the absence of such withholding tax.

In general, payments of interest on borrowed funds (e.g., the Notes) by a Polish entity to a non-resident legal person are subject to Polish withholding income tax at a rate of 20 per cent., subject to reduction or elimination pursuant to the terms of an applicable agreement on avoidance of double taxation.

Currently the CIT Act requires the tax remitter to document the tax residency status of the recipient as at the payment date, without imposing any specific timeframe for documentation. The Guarantor, as the Polish withholding tax remitter, would be responsible for any tax arrears resulting from application of the incorrect tax rate or non-withholding of the tax (unless the tax has not been withheld or the wrong amount was withheld due to the fault of the taxpayer). Therefore, if a Noteholder as the recipient of interest under the Notes does not provide a valid tax residency certificate, the Polish tax remitter should withhold the tax at the standard 20 per cent. domestic rate. The same would apply if the interest recipient is not entitled to protection under the applicable double taxation treaty or the Polish domestic regulations implementing the EU Directive on Royalties and Interest.

Withholding tax collection and reporting requirements in Poland

If applicable, withholding tax should be withheld by the Guarantor at the moment of payment and transferred to the relevant Tax Office by the seventh day of the month following the month in which the tax was withheld. Additionally, a tax remitter is required to send the respective information on the payments made and on the tax withheld to the taxpayer and to the Polish tax office by the end of the third month of the year following the tax year in which the interest payments were made.

Upon a written request the taxpayer is entitled to obtain, from the tax remitter, information on the interest payments made and on the tax withheld (within 14 days from the date of the submission of the written request).

The remitter is required to submit, to the Polish tax office, an annual tax return regarding tax withholdings, by the end of the first month of the year following the tax year in which the obligation to pay the tax arises.

Refund of overpaid Polish withholding tax

If withholding tax is overpaid or unduly withheld by the Guarantor as the tax remitter, then generally pursuant to Polish regulations, the interest recipient/legal owner of the interest can claim the refund of the overpaid tax up to five years after the tax is deducted. The application for a refund requires the submission of an application for a statement of tax overpayment to a relevant tax office.

Stamp duties

No stamp duty or transfer taxes are payable in Poland or to any political subdivision in connection with any payment under the Deed of Guarantee.

Swedish taxation

The following is a summary of certain Swedish tax consequences relating to the Notes for investors that are residents of Sweden for tax purposes, unless otherwise stated. The summary is based on Swedish legislation as of the date of the Prospectus and is intended to provide general information only. The summary does not cover tax issues in cases where Notes are held as current assets in business operations or by a partnership. The tax consequences for investors depend in part on their particular circumstances. Specific tax rules may apply to certain categories of investors, e.g. life insurance companies. Each investor should consult a tax adviser as to the tax consequences of acquiring, owning and disposing of Notes in their particular circumstances.

General information

The disposal (including settlement) of a Note triggers capital gains taxation. The capital gain or the capital loss is computed as the difference between the consideration (less selling expenses) and the tax acquisition value of the Note.

When computing the capital gain or the capital loss, the acquisition value for all Notes of the same class and type shall be added together and computed collectively in accordance with the so-called average method (*Sw. genomsnittsmetoden*).

Private individuals

All capital income such as interest and capital gains on the Notes are taxed in the capital income category for private individuals and estates of deceased persons. The tax rate is 30 per cent. A capital loss on the Notes is fully deductible in the same income category.

A currency gain or loss is included in the computation of the capital gain or loss.

Should a net loss arise in the capital income category a reduction is granted of the tax on income from employment and business operations, as well as property tax. This tax reduction is granted at 30 per cent. of the net loss that does not exceed SEK 100,000 and at 21 per cent. of any remaining net loss. An excess net loss cannot be carried forward to future years.

If amounts that are considered to be interest for Swedish tax purposes are paid by a legal entity domiciled in Sweden, including a Swedish branch, to a private individual (or an estate of a deceased person) with residence for Swedish tax purposes, Swedish preliminary tax are normally withheld by the legal entity on such payments.

Limited liability companies

For limited liability companies (*Sw. aktiebolag*), all income, including interest and capital gains, is taxed as income from business activities at a rate of 26.3 per cent. Deductible capital losses on the Notes may normally be fully off-set in the income from business activities category.

Currency gains and losses are generally treated for tax purposes in accordance with the accounting treatment.

Non-resident investors

Non-resident investors are not taxable in Sweden in respect of the Notes as long as the investor does not have a permanent establishment in Sweden to which the Notes are effectively connected.

EU Savings Tax Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income (the ''**EU Savings Directive**''), Member States, including Belgium from 1 July 2010, are required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within their jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. (subject to a procedure whereby, on meeting certain conditions, the beneficial owner of the interest or other income may request that no tax be withheld). The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non EU countries to the exchange of information relating to such payments. Belgium has replaced this withholding tax with a regime of exchange of information to the Member State of residence as from 1 January 2010.

A number of non EU countries, and certain dependent or associated territories of certain Member States, have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above. Investors who are in any doubt as to their position should consult their professional advisers.

SUBSCRIPTION AND SALE

The Joint Lead Managers have in a subscription agreement dated 7 March 2011 (the ''**Subscription Agreement**'') and made between the Issuer, the Guarantor and the Joint Lead Managers upon the terms and subject to the conditions contained therein, agreed to subscribe for the Notes at their issue price of 99.486 per cent. of their principal amount plus any accrued interest in respect thereof. The Joint Lead Managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the closing of the issue of the Notes.

United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

Each Joint Lead Manager has severally (and not jointly) agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes, (a) as part of their distribution at any time or (b) otherwise, until 40 days after the later of the commencement of the offering and the issue date of the Notes, within the United States or to, or for the account or benefit of, U.S. persons, and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act.

Poland

Unless this Prospectus has been approved by either the Polish competent authority for the approval of prospectuses for the public offering of securities in Poland of the admission of securities to trading of a regulated market in Poland or the relevant competent authority in an EU Member State, and Poland has received a certificate of such approval with a copy of this Prospectus and Polish translation of its summary as required under the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading and Public Companies of 29 July 2005 (Journal of Laws of 2009, No. 185 item 1439, as amended) (the ''**Act on Public Offering**''), the Notes may not be publicly offered in Poland or admitted to trading on a regulated market in Poland. Pursuant to Art. 3 of the Act on Public Offering, ''**public offering**'' means ''communication in any form and by any means, made within the Republic of Poland and addressed to at least 100 persons, or to an unspecified addressee, which contains sufficient information on the securities to be offered and the terms and conditions of their acquisitions, so as to enable an investor to decide to purchase securities''.

United Kingdom

Each Joint Lead Manager has severally (and not jointly) represented, warranted and undertaken that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the ''**FSMA**'')) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

General

Each Joint Lead Manager has severally (and not jointly) represented, warranted and agreed that it has complied and will comply with all applicable laws and regulations in each country or jurisdiction in which it purchases, offers, sells or delivers Notes or possesses, distributes or publishes this Prospectus or any other offering material relating to the Notes. Persons into whose hands this Prospectus comes are required by the Issuer, the Guarantor and each Joint Lead Manager to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or possess, distribute or publish this Prospectus or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

Authorisation

1. The creation and issue of the Notes has been authorised by a resolution of the Board of Directors of the Issuer dated 4 March 2011.

2. The incorporation of the Issuer and the giving of the Guarantee of the Notes have been authorised by (i) the resolution of the extraordinary meeting of the shareholders of the Guarantor dated 14 September 2010 regarding consent to the acquisition or establishment of another company and subscription for shares, (ii) the resolution of the extraordinary meeting of the shareholders of the Guarantor dated 8 February 2011 regarding consent to the issuance of bonds and commitment of liabilities, (iii) the resolution of the extraordinary meeting of the shareholders of the Guarantor dated 8 February 2011 regarding consent to the granting of a guarantee, (iv) the resolution of the supervisory board of the Guarantor dated 8 February 2011 regarding granting of a guarantee of the commitments made by the subsidiary, i.e. the Issuer, (v) the resolution of the management board of the Guarantor dated 15 October 2010 regarding the acquisition of shares in another company and the engagement of a Swedish corporate service provider, (vi) the resolution of the management board of the Guarantor dated 15 October 2010 regarding the designation of an auditor for a subsidiary with its seat in Sweden, (vii) the resolution of the management board of the Guarantor dated 2 March 2011 regarding the approval of the issue by the Issuer of the Notes, and (viii) the resolution of the management board of the Guarantor dated 7 March 2011 regarding the issuance of back-to-back bonds by the Guarantor.

Listing and Admission to Trading

3. Application will be made for the Notes to be admitted to listing on the Official List of the FSA and to trading on the Regulated Market of the London Stock Exchange. Such admissions are expected to be granted on or around 10 March 2011. The total expenses related to the admission of the Notes to trading on the Regulated Market of the London Stock Exchange are expected to amount to approximately £4,000.

Legal and Arbitration Proceedings

4. There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer.

5. Save as disclosed in "*Description of the Guarantor — Legal Proceedings*", there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which the Guarantor is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Guarantor.

6. There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which Mazowieckie Province is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of Mazowieckie Province.

Significant/Material Change

7. Since 23 June 2010 (being the date of its incorporation), there has been no material adverse change in the prospects of the Issuer nor any significant change in the financial or trading position of the Issuer.

8. Save as disclosed in "*Description of the Guarantor — Recent Developments*", since 31 December 2009 there has been no material adverse change in the prospects of the Guarantor. Save as disclosed in "*Description of the Guarantor — Recent Developments*", since 30 June 2010 there has been no significant change in the financial or trading position of the Guarantor.

9. Save as disclosed in "*Description of Mazowieckie Province — Finance — Recent Developments*", since 31 December 2009 there has been no material adverse change in the prospects of Mazowieckie Province nor any significant change in the financial or trading position of Mazowieckie Province.

Auditors

10. The auditing company of the Issuer is Deloitte AB, Rehnsgatan 11, 113 79 Stockholm, Sweden, authorised public accountants, with Jan Larsson as the auditor in charge. The Issuer has not prepared any audited financial statements as at the date of this Prospectus.

11. The Guarantor has appointed BDO Sp. z o. o. of ul. Postepu 12, 02-676 Warszawa, Poland as its auditors for the year ended 31 December 2010. The unaudited interim financial statements of the Guarantor for the six month period ended 30 June 2010 were reviewed by BDO Sp. z o. o. of ul. Postępu 12, 02-676 Warszawa, Poland. BDO Sp. z o. o. is registered in the register of auditors held by the Polish National Chamber of Statutory Auditors under No. 3355. BDO Sp. z o. o. issued its review report on 19 October 2010. It has noted that sales revenue includes revenue from the sale of long-term tickets allowing passengers to travel after the balance sheet date and that the Guarantor has no record that makes it possible to determine the amount which, as at the balance sheet date, constitutes the value of the prepayment and should be listed as deferred income. The above accounting methods were also applied in previous reporting periods. Other than this particular matter, the unaudited interim financial statements have been reviewed without qualification. BDO Sp. z o. o. has consented to the inclusion of its review report in this Prospectus. BDO Sp. z o. o.'s services are subject to a statutory cap on its liability pursuant to Article 51 of the Act of Auditors 2009.

12. The financial statements of the Guarantor were audited without qualification for the year ended 31 December 2009 by POL-TAX Sp. z o.o. of 11A Wandy Street, suite 3, 03-949 Warsaw, Poland. POL-TAX Sp. z o.o. is registered in the register of auditors held by the Polish National Chamber of Statutory Auditors under No. 2695. On behalf of POL-TAX Sp. z o.o., the financial statements of the Guaranter for the year ended 31 December 2009 were audited by Elżbieta Usińska (certified auditor, licence no. 11250).

13. The financial statements of the Guarantor were audited without qualification for the year ended 31 December 2008 by PTE-PROFIT Sp. z o.o. of 41 Rutkowskiego Street, suite 28, 02-521 Warsaw, Poland. PTE-PROFIT Sp. z o.o. is registered in the register of auditors held by the Polish National Chamber of Statutory Auditors under No. 250. On behalf of PTE-PROFIT Sp. z o.o., the financial statements of the Guarantor for the year ended 31 December 2008 were audited by Teresa Bednarek (certified auditor, licence no. 6317/836).

14. The Guarantor prepares its financial statements in accordance with the Accounting Act. Under applicable Polish law the Guarantor is not required to prepare its financial statements in accordance with IFRS as adopted by the EU.

Documents on Display

15. Copies of the following documents (together with English translations thereof, if required) may be inspected during normal business hours at the offices of the Fiscal Agent at One Canada Square, London E14 5AL, United Kingdom from the date of this Prospectus to the Maturity Date:

    (a) the constitutive documents of the Issuer;

    (b) the constitutive documents of the Guarantor;

    (c) the Agency Agreement, the Deed of Covenant, the Deed of Guarantee and the Issuer-ICSDs Agreement;

    (d) any notices and/or documents made available for inspection pursuant to Condition 15 (*Compensation agreements*); and

    (e) the audited financial statements of the Guarantor for the years ended 31 December 2009 and 2008 and unaudited interim financial statements of the Guarantor for the six months ended 30 June 2010.

Material Contracts

16. The material contracts entered into by the Guarantor as at the date of this Prospectus are described at "*Description of the Guarantor — Material Agreements*".

Yield

17. On the basis of the issue price of the Notes of 99.486 per cent. of their principal amount, the gross real yield of the Notes is 6.875 per cent. on an annual basis.

ISIN and Common Code

18. The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN is XS0602352956 and the common code is 060235295. The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg.

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Koleje Mazowieckie

FINANCIAL STATEMENTS

of the Company "Koleje Mazowieckie – KM" sp. z o.o. [Limited Liability Company]

for 2009

WARSAW, 20 May 2010

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INTRODUCTION TO FINANCIAL STATEMENTS.

The company „Koleje Mazowieckie - KM" spółka z ograniczoną odpowiedzialnością [limited liability company] was established on 29 July 2004 by the Local Government of Mazowieckie Province and "PKP Przewozy Regionalne" spółka z o.o. in Warsaw. The Company's registered office is located in: Mazowieckie Province, the capital city of Warsaw, commune/district Warsaw – Praga-Południe, at the address: Warsaw, 1 Lubelska Street, 03-802 Warsaw.

As at 31 December 2009, the sole Member of the company is Mazowieckie Province holding 594,758 shares with the overall value of PLN 297,379,000.00.

The Company's prevailing types of activity include:

- According to Polish Classification of Business Activities (PKD) 2007 passenger rail transport interurban 4910Z,
- According to PKD 2004 rail transport 6010Z.

The company is registered at the District Court for the capital city of Warsaw in Warsaw, XIII Business Division of the National Court Register, under No. KRS 0000222735. It bears the Company Identification Number REGON 015876404 awarded by the Statistical Office in Warsaw on 2 December 2004 and the Tax Identification Number NIP 1132520369 awarded by the Head of the Tax Office for Warsaw Praga on 7 December 2004.

The company "Koleje Mazowieckie – KM" commenced activity as of 1 January 2005, having obtained licenses required for pursuit of operating activities.

In the period under report, the Maintenance Services Department was separated within the organizational structure of the Company KM as of 1 January 2009. The Department does not keep its own books of account and does not prepare financial statements for external entities; it is not a self-financing entity. The Maintenance Services Departments has the status of employer as defined in provisions of the Labor Code. For this reason, the Maintenance Services Departament Has the status of withholding agent and uses its own Tax Identification Number 1080006429 awarded by the Head of the Second Mazowieckie Province Tax Office in Warsaw on 25 January 2009.

The Department has the Company Identification Number REGON 015876404-00028 awarded by the Statistical Office in Warsaw on 12 December 2008.

The Department's prevailing types of activity include:

- according to PKD 2007: other cleaning 8129Z,

- according to PKD 2004: clearing and cleaning of buildings and facilities 7470Z.

The financial statements cover the period from 1 January 2009 to 31 December 2009. It was the fifth financial year in the Company's operation and the fourth year audited by a certified auditor. During its first financial year from 24 November 2004 to 31 December 2005, the Company KM failed to reach the limit of results that makes the audit of financial statements obligatory.

The annual financial statements have been prepared on the basis of the assumption that the Company “Koleje Mazowieckie-KM” will in foreseeable future continue its current activities with no material reductions of the scope thereof and will neither become liquidated nor declared bankrupt. Besides, we are not aware of any circumstances that might indicate the existence of serious threats to our company’s going concern.

Determining the entity’s ability to continue activities, the Management Board of the Company “Koleje Mazowieckie-KM” takes into consideration all information available as at the day of preparation of the financial statements and pertaining to foreseeable future of at least one year from the balance sheet day.

The financial statements have been prepared in compliance with the requirements for keeping the books of account, valuating assets and liabilities, and measuring the financial result that follow from the Accountancy Act of 29 September 1994 as amended.

Applying provisions of the Accountancy Act with due consideration to the prudence principle laid down in Article 7 thereof, the entity establishes provisions and assets on account of deferred income tax due to the timing differences between the book value of assets and liabilities and their tax value deductible in the future. The deferred part disclosed in the profit and loss account is the difference between provisions for and assets on account of deferred income tax as at the beginning and end of the reporting period.

Assets and liabilities have been valuated on the basis of principles laid down in the Accountancy Act, provided that:

1. The entity depreciates its fixed assets and intangible assets at rates included in the Annual Rates List attached to the Act of 15 February 1992 on corporate income tax as amended, except for the rolling stock for which the balance sheet rates are applied.
2. The values and expenditures of materials and goods in the quantitative and qualitative records are valuated under the FIFO method.
3. Provisions for and assets on account of deferred income tax are not mutually compensated.

The Company prepares financial statements consisting of:

1. Balance sheet,
2. The profit and loss account – comparative variant,
3. Additional information including the Introduction and Notes to the financial statements,
4. The cash flow statement - indirect method,
5. Statement of changes in shareholders equity.

NOTES TO FINANCIAL STATEMENTS.

1. ASSETS.

1.1. Fixed assets as at 31 December 2009 amounted to PLN 296,704,095.89,

in this:

1.1.1. Intangible assets PLN 182,942.76.

Table No. 1

Intangible assets – initial value and depreciation.

Group of fixed assets		Costs of finished development works	Goodwill	Other intangible assets	Advances on account of intangible assets	Total intangible assets
1		*2*	*3*	*4*	*5*	*6*
Initial value	Gross opening balance			314 569,61		314 569,61
	Revenues			151 332,14		151 332,14
	Expenditures					0,00
	Closing balance	**0,00**	**0,00**	**465 901,75**	**0,00**	**465 901,75**
Depreciation	Opening balance			-236 508,75		-236 508,75
	Increases			-46 450,24		-46 450,24
	Decreases					0
	Closing balance	**0,00**	**0,00**	**-282 958,99**	**0,00**	**-282 958,99**
Revaluation write-off						0,00
Net closing balance		**0,00**	**0,00**	**182 942,76**	**0,00**	**182 942,76**

Intangible assets include computer and railbus software.

1.1.2. Tangible fixed assets PLN 273,174,278.61,

in this:

- fixed assets PLN 272,754,098.61,
- fixed assets under construction PLN 420,180.00.

1.1.2.1. The balance of fixed assets under construction in the amount of

PLN 420,180.00,

consists of:

- modernization project of the office building PLN 15,000.00,
- transceivers from financial leasing agreement (for balance sheet purposes) PLN 310,000.00,
- portable ticket machines with the value of PLN 16,300.00,
- technical documentation with the value of PLN 78,880.00.

Table No. 2

Fixed assets – initial value and depreciation.

Group of fixed assets		Land	Residential and commercial buildings and civil engineering structures	In this: residential buildings	Plant and machinery	Means of transport	Other fixed assets	**Total FIXED ASSETS**
1		*2*	*3*	*4*	*5*	*6*	*7*	*8*
Initial value	Gross opening balance		1 050 805,44		3 976 720,78	216 190 433,54	506 911,86	221 724 871,62
	Transfers		0		-64 336,76	-1 808,23	-56,12	-66 201,11
	Revenues		0		3 349 361,02	69 448 091,56	401 447,60	73 198 900,18
	Expenditures		0		3 001,25	0,00	11 002,18	14 003,43
	Closing balance	0	**1 050 805,44**	**0**	**7 258 743,79**	**285 636 716,87**	**897 301,16**	**294 843 567,26**
Depreciation	Opening balance		-35 622,97		-3 341 258,02	-5 152 455,70	-309 777,93	-8 839 114,62
	Transfers		0		64 336,76	1 808,23	56,12	66 201,11
	Increases		-26 270,13		-651 173,35	-12 555 928,46	-81 494,49	-13 314 866,43
	Decreases		0			0,00	11 002,18	11 002,18
	Closing balance	**0**	**-61 893,10**	**0**	**-3 928 094,61**	**-17 706 575,93**	**-380 214,12**	-22 076 777,76
Revaluation write-off		0	0	0	-4 706,94	0	-7 983,95	-12 690,89
Net closing balance		**0**	**988 912,34**	**0**	**3 325 942,24**	**267 930 140,94**	**509 103,09**	**272 754 098,61**

In January 2008, the Company KM settled fixed assets constituting the value of improvements of an Organized Part of Enterprise leased under an agreement for lease of an Organized Part of Enterprise between “PKP Przewozy Regionalne” sp. z o. o. and “Koleje Mazowieckie-KM” sp. z o.o.

In July 2008, the Local Government of Mazowieckie Province contributed the assets of the Organized Part of Enterprise purchased by the Mazowieckie Province under an agreement of 8 January from “PKP Przewozy Regionalne” sp. z o. o. with the value of PLN 175 500 000.00.

As at 31 December 2009, the Company established revaluation write-offs for unused fixed assets designed for scrapping in the amount of PLN 12,690.89, verified within the stocktaking procedure.

Two groups of fixes assets have been distinguished in KM:

Group I:

Fixed assets with the expected economic life of over one year, and the initial value exceeding PLN 3,500.00.

Group II:

Fixed assets with the expected economic life of over one year and the initial value not exceeding PLN 3,500.00, hereinafter referred to as low-value fixed assets.

Low-value fixed assets with the initial value not exceeding PLN 3,500, booked separately upon their release for use and upon charging of their initial value to depreciation costs, are disclosed in the balance sheet until their liquidation.

In 2009, the company “Koleje Mazowieckie – KM” made no long-term investments.

The company owns no real properties, perpetual usufructs of land, cooperative ownership titles to residential premises or cooperative titles to usable premises.

The company “Koleje Mazowieckie – KM” uitilizes fixed assets under operating leasing agreements for tax purposes, and under financial leasing agreements for balance sheet purposes, pursuant to Article 3 clause 4 points 1-7 of the Accountancy Act.

Table No. 3

Operational leasing agreements for tax (balance sheet and financial) purposes according to ahe concluded agreeements.

Item	Lessor - financing entity	Name of a fixed asset	Agreement number	Agreement date	Value of the leased fixed asset	Duration of agreement in months
1	BPH Leasing	EZT EN 57	Mz-081-MEN-69/07	08.03.2007	4 200 000,00	120
2	ENERGO-UTECH	EZT EN 71	Mz-081-MEN-68/07	08.03.2007	5 242 000,00	120
3	BPH Leasing	EZT EN 57	Mz-081-MEN-67/07	08.03.2007	4 200 000,00	120
4	SG Equipment	passenger car Toyota Avensis	Agreement No. 14890	21.11.2006	102 799,60	60

Item	Lessor - financing entity	Name of a fixed asset	Agreement number	Agreement date	Value of the leased fixed asset	Duration of agreement in months
5	SG Equipment	passenger car Ford Fokus Silver	Agreement No. 14894	27.11.2006	53 600,00	60
6	SG Equipment	passenger car Ford Transit 280M Kombi	Agreement No. 14895	27.11.2006	108 664,14	60
7	ENERGO-UTECH	computer hardware	Mz-081-MET-106/08	24.07.2008	272 727,00	36
8	LONGIN BIELAK	passenger car Peugot Partner Trendy 1,6	L01/12/2006	15.12.2006	46 907,06	60
9	ENERGO-UTECH	new underfloor wheel lathe	Mz-081-MEN-310/06	23.11.2006	2 500 000,00	60
10	SG Equipment	Passenger car Ford Fiesta 1,3 (70KM)	Mz-081-99-MPG/08, Nr 21618	15.07.2008	31 123,94	60
11	SG Equipment	passenger car Ford Transit VAN 260S	Mz-081-100-MPG/08,Nr 21619	15.07.2008	77 578,00	60
12	SG Equipment	passenger car Ford Transit VAN 280M	Mz-081-101-MPG/08,Nr 21620	15.07.2008	82 219,00	60
13	KEN Technologie	computer hardware	Mz-081-MEI-99/09	08.04.2009	288 681,00	36
14	NUXE - RADIOTON	portable transceivers sets	Mz-081-MFG-256/09	30.12.2009	310 000,00	24
	Total				**17 516 299,74**	

Table No. 4

Lease of assets necessary for pursuing operating activities of the company "Koleje Mazowieckie – KM".

Item	Subject of lease	Agreement number	Cost of lease in 2009
1	11 railbuses	Mz-081-MBE-79/2008	277 692,96
2	10 Electrical Train Units, "Flirt" type	Mz-081-MEN-182/08 of 12 November 2008	4 542 500,00
3	Cars for push-pull trains	Mz-081-MEN-183/08 of 12 November 2008	5 207 835,84
4	2 Electrical Train Units EW-60	Mz-081-MEN-238/05 of 30 December 2005	108 313,82
5	Electrical Train Units	According to orders placed on a running basis	3 363 795,80
6	Rail engines with traction service	Mz-081-MEE-108/08	10 187 311,88
7	Area for ticket office containers at passenger stops.	C/04/03a/005/00/5555/08 of 14 February 2008	PLN 1,935.30,
8	Signal box buildings Warsaw Ochota halting station OCH1	C/01/03f/007/00/5555/06 of 15 September 2006	PLN 4,360.56,
9	Information rooms in platform train dispatcher's building at Radom station	C/07/05f/048/00/5555/06 of 20 September 2006	PLN 4,301.40,
10	Rooms for engineer teams in the railway station building in Dęblin	34N5f-208/2007 of 16 June 2007	PLN 7,453.84,

Item	Subject of lease	Agreement number	Cost of lease in 2009
11	Premises within halting station Warsaw Grochów including station tracks, turnouts and contact system	39N8/976/2006 of 30 November 2006	PLN 16,661.64,
12	Area in front of Warszawa Wschodnia station from Lubelska Street	D5b-620-4/07 of 26 July 2007	PLN 25,633.20,
13	Service room for the company's personnel and general access areas for passengers in station buildings	ND5f-611-9/2/06 of 6 June 2006	PLN 3,767,137.91,
14	Office building – registered office of the company at 1 Lubelska Street	DD5f-611-9/3/06 of 6 June 2006	PLN 110,030.52,
15	Service room for the company's personnel and general access areas for passengers in station buildings	RUII/429/2005 of 24 January 2005	PLN 1,192,618.04,
16	Plots of land used as the locomotive stabling point, outbuildings, rolling stock repair shops, boiler rooms, turnouts and contact system, technological systems and access roads	RUII/430/2005 of 24 January 2005	PLN 3,164,661.48,
17	Lease of fixed assets from operational leasing ended in 2009.	Mz-081-MHK-304/06, agreement no. 15419	PLN 509,921.60,
18	Lease of site for „Park & Ride" parking lots, temporary leases of premises and equipment	39/N6/365/2009, 39/N6-157/2008, 39/N6-156/2009, 39/N6-155/2010, BWR-U-07/2007, Mz-081-MPG-37/09	PLN 96,133.30,
19	Service rooms for company's personnel in the building at 5a Białostocka Street	C/01/03f/004/00/5555/05 of 14 February 2005	PLN 56,455.32,
	Total		**PLN 32,648,001.90,**

1.1.3. Long-term prepayments **PLN 23,346,874.52,**

in this:

1.1.3.1. The Prepayments of costs include mainly the costs of inspection repairs of the rolling stock in years following the year 2009. They are spread over 36 months according to the actual mileage of the vehicles that, once reached, triggers the inspection repairs.

Table No. 5

Specification of long-term prepayments.

Item	Settlement titles	Opening balance	Increases	Reclassifications	Decreases	Closing balance
1	Repairs and paint-coating of rolling stock	10 867 282,31	16 404 376,93	-15 515 560,28	0,00	11 756 098,96
2	Repair of buildings and machinery	1 256 753,46	5 755 778,38	-2 497 791,87	0,00	4 514 739,97
3	Repair of the rolling stock – post warranty repairs	67 114,15	126 750,00	-106 669,56	0,00	87 194,59

Item	Settlement titles	Opening balance	Increases	Reclassifications	Decreases	Closing balance
4	Subscription	0,00	2 978,70	-2 978,70	0,00	0,00
5	Initial fee on account of leasing	886 412,72	0,00	-168 519,84	- 717 892,88	0,00
Total		**13 077 562,64**	**22 289 884,01**	**-18 291 520,25**	**- 717 892,88**	**16 358 033,52**

1.1.3.2. Assets on account of deferred income tax.

The assets on account of deferred income tax have been determined in the amount expected to be deducted from income tax in the future, in the amount of **PLN 6,988,841.00.** due to negative timing differences to result in the future a decrease of the basis for calculation the income tax and the deductible tax loss.

Timing differences relating to the determination of the assets on account of deferred income tax as at 31 December 2008 amounted to **PLN 6,310,494.87.**

Table No. 6

Specification of negative and positive timing differences – assets on account of deferred income tax as at 31 December 2009.

Item	Item of assets or liabilities	BV – book value	TV – tax value	Difference (BV-TV)	Expected year of realization	Taxation rate	Assets on account of deferred income tax as at 31 December 2009
I.	**Assets**	**318 889,48**	**0,00**	**318 889,48**	**x**	**x**	**60 589,00**
1	Write-downs of receivables (in the future will be reclaimed or become tax deductible)	318 889,48		318 889,48	2010	19%	60 589,00
II.	**Liabilities**	**41 853 178,88**	**5 388 696,77**	**36 464 482,11**	**x**	**x**	**6 928 251,60**
1	Provision for unused holiday leaves	5 094 187,35		5 094 187,35	2010	19%	967 895,60
2	Provision for awards and costs of Social Insurance Institution	1 964 120,54		1 964 120,54	2010	19%	373 182,90
3	Provision for auditing financial statements, bank guarantees, corrected price of credit acquisition	83 547,78		83 547,78	2010	19%	15 874,08

Item	Item of assets or liabilities	BV – book value	TV – tax value	Difference (BV-TV)	Expected year of realization	Taxation rate	Assets on account of deferred income tax as at 31 December 2009
4	Provision for severance pays, old age and disability pensions and anniversary awards	29 060 051,32		29 060 051,32	2010	19%	5 521 409,75
5	Provision for litigation	143 179,91	83 972,91	59 207,00	2010	19%	11 249,33
6	Other provisions	20 307,69	19 882,37	425,32	2010	19%	80,81
7	Accrued interest on liabilities	1 829 411,01	1 829 411,01		2010	19%	
8	Liabilities on account of commission contracts, contracts for specific work and employment contracts	3 658 373,28	3 455 430,48	202 942,80	2010	19%	38 559,13
Total assets on account of deferred income tax as at 31 December 2009		**42 172 068,36**	**5 388 696,77**	**36 783 371,59**	**x**	**x**	**6 988 840,60**

Timing differences relating to the determination of the assets on account of deferred income tax as at 31 December 2009 amounted to **PLN 6,988,841.**

Change of assets on account of deferred income tax between 1 January 2009 and 31 December 2009 amounted to **- PLN 678,346**

The assets on account of deferred income tax consisted of:

- a revaluation write-off of interest receivables and other receivables,
- a provision for unused holiday leaves,
- a provision for severance pays and old-age and disability pensions,
- a provision for anniversary awards,
- provision for the Management bonuses and other employee benefits,
- a provision for employee-related litigation and other provisions.

The costs pertain to 2009 but will only be realized in 2010, reducing the basis of taxation and affecting the net financial result.

1.1.4.The value of stock as at 31 December 2009 amounted to PLN 5,572,917.87,

in this, considerable portions were accounted for by:

- current income tax of PLN 2,462,291.51,
- stock of materials PLN 3,110,626.36.

1.1.5.The total short term receivables of **PLN 33,969,941.09,**

consist of:

- trade receivables from related parties PLN 334,613.42,
- trade receivables from other parties PLN 14,287,101.64,
- receivables on account of taxes, grants, duties, social and health insurance and other benefits PLN 15,910,354.89,
- other PLN 3,437,871.14,

composed of:

- settlements related to separate accounting pertaining to ZFŚS – loan – in the amount of PLN 3,199,550.08,
- other settlements PLN 238,321.06.

1.1.5.1. Receivables on account of taxes, subsidies, duties, social and health insurance and other benefits in the amount of **PLN 15,910,354.89,**

consist of:

- receivables from the Tax Office on account of VAT PLN 15,851,648.50,
- surplus for Social Insurance Institution PLN 58,706.39.

1.1.5.2. Short-term trade receivables.

Table No. 7

Ageing of short-term trade receivables according to balance as at 31 December 2009

I	Short-term trade receivables by age	Value of receivables
1.	**Current receivables, in this:**	**9 602 282,06**
a)	from related parties	334 613,42
b)	from other parties	9 267 668,64
2.	**Overdue receivables, in this:**	**20 497 629,03**
a)	from related parties	0,00
b)	from other parties	20 497 629,03
	up to 90 days	2 371 023,95
	91-180 days	1 720 534,58
	181-360 days	2 744 743,87
	over 360 days	13 661 326,63
	Total gross value	**30 099 911,09**
3	**Write-downs**	**15 478 196,03**
4	**Net value, in this:**	**14 621 715,06**
a)	from related parties	334 613,42

I	Short-term trade receivables by age	Value of receivables
b)	from other parties	14 287 101,64
II	**Short-term trade receivables claimed at court and execution**	**Value of receivables**
1.	**Receivables claimed at court**	**4 151 169,02**
a	from other parties	4 151 169,02
2.	**Receivables under execution**	**2 060 439,21**
a	from other parties	2 060 439,21
3	**Write-downs**	**6 211 608,23**
4	**Net value**	**0,00**

1.1.5.2.1. The trade receivables from other parties
in the amount of **PLN 14,287,101.64,**
consist of:

- receivables on account of tickets from PKP Intercity PLN 1,612,366.90,
- receivables on account of passage performances from PKP PLK PLN 1,660,083.26,
- receivables on account of passage performances from PKP Cargo PLN 1,103,910.66,
- receivables on account of tickets and passage performances from PKP Przewozy Regionalne PLN 1,545,882.18,
- receivables on account of passenger transport from ZTM PLN 671,029.80,
- receivables on account of maintenance of SKM rolling stock in Warsaw PLN 525,489.07,
- receivables on account of passage performances from PKP Energetyka PLN 385,819.49,
- receivables on account of passage performances from ZNTK Mińsk Maz. PLN 198,843.74,
- receivables on account of fare dodger journeys PLN 5,223,074.03,
- other receivables in the amount of PLN 1,360,602.51.

Receivables on account of fare dodger journeys, including on account of additional charges and the court fees adjudged on that account are booked the moment they arise as other receivables on revaluation write-offs. This way, no revenues of future periods arise, and no standard costs of establishing the revaluation write-off. This disclosure does not result in overestimation of the balance sheet turnover. What remains under receivables is merely a small value of the tariff fare and VAT due on such fare.

Assuming the collectability of receivables on account of fare dodger journeys at a level of 50%, the Company disclosed such proportion of additional charges in 2005 under other operating revenues in the amount of PLN 4,408,213.88.

Of that amount, PLN 818,979.27 was paid in 2006, 93,136.61 was paid in 2007, 83,350,46 was paid in 2008, and 31,833,24 was paid in 2009.

Until 31 December 2009, the total of PLN 1,027,299.58 was paid. The remaining overdue receivables amount to PLN 3,380,914.30; they are receivables adjudged by courts, with the period of prescription of 10 years.

In view of the above, such receivables will be subject to gradual revaluation write-offs. In the books of 2009, a revaluation write-off was established for overdue receivables on account of fare dodger journeys, in the amount of PLN 250,000.00.

Besides, the company Koleje Mazowieckie disclosed as financial revenues the estimated value of interest on receivables on account of fare dodger journeys in the amount of 579,432.97. The statutory interest was calculated on receivables on account of fare dodger journeys, over 365 days overdue as at the balance sheet day 31 December 2008, i.,e. for the years 2006-2007, with respect to which collection proceedings are pending.

Assuming the former collectability of receivables on account of fare dodger journeys at a level of 34% in 2006 and 47% in 2007, it is planned to collect the receivables of PLN 3,119,021.29. The statutory interest of PLN 579,432.97 has accrued on those receivables.

Starting from 1 January 2006, the company recovers debts on its own account; such matters are no longer delegated to the Fare Dodger Journeys Office in Gniezno.

1.1.6.Cash as at 31 December 2009 was as follows: **PLN 65,338,919.17,**

in this:

- cash in hand amounting to PLN 19,752.61,
- cash at bank amounting to PLN 9,668,448.85,
- funds in transfer (cash receipts) PLN 1,618,745.39,
- cash on the investment/deposit account O/N PLN 54,000,000.00,
- cash on the ZFŚS bank account PLN 31,972.32.

1.1.7.Short-term prepayments PLN 22,868,002.42,

in this:

1.1.7.1.Short-term prepayments PLN 20,362,626.27.

Table No. 8

Short-term prepayments.

Item	Settlement titles	Opening balance	Increases	Reclassifications	Decreases	Closing balance
1	Service uniforms	560 728,54	379 262,97		-847 803,76	92 187,75
2	Telecommunications services	21 706,44	64 920,78		-21 706,44	64 920,78
3	Power for electrical trains	1 757 643,80	758 093,60		-1 757 643,80	758 093,60
4	Passage performances	1 740 477,91	2 491 233,52		-2 692 283,24	1 539 428,19
5	Subscription, annual access to website	1 568,08	9 119,00	2 978,70	-1 693,00	11 972,78
6	Technical Transport Inspection	0,00	381 101,95		-381 101,95	0,00
7	Paint-coating and repairs of rolling stock	13 463 599,94	3 869 190,66	14 672 514,73	-17 546 485,97	14 458 819,36
8	Other repairs	1 441 139,20	428 803,81	3 447 506,98	-1 880 246,18	3 437 203,81
9	Initial fees on account of leasing (short-term)	163 708,46	1 127 172,08	168 519,84	- 1 459 400,38	0,00
10	Fee on account of rolling stock lease and rental – electrical trains	94 350,00	6 500 223,89		- 6 594 573,89	0,00
Total		**19 244 922,37**	**16 009 122,26**	**18 291 520,25**	**-33 182 938,61**	**20 362 626,27**

Due to entries being made directly under item 6 with omission of items 4 and 5 of the Profit and Loss Account, there is no change in products.

1.1.7.2.VAT suspended for settlement during the following periods in the amount of

PLN 2,505,376.15.

2. LIABILITIES.

2.1 Amount and structure of share capital.

As at the date of formation of the Company, its Share Capital amounted to PLN 50,000 and was divided into 100 equal and indivisible shares with the face value of PLN 500 each, taken up as follows:

- 51 shares with the total value of PLN 25,500 were taken up by Mazowieckie Province,

- 49 shares with the total value of PLN 24,500 were taken up by "PKP Przewozy Regionalne" Spółka z o.o.

The capital was increased as follows:

- By Resolution No. 16/NZW/2005 of the Extraordinary Meeting of Members of the Company "Koleje Mazowieckie-KM" sp. z o.o. of 3 November 2005, by PLN 2,163,500.00, including PLN 1,060,000.00 by way of contribution of assets.
- By Resolution No. 18/NZW/2006 of the Extraordinary Meeting of Members of the Company "Koleje Mazowieckie-KM" sp. z o.o. of 30 October 2006, by PLN 20,000,000.00.
- By Resolution No. 4/NZW/2008 of the Extraordinary Meeting of Members of the Company "Koleje Mazowieckie-KM" sp. z o.o. of 5 February 2008, by PLN 50,000,000.00.
- By Resolution No. 12/NZW/2008 of the Extraordinary Meeting of Members of the Company "Koleje Mazowieckie-KM" sp. z o.o. of 24 June 2008, by PLN 175,500,000.00, contributed wholly as fixed assets,
- By Resolution No. 4/NZW/2009 of the Extraordinary Meeting of Members of the Company "Koleje Mazowieckie-KM" sp. z o.o. of 21 April 2009, by PLN 49,665,500.00.

Table No. 9

Increase of equity.

Item	Resolution No. of the Meeteing of members of the Company „Koleje Mazowieckie-KM" sp. z o.o.	Date of increasing the equity	Contribution	Cash contribution	The Company's equity as at the date of increase
1	Equity as at the date of the Company's establishment				**50 000,00**
2	Resolution No. 16/NAZ/2005	03.11.2005	1 060 000,00	1 103 500,00	2 213 500,00
3	Resolution No. 18/NZW/2006	30.10.2006		20 000 000,00	22 213 500,00
4	Resolution No. 4/NZW/2008	05.02.2008		50 000 000,00	72 213 500,00
5	Resolution No. 12/NZW/2008	24.06.2008	175 500 000,00		247 713 500,00
6	Resolution No. 04/NZW/2009	21.04.2009		49 665 500,00	**297 379 000,00**
7	**Total increase of equity**		**176 560 000,00**	**120 769 000,00**	**297 329 000,00**

The share capital was increased by the total of PLN 297,329,000.00 and is now divided into 594,758 equal and indivisible shares with the face value of PLN 500 each, all of which are held by the Mazowieckie Province.

2.1.1. Share structure.

Table No. 10

Share structure.

MEMBERS	As at 31 December 2009	Number of shares held	Structure (%)
Mazowieckie Province	297 379 000,00	594 758	***100 %***
Total share capital	**297 379 000,00**	**594 758**	***100 %***

2.2. The equity of **PLN 303,755,241.76,** consists of:

2.2.1. Share capital **PLN 297,379,000.00.**

2.2.2. Reserve capital (the profit of 2005-2008) **PLN 2,469,469.73,**

in this:

- profit from 2005 (Resolution No.03/ZZW/2006 of 29.06.2006) in the amount of PLN 1,093,220.23,
- profit from 2006 (Resolution No. 03/ZZW/2007 of 27.06.2007) in the amount of PLN 217,753.73,
- profit from 2007 (Resolution No. 17/ZW/2008 of 24.06.2008) in the amount of PLN 540,977.52,
- profit from 2008 (Resolution No. 12/ZW/2009 of 29.06.2009) in the amount of PLN 617,518.25.

2.2.3. Net profit for the current year **PLN 715,568.36.**

2.2.4. Accumulated profit from the previous years **PLN 3,211,203.67,**

in this:

- profit from 2006 in the amount of PLN 24,888.50,
- profit from 2007 in the amount of PLN 2,368,234.22,
- profit from 2008 in the amount of PLN 818,080.95.

As at 31 December 2009, the accumulated profit of the previous years, disclosed under liabilities in the balance sheet in the amount of

2.2.4.1Adjustments of the corporate income tax for 2007 in the amount of **2014 694,00 zł.**

The income tax adjustment results from changed qualification as taxable costs of the inspection (periodical) repairs of the rolling stock on the day when they are incurred, and not as before under prepayments due to individual interpretations. The change pertains only to the tax records and settlements.

In the books, in compliance with its Accounting Policies, the Company KM spreads the costs of inspection repairs over 36 months according to the assumed mileage of the vehicles after which the next inspection repairs are made.

Within its railway transport services, the Company utilizes rolling stock that undergoes obligatory inspection repairs – a type of periodical survey – after a specific mileage. The period between such surveys is about 3 years on the average; however, the specific date of the next survey cannot be fixed in advance as it depends exclusively on the rolling stock's actual mileage (stated in kilometers of traveled distance).

The expenses incurred in relation to the periodical inspection repairs of the rolling stock are indirectly tax deductible as they contribute to preservation of the source of income but cannot be attributed directly to any specific revenues generated by the Company. Pursuant to Article 15 clause 4d of the Corporate Income Tax Act, costs other than directly related to revenues are deducted as incurred.

For the corporate income tax purposes, the expenses related to the surveys - being deductible costs not related directly to revenues (indirect costs) - were deducted as at the date when they were incurred by way of an adjustment of the annual returns for 2005-2007.

The above is confirmed by tax law interpretations. Among the recent interpretations of the Minister of Finance, an individual interpretation can be mentioned, issued by the Head of the Tax Chamber in Poznań, Ref. No. ILPB3/423-669/08-4/ŁM of 8 January 2009, which pertains to periodical repairs of rail engines. The Company KM has also acquired an individual interpretation issued by the Tax Law Office Manugiewicz Trzaska i Wspólnicy on this matter.

2.2.4.1. Reclassification of operating leasing (for tax purposes) as financial leasing (for balance sheet purposes) under agreements concluded in the years 2006-2008 in the amount of **PLN 1,196,509.67.**

In consideration of different criteria applied when classifying leasing agreements by the tax statutes and the Accountancy Act, and also to adjust the fixed assets reporting to the domestic requirements and the international standards of accounting, the operating leasing agreements (for tax purposes) concluded by the Company KM meet the criteria of financial leasing under provisions regulating the balance sheet. Therefore, operating leasing (for tax purposes) was reclassified in 2009 as financial leasing (for balance sheet purposes). The effects of the changes for agreements concluded in the years 2006-2008 were charged to the profit of previous years under liabilities in the balance sheet as at 31 December 2009, the resulting provisions for deferred income tax taken into account.

The initial value of the subject of the leasing agreement was added to the value of the Company's tangible fixed assets in the amount of PLN 17,516,299.74. Assets are depreciated under the straight line method over the period of their economic life.

2.3.Liabilities and provisions for liabilities PLN 120,678,634.68.

2.3.1. The state of provisions:

Table No. 11

Specifications of established provisions for liabilities.

Item	Settlement titles	Opening balance	Increases	Reclassifications	Decreases	Closing balance
1	Provision for unused holiday leaves, short-term	**3 344 179,36**	1 750 007,99	0,00	0,00	**5 094 187,35**
2	Provision for severance pays on account of retirement, long-term	**12 146 707,61**	0,00		-2 163 633,04	**9 983 074,57**
3	Provision for severance pays on account of retirement, short-term	**512 109,36**	520 484,31		0,00	**1 032 593,67**
4	Provision for anniversary awards, short-term	**2 402 988,84**	0,00	0,00	-204 072,89	**2 198 915,95**
5	Provision for anniversary awards, long-term	**11 181 935,77**	4 663 531,36	0,00	0,00	**15 845 467,13**
6	Provision for deferred income tax	**906 023,45**	8 143 949,55	0,00		**9 049 973,00**
7	Provision for Management bonuses and other employee benefits	**147 487,50**	2 167 063,34	0,00	-147 487,50	**2 167 063,34**
8	Provision for employee litigation	**68 346,83**	59 207,00	0,00	-68 346,83	**59 207,00**
9	Other provisions	**25 754,40**	14 000,00	0,00	-12 732,37	**27 022,03**
10	Provison for Social Insurance Institution liability settled in February 2010	**0,00**	1 794 569,45	0,00	0,00	**1 794 569,45**
11	Provision for bank guarrantees	**0,00**	46 662,32	0,00	0,00	**46 662,32**
Total		**30 735 533,12**	**19 159 475,32**	**0,00**	**-2 596 272,63**	**47 298 735,81**

2.3.1.1.Provisions for deferred income tax - established by the company in the amount equal to income tax to be payable in the future, that is **PLN 9,049,973,** in view of the positive timing differences, that is those resulting in an increase of the basis for taxation with income tax in the future.

Timing differences relating to the determination of provision for deferred income tax as at 31 December 2008 amounted to **PLN 906,023.45.**

Table No. 12

Specification of positive and negative timing differences relating to the determination of provision on acount of deferred income tas as at 31 December 2009

Item	Item of assets or liabilities	BV – book value	TV – tax value	Difference (BV-TV)	Expected year of realization	Tax rate	Provision on account of deferred income tax as at 31 December 2009
I.	**Assets**	**46 469 413,26**	**1 380 091,23**	**45 089 322,03**	**x**	**x**	**8 566 971,19**
1	Accounting depreciation slower than tax depreciation	6 347 848,82		6 347 848,82	2010	19%	1 206 091,28
2	Receivables on account of interest	1 042 717,87	127 796,28	914 921,59	2010	19%	173 835,10
3	Accrued interest on bank deposits, due but outstanding	94 859,28	94 859,28	0	2010	19%	0
4	Other – contractual penalties, compensations on account of insurance	321 716,72	130 136,09	191 580,63	2010	19%	36 400,32
5	Revenues from fare dodger journeys - unpaid	4 408 213,88	1 027 299,58	3 380 914,30	2010	19%	642 373,72
6	Repair costs: tax costs upon expense, accounting costs according to prepayments	34 254 056,69		34 254 056,69	2010	19%	6 508 270,77
II.	**Liabilities**	**1 064 946,60**	**0**	**1 064 946,60**	**x**	**x**	**202 339,85**
1	Other – payer's remuneration	3 063,59		3 063,59	2010	19%	582,08
2	Liability on account of operational leasing (capital installments + initial fee) towards depreciation for balance sheet purposes.	1 061 883,01		1 061 883,01	2010	19%	201 757,77
Total		**47 534359,86**	**1 380 091,23**	**46 154 268,63**	**x**	**x**	**8 769 311,04**

Change of provision for deferred income tax in the period between 1 January 2009 – 31 December 2009 included in the Profit and loss account 7 863 288 zł.

III.	**Liabilities**	**1 477 171,67**	**0**	**1 477 171,67**	**x**	**x**	**280 662,62**
1	Liability on account of operational leasing for tax purposes towards	1 477 171,67		1 477 171,67	2010	19%	280 662,62

	depreciation for balance sheet purposes from agreements concluded before 2009 – adjustment of the result of previous years in the Liabilities of the balance sheet						
Total		**49 011 531,53**	**1 380 091,23**	**47 631 440,30**			**9 049 973,66**

Timing differences relating to the determination of provision for deferred income tax as at 31 December 2009 amounted to **PLN 9,049,973.**

Change of provision for deferred income tax as at 31 December 2009 included in the Liabilities of the Balance Sheet as profit/loss from previous years amounted to **PLN 280,662.**

The provision on account of deferred income tax consisted of:

- accounting depreciation slower than tax depreciation of the rolling stock, for which the period of commercial use is longer than the one resulting from the rate of tax depreciation,
- revenues on account of fare dodger journeys together with the accrued interest adjudged by the court in the amount of 50% of the total of such receivables, disclosed under revenues for 2005, which will become taxable revenue at the moment of their payment.
- Repair cost resulting from accruals included to tax costs upon the expense, and to accounting costs spread over time, e.g. rolling stock – according to the applicable inspection repairs – 36 months,
- Liability on account of operational leasing for tax purposes (capital installments + initial fee) for depreciation for balance sheet purposes.

2.3.1.2. Provision for employee benefits PLN 36,321,302.01,

pertain to

- severance pays on account of retirement PLN 11,015,668.24,
- anniversary awards PLN 18,044,383.08,
- provisions for unused holiday leaves PLN 5,094,187.35,
- provision for Management bonuses for 2009 PLN 202,942.80,
- provision for employee benefits for 2009 PLN 1,964,120.54.

In accordance with the calculation conducted by an authorized actuary the increase of provisions relating to jubelee awards and retiring allowances in 2009 amounted to PLN 2 816 309.74 and re pertained to:

- decreases of severance pays on account of retirement, in the amount of

PLN 1,643,148.73,

- increases of anniversary awards, in the amount of PLN 4,459,458.47.

2.3.1.3. Other provisions, in the amount of PLN 1,927,460.80,

pertain to

- provisions for costs of bank guarantees PLN 46,662.32,
- provision for liabilities on account of Social Insurance Institution contributions from remunerations paid in January 2010 in accordance with the deadline under the Labour Code and included in the costs of 2009 PLN 1,794,569.45,
- other provisions PLN 86,229.03.

2.3.1.4. Increase of provisions in 2009 in the amount of **PLN 15,505,599.32,**

pertained to the change of provisions for:

- unused holidays, in the amount of PLN 1,750,007.99,
- severance pays on account of retirement, in the amount of PLN -1,643,148.73,
- anniversary awards, in the amount of PLN 4,459,458.47,
- for deferred income tax PLN 8,143,949.55,
- Management bonuses, in the amount of PLN 55,455.30,
- employee benefits, in the amount of PLN 1,964,120.54,
- costs of bank guarantees, in the amount of PLN 46,662.32,
- liabilities on account of Social Insurance Institution contributions, in the amount of PLN 1,794,569.45,
- employee-related litigation, in the amount of PLN -9,139.83,
- other provisions, in the amount of PLN 1,267.63.

2.4. Long-term liabilities PLN 19,557,953.16,

in this:

- credits and loans **PLN 9,941,868.86,**
- other financial liabilities (financial leasing) **PLN 9,616,084.30.**

Table No. 13

Liabilities on account of credit facilities and loans.

Item	Contractor	Value (PLN)	Short-term liability of account of facility/loan, due in 2010	Long-term liability of account of facility/loan, due after 2010
1	Investment facility from BGK	10 000 000,00		
2	Repayment in 2007	-344 827,56		
3	Repayment in 2008	- 1 034 482,68		
4	Repayment in 2009	- 1 034 482,68		
5	Adjusted purchase price as at	23 085,46		

Item	Contractor	Value (PLN)	Short-term liability of account of facility/loan, due in 2010	Long-term liability of account of facility/loan, due after 2010
	the balance sheet date			
6	**Balance of credit as at 31 December 2009:**	**7 609 292,54**	**1 034 482,68**	**6 574 809,86**
7	Loan No. 22/07/OH/P from WFOŚiGW	2 320 755,34		
8	Repayment in 2007	-193 410,34		
9	Repayment in 2008	-425 469,00		
10	Repayment in 2009	-425 469,00		
11	**Balance of loan as at 31 December 2009:**	**1 276 407,00**	**464 148,00**	**812 259,00**
12	Loan No. 23/07/OH/P from WFOŚiGW	1 350 000,00		
13	Repayment in 2007	-112 500,00		
14	Repayment in 2008	-247 500,00		
15	Repayment in 2009	-247 500,00		
16	**Balance of loan as at 31 December 2009:**	**742 500,00**	**270 000,00**	**472 500,00**
17	Loan No. 1/09/OH/P from WFOŚiGW	2 381 472,00		
18	Repayment in 2009	-425 260,00		
19	**Balance of loan as at 31 December 2009:**	**1 956 212,00**	**510 312,00**	**1 445 900,00**
20	Loan No. 6/09/OH/P from WFOŚiGW	1 000 000,00		
21	Repayment in 2009	-145 440,00		
22	**Balance of loan as at 31 December 2009:**	**854 560,00**	**218 160,00**	**636 400,00**
Liabilities		**12 438 971,54**	**2 497 102,68**	**9 941 868,86**

Table No. 14

Financial Liabilities on account of credit facilities and loans according to the maturity period.

Item	Specification	As at Dec. 31, 2009	Maturity period			
			up to 1 year	over 1 to 3 years	over 3 to 5 years	over 5 years
1	Investment facility from BGK	**7 609 292,54**	1 034 482,68	2 068 965,36	2 068 965,36	2 436 879,14
2	Loan No. 22/07/OH/P from WFOŚiGW	**1 276 407,00**	464 148,00	812 259,00	0,00	
3	Loan No. 23/07/OH/P from WFOŚiGW	**742 500,00**	270 000,00	472 500,00	0,00	
4	Loan No. 1/09/OH/P from WFOŚiGW	**1 956 212,00**	510 312,00	1 020 624,00	425 276,00	
5	Loan No. 6/09/OH/P from WFOŚiGW	**854 560,00**	218 160,00	436 320,00	200 080,00	
Total		**12 438 971,54**	**2 497 102,68**	**4 810 668,36**	**2 694 321,36**	**2 436 879,14**

Table No. 15

Financial Liabilities on account of financial leasing for balance sheet purposes as at 31 December 2009 according to the maturity period.

Item	Lessor	Name of leasing subject	As at Dec. 31, 2009	Maturity period			
				up to 1 year	over 1 to 3 years	over 3 to 5 years	over 5 years
1	BPH Leasing, ENERGO-UTECH	3 EZT EN 57	9 464 539,09	1 264 455,24	2 528 910,48	2 528 910,48	3 142 262,89
2	SG Equipment, LONGIN BIELAK	5 units of passanger cars	127 798,51	59 309,53	62 196,47	6 292,51	0,00
3	ENERGO-UTECH	Substructure lathe	1 329 166,63	425 000,04	904 166,59	0,00	0,00
4	SG Equipment	2 units of passanger cars	99 649,38	27 133,56	54 267,12	18 248,70	0,00
5	ENERGO-UTECH, KEN Technologie, NUXE - RADIOTON	2 agreements for computer hardware and agreement for transceivers	667 845,98	297 016,92	370 829,06	0,00	0,00
	Total		**11 688 999,59**	**2 072 915,29**	**3 920 369,72**	**2 553 451,69**	**3 142 262,89**

2.5. Short-term liabilities (within maturity period) PLN 49,154,802.94,
pertain to

2.5.1. Related parties (settled on a running basis): **PLN 66,071.43,**

- **liabilities on account of supplies and services in the amount of PLN 66,071.43.**

2.5.2. Pozostałych jednostek (settled on a running basis) PLN 46,335,815.87,
in this:

2.5.2.1 liabilities on account of bank facility and loan in the amount of PLN 2,497,102.68.

2.5.2.2 Other financial liabilities (financial leasing) PLN 2,072,915.29.

2.5.2.3. Liabilities on account of supplies and services in the amount of PLN 28,902,346.95,
consisting of liabilities towards:

- PKP PLK S.A. (including access to railways) PLN 10,397,592.79,
- ZNTK Mińsk Mazowiecki (rolling stock repairs and modernization) PLN 1,668,774.49,
- PKP Intercity (including liabilities on account of tickets sold) PLN 3,466,311.79,
- Przewozy Regionalne (sublease, underlease of spaces, rolling stock rental, sold tickets) PLN 1,309,129.59,
- TORIM Warsaw PLN 1,372,287.16,
- PKP Energetyka (including power supply to electrical trains) PLN 3,461,841.68,
- Iron Foundry - Bydgoszcz PLN 724,802.00,
- ZW Renoma PLN 311,836.54,
- PKP CARGO PLN 1,058,895.72,
- Telekomunikacja Kolejowa sp. z o.o. PLN 172,711.94,
- Zakład Napraw Infrastruktury PLN 841,800.00,
- Polish Mint PLN 742,153.02,
- Other liabilities under PLN 100 thousand, total PLN 3,374,210.23.

2.5.2.4. Liabilities on account of taxes, customs and social insurance, in the amount of PLN 5,290,908.50,
consisting of liabilities on account of:

- individual income tax PLN 1,637,271.00,
- settlement with PFRON PLN 193,934.00,
- settlement with ZUS (Social Insurance Institution) PLN 3,459,703.50.

2.5.2.5. Liabilities on account of remunerations, in the amount of PLN 6,800,865.24, paid in accordance with the deadline specified in the Labour Code, i.e. by 10 January 2010 r.

2.5.2.6. Other liabilities in the amount of PLN 771,677.21, consisting of liabilities on account of:

- Settlements on account of ZFŚS PLN 333,439.37,
- repayment of a restricted grant to the Ministry of the Infrastructure PLN 370,732.00,
- other: including securities and deposits PLN 67,505.84.

2.5.3. The Enterprise Social Benefits Fund (ZFŚS) as at 31 December 2009 amounted to PLN 2,752,915.64.

As at 31 December 2009 Company "Koleje Mazowieckie-KM" does not have any overdue liabilities.

2.6. Total short-term prepayments amount to PLN 4,667,142.77, composed of:

2.6.1. **Revenues of future periods PLN 4,667,142.77.**

Table No. 16

Revenues of future periods

Item	Settlement titles	Opening balance	Increases	Decreases	Closing balance
1	Penalties for delayed performance of agreements and other penalties	PLN 0,00	PLN 2 824 628,60	PLN 2 630 102,65	PLN 194 525,95
2	Receivables on account of rolling stock devastation: in this: following a conviction	PLN 14 944,59	PLN 3 070,10	PLN 3 695,16	PLN 14 319,53
3	Other – entitlements to passage discounts	PLN 4 855,79	PLN 14 190 772,44	PLN 9 737 330,94	PLN 4 458 297,29
Total		**PLN 19 800,38**	**PLN 17 018 471,14**	**PLN 12 371 128,75**	**PLN 4 667 142,77**

2.7. As at 31 December 2009, accruals totaling PLN 36,321,302.01 that pertained to provisions for anniversary awards and severance pays on account of retirement, provisions for unused holiday leaves and other provisions for employee benefits were disclosed in the balance sheet under the liabilities item *Provisions for liabilities* as *Provisions for pensions and other similar benefits* according to the Accountancy Act, Article 39 clause 2a.

2.8. The Company has no contingent liabilities, including warranties and pledges given by the entity.

As at 31 December 2009 no liabilities are secured on the entity's assets by way of mortgage, pledge or registered pledge, and no third party administrator of those assets has been appointed.

3. Selected personnel matters.

3.1. As at 31 December 2009 Company "Koleje Mazowieckie-KM" employs 2 561 employees based on an employment contract.

Table No. 17

Information on the average employment by professional groups in the accounting year

Item	Specification	Average employment in 2009
1.	White-collar workers	278
2.	Employees in worker positions	2 294
3.	Employees outside the country	0
4.	Students	0
5.	Employees on child care or unpaid leaves	10
Total		**2 582**

3.2. The remunerations, together with a share in profit, paid and due for 2009 to members of the company's management and supervisory bodies, as well as the loans and similar benefits awarded in 2009 members of the company's management and supervisory bodies, with the interest rate and due date information, are summarized in the table below:

Table No. 18

Salaries of management and supervisory bodies of the Company.

Item	Specification	Management bodies	Supervisory bodies	Total
1.	Remunerations	1,003,428,39	123,530,74	1,126,959,13
2.	Loans and other similar benefits	7,000	0	7,000
3.	Interest rate	3%	X	X
4.	Loan due dates	May 2011	X	X

4. Entity authorized to audit the financial statements for 2009.

The company "Koleje Mazowieckie-KM" sp. z o.o., authorized by the entitled body to appoint the entity to audit the company's financial statements – Resolution of the Supervisory Board No. 34/RN/2009 of 16 October 2009 – concluded on 20 November 2009 the agreement No. Mz-081-MF-231/09 **for audit of and opinion on the financial statements with** POL-TAX sp. z o.o. in Warsaw at 41 Wandy 11A lok 3, 03-949 Warsaw, entered on the list of entities authorized to audit financial statements under No. 2695 and registered at the District Court for the capital city of Warsaw, XIII Business Division of the National Court Register under No. 0000121840, (Tax Identification Number NIP 113-23-76-412).

The net remuneration of the entity authorized to audit financial statements for the financial year 2009 amounted to PLN 20,000. The agreement did not cover other certification services, tax advisory services etc.

5. Notes to the profit and loss account.

5.1. The basic type of activity pursued by the company is rail transport. The services are provided on domestic basis; no exports are effected.

5.2. Net revenues from sale and equalized PLN 488,753,174.00.

Table No. 19

Net sales revenues.

Item	Specification	2009	2008
1.	Sale of tickets and entitlements for passage discounts	PLN 214,828,647.43,	PLN 178,981,750.10,
2.	Revenues from Office of the Marshal on account of an agreement for organization and financing of railway passenger traffic in Mazowieckie Province - received grant	PLN 183,500,000.00,	PLN 182,000,000.00,
3.	Subsidy due on account of providing passenger transport on the territory of Mazowieckie Province for 2009 – calculated based on the annual settlement of the agreement	PLN 239,225.82,	PLN 0,00
4.	Sales of services to other companies	PLN 60,476,486.49,	PLN 51,226,271.04,
5.	Grant from the Ministry of Infrastructure	PLN 23,840,006.54,	PLN 25,103,957.94,
6.	Net revenues from the sale of goods and materials	PLN 811,652.43,	PLN 811,286.40,
7.	Other revenues	PLN 5,057,155.29,	PLN 1,812,697.75,

Total	**PLN 488,753,174.00,**	**PLN 439,935,963.23,**

5.2.1. In 2009 the Company "Koleje Mazowieckie-KM" sp. z o.o. received subsidies in the amount of **PLN 207,340,006.54, (tax-free revenue)** from:

5.2.1.1. the Local Government of Mazowieckie Province under Agreement No. 2/NI.IT.I/D/09 of 20 January 2009 for provision of public services consisting in regional railway passenger transport within the Mazowicie province (decision No. 1434/PP/423-8/05 of the Head of the Tax Office Warsaw Praga of 23 September 2005) in the amount of **PLN 183,500,000.00.**

5.2.2.2. the Ministry of the Infrastructure on account of rides at statutory reduced fares pursuant to the Ordinance of the Minister of Finance of 6 February 2007 (Journal of Laws of 20 February No. 27, item 179) pertaining to a specific subsidy to domestic passenger transport in the amount of **PLN 23,840,006.54.**

"Koleje Mazowieckie – KM" sp. z o.o. calculates profit/lost on account of acceptance of the statutory entitlements to reduced fares, wholly compensated by the Ministry of the Infrastructure. The amount of the specific subsidy to all railway carriers is defined annually in the Budget Law.

5.3. Other operating revenues **PLN 8,634,135.02.**

Table No. 20

Other operating revenues.

Item	Specification	2009	2008
1	Additional charges for free rides - paid	PLN 3,676,860.58,	PLN 3,370,408.99,
2	Contractual penalties and damages	PLN 2,646,834.81,	PLN 1,742,474.72,
3	Damages received under property insurance policies	PLN 825,973.75,	PLN 150,753.88,
4	Damages received under third party insurance policies	PLN 338,739.30,	
5	Prevention grants from PZU	PLN 194,354.00,	PLN 0.00,
6	Reduction on account of purchase of cash registers	PLN 0.00,	PLN 71,061.23,
7	Handling fees on account of free rides	PLN 53,941.99,	PLN 67,818.64,
8	Revenues on account of exceeding the limits of business telephone calls	PLN 234,043.62,	PLN 206,307.39,

9	Release of provision	PLN 78,557.51,	PLN 97,820.44,
10	Repayment of court and collector's fees	PLN 531,416.63,	PLN 442,773.43,
11	Revenues from sales of fixed assets	PLN 0.00,	PLN 29,107,715.92,
12	Other revenues	PLN 53,412.83,	PLN 94,693.03,
Total		**PLN 8,634,135.02,**	**PLN 35,351,827.67,**

5.4. Financial revenues PLN 2,568,873.37.

Table No. 21

Financial revenues.

Item	Specification	2009	2008
1	Interest on cash at bank	PLN 2,225,343.09,	PLN 2,496,100.99,
2	Interest accrued and paid on receivables	PLN 336,258.85,	PLN 691,720.91,
3	Release of the provision for interest on liabilities	PLN 0,00	PLN 0.00,
4	Sale of receivables	PLN 0,00	PLN 0.00,
5	Other revenues	PLN 7,271.43,	PLN 82.34,
Total		**PLN 2 568 873,37**	**PLN 3 187 904,24**

5.5. The below table presents the value of revenues from business activities:

Table No. 22

Specification	2009	2008
Total revenues from business activities	**PLN 499,956,182.39,**	**PLN 478,475,695.14,**

5.6. Operating Costs PLN 487,962,055.88.

Table No. 23

Operating Costs.

Item	Specification	2009	2008
1.	**Depreciation**	**PLN 11,987,802.40,**	**PLN 5,689,146.96,**
2.	**Use of materials and energy**	**PLN 102,409,567.73,**	**PLN 84,599,115.79,**
2.1.	- consumption of materials	PLN 11,888,676.41,	PLN 11,116,256.93,
2.2.	- consumption of power for electrical trains	PLN 85,429,667.84,	PLN 67,941,423.14,
2.3.	- consumption of electricity for other purposes	PLN 1,440,355.62,	PLN 1,283,487.31,
2.4.	- consumption of other power	PLN 812,548.28,	PLN 731,824.94,
2.5.	- consumption of electrical train fuel	PLN 2,111,604.00,	PLN 2,655,148.43,
2.6.	- consumption of fuel for other purposes	PLN 726,715.58,	PLN 870,975.04,
3.	**Third party services**	**PLN 230,326,180.00,**	**PLN 210,240,612.33,**
3.1.	- costs of access to PKP PLK lines	PLN 90,925,846.09,	PLN 85,933,827.28,
3.2.	- rolling stock rental costs	PLN 13,506,633.40,	PLN 12,738,087.23,
3.3.	- costs of electrical trains servicing by PKP CARGO	PLN 10,187,311.88,	PLN 3,088,006.20,
3.4.	- costs of ticket sales effected by Agents	PLN 8,496,294.84,	PLN 8,436,122.70,
3.5.	- costs of cleaning the electrical trains	PLN 2,412,165.12,	PLN 3,940,717.30,
3.6.	- transport services	PLN 638,776.52,	PLN 223,403.42,
3.7.	- telecommunications services	PLN 2,246,618.47,	PLN 2,089,696.33,
3.8.	- repair services	PLN 20,525,196.92,	PLN 18,355,064.98,
3.9	- rents	PLN 8,954,056.62,	PLN 10,561,087.99,
3.10	- banking services	PLN 311,433.38,	PLN 254,457.60,
3.11.	- travel document check up services	PLN 4,038,591.00,	PLN 4,107,340.64,
3.12.	- guards on board services	PLN 196,660.00,	PLN 944,127.94,
3.13.	- other third party services	PLN 7,413,125.08,	PLN 8,403,771.44,
3.14.	- sales of services to other companies	PLN 60,473,470.68,	PLN 51,224,292.83,
4.	**Taxes and fees**	**PLN 2,851,362.54,**	**PLN 3,960,042.67,**

Item	Specification	2009	2008
4.1.	- liabilities on account of PFRON	PLN 2,314,834.00,	PLN 2,073,679.00,
4.2.	- tax on civil law actions	-PLN	PLN 1,127,372.00,
4.3.	- other taxes and fees	PLN 536,528.54,	PLN 758,991.67,
5.	**Remunerations**	**PLN 102,550,101.65,**	**PLN 93,603,688.37,**
5.1.	- remunerations	PLN 102,550,101.65,	PLN 93,603,688.37,
6.	**Social insurance and other employee benefits**	**PLN 31,724,895.81,**	**PLN 43,859,417.76,**
6.1.	- insurance premiums	PLN 17,358,764.27,	PLN 15,928,393.23,
6.2.	- provision for holiday leaves	PLN 1,750,007.99,	PLN 1,650,860.87,
6.3.	- provision for retiring allowances and other provisions for employee benefits	PLN 523,914.61,	PLN 4,936,685.22,
6.4.	- provision for anniversary awards	PLN 4,459,458.47,	PLN 13,584,924.61,
6.5.	- basic write-off on account of ZFŚS	PLN 2,983,318.56,	PLN 2,753,385.33,
6.6.	- other benefits to employees, including benefits under work health and safety provisions	PLN 1,412,146.92,	PLN 1,578,514.75,
6.7.	- costs of medical insurance of employees	PLN 545,001.75,	PLN 892,144.25,
6.8.	- reductions on account of transport services to spouses and children of employees	PLN 1,243,137.97,	PLN 1,245,114.72,
6.9.	- reductions on account of transport services to employees and recipients of old-age and disability pensions	PLN 1,449,145.27,	PLN 1,289,394.78,
7.	**Other costs by nature**	**PLN 5,303,356.08,**	**PLN 3,913,730.21,**
7.1.	- business travel	PLN 68,393.58,	PLN 123,619.12,
7.2.	- daily allowances of train engineer and service teams	PLN 2,489,154.08,	PLN 2,263,491.42,
7.3.	- costs of material and property insurance	PLN 1,943,158.10,	PLN 865,484.67,
7.4.	- other costs by nature	PLN 802,650.32,	PLN 661,135.00,
8.	**Value of sold goods and materials**	**PLN 808,789.67,**	**PLN 811,584.73,**
Total		**PLN 487,962,055.88,**	**PLN 446,677,338.82,**

5.7. Other operating costs PLN 2,668,434.88.

Table No. 24

Other operating costs.

Item	Specification	2009	2008
1.	Value of liquidated fixed assets	PLN 0.00,	PLN 28,400,050.27,
2.	Revaluation write-off of receivables and other	PLN 275,345.40,	0,00
3.	Amortized and uncollectible receivables	PLN 555.93,	PLN 275.16,
4.	Damages, penalties and fines on account of defects of goods and services delivered	PLN 220,788.02,	PLN 217,341.94,
5.	Costs of devastation and graffiti removal from the rolling stock, liquidated from an insurance policy	PLN 500,000.00,	PLN 150,753.88,
6.	Legal and enforcement costs	PLN 962,747.39,	PLN 805,250.64,
7.	Fees for release of address data – costs of collection of receivables on account of free rides	PLN 346,154.54,	PLN 287,294.92,
8.	Value of liquidated fixed assets and materials	PLN 47,766.79,	PLN 0.00,
9.	Costs rebilled to employees on account of exceeding phone calls limits	PLN 234,043.62,	PLN 0.00,
10.	Provision for employee litigation	PLN 59,207.00,	PLN 0.00,
11.	Other costs	PLN 21,826.19,	PLN 104,735.75,
Total		**PLN 2,668,434.88,**	**PLN 29,965,702.56,**

5.8. Financial costs PLN 1,425,181.27.

Table No. 25

Financial costs.

Item	Specification	2009	2008
1.	Interest calculated on liabilities and other interest	PLN 2,994.15,	PLN 1,781.20,
2.	Face value of sold receivables	0,00	0,00
3.	Commissions on awarded bank facilities	0,00	0,00
4.	Interest on bank facilities and loans	PLN 630,495.22,	PLN 735,539.50,
5.	Financial leasing – interest part	PLN 769,170.13,	PLN 0.00,

6.	Exchange rate differences realized	PLN 22,521.77,	PLN 232.74,
Total		**PLN 1,425,181.27,**	**PLN 737,553.44,**

5.9. The below table presents the value of costs from business activities:

Table No. 26

Specification	2009	2008
Total costs from business activities	**PLN 492,055,672.03,**	**PLN 477,380,594.82,**

5.10. Data on other revenues and costs on account of sale of assets, as well as the financial revenues and costs on account of exchange rate differences, have been booked in compliance with the Accountancy Act.

In the Profit and Loss Account, the data are disclosed as net results:

- The profit on the sale of assets is disclosed under Other operating revenues - Profit on sale on non-financial fixed assets.
- The exchange rate differences are also disclosed as the net profit under Financial costs - other.

Table No. 27

Booked revenues and their disclosure in the Profit and Loss Account

Item	Specification	2009	2008
1.	**Other operating revenues as booked**	**PLN 8,634,135.02,**	**PLN 35,351,827.67,**
2.	Revenues from sales of fixed assets	PLN 0.00,	PLN 29,107,715.92,
3.	Cost of liquidation of fixed assets under Other operating costs	PLN 0.00,	PLN -28,400,050.27
4.	Profit on the sale of non-financial fixed assets	PLN 0.00,	PLN 707 665,65
5.	**Other operating revenues as disclosed in the Profit and Loss Account**	**PLN 8,634,135.02,**	**PLN 6,951,777.40,**
6.	**Financial revenues** as booked	**PLN 2,568,873.37,**	**PLN 3 187 904,24**
7.	Other revenues: exchange rate differences – disclosed as net results under Financial costs	PLN -7,271.43,	PLN - 82,34
8.	Financial revenues as disclosed in the Profit and Loss Account	**PLN 2,561,601.94,**	**PLN 3 187 821,90**
9.	**Total revenues from business activities as disclosed in the Profit and Loss Account**	**PLN 499,948,910.96,**	**PLN 450,075,562.53,**

Table No. 28

Booked costs and their disclosure in the Profit and Loss Account

Item	Specification	2009	2008
1.	**Other operating costs** as booked	**PLN 2,668,434.88,**	**PLN 29,965,702.56,**
2.	Value of liquidated fixed assets disclosed as net results under Other operating revenues	PLN 0.00,	- PLN 28,400,050.27
3.	**Other operating costs as disclosed in the Profit and Loss Account**	**PLN 2,668,434.88,**	**PLN 1,565,652.29,**
4.	**Financial costs** as booked	**PLN 1,425,181.27,**	**PLN 737,553.44,**
5.	in this: exchange rate differences realized	PLN 22,521.77,	PLN 232.74,
6.	Financial revenues on account of exchange rate differences	PLN -7,271.43,	- 82,34
7.	**Other – result of exchange rate differences**	**PLN 15,250.34,**	**150,40**
8.	**Financial costs as disclosed in the Profit and Loss Account**	**PLN 1,417,909.84,**	**PLN 737,471.10,**
9.	**Total costs of business activities as disclosed in the Profit and Loss Account**	**PLN 492,048,400.60,**	**PLN 448,980,462.21,**

5.11. Gross profit amounted to PLN 7,900,510.36.

5.12. The Company closed the year 2009 with a net profit of PLN 715,568.36.

6. Deferred income tax.

Being a corporation and applying provisions of the Accountancy Act with due consideration to the prudence principle laid down in Article 7 thereof, the company established a provision for and determined assets on account of deferred income tax.

Table No. 29

Changes in deferred income tax in 2009.

Deferred income tax		As at December 31, 2008	As at 31.12.09	Changes during 2009
I.	Created provisions for temporary differences on account of deferred tax (+)	PLN 906,023,	PLN 9,049,973,	PLN 8,143,950
II.	Established assets on account of deferred income tax (-)	PLN -6,310,495	PLN -6,988,841,	PLN -678,346
III.	**Total deferred tax**			**PLN 7,465,604**

IV.	Deferred income tax as disclosed in the Profit and Loss Account	PLN 7,184,942
V.	Deferred income tax recognized under Balance Sheet Liabilities "Profit brought forward"	PLN 280,662

Conversion of the financial result into the basis for taxation with the corporate income tax and determination of the net financial result are shown in the following table:

Table No. 30

Item	Specification	2009	2008
I.	**Total revenue**	**499,956,182.39**	**478,475,695.14**
1.	Change in products (+/-)	0.00	0.00
2.	Cost of manufacture of finished products for the entity's own needs (-)	0.00	0.00
3.	Tax adjustment of revenues	(322,830.71)	(646,197.55)
a.	increases of taxable revenues	256,828.61	387,346.89
b.	decreases of taxable revenues (-)	(579,659.32)	(1,033,544.44)
II.	**Taxable revenues**	**499,633,351.68**	**477,829,497.59**
III.	**Total costs**	**492,055,672.03**	**477,380,594.82**
1.	Change in products (+/-)	0.00	0.00
2.	Cost of manufacture of finished products for the entity's own needs (-)	0.00	0.00
3.	Tax adjustments of deductible costs	(202,378,812.79)	(244,208,530.20)
a.	increases of taxable costs	32,296,268.98	17,152,940.65
b.	decreases of taxable costs (-)	(234,675,081.77)	(261,361,470.85)
IV.	**Taxable costs**	**289,676,859.24**	**233,172,064.62**
V.	**Income / Loss (II-IV)**	**209,956,492.44**	**244,657,432.97**
VI.	**Non-taxable income (revenues) and deductions**	**(207,340,006.54)**	**(207,103,957.94)**
a.	Non-taxable income (revenues) (-)	(207,340,006.54)	(207,103,957.94)
VII.	**Amounts increasing/reducing taxation basis**	**(2,616,485.90)**	**(13,913,927.91)**
a.	tax loss from the previous year – 50%	(2,616,485.90)	(13,913,927.91)
VIII.	**Basis for taxation**	**0.00**	**23,639,547.12**
IX.	Amount of tax at the valid rate	0.00	4,491,513.95
X.	**Income tax due for the financial year according to CIT-8 form**	**0.00**	**4,491,514**

Item	Specification	2009	2008
XI.	Established provisions for positive timing differences (+)	7,863,288	77,710.79
XII.	Established assets on account of deferred income tax (-)	-678,346	-4,091,642.72
XIII.	**Gross financial result as disclosed in the profit and loss account (+/-)**	**7,900,510.36**	**1,095,100.32**
XIV.	Income tax as disclosed in the profit and loss account together with other encumbrances of the gross result	7,184,942.00	477,582.07
XV.	**Net financial result (+/-)**	**715,568.36**	**617,518.25**

Table No. 31

Tax adjustment of tax-deductible costs – decreases in costs.

Item	Specification	Decreases of taxable costs (-) in 2009	Decreases of taxable costs (-) in 2008
1.	Recorded, but still unpaid interest, including interest on credits and loans and statutory interest	25,465.74	-36,589.24
2.	Revaluation write-down of receivables, including VAT	251,356.13	0.00
3.	Revaluation write-down of fixed assets	12,690.89	0.00
4.	Established provisions for certain future liabilities, in this:	6,839,250.39	20,178,920.70
a.	provision for unused holiday leaves	1,750,007.99	1,650,860.87
b.	provision for severance pays on account of retirement and for anniversary awards	2,816,309.74	18,521,609.83
c.	Provision for Management bonuses and other employee benefits for the year 2009	2,167,063.34	0.00
d.	other provisions	105,869.32	6,450.00
5.	Damages for accidents at work and other damages and penalties	220,788.02	209,021.46
6.	VAT sanctions	85,710.20	192,624.27
7.	Value of liquidated fixed assets, materials and goods	47,766.79	0.00
8.	Depreciation of financial lease for balance sheet purposes	1,017,092.66	0.00
9.	Write-offs to PFRON	2,314,834.00	2,073,679.00
10.	Outstanding remunerations under employment contracts, outstanding social insurance contributions	0.00	3,455,430.48
11.	Other non-tax deductible costs – including transport services to spouses and children	1,243,137.97	1,245,114.72

Item	Specification	Decreases of taxable costs (-) in 2009	Decreases of taxable costs (-) in 2008
12.	Entertainment	135,842.04	205,574.32
13.	Other non-tax deductible costs	12,402.72	203,831.37
14.	Costs covered from grants from local government units and the State budget	207,340,006.54	207,103,957.94
15.	Costs covered from grants obtained the previous year from local government units	0.00	11,152,942.17
16.	Costs of repairs incurred in 2005-2008 and charged to 2009 (2005-2007 in 2008) costs	15,128,737.68	15,376,963.66
Total cost adjustments		**234 675 081.77**	**261,361,470.85**

Table No. 32

Tax adjustment of tax-deductible costs – increases in costs.

Item	Specification	Increases of taxable costs in 2009	Increases of taxable costs in 2008
1.	Remuneration paid under employment contracts, Paid social insurance contributions for 2008	3,455,430.48	1,974,650.15,
2.	Costs on account of operating leasing for tax purposes	2,078,975.67	0.00
3.	Difference between tax and balance sheet depreciation	4,483,363.08	1,864,485.74
4.	Expenses of repairs incurred in 2009 but not charged to costs as following from prepayments	22,278,499.75	13,313,804.76
Total cost adjustments		**32,296,268.98**	**17,152,940.65**

Table No. 33

Revenue adjustments for income tax purposes.

Item	Specification	Increase of taxable revenues	Decrease of taxable revenues	Increase of taxable revenues	Decrease of taxable revenues
		2009		2008	
1.	Accrued interest on receivables		67,231.77		639,667.40
2.	Accrued interest on deposits under 3 months	94,859.28,			94,859.28
3.	Tax revenues by payment date			9,466.63	0.00
4.	Release of provisions not previously booked as tax deductible		78,557.51		97,820.44
5.	Payer's remuneration	2,803.42	3,063.59		2,803.42
6.	Revenues on account of deferred VAT – purchase of cash registers				71,061.23
7.	Revenues on account of free rides recognized in 2005 on accrual basis but paid in 2009/2008	31,833.24		83,350.46	
8.	Revenues recognized on accrual basis pertaining to the current year	127,332.67	191,580.63	294,529.80	127,332.67
9.	Revenues due from the Office of the Marshal of Mazowieckie Province – grant due		239,225.82		
Total revenue adjustments for income tax purposes		**256,828.61**	**579,659.32**	**387,346.89**	**1,033,544.44**

8. Notes to the cash flow statement

As at 31 December 2009, the company generates negative cash flows on operating activities and positive cash flows on investment and financial activities.

8.1. The amount of PLN **26,151,496.26** disclosed as cash flows on operating activities consists of the **net profit of PLN 715,568.36** adjusted by the following items:

- depreciation PLN 11,987,802.40,
- interest on account of repayment of bank facilities, loans and financial leasing PLN 1,399,665.35,
- profit on investment activities (write-down and liquidation of fixed asset) PLN 15,692.14,

- increase in provisions (after exclusion of the amount of PLN 280,662 related to prepayments on account of deferred income tax carried over directly to shareholders' equity on account of changed leasing qualification from the previous years) PLN 16,282,540.69,
- increase in stock - PLN 866,451.18
- increase in receivables - PLN 3,866,075.04
- increase in liabilities (after exclusion of liabilities on account of credits and loans, financial leasing and investment liabilities without deductible input VAT) PLN 4,467,428.73,
- increase in prepayments (after exclusion of prepayments related to leasing) - PLN 3,984,675.19

8.1.1. The increase in provisions compared to 2008 resulted mainly from the establishing of provisions for severance pays on account of retirement and anniversary awards, unused holiday leaves, and bonuses planned for 2009, excluding prepayments on account of deferred income tax charged directly to equity on account of the changed classification of leasing from previous years in the amount of **PLN 280,662.**

8.1.2. The slight increase in liabilities is related to day-to-day activities. The liabilities on account of operating activities have been adjusted by the following items:

- decrease in liabilities related to investment activities, net of VAT PLN 2,125,405.21,
- liabilities on account of bank facility and loan in the amount of PLN 728,472.00,
- liabilities on account of financial leasing in the amount of PLN 2,072,915.29.

8.1.3. The increase in prepayments pertains to:

- the costs of periodical repairs of the Electrical Train units, settled over time through Prepayments, in the amount of PLN 7,581,897.06,
- the Revenues of future periods, consisting mainly of revenues from transport services in 2010, in the amount of PLN 4,647,342.39,
- exclusion of the effects of the changed classification of operating leasing (for tax purposes) to financial leasing (for balance sheet purposes) in the amount of PLN – 1,050,120.39 .

8.2. The negative amount of PLN 58,364,517.79, resulting from the cash flows from investment activities, includes mainly investment expenditures on rolling stock modernization.

The balance sheet increase in intangible assets and tangible fixed assets, amounting to **PLN 72,366,205.91**, was adjusted by:

- the value of fixed assets utilized under financial leasing (for balance sheet purposes) in the amount of PLN – 16,142,785.47,

- the revaluation write-off and the net fixed asset liquidation value in the amount of PLN 15,692.14,
- the value of investment liabilities without deductible VAT, in the amount of **PLN 2,125,405.21 .**

In 2009, the Company reported no revenues from investment activity.

8.3. The amount of **PLN 47,465,746.74** resulting from the cash flows from financial activity consists of:

8.3.1. Revenues on account of:

- the capital contribution from the Local Government of Mazowieckie Province in the amount of **PLN 49,665,500.00**,
- the loan from the Provincial Environment Protection and Water Management Fund in the amount of **PLN 3,381,472.00**,
- the overdraft repaid during the year in the amount of **PLN 2,480,481.32**.

8.3.2. Expenditures include:

- repayment of the investment facility awarded by BGK, of loans from the Provincial Environment Protection and Water Management Fund, and of the overdraft, in the amount of **PLN 4,758,633.00**,
- payments of account of financial leasing (for balance sheet purposes) in the amount of **PLN 1,926,493.69**,
- payments on account of interest on the facility, loans and financial leasing, in the amount of **PLN 1,376,579.89 .**

This is a typical situation of young developing entities.

9. Transactions with related parties.

9.1. Disclosed in the balance sheet:

9.1.1. Receivables as at 31 December 2009 from related parties amount respectively to:

- Local Government of Mazowieckie Province **334 613,42 zł.**

9.1.2. Liabilities as at 31 December 2009 toward related parties amount respectively to:

- Local Government of Mazowieckie Province **66 071,43 zł.**

9.2. Disclosed in the Profit and loss account:

9.2.1. Revenues for the year 2009 from related parties amount respectively to:

- Local Government of Mazowieckie Province **PLN 184 200 325.33.**

9.2.2. **Costs** for the year 2009 with related parties amount to:

- Local Government of Mazowieckie Province **PLN 9 858 649.66.**

PROFIT AND LOSS ACCOUNT
"Kojeje Mazowieckie – KM" sp. z o.o.

For the year 2009

Line	Item	Amount for the year (zl, gr)	
		current	previous
1	2	3	4
A.	**Net revenue from sales and sales equivalent, of which:**	**488,753,174.00**	**439,935,963.23**
	- from related parties - Mazowieckie Voivodship Marshal's Office	184,200,325.33	182,010,542.62
I.	Net revenue from the sale of finished products	487,941,521.57	439,124,676.83
II.	Change in finished products (addition - positive value, disposal - negative value)	0.00	0.00
III.	Cost of producing goods for the entity's own needs	0.00	0.00
IV.	Net revenue from the sale of goods for resale and raw materials	811,652.43	811,286.40
B.	**Operating costs**	**487,962,055.88**	**446,677,338.82**
I.	Depreciation	11,987,802.40	5,689,146.96
II.	Use of materials and energy	102,409,567.73	84,599,115.79
III.	Third party services	230,326,180.00	210,240,612.33
IV.	Taxes and charges	2,851,362.54	3,960,042.67
V.	Remunerations	102,550,101.65	93,603,688.37
VI.	Social insurance and other employee benefits	31,724,895.81	43,859,417.76
VII.	Other costs by nature	5,303,356.08	3,913,730.21
VIII.	Cost of goods for resale and raw materials sold	808,789.67	811,584.73
C.	**Sales profit (loss) (A-B)**	**791,118.12**	**-6,741,375.59**
D.	**Other operating revenue**	**8,634,135.02**	**6,951,777.40**
I.	Profit from the sale of non-financial fixed assets	0.00	707,665.65
II.	Subsidies	194,354.00	0.00
III.	Other operating revenue	8,439,781.02	6,244,111.75
E.	**Other operating costs**	**2,668,434.88**	**1,565,652.29**
I.	Loss on the sale of non-financial fixed assets	0.00	0.00
II.	Revaluation of non-financial assets	275,345.40	0.00
III.	Other operating costs	2,393,089.48	1,565,652.29
F.	**Operating profit (loss) (C+D-E)**	**6,756,818.26**	**-1,355,250.48**
G.	**Financial revenue**	**2,561,601.94**	**3,187,821.90**
I.	Dividends and shares in profits, of which:	0.00	0.00
	- from related parties	0.00	0.00
II.	Interest, of which:	2,561,601.94	3,187,821.90
	- from related parties	0.00	0.00
III.	Profit from the sale of investments	0.00	0.00
IV.	Revaluation of investments	0.00	0.00
V.	Other	0.00	0.00
H.	**Financial costs**	**1,417,909.84**	**737,471.10**
I.	Interest, of which:	1,402,659.50	737,320.70
	- to related parties	0.00	0.00
II.	Loss on the sale of investments	0.00	0.00
III.	Revaluation of investments	0.00	0.00
IV.	Other	15,250.34	150.40
I.	**Profit (loss) on ordinary activities (F+G-H)**	**7,900,510.36**	**1,095,100.32**
J.	**Extraordinary gains/losses (J.I. - J.II.)**	**0.00**	**0.00**
I.	Extraordinary gains	0.00	0.00
II.	Extraordinary losses	0.00	0.00
K.	**Gross profit (loss) (I +/- J)**	**7,900,510.36**	**1,095,100.32**
L.	**Income tax**	**7,184,942.00**	**477,582.07**
M.	**Other taxes**	**0.00**	**0.00**
N.	**Net profit (loss) (K-L-M)**	**715,568.36**	**617,518.25**

Warsaw, 20 May 2010
....
Location and date of preparation

....
Full name of person in charge of bookkeeping

....
Full names and signatures of the Company's Management Board

BALANCE SHEET
"Kojeje Mazowieckie – KM" sp. z o.o.

data in PLN

Item	Assets	Closing balance	
		current	previous
1	*2*	*3*	*4*
A.	**Fixed assets**	**296,704,095.89**	**232,366,875.37**
I.	**Intangible fixed assets**	**182,942.76**	**78,060.86**
1.	Costs of completed research and development	0.00	0.00
2.	Goodwill	0.00	0.00
3.	Other intangible fixed assets	182,942.76	78,060.86
4.	Advances for intangible fixed assets	0.00	0.00
II.	**Tangible fixed assets**	**273,174,278.61**	**212,900,757.00**
1.	Fixed assets	272,754,098.61	212,885,757.00
	a) freehold land (including in perpetual usufruct)	0.00	0.00
	b) buildings and constructions	988,912.34	1,015,182.47
	c) plant and equipment	3,325,942.24	635,462.76
	d) vehicles	267,930,140.94	211,037,977.84
	e) other fixed assets	509,103.09	197,133.93
2.	Fixed assets under construction	420,180.00	15,000.00
3.	Advances for fixed assets under construction	0.00	0.00
III.	**Long-term receivables**	**0.00**	**0.00**
1.	From related parties	0.00	0.00
2.	From other parties	0.00	0.00
IV.	**Long-term investments**	**0.00**	**0.00**
1.	Real estate	0.00	0.00
2.	Intangible fixed assets	0.00	0.00
3.	Long-term financial assets	0.00	0.00
	a) in related parties	0.00	0.00
	b) in other parties	0.00	0.00
4.	Other long-term investments	0.00	0.00
V.	Long-term prepayments	**23,346,874.52**	**19,388,057.51**
1.	Deferred income tax assets	6,988,841.00	6,310,494.87
2.	Other prepayments	16,358,033.52	13,077,562.64
B.	Current assets	**127,749,780.55**	**104,141,449.07**
I.	Stock	**5,572,917.87**	**4,706,466.69**
1.	Raw materials	5,572,917.87	4,706,466.69
2.	Semi-finished products and work in progress	0.00	0.00
3.	Finished products	0.00	0.00
4.	Goods for resale	0.00	0.00
5.	Advances for deliveries	0.00	0.00
II.	Short-term receivables	**33,969,941.09**	**30,103,866.05**
1.	Receivables from related parties	334,613.42	1,830.00
	a) trade receivables, with due dates:	334,613.42	1,830.00
	- within 12 months	334,613.42	1,830.00
	- in more than 12 months	0.00	0.00
	b) other	0.00	0.00
2.	Receivables from other parties	33,635,327.67	30,102,036.05
	a) trade receivables, with due dates:	14,287,101.64	8,727,873.45
	- within 12 months	14,287,101.64	8,727,873.45
	- in more than 12 months	0.00	0.00
	b) tax, subsidy, customs, social and health insurance and other receivables	15,910,354.89	18,649,446.55
	c) other	3,437,871.14	2,724,716.05
	d) receivables in court	0.00	0.00
III.	Short-term investments	**65,338,919.17**	**50,086,193.96**
1.	Short-term financial assets	65,338,919.17	50,086,193.96
	a) in related parties	0.00	0.00
	- shares	0.00	0.00
	- other securities	0.00	0.00
	- loans	0.00	0.00
	- other short-term financial assets	0.00	0.00
	b) in other parties	0.00	0.00
	- shares	0.00	0.00
	- other securities	0.00	0.00
	- loans	0.00	0.00
	- other short-term financial assets	0.00	0.00
	c) cash and other cash assets	65,338,919.17	50,086,193.96
	- cash in hand and at bank	9,720,173.78	2,706,424.84
	- other cash	55,618,745.39	47,379,769.12
	- other cash assets	0.00	0.00
2.	Other short-term investments	0.00	0.00
IV.	Short-term prepayments	**22,868,002.42**	**19,244,922.37**
Total assets		**424,453,876.44**	**336,508,324.44**

BALANCE SHEET
"Kojeje Mazowieckie – KM" sp. z o.o.

data in PLN

Item	Liabilities and equity	closing balance	
		current	previous
1	*2*	*3*	*4*
A.	**Equity**	**303,775,241.76**	**252,197,663.73**
I.	Share capital	297,379,000.00	247,713,500.00
II.	Unpaid share capital (negative value)	0.00	0.00
III.	Treasury shares (negative value)	0.00	0.00
IV.	Reserve capital	0.00	0.00
V.	Revaluation reserve	0.00	0.00
VI.	Other reserves	2,469,469.73	1,851,951.48
VII.	Accumulated profit (loss) from previous years	3,211,203.67	2,014,694.00
VIII.	Net profit (loss) for the year	715,568.36	617,518.25
IX.	Advanced distributions of net profit (negative value)	0.00	
B.	**Liabilities and cost provisions**	**120,678,634.68**	**84,310,660.71**
I.	**Cost provisions**	**47,298,735.81**	**30,735,533.12**
1.	Provision for deferred income tax	9,049,973.00	906,023.45
2.	Provision for retirement and similar benefits	36,321,302.01	26,243,741.58
	- long-term	25,828,541.70	23,328,643.38
	- short-term	10,492,760.31	2,915,098.20
3.	Other provisions	1,927,460.80	3,585,768.09
	- long-term	0.00	0.00
	- short-term	1,927,460.80	3,585,768.09
II.	**Long-term liabilities**	**19,557,953.16**	**9,543,935.08**
1.	To related parties	0.00	0.00
2.	To other parties	19,557,953.16	9,543,935.08
	a) credits and loans	9,941,868.86	9,543,935.08
	b) debt securities	0.00	0.00
	c) other financial liabilities	9,616,084.30	0.00
	d) other	0.00	0.00
III.	**Short-term liabilities**	**49,154,802.94**	**44,011,392.13**
1.	To related parties	66,071.43	0.00
	a) trade payables, with due dates:	66,071.43	0.00
	- within 12 months	66,071.43	0.00
	- in more than 12 months	0.00	0.00
	b) other	0.00	0.00
2.	To other parties	46,335,815.87	41,436,560.21
	a) credits and loans	2,497,102.68	1,768,630.68
	b) debt securities	0.00	0.00
	c) other financial liabilities	2,072,915.29	0.00
	d) trade payables, with due dates:	28,902,346.95	31,830,492.16
	- within 12 months	28,902,346.95	31,830,492.16
	- in more than 12 months	0.00	0.00
	e) advances received for deliveries	0.00	0.00
	f) bills of exchange	0.00	0.00
	g) tax, customs, insurance and other benefits	5,290,908.50	3,937,050.65
	h) payroll creditors	6,800,865.24	2,586,711.50
	i) other	771,677.21	1,313,675.22
3.	Special funds	2,752,915.64	2,574,831.92
IV.	**Accruals**	**4,667,142.77**	**19,800.38**
1.	Negative goodwill	0.00	0.00
2.	Other accruals	4,667,142.77	19,800.38
	- long-term	0.00	0.00
	- short-term	4,667,142.77	19,800.38
Total liabilities and equity:		**424,453,876.44**	**336,508,324.44**

Warsaw, 20 May 2010
....
Location and date of preparation

....

Full name of person in charge of bookkeeping

....

Full names and signatures of the Company's Management Board

CASH FLOW STATEMENT
"Kojeje Mazowieckie – KM" sp. z o.o.

for the period from 1 January 2009 to 31 December 2009

data in PLN

Line	Cash flow statement	Financial year	
	(indirect method)	current	previous
1	*2*	*3*	*4*
A	**Operating cash flows**	**26,151,496.26**	**-24,253,241.13**
I.	Net profit (loss)	715,568.36	617,518.25
II.	Total adjustments	**25,435,927.90**	**-24,870,759.38**
1.	Depreciation	11,987,802.40	5,689,146.96
2.	Foreign exchange gains (losses)	0.00	0.00
3.	Interest and shares in profits (dividends)	1,399,665.35	735,539.50
4.	Profit (loss) on investment activities	15,692.14	-707,665.65
5.	Change in provisions	16,282,540.69	20,248,593.99
6.	Change in stock	-866,451.18	-1,211,355.09
7.	Change in receivables	-3,866,075.04	116,122.09
8.	Change in short-term liabilities, except credits and loans	4,467,428.73	-46,245,353.43
9.	Change in prepayments	-3,984,675.19	-5,510,481.75
10.	Other adjustments	0.00	2,014,694.00
III.	Net operating cash flows (I + II)	**26,151,496.26**	**-24,253,241.13**
B	**Investment cash flows**	**-58,364,517.79**	**7,095,838.52**
I.	Income	0.00	29,107,715.92
1.	Disposal of intangible and tangible fixed assets	0.00	29,107,715.92
2.	Disposal of investments in real estate and intangible fixed assets	0.00	0.00
3.	From financial assets, of which:	0.00	0.00
	a) in related parties	0.00	0.00
	b) in other entities	0.00	0.00
	- disposal of financial assets	0.00	0.00
	- dividends and shares in profits	0.00	0.00
	- repayment of long-term loans	0.00	0.00
	- interest	0.00	0.00
	- other income from financial assets	0.00	0.00
4	Other investment income	0.00	0.00
II.	Expenses	**58,364,517.79**	**22,011,877.40**
1.	Acquisition of intangible and tangible fixed assets	58,364,517.79	22,011,877.40
2.	Investments in real estate and intangible fixed assets	0.00	0.00
3.	For financial assets, of which:	0.00	0.00
	a) in related parties	0.00	0.00
	b) in other parties	0.00	0.00
	- acquisition of financial assets	0.00	0.00
	- long-term loans	0.00	0.00
4.	Other investment expenses	0.00	0.00
III.	Net investment cash flows (I-II)	**-58,364,517.79**	**7,095,838.52**
C.	**Financing cash flows**	**47,465,746.74**	**47,557,008.82**
I.	Income	**55,527,453.32**	**50,000,000.00**
1.	Net income from the issue of shares and other capital instruments and additional contributions to capital	49,665,500.00	50,000,000.00
2.	Credits and loans	5,861,953.32	0.00
3.	Debt securities	0.00	0.00
4.	Other financial income	0.00	0.00
	a. Interest on deposits, cash at bank	0.00	0.00
	b. Subsidies	0.00	0.00
II.	Expenses	8,061,706.58	2,442,991.18
1.	Acquisition of treasure shares	0.00	0.00
2.	Dividends and other payments to shareholders	0.00	0.00
3.	Distribution of profit other than payments to shareholders	0.00	0.00
4.	Repayment of credits and loans	4,758,633.00	1,707,451.68
5.	Purchase of debt securities	0.00	
6.	Other financial liabilities	0.00	0.00
7.	Finance lease payments	1,926,493.69	0.00
8.	Interest	1,376,579.89	735,539.50
9.	Other financial expenses	0.00	0.00
III.	Net financing cash flows (I-II)	**47,465,746.74**	**47,557,008.82**
D.	**Total cash flows (A.III + B.III + C.III)**	**15,252,725.21**	**30,399,606.21**
E.	**Net change in cash balances, of which:**	**15,252,725.21**	**30,399,606.21**
	- change in cash balances relating to foreign exchange differences	**0.00**	**0.00**
F.	**Cash at beginning of period**	**50,086,193.96**	**19,686,587.75**
G.	**Cash at end of period (F + D),**	**65,338,919.17**	**50,086,193.96**
	of which - restricted cash	31,972.32	978,267.35

Warsaw, 20 May 2010
....
Location and date of preparation

....
Full name of person in charge of bookkeeping

....
Full names and signatures of the Company's Management Board

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
"Kojeje Mazowieckie – KM" sp. z o.o.

Prepared for the year 2009

data in PLN

Line	Item	Financial year	
		CURRENT	*PREVIOUS*
I.	**Equity at beginning of period (OB)**	**252,197,663.73**	**24,065,451.48**
	- adjustment of errors		
I a.	**Adjusted equity at beginning of period (OB.)**	**252,197,663.73**	**24,065,451.48**
1.	Share capital at beginning of period	247,713,500.00	22,213,500.00
1.1.	Changes in share capital	49,665,500.00	225,500,000.00
	a) increases (relating to)	49,665,500.00	225,500,000.00
	- contributions	49,665,500.00	225,500,000.00
	b) decreases (relating to)	0.00	0.00
1.2.	Share capita at end of period	297,379,000.00	247,713,500.00
2.	**Unpaid share capital at beginning of period**		
2.1.	Changes in unpaid share capital	0.00	0.00
	a) increases (relating to)	0.00	0.00
	b) decreases (relating to)	0.00	0.00
2.2.	Unpaid share capital at end of period	0.00	0.00
3.	**Treasury shares at beginning of period**		
	a) increases	0.00	0.00
	b) decreases	0.00	0.00
3.1.	Treasury shares at end of period	0.00	0.00
4.	**Reserve capital at beginning of period**		
4.1.	Changes in reserve capital	0.00	0.00
	a) increases (relating to)	0.00	0.00
	b) decreases (relating to)	0.00	0.00
4.2.	Reserve capital at end of period	0.00	0.00
5.	**Revaluation reserve at beginning of period**		
5.1.	Changes in revaluation reserve	0.00	0.00
	a) increases (relating to)	0.00	0.00
	b) decreases (relating to)	0.00	0.00
5.2.	Revaluation reserve at end of period	0.00	0.00
6.	**Other reserves at beginning of period**	**1,851,951.48**	**1,310,973.96**
6.1.	Changes in other reserves	1,851,951.48	1,310,973.96
	a) increases (relating to)	617,518.25	540,977.52
	- distribution of profit for the year	617,518.25	540,977.52
	b) decreases (relating to)	0.00	0.00
	- transfer to share capital - entry in KRS	0.00	0.00
6.2.	Other reserves at end of period	2,469,469.73	1,851,951.48
7.	**Accumulated profit (loss) from previous years at beginning of period**	**2,632,212.25**	**540,977.52**
7.1.	Accum. profit from previous years at beginning of period	2,632,212.25	540,977.52
	- adjustment of errors	1,196,509.67	0.00
7.2.	Adjusted accum. profit from previous years at beginning of period	3,828,721.92	540,977.52
	a) increases (relating to)	0.00	0.00
	b) decreases (relating to)	617,518.25	540,977.52
	- transfer of profit to reserve capital	617,518.25	540,977.52
7.3.	Accum. profit from previous years at end of period	3,211,203.67	2,014,694.00
7.4.	Accum. loss from previous years at beginning of period	0.00	0.00
	- adjustment of errors	0.00	0.00
7.5.	Adjusted accum. loss from previous years at beginning of period	0.00	0.00
	a) increases (relating to)	0.00	0.00
	b) decreases (relating to)	0.00	0.00
7.6.	Accum. loss from previous years at end of period	0.00	0.00
7.7.	Accumulated profit (loss) from previous years at end of period	3,211,203.67	2,014,694.00
8.	**Net profit (loss)**	**715,568.36**	**617,518.25**
	a) net profit	715,568.36	617,518.25
	b) net loss	0.00	0.00
	c) advanced distributions of profit	0.00	0.00
II.	**Equity at end of period (CB)**	**303,775,241.76**	**252,197,663.73**
III.	**Equity after proposed distribution of profit (coverage of loss)**	**303,775,241.76**	**252,197,663.73**

Warsaw, 20 May 2010
....
Location and date of preparation

....

Full name of person in charge of bookkeeping

....

Full names and signatures of the Company's Management Board

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Ldz. 189/m/10

Pol Tax

Warszawa 2010.05.25

Independent Auditor's Opinion

To the General Meeting of the "Koleje Mazowieckie-KM" sp. z o.o. company.

We have audited the attached financial statements of the „Koleje Mazowieckie-KM" sp. z o.o. company, with registered seat in Warsaw at 1 Lubelska Street comprising:

1 Forward to the financial statements;
2 Balance sheet as at 31 December 2009 with total assets and total liabilities amounting to PLN 424,453,876.44;
3 Profit and loss account for the trading year begun on 1 January 2009 and ended on 31 December 2009 disclosing net profit amounting to PLN 715,568.36;
4 Statement of changes in shareholders' equity (funds) for the trading year begun on 1 January 2009 and ended on 31 December 2009 disclosing net increase in shareholders' equity amounting to PLN 51,577,578.03;
5 Cash flow statement for the trading year begun on 1 January 2009 and ended on 31 December 2009 disclosing net cash inflow amounting to PLN 15,252,725.21; and
6 Additional information and explanatory notes.

Director of the unit is responsible for preparation of financial statements.

Director of the unit together with members of the Supervisory Board have the obligation of ensuring that the financial statement and the report on THE activities comply with the requirements specified in the Accounting Act, dated 29 September 1994 (Official Journal of 2009, No. 152, item 1223, as amended) ("Accounting Act").

Our responsibility was to audit the financial statements and to express an opinion whether these financial statements are consistent with the applied accounting principles (policies) and whether the financial statements are, in all material aspects, a true and fair representation of the asset base, the financial position and the financial results of the economic unit as well as whether the accounting books, being the basis for preparation of these financial statements are true and fair.

We conducted our audit in accordance with provisions of:

1 chapter 7 of the Accounting Act; and
2 the auditing standards issued by the National Chamber of Auditors in Poland.

We had planned and conducted our audit of these financial statements in such a way as to obtain reasonable basis to express our opinion on the same financial statements. In particular, the audit included: examining the adopted accounting principles (policies) and significant estimates; examining, to a large extent on a test basis, the accounting records and entries supporting the amounts and disclosures in the financial statements; and evaluating the overall presentation of the same financial statements.

We believe our audit has provided a reasonable basis to express our opinion.

In our opinion, the audited financial statements, in all material respects:

a) present truly and fairly all information material for the assessment of asset base and financial condition of the economic unit as at 31 December 2009 and its financial results for the trading year begun on 1 January 2009 and ended on 31 December 2009;

b) have been prepared in compliance with the applied accounting principles (policies) and on the basis of correctly maintained accounting books; and

c) are, in respect of their content, compliant with the legal regulations and the economic unit's corporate provisions governing the preparation of financial statements.

The report on activities of the economic unit is complete in the meaning of art. 49.2 of the Accounting Act while the information extracted from the audited financial statements and included in the same report on activities are consistent with the financial statements.

Warsaw, 20 May 2010

On behalf of
POL-TAX Sp. z o.o.
11A Wandy street, suite 3
03-949 Warsaw
Registration No. 2695

(-) Usińska	(-) Więch
Elżbieta Usińska	Jerzy Więch
Certified Auditor No. 11250	Certified Auditor No. 5440
Principal auditor of the audit	On behalf of the Management

Description of Differences Between Polish Accounting Standards and IFRS

The below table covers only the most significant identified differences between IFRS and Polish Accounting Standards, and does not pertain to special requirements relating to the scope of disclosure:

Standard	IFRS provisions	Polish Accounting Standards	Effect of differences on the financial statements
IAS 16 – Property, Plant and Equipment	Component accounting IAS 16 introduces a requirement to treat components of tangible fixed asset separately if the useful lives of a tangible fixed asset and its components are different.	The Accounting Act defines tangible fixed assets as having an expected useful life of more than a year, being whole, useable and designated to serve the entity's needs, and calls for charging depreciation on the entire item.	There is no numerical data relating to depreciation adjustments if depreciation was calculated based on components.
	Deferred payment The acquisition cost of a tangible fixed asset is the equivalent of the price actually paid for the item ("cash price") as at the date of its recognition. If payment is deferred for a period longer than the ordinary trade credit terms, then the difference between the equivalent of the price paid in cash and the total payment amount is recognised as interest costs over the credit term, unless they are capitalised in whole or in part in accordance with the allowed alternative approach contained in IAS 23.	No similar regulations in Polish Accounting Standards.	In the first half of 2010 the Company acquired rolling stock for the net amount of PLN 42.7 million, payable over 10 years. Recognition of the transaction in accordance with IAS 16 would result in recognising the value of fixed assets and liabilities at a discounted amount. The value of fixed assets and other liabilities would be reduced as at the purchase date by PLN 9.4 million (when discounted using the WIBOR 1M rate of 30 June 2010 plus 1 percentage point of the financing institution's margin)). The difference would be charged in the various periods as financial costs, and the value of accounting depreciation of the acquired rolling stock in the various reporting periods would

Standard	IFRS provisions	Polish Accounting Standards	Effect of differences on the financial statements
			be lower.
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	IAS 20 is applied to record and disclose information on government grants and to inform of other forms of government assistance. The standard does not specify how to present income subsidies; it indicates the possibility of presenting a separate line in the profit and loss account or of reducing costs.	No related regulations.	In Note 1 to its financial statements the Guarantor disclosed income from subsidies; had it prepared its financial statements in accordance with IFRS, the value of income received from subsidies would be disclosed separately in the profit and loss account.
IAS 1 Presentation of Financial Statements	International Accounting Standards do not provide for the creation of a Company Social Benefits Fund (a "**Fund**"), because the Guarantor does not exercise effective control over the Fund.	Polish Accounting Standards provide for the creation of a Fund.	The Fund's assets (cash, granted loans, etc.) would be eliminated from the financial statements, as would be the Guarantor's liabilities to the Fund. In consequence, the Guarantor's total assets and liabilities would be reduced by PLN 5.4 million.
IAS 18 Revenue	In accordance with the standard, revenue from services is recognised as revenue as the services are provided.	Under Polish Accounting Standards the principle is similar, but there are no specific regulations relating to the provision of services.	Sales revenue includes, among others, revenue from the sale of long-term tickets allowing passengers to travel after the balance sheet date. The Guarantor has no record that would make it possible to determine the amount, which as at the balance sheet date constitutes the value of the prepayment and should be listed under deferred income. The above accounting methods were also applied in previous reporting periods.

FINANCIAL STATEMENTS

of the Company "Koleje Mazowieckie – KM" sp. z o.o. [Limited Liability Company]

for 2008

WARSAW

Contents

I. INTRODUCTION TO FINANCIAL STATEMENTS

The company „Koleje Mazowieckie - KM" spółka z ograniczoną odpowiedzialnością [limited liability company] was established on 29 July 2004 by the Local Government of Mazowieckie Province and "PKP Przewozy Regionalne" spółka z o.o. in Warsaw. The Company's registered office is located in: Mazowieckie Province, the capital city of Warsaw, commune/district Warsaw – Praga-Południe, at the address: Warsaw, 1 Lubelska Street, 03-802 Warsaw.

As at 31 December 2008, the sole Member of the company is Mazowieckie Province holding 495 427 shares with the overall value of PLN 247,713,500.

The prevailing type of activity is rail transport (PKD 4910Z).

The company is registered at the District Court for the capital city of Warsaw in Warsaw, XIII Business Division of the National Court Register, under No. KRS 0000222735. It bears the Company Identification Number REGON 015876404 awarded by the Statistical Office in Warsaw on 2 December 2004 and the Tax Identification Number NIP 1132520369 awarded by the Head of the Tax Office for Warsaw Praga on 7 December 2004.

The company "Koleje Mazowieckie – KM" commenced activity as of 1 January 2005, having obtained licenses required for pursuit of operating activities

In the reporting period, the Company had neither organization units preparing independent financial statements nor units not preparing such statements.

The company "Koleje Mazowieckie - KM" was established in 2004 and launched its operating activities as of 1 January 2005. That year, it fell short of the limit values for review of the financial statements. The first financial year was the period from 24 November 2004 to 31 December 2005.

The financial statements cover the period from 1 January 2008 to 31 December 2008. It is the fourth financial year in the Company's activity.

The annual financial statements have been prepared on the basis of the assumption that the Company "Koleje Mazowieckie-KM" will in foreseeable future continue its current activities with no material reductions of the scope thereof and will neither become liquidated nor declared bankrupt. Besides, we are not aware of any circumstances that might indicate the existence of serious threats to our company's going concern.

Determining the entity's ability to continue activities, the Management Board of the Company Koleje Mazowieckie-KM takes into consideration all information available as at the day of preparation of the financial statements and pertaining to foreseeable future of at least one year from the balance sheet day.

The financial statements have been prepared in compliance with the requirements for keeping the books of account, valuating assets and liabilities, and measuring the financial result that follow from the Accountancy Act of 29 September 1994 as amended.

Applying provisions of the Accountancy Act with due consideration to the prudence principle laid down in Article 7 thereof, the entity establishes provisions and assets on account of deferred income tax due to the timing differences between the book value of assets and liabilities and their tax value deductible in the future. The deferred part disclosed in the profit and loss account is the difference between provisions for and assets on account of deferred income tax as at the beginning and end of the reporting period.

Assets and liabilities have been valuated pursuant to the rules laid down in the Accountancy Act, provided that:

1. The entity depreciates its fixed assets and intangible assets at rates included in the Annual Rates List attached to the Act of 15 February 1992 on corporate income tax as amended.
2. The values and expenditures of materials and goods in the quantitative and qualitative records are valuated under the FIFO method.
3. Provisions for and assets on account of deferred income tax are not mutually compensated.

The Company prepares financial statements consisting of:

- the balance sheet,
- the profit and loss account – comparative variant,
- the cash flow statement - indirect method,
- the statement of changes in shareholders equity.

II. NOTES TO FINANCIAL STATEMENTS

Explanations to the balance sheet

The value of the fixed assets as at 31 December 2008 amounted to PLN 232,366,875.37

in this:

- intangible assets amounted to PLN 78,060.86
- tangible fixed assets amounted to PLN 212,900,757.00

  and consisted of fixed assets in the amount of PLN 212,885,757.00

  and of fixed assets under construction in the amount of PLN 15,000.00
- long-term prepayments PLN 19,388,057.51

Presented below is the detailed range of changes in the value of different groups of fixed and intangible assets by nature, including the state of those assets as at the beginning of the financial year, increases and decreases on account of acquisition, and their final state.

Fixed assets – initial value and depreciation

Group of fixed assets		Land	Residential and commercial buildings and civil engineering structures	In this: residential buildings	Plant and machinery	Means of transport	Other fixed assets	**Total FIXED ASSETS**
1		*2*	*3*	*4*	*5*	*6*	*7*	*8*
Initial Value	Gross opening balance		515,000.00		3,431,031.04	49,057,252.80	272,426.58	53,275,710.42
	Revenues		535,805.44		545,689.74	198,386,513.54	234,485.28	199,702,494.00
	Expenditures		0.00		0.00	-31,253,332.80	0.00	-31,253,332.80
	Closing balance	0.00	**1,050,805.44**	**0.00**	**3,976,720.78**	**216,190,433.54**	**506,911.86**	221 724 871,62
Depreciation	Opening balance		-17,166.67		-2,702,916.96	-3,191,391.28	-131,107.50	-6,042,582,41
	Increases		-18,456.30		-638,341.06	-4,814,346.95	-178,670.43	-5,649,814,74
	Decreases		0.00		0.00	2,853,282.53	0.00	2,853,282,53
	Closing balance	**0.00**	**-35,622.97**	**0.00**	**-3,341,258.02**	**-5,152,455.70**	**-309,777.93**	-8,839,114,62
Revaluation write-off		0,0	0.00		0.00	0.00	0.00	0.00
Net closing balance		**0.00**	**1,015,182.47**	**0.00**	**635,462.76**	**211,037,977.84**	**197,133.93**	**212,885,757.00**

Intangible assets – initial value and depreciation

Group of fixed assets		Costs of finished development works	Goodwill	Other intangible asseys	Advances on account of intangible assets	Total intangible assets
1		*2*	*3*	*4*	*5*	*6*
Initial value	Gross opening balance			237,092.73		237,092.73
	Revenues			77,476.88		77,476.88
	Expenditures					0.00
	Closing balance	**0.00**	**0.00**	**314,569.61**		314,569.61
Depreciation	Opening balance			-197,176.53		-197,176.53
	Increases			-39,332.22		-39,332.22
	Decreases					0.00

Group of fixed assets		Costs of finished development works	Goodwill	Other intangible asseys	Advances on account of intangible assets	Total intangible assets
1		2	3	4	5	6
	Closing balance			**-236,508.75**		-236,508.75
Revaluation write-off						,
Net closing balance		**0.00**	**0.00**	**78,060.86**	**0.00**	**78,060.86**

Intangible assets include computer and railbus software.

The balance of fixed assets under construction, in the amount of PLN 15,000.00, includes a modernization project of the office building at 1 Lubelska Street.

In January 2008, the Company KM settled fixed assets constituting the value of improvements of an Organized Part of Enterprise leased under an agreement for lease of an Organized Part of Enterprise between "PKP Przewozy Regionalne" sp. z o. o. and "Koleje Mazowieckie-KM" sp. z o.o.

In July 2008, the Local Government of Mazowieckie Province contributed the assets of the Organized Part of Enterprise purchased by the Mazowieckie Province under an agreement of 8 January from "PKP Przewozy Regionalne" sp. z o. o.

As at 31 December 2008 the Company established no revaluation write-offs of its fixed assets and intangible assets.

Two groups of fixes assets have been distinguished in KM:

Group I:

Fixed assets with the expected economic life of over one year, and the initial value exceeding PLN 3,500.00.

Group II:

Fixed assets with the expected economic life of over one year and the initial value not exceeding PLN 3,500.00, hereinafter referred to as low-value fixed assets.

Low-value fixed assets with the initial value not exceeding PLN 3,500, booked separately upon their release for use and upon charging of their initial value to depreciation costs, are disclosed in the balance sheet until their liquidation.

In 2008, the company "Koleje Mazowieckie – KM" made no long-term investments.

The company owns no real properties, perpetual usufructs of land, cooperative ownership titles to residential premises or cooperative titles to usable premises.

The company utilizes fixed assets under operating leasing agreements and has no assets under financial leasing.

Pursuant to Article 3 clause 4 points 1-7 of the Accountancy Act and provisions of its Memorandum, the entity is not entitled to depreciate fixed assets **utilized under rent, lease and other agreements, leasing agreements included**.

Operating lease agreements

Item	Subject of leasing	Agreement number and date of conclusion	Agreement end date	Net value	Costs for 2008
1	Passenger carToyota Avensis 2.0 Vvti Sedan Prestige	Agreement No. 14890, 21 November 2006	5 November 2011	PLN 89,180.00	PLN 20,959.27
2	Passenger car Ford Focus Silver X 1.6 5D	Agreement No. 14894, 27 November 2006	10 November 2011	PLN 48,852.46	PLN 12,572.05
3	Truck Ford Transit 280M Kombi	Agreement No. 14895, 27 November 2006	25 January 2012	PLN 93,987.00	PLN 20,273.20
4	Mobile ticket offices with administration system	Mz-081-MHK-304/06, 30 October 2006	30 October 2009	PLN 1,331,504.82	PLN 377,791.44
5	Passenger car Peugot Partner Trendy 1,6 110 KM manufactured 2006	Agreement No. L01/12/2006, 15 December 2006	15 December 2011	PLN 43,113.11	PLN 9,449.04
6	Substructure lathe	Agreement No. Mz-081-MEN-310/06, 23 November 2006	23 November 2012	PLN 3,075,000.00	PLN 590,000.04
7	Computer equipment	Agreement No. 15419, 23 January 2007	1 January 2010	PLN 277,268.00	PLN 94,462.45
8	Electrical Train Unit EN 71-100	Mz-081-MEN-68/07, 8 March 2007	8 March 2017	PLN 7,424,996.00	PLN 799,090.47
9	Electrical Train Unit EN 57 1109	Mz-081-MEN-69/07, 8 March 2007	8 March 2017	PLN 6,167,875.80	PLN 612,443.58
10	Electrical Train Unit EN 57 1173	Mz-081-MEN67/07, 8 March 2007	8 March 2017	PLN 6,167,875.80	PLN 610,503.60
11	Computer equipment	Mz-081-MEN-106/08, 24 July 2008	24 July 2011	PLN 319,036.32	PLN 28,631.80
12	Passenger car FORD FIESTA 1,3 (70km)	Mz-081-99-MPG/08, 15 July 2008	14 July 2013	PLN 47,292.79	PLN 2,972.43
13	Truck FORD TRANSIT VAN 260S TREND 2,2 TDCi 110km M5	Mz-081-100-MPG/08, 15 July 2008	14.07.2013	PLN 112,324.08	PLN 7,289.17
14	Truck FORD TRANSIT VAN 280S TREND 2,2 TDCi 110km M5	Mz-081-101-MPG/08, 15 July 2008	14.07.2013	PLN 118,599.47	PLN 7,695.61
	Total	**x**	**x**	***PLN 25,316,905.65***	***PLN 3,194,134.15***

Lease of buildings, properties and movables required for operating activities of the Company KM

Item	Subject of lease	Agreement number	Cost of lease in 2008
1	11 railbuses	Mz-081-MBE-79/2008	PLN 266,499.96
2	10 Electrical Train Units, “Flirt” type	Mz-081-MEN-182/08 of 12 November 2008	PLN 1,381,271.22
3	Cars for push-pull trains	Mz-081-MEN-68/07 Mz-081-MEN-69/07	PLN 1,664,552.96
4	2 Electrical Train Units	Mz-081-MEN-238/05 of 30 December 2005	PLN 108,313.82
5	Electrical Train Units	According to orders placed on a running basis	PLN 8,537,173.89
6	Rail engines with traction service	Mz-081-MEE-108/08	PLN 780,275.38
7	Area for ticket office containers at passenger stops.	C/04/03a/005/00/5555/08 of 14 February 2008	PLN 1,876.34
8	Signal box buildings Warsaw Ochota halting station OCH1	C/01/03f/007/00/5555/06 of 15 September 2006	PLN 4,186.08
9	Information rooms in platform train dispatcher’s building at Radom station	C/07/05f/048/00/5555/06 of 20 September 2006	PLN 3,000.00
10	Rooms for engineer teams in the railway station building in Dęblin	34N5f-208/2007 of 16 June 2007	PLN 7,195.54
11	Premises within halting station Warsaw Grochów including station tracks, turnouts and contact system	39N8/976/2006 of 30 November 2006	PLN 14,657.50
12	Area in front of Warszawa Wschodnia station from Lubelska Street	D5b-620-4/07 of 26 July 2007	PLN 24,600.00
13	Service room for the company’s personnel and general access areas for passengers in station buildings	ND5f-611-9/2/06 of 6 June 2006	PLN 2,820,192.00
14	Office building – registered office of the company at 1 Lubelska Street	DD5f-611-9/3/06 of 6 June 2006	PLN 105,595.56
15	Service room for the company’s personnel and general access areas for passengers in station buildings	RUII/429/2005 of 24 January 2005	PLN 1,185,844.16
16	Plots of land used as the locomotive stabling point, outbuildings, rolling stock repair shops, boiler rooms, turnouts and contact system, technological systems and access roads	RUII/430/2005 of 24 January 2005	PLN 3,045,616.03
17	Service rooms for company’s personnel in the building at 5a Białostocka Street	C/01/03f/004/00/5555/05 of 14 February 2005	PLN 54,181.68
	Total		***PLN 20,005,032.12***

The long-term prepayments in the amount of

PLN 19,388,057.51

consist mainly of the costs of inspection repairs and paint coating of electrical trains in years following the year 2008. Spread over 36 months according to the actual mileage of the vehicles after which the next inspection repairs are carried out.

Specification of long-term prepayments

Item	Settlement titles	Opening balance	Increases	Reclassifications	Decreases	Closing balance
1	*2*	*3*	*4*	*5*	*6*	*7*
1	Repairs and paint-coating of electrical trains	11,832,574.72	9,496,944.54	-9,449,613.31	-945,512.49	10,934,393.46
2	Repair of buildings and machinery	824,961.87	1,522,488.21	-777,740.39	-312,953.23	1,256,756.46
3	Initial fee on account of leasing	794,701.33	56,264.90	51,183.15	-15,736.66	886,412.72
Total		**13 452 237,92**	**11,075,697.65**	**-10,176,170.55**	**-1,274,202.38**	**13,077,562.64**

1) Assets on account of deferred income tax.

The **assets on account of deferred income tax** have been determined in the amount expected to be deducted from income tax in the future, in the amount of

6,310,494.87

due to negative timing differences **which will result in the future in a decrease of the basis for calculation the income tax** and the deductible tax loss.

Specification of negative timing differences – assets on account of deferred income tax, closing balance 2008

Item	Item of assets or liabilities	BV – book value	TV – tax value	Difference (BV-TV)	Expected year of realization	Tax rate for actual year	Assets on account of deferred income tax
I.	**Assets**	**68,889.48**	**0.00**	**68,889.48**	x	x	**13,089.00**
1	Revaluation write-off of receivables	68,889.48	0.00	68,889.48	2009	19%	13,089.00
II.	**Liabilities**	**37,671,349.82,**	**4,497,882.33,**	33,144,241.41,	x	x	**6,297,405.87**
1	Provision for unused holiday leaves	3,344,179.36	0.00	3,344,179.36	2009	19%	635,394.08
2	Provision for severance pays, old age and disability pensions and anniversary awards	26,243,741.58	0.00	26,243,741.58	2009	19%	4,986,310.90
3	Accrued interest on liabilities	1,829,411.01	1,803,575.54	25,835.47	2009	19%	4,908.74
4	Liabilities on account of commission contracts, contracts for specific work and employment contracts	6,149,737.27	2,694,306.79	3,455,430.48	2009	19%	656,531.79
5	Provision for litigation	83,972.91	15,626.08	68,346.83	2009	19%	12,985.90
6	Other provisions	20,307.69	13,600.00	6,707.69	2009	19%	1,274.46
Total		37,740,239.30	4,497,882.33	33,213,130.89	x	x	6,310,494.87

The assets on account of deferred income tax consisted of:

- a revaluation write-off of interest receivables accrued in 2005, established in the amount of 51%,
- a provision for unused holiday leaves,
- a provision for severance pays and old-age and disability pensions,
- a provision for anniversary awards,
- a provision for Management bonuses,
- a provision for employee-related litigation and other provisions.

The costs pertain to 2008 but will only be realized in 2009, reducing the basis of taxation and affecting the net result.

The value of stock as at 31 December 2008 amounted to **4,706,466.69**

in this, considerable portions were accounted for by:

- current income tax of PLN 2,374,071.89
- stock of materials PLN 2,332,394.80

The total short term receivables of PLN 30,103,866.05

consisted of:

- trade receivables from related parties PLN 1,830.00
- trade receivables from other parties PLN 8,727,873.45
- receivables on account of taxes, grants, duties, social and health insurance and other benefits PLN 18,649,446.55
- other PLN 2,724,716.05

composed of:

- settlements related to separate accounting pertaining to ZFŚS – loan – in the amount of PLN 2,657,991.12
- other settlements PLN 66,724.93

Receivables on account of taxes, subsidies, duties, social and health insurance and other benefits in the amount of **PLN 18,649,446.55**
consist of:

- receivables from the Tax Office on account of VAT PLN 11,673,163.00
- VAT suspended for settlement during the following months PLN 3,841,440.27
- receivables from the Tax Office on account of the corporate income tax PLN 3,134,018.00

The trade receivables from other entities
in the amount of **PLN 8,727,873.45**
consist of:

- receivables on account of tickets from PKP Intercity PLN 575,252.52
- receivables on account of tickets from PKP Przewozy Regionalne PLN 320,382.59
- receivables on account of passenger transport from ZTM PLN 2,302,583.06
- receivables on account of contractual penalties from ZNTK Mińsk Maz. PLN 102,260.40
- receivables on account of fare dodges settled
by PBB Gniezno and through own debt collection in the amount of 5,162,563.67

- other receivables in the amount of PLN 264,831.21

Receivables on account of additional charges and the court fees adjudged on that account are booked the moment the arise as other receivables on revaluation write-offs. This way, no revenues of future periods arise, and no standard costs of establishing the revaluation write-off. This disclosure does not result in overestimation of the balance sheet turnover. What remains under receivables is merely a small value of the tariff fare and VAT due on such fare.

Assuming the collectability of receivables on account of fare dodger journeys at a level of 50%, the Company disclosed such proportion of additional charges in 2005 under other operating revenues in the amount of PLN 4,408,213.88.
of that amount, PLN 818,979.27 was paid in 2006, 93,136.61 was paid in 2007, and 83,350,46 was paid in 2008.

Besides, the company disclosed as financial revenues the estimated value of interest on receivables on account of fare dodger journeys in the amount of 579,432.97. The statutory interest was calculated on receivables on account of fare dodger journeys, over 365 days overdue as at the balance sheet day 31 December 2008, i.,e. for the years 2006-2007, with respect to which collection proceedings are pending.

Assuming the former collectibility of receivables on account of fare dodger journeys at a level of 34% in 2006 and 47% in 2007, it is planned to collect the receivables of PLN 3,119,021.29. The statutory interest of PLN 579,432.97 has accrued on those receivables.

Starting from 1 January 2006, the company recovers debts on its own account; such matters are no longer delegated to the Fare Dodger Journeys Office in Gniezno.

Cash as at 31 December 2008 was as follows: **PLN 50,086,193.96**
in this

- cash in hand amounting to PLN 10,563.55
- cash at bank amounting to PLN 1,717,593.94
- funds in transfer (cash receipts) PLN 2,379,769.12
- cash on the investment/deposit account O/N PLN 45,000,000.00
- cash on the ZFŚS bank account PLN 978,267.35

The structure of **short-term prepayments**

in the amount of **PLN 19,244,922.37**

is shown in the table below.

Specification of short-term prepayments

Item	Settlement titles	Opening balance	Increases	Reclassifications	Decreases	Closing balance
1	Service uniforms	165,718.66	1,155,746.46	0.00	-760,736.58	560,728.54
2	Telecommunications services	94,150.09	21,706.44	0.00	-94,150.09	21,706.44
3	Power for electrical trains	0.00	1,757,643.80	0.00	0.00	1,757,643.80
4	Passage performances	619,947.30	3,653,334.91	0.00	-2,532,804.30	1,740,477.91
5	Subscription	3,432.15	1,568.08	0.00	-3,432.15	1,568.08
6	Technical Transport Inspection	52,571.06	243,768.48	0.00	-296,339.54	0.00
7	Paint-coating and repairs of electrical trains	16,090,826.89	4,556,304.90	9,461,241.44	-16,644,773.29	13,463,599.94
8	Other repairs	363,684.48	1,040,311.43	766,112.26	-728,968.97	1,441,139.20
9	Initial fees on account of leasing (short-term)	342,003.69	12,904.68	-51,183.15	-140,016.76	163,708.46
10	Fee on account of rolling stock lease and rental – electrical trains	0.00	94,350.00	0.00	0.00	94,350.00
Total		**17,732,334.32**	**9,602,542.48**	**10,176,170.55**	**-21,201,221.68**	**19,244,922.37**

Due to entries being made directly under item 6 with omission of items 4 and 5 of the Profit and Loss Account, there is no change in products.

The company has no liabilities to the state budget or local authorities on account of acquisition of the ownership of buildings and structures.

Amount and structure of share capital

As at the date of formation of the Company, its Share Capital amounted to PLN 50,000 and was divided into 100 equal and indivisible shares with the face value of PLN 500 each, taken up as follows:

- 51 shares with the total value of PLN 25,500 were taken up by Mazowieckie Province,
- 49 shares with the total value of PLN 24,500 were taken up by "PKP Przewozy Regionalne" Spółka z o.o.

The capital was increased as follows:

- By Resolution No. 16/NZW/2005 of the Meeting of Members of the Company "Koleje Mazowieckie-KM" sp. z o.o. of 3 November 2005, by PLN 2,163,500.00, including PLN 1,084,500.00 by way of contribution of assets.
- By Resolution No. 18/NZW/2006 of the Meeting of Members of the Company "Koleje Mazowieckie-KM" sp. z o.o. of 30 October 2006, by PLN 20,000,000.00.
- By Resolution No. 4/NZW/2008 of the Meeting of Members of the Company "Koleje Mazowieckie-KM" sp. z o.o. of 5 February 2008, by PLN 50,000,000.00.
- By Resolution No. 12/NZW/2008 of the Meeting of Members of the Company "Koleje Mazowieckie-KM" sp. z o.o. of 24 June 2008, by PLN 175,500,000.00, contributed wholly as fixed assets.

The share capital was increased by the total of PLN 247,663,500 and is now divided into 495,427 equal and indivisible shares with the face value of PLN 500 each, all of which are held by the Mazowieckie Province.

The shareholder structure is shown in the table below:

MEMBERS	As at 31 December 2008	Number of shares held	Structure (%)
Mazowieckie Province	247,713,500.00	495,427	***100 %***
Total share capital	**247,713,500.00**	**495,427**	***100 %***

The equity of **PLN 252,197,663.73**

consists of:

- Share capital PLN 247,713,500.00
- Reserve capital (the profit of 2005-2007) PLN 1,851,951.48
- Accumulated profit of the previous years PLN 2,014,694.00
- Net profit for the year PLN 617,518.25

As at 31 December 2008, the accumulated profit of the previous years, disclosed under liabilities in the balance sheet in the amount of

PLN 2,014,693.94,

pertains to adjustment of the corporate income tax for 2007.

The income tax adjustment results from changed qualification as taxable costs of the inspection (periodical) repairs of the rolling stock on the day when they are incurred, and not as before under prepayments due to individual interpretations. The change pertains only to the tax records and settlements.

In the books, in compliance with its Accounting Policies, the Company KM spreads the costs of inspection repairs over 36 months according to the assumed mileage of the vehicles after which the next inspection repairs are made.

Within its railway transport services, the Company utilizes rolling stock that undergoes obligatory inspection repairs – a type of periodical survey – after a specific mileage. The period between such surveys is about 3 years on the average; however, the specific date of the next survey cannot be arranged in advance as it depends exclusively on the rolling stock's actual mileage (stated in kilometers of traveled distance).

The expenses incurred in relation to the periodical inspection repairs of the rolling stock are indirectly tax deductible as they contribute to preservation of the source of income but cannot be attributed directly to any specific revenues generated by the Company. Pursuant to Article 15 clause 4d of the Corporate Income Tax Act, costs other than directly related to revenues are deducted as incurred.

For the corporate income tax purposes, the expenses related to the surveys - being deductible costs not related directly to revenues (indirect costs) - were deducted as at the date when they were incurred by way of an adjustment of the annual returns for 2005-2007.

The above is confirmed by tax law interpretations. Among the recent interpretations of the Minister of Finance, an individual interpretation can be mentioned, issued by the Head of the Tax Chamber in Poznań, Ref. No. ILPB3/423-669/08-4/ŁM of 8 January 2008, which pertains to periodical repairs of rail engines. The Company KM has also acquired an individual interpretation issued by the Tax Law Office Manugiewicz Trzaska i Wspólnicy on this matter.

The state of provisions:

Specifications of established provisions for liabilities

Item	Settlement titles	Opening balance	Increases	Reclassifications	Decreases	Closing balance
1	Provision for unused holiday leaves, short-term	1,693,318.49	1,650,860.87	0.00	0.00	**3,344,179.36**
2	Provision for severance pays on account of retirement, long-term	7,088,515.42	4,936,685.22	121,506.97	0.00	**12,146,707.61**
3	Provision for severance pays on account of retirement, short-term	633,616.33	0.00	-121,506.97	0.00	**512,109.36**
4	Provision for anniversary awards, short-term	0.00	2,402,988.84	0.00	0.00	**2,402,988.84**
5	Provision for anniversary awards, long-term	0.00	11,181,935.77	0.00	0.00	**11,181,935.77**
6	Provision for deferred income tax	828,312.66	77,710.79	0.00		**906,023.45**
7	Provision for Management bonuses	150,325.00	147,487.50	0.00	-150,325.00	**147,487.50**
8	Provision for employee litigation	68,346.83	0.00	0.00	0.00	**68,346.83**
9	Other provisions	24,504.40	6,450.00	0.00	-5,200.00	**25,754.40**

Item	Settlement titles	Opening balance	Increases	Reclassifications	Decreases	Closing balance
Total		10,486,939.13	20,404,118.99	0.00	-155,525.00	30,735,533.12

Disclosed under balance sheet liabilities:

1. Provision for deferred income tax - established by the company in the amount equal to income tax to be payable in the future, that is **PLN 906,023.45,** in view of the positive timing differences, that is those resulting in an increase of the basis for taxation with income tax in the future.

It includes mainly revenues on account of fare dodger journeys together with the accrued interest adjudged by the court in the amount of 50% of the total of such receivables, disclosed under revenues for 2005, which will become taxable revenue at the moment of their payment.

Specification of positive timing differences with determination of the provision for deferred income tax 2008

Item	Item of assets or liabilities	BV – book value	TV – tax value	Difference (BV-TV)	Expected year of realization	Tax rate for actual year	Provision for deferred income tax
I.	**Assets**	**6,331,772.35**	**1,566,031.29**	**4,765,741.06**	**x**	**x**	**905,490.80**
1	Receivables on account of interest	1,278,170.31	54,232.13	1,223,938.18	2009	19%	232,548.25
2	Accrued interest on bank deposits, due but outstanding	94,859.28	0.00,	94,859.28	2009	19%	18,023.26
3	Other – media and contractual penalties	550,528.88	423,196.21	127,332.67	2009	19%	24,193.21
4	Revenues from fare dodger journeys - unpaid	4,408,213.88	1,088,602.95	3,319,610.93	2009	19%	630,726.08
							,
II.	**Liabilities**	**6,567.49**	**3,764.07**	**2,803.42**	**x**	**x**	**532.65**
1.	Other – payer's remuneration	6,567.49	3,764.07	2,803.42	2009	19%	532.65
Total		**6,034,618.52**	**1,266,074.04**	**4,768,544.48**	**x**	**x**	**906,023.45**

2. Provision for employee benefits **PLN 26,243,741.58**

pertain to

- severance pays on account of retirement PLN 12,658,816.97

- ➢ anniversary awards PLN 13,584,924.61

According to calculations made by a certified actuary, increase in provisions in 2008 pertained to:

- ➢ severance pays on account of retirement, in the amount of PLN 4,936,685.22
- ➢ anniversary awards, in the amount of PLN 13,584,924.61

So far, the Company KM has not established provisions for anniversary awards. According to the Actuary's report, the provision for anniversary awards should amount to PLN 22,733,781.15. In view of the Company's KM limited financial possibilities and pursuant to its Accounting Policies, a partial provision has been established consisting of 100% of the value of short-term provisions in the amount of 2,402,988.84 and 55% of the value of long-term provisions, i.e. PLN 11,181,935.77. The obligation to establish such provision follows from Article 39 of the Accountancy Act.

3. Other provisions, in the amount of PLN 3,585,768.09

pertain to

- ➢ provisions for unused holiday leaves PLN 3,344,179.36
- ➢ provision for Management bonuses for 2008 PLN 147,487.50
- ➢ other provisions PLN 94,101.23

The increase of provisions in 2008 pertained to:

- ➢ unused holiday leaves by PLN 1,650,860.87
- ➢ change in the provision for Management bonuses by PLN 2,837.50

Short-term liabilities

in the amount of PLN 44,011,392.13

settled on a running bases pertain to:

- ➢ ***liabilities on account of bank facility and loan in the amount of PLN 1,768,630.68***
- ➢ ***liabilities on account of supplies and services in the amount of PLN 31,830,492.16***

and consist of liabilities to:

- PKP PLK S.A. (including access to railways) PLN 9,170,224.10
- ZNTK Mińsk Mazowiecki (rolling stock repairs and modernization) PLN 5,266,489.84
- PKP Intercity (including liabilities on account of tickets sold) PLN 3,089,818.56
- PKP Przewozy Regionalne (including liabilities on account of lease and tickets sold) PLN 2,857,869.27
- TORIM Warsaw PLN 1,455,690.58
- PKP Energetyka (including power supply to electrical trains) PLN 3,558,251.67
- Iron Foundry - Bydgoszcz PLN 499,693.70
- Centrum Usługa Warsaw PLN 239,148.32

- Renoma PLN 450,421.23
- PKP CARGO PLN 1,025,702.37
- Telekomunikacja Kolejowa sp. z o.o. PLN 183,254.02
- Telimena (service uniforms) PLN 339,545.52
- Polish Mint PLN 356,513.22
- POL OIL CORPORATION PLN 214,660.59
- Other liabilities under PLN 100 thousand, total PLN 3,123,209.17

➢ ***liabilities on account of taxes, customs and social insurance, in the amount of PLN 3,937,050.65***

consisting of liabilities on account of:

- individual income tax PLN 1,105,574.00
- settlement with PFRON PLN 182,118.00
- repayment of a restricted grant to the Ministry of the Infrastructure PLN 211,631.00
- settlement with ZUS (Social Insurance Institution) PLN 2,437,727.65

➢ ***liabilities on account of remunerations, in the amount of PLN 2,586,711.50***

➢ ***other liabilities in the amount of PLN 1,313,675.22***

consisting of liabilities on account of:

- other: including securities and deposits PLN 80,418.80
- Settlements on account of ZFŚS PLN 1,233,256.42

The Enterprise Social Benefits Fund (ZFŚS) as at 31 December 2008 amounted to PLN 2,574,831.92

The company KM has the following **liabilities on account of bank facilities and loans:**

Item	Contractor		Value (PLN)	Short-term liability of account of facility/loan, due in 2009	Long-term liability of account of facility/loan, due after 2009
1	Investment facility from BGK	Facility	10,000,000.00		
2	Repayment in 2007		-344,827.56		
3	Repayment in 2008		-1,034,482.68		
4	**Balance as at 31 December 2008**	**Facility**	**8,620,689.76**	**1,034,482.68**	**7,586,207.08**
5	Loan No. 22/07/OH/P from WFOŚiGW	Loan	2,320,755.34		
6	Repayment in 2007		-193,410.34		
7	Repayment in 2008		-425,469.00		
8	**Balance as at 31 December 2008**	**Loan**	**1,701,876.00**	**464,148.00**	**1,237,728.00**
9	Loan No. 23/07/OH/P from WFOŚiGW	Loan	1,350,000.00		
10	Repayment in 2007		-112,500.00		
11	Repayment in 2008		-247,500.00		
12	**Balance as at 31 December 2008**	**Loan**	**990,000.00**	**270,000.00**	**720,000.00**
Liabilities			**11,312,565.76**	**1,768,630.68**	**9,543,935.08**

Prepayments include:

Specification of revenues of future periods

Item	Settlement titles	Opening balance	Increases	Decreases	Closing balance
1	Reduction on account of purchase of cash registers - short-term	71,061.23	0.00	-71,061.23	0.00
2	Penalties for delayed performance of agreements and other penalties	46,478.34	1,589,740.10	-1,636,218.44	0.00
3	Receivables on account of rolling stock devastation: in this: following a conviction	0.00	26,426.31	-11,481.72	14,944.59
4	Other	0.00	4,855.79	0.00	4,855.79
Total		**117,539.57**	**1,621,022.20**	**-1,718,761.39**	**19,800.38**

As at 31 December 2008, there were no accruals.

Total short-term prepayments amount to PLN 19,800.38

The Company has no contingent liabilities, including warranties and pledges given by the entity.

No liabilities are secured on the entity's assets by way of mortgage, pledge or registered pledge, and no third party administrator of those assets has been appointed.

Selected personnel matters

As at 31 December 2008, the Company KM had 2,519 employees divided into 3 basic groups with the following shares in total employment:

- *White collar positions*

  - supervisory positions and administrative and technological services account for 10.24% of total employment.

- *Basic activities*

  - ticket collector teams account for 17.78 % of total employment
  - engineer teams account for 18.86 % of total employment
  - cashiers and information services account for 13.78% of total employment
  - rolling stock operation and maintenance services account for 32.16% of total employment
  - switching teams (train dispatcher, switch-man, handler) account for 2.42% of total employment

- *Additional service staff*

  - other employees operating the warehouse base, performing preservation and maintenance works and managing supplies account for 4.76% of total employment.

The remunerations, together with a share in profit, paid and due for 2008 to members of the company's management and supervisory bodies, as well as the loans and similar benefits awarded in 2008 members of the company's management and supervisory bodies, with the interest rate and due date information, are summarized in the table below:

	Management bodies	***Supervisory bodies***	***Total***
1	*2*	*3*	*4*
Remunerations	499,882.29	111,549.97	611,432.26
Loans and other similar benefits	4,495	0.00	4,495
Interest rate	3%	X	X
Loan due dates	July 2011	X	X

Entity authorized to audit the financial statements for 2008

The company “Koleje Mazowieckie-KM” sp. z o.o., authorized by the entitled body to appoint the entity to audit the company's financial statements – Resolution of the Supervisory Board No. 37/RN/2008 of 14 November 2008 – concluded on 24 November 2008 the agreement No. A – 69/09 **for audit of and opinion on the financial statements with** PTE-PROFIT sp. z o.o. in Warsaw at 41 Rakowiecka Street suite 28, entered on the list of entities authorized to audit financial statements under No. 250 and registered at the District Court for the capital city of Warsaw, XIII Business Division of the National Court Register under No. 0000014823, (Tax Identification Number NIP 521-008-89-95).

The net remuneration of the entity authorized to audit financial statements for the financial year 2008 amounted to PLN 12,900. The agreement did not cover other certification services, tax advisory services etc.

Notes to the profit and loss account

The basic type of activity pursued by the company is rail transport (PKD 4910Z).

The services are provided on domestic basis; no exports are effected.

	2008	*2007*
Revenue from sales	**PLN 439,935,963.23**	**PLN 375,550,906.54**
- sales of tickets and entitlements	PLN 178,981,750.10	PLN 156,471,368.04
-revenues from Office of the Marshal on account of an agreement for organization and financing of railway passenger traffic in Mazowieckie Province - received grant	PLN 182,000,000.00	PLN 152,000,000.00
- sales of services to other companies	PLN 51,226,271.04	PLN 41,332,823.02
- grant from the Ministry of Infrastructure	PLN 25,103,957.94	PLN 23,830,785.05
- net revenues from the sales of goods and materials	PLN 811,286.40	PLN 602,027.14
- other revenues	PLN 1,812,697.75	PLN 1,313,903.29

	2008	*2007*
Other operating revenues	**PLN 35,351,827.67**	**PLN 5,084,820.19**
- additional charges for fare dodger journeys - paid	PLN 3,370,408.99	PLN 2,420,378.74
- contractual penalties and damages	PLN 1,742,474.72	PLN 2,023,233.94
- damages received under property insurance policies	PLN 150,753.88	
- reduction on account of purchase of cash registers	PLN 71,061.23	PLN 142,122.36
- handling fees on account of fare dodger journeys	PLN 67,818.64	PLN 56,682.81
- revenues on account of exceeding the limits of business telephone calls	PLN 206,307.39	PLN 151,351.96
- release of provisions	PLN 97,820.44	PLN 87,962.46
- repayment of court and collector's fees	PLN 442,773.43	PLN 13,382.02
- revenues from sales of fixed assets	PLN 29,107,715.92	0,00
- other revenues	PLN 94,693.03	PLN 189,705.90

	2008	*2007*
Financial revenues	**3,187,904.24**	**PLN 2,872,417.85**
- interest on cash at bank	2,496,100.99	PLN 802,294.58
- interest accrued and paid on receivables	691,720.91	PLN 81,202.09
- release of the provision for interest on liabilities	0.00	PLN 1,677,834.25
- sales of receivables	0.00	PLN 311,075.03
- other revenues	82.34	PLN 11.90

Total revenues from business activities	PLN 478,475,695.14	PLN 383,508,144.58

	2008	*2007*
Operating Costs	**PLN 446,677,338.82**	**PLN 380,523,064.81**
a. **Depreciation**	PLN 5,689,146.96	**PLN 3,356,285.40**
b. **Use of materials and energy**	PLN 84,599,115.79	**PLN 73,057,299.28**
- consumption of materials	PLN 11,116,256.93	PLN 9,953,568.82
- consumption of power for electrical trains	PLN 67,941,423.14	PLN 58,836,580.53
- consumption of electricity for other purposes	PLN 1,283,487.31	PLN 1,173,729.41
- consumption of other power	PLN 731,824.94	PLN 583,746.42
- consumption of electrical train fuel	PLN 2,655,148.43	PLN 1,984,642.00
- consumption of fuel for other purposes	PLN 870,975.04	PLN 525,032.10
c. Third party services	**PLN 210,240,612.33**	**PLN 201,240,068.52**
- costs of access to PKP PLK lines	PLN 85,933,827.28	PLN 83,695,379.50
- rolling stock rental costs	PLN 12,738,087.23	PLN 4,190,603.10
- costs of electrical trains servicing by PKP CARGO	PLN 3,088,006.20	PLN 3,247,037.65
- costs of ticket sales effected by PKP Agents	PLN 8,436,122.70	PLN 8,187,301.38
- costs of cleaning the electrical trains	PLN 3,940,717.30	PLN 5,115,337.88
- transport services	PLN 223,403.42	PLN 713,778.68
- telecommunications services	PLN 2,089,696.33	PLN 1,743,646.45
- repair services	PLN 18,355,064.98	PLN 14,102,845.66
- rents	PLN 10,561,087.99	PLN 27,827,257.60
- banking services	PLN 254,457.60	PLN 198,584.43
- travel document check up services	PLN 4,107,340.64	PLN 3,556,392.25
- guards on board services	PLN 944,127.94	PLN 936,188.25
- other third party services	PLN 8,403,771.44	PLN 6,449,640.95
- sales of services to other companies	PLN 51,224,292.83	PLN 41,276,074.74
d. Taxes and fees	**PLN 3,960,042.67**	**PLN 2,210,637.86**
- liabilities on account of PFRON	PLN 2,073,679.00	PLN 1,725,881.00
- tax on civil law actions	PLN 1,127,372.00	PLN 0.00
- and other taxes and fees	PLN 758,991.67	PLN 484,756.86
e. Payroll / Remunerations	**PLN 93,603,688.37**	**PLN 72,447,076.73**
- remunerations	PLN 93,603,688.37	PLN 72,447,076.73
f. Social insurance and other employee benefits	**PLN 43,859,417.76**	**PLN 24,318,561.62**
- insurance premiums	PLN 15,928,393.23	PLN 13,800,517.84
- provision for holiday leaves	PLN 1,650,860.87	PLN 519,775.69
- provision for severance pays on account of retirement	PLN 4,936,685.22	PLN 3,597,810.69
- provision for anniversary awards	PLN 13,584,924.61	PLN 0.00
- basic write-off on account of ZFŚS	PLN 2,753,385.33	PLN 2,221,500.60
- other benefits to employees, including benefits under work health and safety provisions	PLN 1,578,514.75	PLN 1,389,241.96
- costs of medical insurance of employees	PLN 892,144.25	PLN 311,366.50
- reductions on account of transport services to spouses and children of employees	PLN 1,245,114.72	PLN 1,338,860.80
- reductions on account of transport services to employees and recipients of old-age and disability pensions	PLN 1,289,394.78	PLN 1,139,487.54
g. Other costs by nature	**PLN 3,913,730.21**	**PLN 3,285,891.47**
- business travel	PLN 123,619.12	PLN 54,142.98
- daily allowances of train engineer and service teams	PLN 2,263,491.42	PLN 2,233,777.26
- costs of material and property insurance	PLN 865,484.67	PLN 546,124.88
- other costs by nature	PLN 661,135.00	PLN 451,846.35
h. Value of sold goods and materials	**PLN 811,584.73**	**PLN 607,243.93**

	2008	*2007*
Other operating costs	**PLN 29,965,702.56**	**PLN 737,309.72**
- value of liquidated fixed assets	PLN 28,400,050.27	PLN 0.00
- revaluation write-off of receivables and other	0.00	PLN 100,559.17
- uncollectible and remitted receivables	PLN 275.16	PLN 146,372.50
- damages, penalties and fines on account of defects of goods and services delivered	PLN 217,341.94	PLN 26,901.71
- costs of devastation and graffiti removal from the rolling stock, liquidated from an insurance policy	PLN 150,753.88	0,00

- legal and enforcement costs	PLN 805,250.64	PLN 140,572.21
- fees for release of address data – costs of collection of receivables on account of fare dodger journeys	PLN 287,294.92	PLN 166,994.98
- costs of materials financed from prevention grant	0.00	PLN 52,218.12
- other costs	PLN 104,735.75	PLN 103,691.03

	2008	*2007*
Financial costs	**PLN 737,553.44**	**PLN 432,970.95**
- interest accrued on liabilities and other interest	PLN 1,781.20	PLN 21,207.53
- face value of sold receivables	0.00	PLN 89,867.30
- commissions on awarded bank facilities	0.00	PLN 50,000.00
- interest on bank facilities and loans	PLN 735,539.50	PLN 271,422.88
- exchange rate differences realized	PLN 232.74	PLN 473.24

Total costs from business activities	**PLN 477,380,594.82**	**PLN 381,693,345.48**

Data on other revenues and costs on account of sale of assets, as well as the financial revenues and costs on account of exchange rate differences, have been booked in compliance with the Accountancy Act.

In the Profit and Loss Account, the data are disclosed as net results:

- The profit on the sale of assets is disclosed under *Other operating revenues - Profit on sale on non-financial fixed assets.*
- The exchange rate differences are also disclosed as the net profit under *Financial costs - other.*

Booked revenues and costs and their disclosure in the Profit and Loss Account

	2008	*2007*
Other operating revenues as booked	**PLN 35,351,827.67**	**PLN 5,084,820.19**
Revenues from sales of fixed assets	PLN 29,107,715.92	x
Cost of liquidation of fixed assets under Other operating costs	PLN -28,400,050.27	x
Profit on the sale of non-financial fixed assets	**707,665.65**	**x**
Other operating revenues as disclosed in the Profit and Loss Account	**PLN 6,951,777.40**	**PLN 5,084,820.19**
Financial revenues as booked	**3,187,904.24**	**PLN 2,872,417.85**
Other revenues: exchange rate differences – disclosed as net results under Financial costs	- 82.34	x
Financial revenues as disclosed in the Profit and Loss Account	**3,187,821.90**	**PLN 2,872,417.85**
Total revenues from business activities as disclosed in the Profit and Loss Account	**PLN 450,075,562.53**	**PLN 383,508,144.58**

	2008	*2007*
Other operating costs as booked	**PLN 29,965,702.56**	**PLN 737,309.72**
Value of liquidated fixed assets disclosed as net results under Other operating revenues	PLN -28,400,050.27	x

Other operating costs as disclosed in the Profit and Loss Account	**PLN 1,565,652.29**	**PLN 737,309.72**
Financial costs as booked	**PLN 737,553.44**	**PLN 432,970.95**
in this: exchange rate differences realized	PLN 232.74	x
Financial revenues on account of exchange rate differences	- 82.34	x
Other – result of exchange rate differences	**150.40**	**x**
Financial costs as disclosed in the Profit and Loss Account	**PLN 737,471.10**	**PLN 432,970.95**
Total costs of business activities as disclosed in the Profit and Loss Account	**PLN 448,980,462.21**	**PLN 381,693,345.48**

The Company closed the year 2008 with a net profit of **PLN 617,518.25**

Gross profit amounted to PLN 1,095,100.32

In 2008, there were the following changes in the balance of the deferred income tax

	Deferred income tax	*As at 31 December 2007*	*As at 31 December 2008*	*Changes during 2008*
I	Established provisions for positive timing differences (+)	828,312.66	906,023.45	*77,710.79*
II	Established assets on account of deferred income tax (-)	-2,218,852.15	-6,310,494.87	***-4,091,642.72***
III	**Deferred income tax as disclosed in the Profit and Loss Account**			**- 4,013,931.93**

Being a corporation and applying provisions of the Accountancy Act with due consideration to the prudence principle laid down in Article 7 thereof, the company established a provision for and determined assets on account of deferred income tax.

The transition from the gross to the net result is shown in the table below.

Conversion of the financial result into the basis for taxation with the corporate income tax and determination of the net financial result

Item	Specification	2008	2007	2007 with tax adjustment
I.	**Total revenue**	**478,475,695.14**	**383,508,144.58**	**383,508,144.58**
1.	Change in products (+/-)	0.00	0.00	0.00
2.	Cost of manufacture of finished products for the entity's own needs (-)	0.00	0.00	0.00
3.	Tax adjustment of revenues	(646,197.55)	14,136,696.58	14,136,696.58
a	increases of taxable revenues	387,346.89	116,879.56	116,879.56
b	decreases of taxable revenues (-)	(1,033,544.44)	(14,019,817.02)	(14,019,817.02)
II.	**Taxable revenues**	**477,829,497.59**	**397,644,841.16**	**397,644,841.16**
III.	**Total costs**	**477,380,594.82**	**381,693,345.48**	**381,693,345.48**

Item	Specification	2008	2007	2007 with tax adjustment
1.	Change in products (+/-)	0.00	0.00	0.00
2.	Cost of manufacture of finished products for the entity's own needs (-)	0.00	0.00	0.00
3.	Tax adjustments of deductible costs	(244,208,530.20)	(190,719,220.02)	(181,946,518.77)
a	increases of taxable costs	17,152,940.65	0.00	17,800,457.54
b	decreases of taxable costs (-)	(261,361,470.85)	(190,719,220.02)	(199,746,976.31)
IV.	**Taxable costs**	**233,172,064.62**	**190,974,125.46**	**199,746,826.71**
V.	**Income / Loss (II-IV)**	**244,657,432.97**	**206,670,715.70**	**197,898,014.45**
VI.	**Non-taxable income (revenues) and deductions**	**(207,103,957.94)**	**(192,330,785.05)**	**(192,330,785.05)**
a	Non-taxable income (revenues) (-)	(207,103,957.94)	(192,330,785.05)	(192,330,785.05)
VII.	**Amounts increasing/reducing taxation basis**	**(13,913,927.91)**	**(3,736,278.36)**	**(5,567,229.40)**
a	tax loss from the previous year – 50%	(13,913,927.91)	(3,736,278.36)	(5,567,229.40)
VIII	**Basis for taxation**	**23,639,547.12**	**10,603,652.29**	**(0.00)**
IX.	Amount of tax at the valid rate	4,491,513.95	2,014,693.94	0.00
X	**Income tax due for the financial year according to CIT-8 form**	**4,491,514**	**2,014,694**	**0.00**
XI	Established provisions for positive timing differences (+)	77,710.79	51,904.42	-
XII.	Established assets on account of deferred income tax (-)	-4,091,642.72	-792,776.84	-
XIII	**Gross financial result as disclosed in the profit and loss account (+/-)**	**1,095,100.32**	**1,814,799.10**	**-**
XIV	Income tax as disclosed in the profit and loss account together with other encumbrances of the gross result	477,582.07	1,273,821.58	-
XV	**Net financial result (+/-)**	**617,518.25**	**540,977.52**	**-**

Tax adjustment of tax-deductible costs

Item	Specification	Decrease of taxable costs in 2008	Decrease of taxable costs in 2007	Decrease of taxable costs in 2007 after adjustment
1	Interest:	-36,589.24	50,667.73	50,667.73
a	interest on outstanding tax, accrued and paid	876.10	10,453.00	10,453.00
b	accrued interest on liabilities	18.43	0.00	0.00
c	accrued interest on bank facilities and loans	-37,483.77	37,483.77	37,483.77
d.	remitted interest	0.00	2,730.96	2,730.96
2	Amortized and uncollectible receivables	0.00	9,572.28	9,572.28
3	Sold receivables	0.00	51,743.67	51,743.67
4	Established provisions for certain future liabilities, in this:	20,178,920.70	4,218,145.55	4,218,145.55
a	provision for unused holiday leaves	1,650,860.87	519,775.69	519,775.69
b	provision for severance pays on account of retirement and for anniversary awards	18,521,609.83	3,597,810.69	3,597,810.69
c	other provisions	6,450.00	100,559.17	100,559.17
8	Damages for accidents at work and other damages and penalties	209,021.46	26,901.71	26,901.71
9	Damages paid and not insured		0.00	0.00
10	VAT sanctions	192,624.27	67,741.41	67,741.41
11	Write-offs to PFRON	2,073,679.00	1,725,881.00	1,725,881.00
12	Unpaid remunerations on account of employment contracts	2,944,603.01	1,603,492.13	1,603,492.13
13	Unpaid social insurance premiums	510,827.47	259,044.34	259,044.34
14	Other non-tax deductible costs – including transport services to spouses and children	1,245,114.72	1,338,860.80	1,338,860.80
15	Entertainment	205,574.32	77,740.69	77,740.69
16	Other non-tax deductible costs	203,831.37	111,585.83	111,585.83
17	Costs covered from grants from local government units and the State budget	207,103,957.94	181,177,842.88	181,177,842.88
18	Costs covered from grants obtained the previous year from local government units and the State budget	11,152,942.17	0.00	0.00
19	Costs of repairs incurred in 2005-2007 and charged to 2008 costs	15,376,963.66	0.00	9,027,756.29
Total cost adjustments		**261,361,470.85**	**190,719,220.02**	**199,746,976.31**

Item	Specification	Increase of taxable costs in 2008	Increase of taxable costs in 2007	Increase of taxable costs in 2007
1	Paid remunerations under employment contracts for 2007	1,682,992.48	-	-
2	Paid social insurance premiums for 2007	291,657.67	-	-

3	Difference between tax and balance sheet depreciation	1,864,485.74	0.00	0.00
4	Expenses of repairs incurred in 2008 but not charged to costs as following from prepayments	13,313,804.76	0.00	17,800,457.54
Total cost adjustments		**17,152,940.65**	**0.00**	**17,800,457.54**

Revenue adjustments for income tax purposes

Item	Specification	Increase of taxable revenues	Decrease of taxable revenues	Increase of taxable revenues	Decrease of taxable revenues
		2008		2007	
1	Accrued interest on receivables		639,667.40		78,984.83
2	Sale of receivables		0.00		49,835.11
3	Prevention grants and donations received		0.00		53,660.00
4	Court-adjudged damages, unpaid		0.00		9,191.52
5	Accrued interest on deposits under 3 months		94,859.28		0.00
6	Balance sheet revenues from water supply, sewage and waste management, power supply and other services according to due date	9,466.63	0.00	20,939.27	9,466.63
7	Release of provisions not previously booked as tax deductible		97,820.44		1,842,392.73
8	Payer's remuneration		2,803.42	2,803.68	0.00
9	Revenues on account of deferred VAT – purchase of cash registers		71,061.23		142,122.36
10	Revenues on account of fare dodger journeys recognized in 2005 on accrual basis but paid in 2006/2007	83,350.46		93,136.61	
11	Revenues recognized on accrual basis pertaining to the current year	294,529.80	127,332.67		294,529.80
12	Revenues due from the Office of the Marshal of Mazowieckie Province – grant due				-16,500,000.00
Total revenue adjustments for income tax purposes		**387,346.89**	**1,033,544.44**	**116,879.56**	**-14,019,817.02**

Notes to the cash flow statement

As at 31 December 2008, the company generates negative cash flows on operating activities and positive cash flows on investment and financial activities.

The amount of PLN **24,253,241.13** disclosed as cash flows on operating activities consists of the **net profit of PLN 617,518.25** adjusted by the following items:

- Interest on account of repayment of bank facilities and loans PLN 735,539.50
- Profit on investment activities PLN 707,665.65
- Increase in provisions PLN 20,248,593.99
- Increase in stock PLN 1,211,355.09

- Decrease in receivables PLN 116,122.09
- Decrease in short-term liabilities excluding loans and credits PLN 46,245,353.43
- Increase in prepayments PLN 5,510,481.75

The profit on investment activity pertains to financial settlement of expenditures on modernization of assets leased from “PKP Przewozy Regionalne” Spółka z o.o. within the Organized Part of the Enterprise.

The increase in provisions as compared to 2007 results from the establishing of provisions for severance pays on account of retirement and anniversary awards, unused holidays, and planned bonuses for 2008.

The decrease in liabilities results from complete settlement of liabilities towards "PKP Przewozy Regionalne" Spółka z o.o. on account of the Organized Part of the Enterprise. In 2008, the Company KM settled liabilities in the amount of PLN 35.5 million through offset with receivables from PKP PR, and paid the amount of PLN 12.1 million in cash.

Liabilities within operating activities were adjusted by a change in liabilities within investment activities of PLN 2,268,093.48. The change in investment liabilities reduced the acquisition of intangible assets and tangible fixed assets under investment activities.

The increase in prepayments pertains mostly to the costs of periodical repairs of the Electrical Train Units, settled over time through Prepayments.

The amount of cash flow from investment activity of PLN **7,095,838.52** includes mainly investment expenditures on modernization of the Electrical Train Units and settlement with PKP PR of investment expenditures pertaining to the rolling stock of the Organized Part of the Enterprise.

The amount of cash flow from financial activity of PLN **47,557,008.82** includes revenues from the capital contribution made by the Local Government of Mazowieckie Province and expenses on account of repayment of the investment facility and loans from the Provincial Environment Protection and Water Management Fund (WFOŚGW).

This is a typical situation of young developing entities.

Transactions with related entities.

Disclosed in the balance sheet:

Receivables as at 31 December 2008 from related entities amount respectively to:

- Office of the Marshal of Mazowieckie Province PLN 1,830.00

Liabilities as at 31 December 2008 to related entities amount to:

- Office of the Marshal of Mazowieckie Province PLN 0.00

Disclosed in the Profit and Loss Account:

Revenues for 2008 from related entities amount respectively to:

- Office of the Marshal of Mazowieckie Province PLN 182,010,542.62

Costs for 2008 with related entities amount to:

- Office of the Marshal of Mazowieckie Province PLN 3,154,138.00

On 8 January 2008 "PKP Przewozy Regionalne" spółka z o.o. sold its holding of the shares to the Local Government of Mazowieckie Province. Therefore, the data of "PKP Przewozy Regionalne" spółka z o.o. are not presented under revenues and costs pertaining to related entities.

PROFIT AND LOSS ACCOUNT
"Kojeje Mazowieckie – KM" sp. z o.o.

For the year 2008

Line	Item	Amount for the year (zł, gr)	
		current	previous
1	2	3	4
A.	**Net revenue from sales and sales equivalent, of which:**	**439,935,963.23**	**375,550,906.54**
	- from related parties - Mazowieckie Voivodship Marshal's Office	182,010,542.62	197,969,870.78
I.	Net revenue from the sale of finished products	439,124,676.83	374,948,879.40
II.	Change in finished products (addition - positive value, disposal - negative value)	0.00	0.00
III.	Cost of producing goods for the entity's own needs	0.00	0.00
IV.	Net revenue from the sale of goods for resale and raw materials	811,286.40	602,027.14
B.	**Operating costs**	**446,677,338.82**	**380,523,064.81**
I.	Depreciation	5,689,146.96	3,356,285.40
II.	Use of materials and energy	84,599,115.79	73,057,299.28
III.	Third party services	210,240,612.33	201,240,068.52
IV.	Taxes and charges	3,960,042.67	2,210,637.86
V.	Remunerations	93,603,688.37	72,447,076.73
VI.	Social insurance and other employee benefits	43,859,417.76	24,318,561.62
VII.	Other costs by nature	3,913,730.21	3,285,891.47
VIII.	Cost of goods for resale and raw materials sold	811,584.73	607,243.93
C.	**Sales profit (loss) (A-B)**	**-6,741,375.59**	**-4,972,158.27**
D.	**Other operating revenue**	**6,951,777.40**	**5,084,820.19**
I.	Profit from the sale of non-financial fixed assets	707,665.65	0.00
II.	Subsidies	0.00	50,000.00
III.	Other operating revenue	6,244,111.75	5,034,820.19
E.	**Other operating costs**	**1,565,652.29**	**737,309.72**
I.	Loss on the sale of non-financial fixed assets	0.00	0.00
II.	Revaluation of non-financial assets	0.00	100,559.17
III.	Other operating costs	1,565,652.29	636,750.55
F.	**Operating profit (loss) (C+D-E)**	**-1,355,250.48**	**-624,647.80**
G.	**Financial revenue**	**3,187,821.90**	**2,872,417.85**
I.	Dividends and shares in profits, of which:	0.00	0.00
	- from related parties	0.00	0.00
II.	Interest, of which:	3,187,821.90	2,561,330.92
	- from related parties	0.00	1,677,834.25
III.	Profit from the sale of investments	0.00	0.00
IV.	Revaluation of investments	0.00	0.00
V.	Other	0.00	311,086.93
H.	**Financial costs**	**737,471.10**	**432,970.95**
I.	Interest, of which:	737,320.70	289,899.45
	- to related parties	0.00	0.00
II.	Loss on the sale of investments	0.00	0.00
III.	Revaluation of investments	0.00	0.00
IV.	Other	150.40	143,071.50
I.	**Profit (loss) on ordinary activities (F+G-H)**	**1,095,100.32**	**1,814,799.10**
J.	**Extraordinary gains/losses (J.I. - J.II.)**	**0.00**	**0.00**
I.	Extraordinary gains	0.00	0.00
II.	Extraordinary losses	0.00	0.00
K.	**Gross profit (loss) (I +/- J)**	**1,095,100.32**	**1,814,799.10**
L.	**Income tax**	**477,582.07**	**1,273,821.58**
M.	**Other taxes**	**0.00**	**0.00**
N.	**Net profit (loss) (K-L-M)**	**617,518.25**	**540,977.52**

Warsaw, 20 March 2009
....
Location and date of preparation

....

Full name of person in charge of bookkeeping

....

Full names and signatures of the Company's Management Board

BALANCE SHEET
"Kojeje Mazowieckie – KM" sp. z o.o.

data in PLN

Line	Assets	Closing balance	
		Current	Previous
1	*2*	*3*	*4*
A.	**Fixed assets**	**232,366,875.37**	**62,959,134.28**
I.	**Intangible fixed assets**	**78,060.86**	**39,916.20**
1.	Costs of completed research and development	0.00	0.00
2.	Goodwill	0.00	0.00
3.	Other intangible fixed assets	78,060.86	39,916.20
4.	Advances for intangible fixed assets	0.00	0.00
II.	**Tangible fixed assets**	**212,900,757.00**	**47,248,128.01**
1.	Fixed assets	212,885,757.00	47,233,128.01
	a) freehold land (including in perpetual usufruct)	0.00	0.00
	b) buildings and constructions	1,015,182.47	497,833.33
	c) plant and equipment	635,462.76	728,114.08
	d) vehicles	211,037,977.84	45,865,861.52
	e) other fixed assets	197,133.93	141,319.08
2.	Fixed assets under construction	15,000.00	15,000.00
3.	Advances for fixed assets under construction	0.00	0.00
III.	**Long-term receivables**	**0.00**	**0.00**
1.	From related parties	0.00	0.00
2.	From other parties	0.00	0.00
IV.	**Long-term investments**	**0.00**	**0.00**
1.	Real estate	0.00	0.00
2.	Intangible fixed assets	0.00	0.00
3.	Long-term financial assets	0.00	0.00
	a) in related parties	0.00	0.00
	b) in other parties	0.00	0.00
4.	Other long-term investments	0.00	0.00
V.	Long-term prepayments	**19,388,057.51**	**15,671,090.07**
1.	Deferred income tax assets	6,310,494.87	2,218,852.15
2.	Other prepayments	13,077,562.64	13,452,237.92
B.	Current assets	**104,141,449.07**	**71,134,021.81**
I.	Stock	**4,706,466.69**	**3,495,111.60**
1.	Raw materials	4,706,466.69	3,495,111.60
2.	Semi-finished products and work in progress	0.00	0.00
3.	Finished products	0.00	0.00
4.	Goods for resale	0.00	0.00
5.	Advances for deliveries	0.00	0.00
II.	Short-term receivables	**30,103,866.05**	**30,219,988.14**
1.	Receivables from related parties	1,830.00	1,145,468.79
	a) trade receivables, with due dates:	1,830.00	1,145,468.79
	- within 12 months	1,830.00	1,145,468.79
	- in more than 12 months	0.00	0.00
	b) other	0.00	0.00
2.	Receivables from other parties	30,102,036.05	29,074,519.35
	a) trade receivables, with due dates:	8,727,873.45	6,472,373.58
	- within 12 months	8,727,873.45	6,472,373.58
	- in more than 12 months	0.00	0.00
	b) tax, subsidy, customs, social and health insurance and other receivables	18,649,446.55	20,137,278.64
	c) other	2,724,716.05	2,464,867.13
	d) receivables in court	0.00	0.00
III.	Short-term investments	**50,086,193.96**	**19,686,587.75**
1.	Short-term financial assets	50,086,193.96	19,686,587.75
	a) in related parties	0.00	0.00
	- shares	0.00	0.00
	- other securities	0.00	0.00
	- loans	0.00	0.00
	- other short-term financial assets	0.00	0.00
	b) in other parties	0.00	0.00
	- shares	0.00	0.00
	- other securities	0.00	0.00
	- loans	0.00	0.00
	- other short-term financial assets	0.00	0.00
	c) cash and other cash assets	50,086,193.96	19,686,587.75
	- cash in hand and at bank	2,706,424.84	15,235,091.10
	- other cash	47,379,769.12	4,451,496.65
	- other cash assets	0.00	0.00
2.	Other short-term investments	0.00	0.00
IV.	Short-term prepayments	**19,244,922.37**	**17,732,334.32**
Total assets		**336,508,324.44**	**134,093,156.09**

data in PLN

Line	Liabilities and equity	Closing balance	
		Current	Previous
1	*2*	*3*	*4*
A.	**Equity**	**252,197,663.73**	**24,065,451.48**
I.	Share capital	247,713,500.00	22,213,500.00
II.	Unpaid share capital (negative value)	0.00	0.00
III.	Treasury shares (negative value)	0.00	0.00
IV.	Reserve capital	0.00	0.00
V.	Revaluation reserve	0.00	0.00
VI.	Other reserves	1,851,951.48	1,310,973.96
VII.	Accumulated profit (loss) from previous years	2,014,694.00	0.00
VIII.	Net profit (loss) for the year	617,518.25	540,977.52
IX.	Advanced distributions of net profit (negative value)		0.00
B.	**Liabilities and cost provisions**	**84,310,660.71**	**110,027,704.61**
I.	**Cost provisions**	**30,735,533.12**	**10,486,939.13**
1.	Provision for deferred income tax	906,023.45	828,312.66
2.	Provision for retirement and similar benefits	26,243,741.58	7,722,131.75
	- long-term	23,328,643.38	7,088,515.42
	- short-term	2,915,098.20	633,616.33
3.	Other provisions	3,585,768.09	1,936,494.72
	- long-term	0.00	0.00
	- short-term	3,585,768.09	1,936,494.72
II.	**Long-term liabilities**	**9,543,935.08**	**11,251,386.76**
1.	To related parties	0.00	0.00
2.	To other parties	9,543,935.08	11,251,386.76
	a) credits and loans	9,543,935.08	11,251,386.76
	b) debt securities	0.00	0.00
	c) other financial liabilities	0.00	0.00
	d) other	0.00	0.00
III.	**Short-term liabilities**	**44,011,392.13**	**87,988,652.08**
1.	To related parties	0.00	54,269,241.02
	a) trade payables, with due dates:	0.00	54,269,241.02
	- within 12 months	0.00	17,669,241.02
	- in more than 12 months	0.00	36,600,000.00
	b) other	0.00	0.00
2.	To other parties	41,436,560.21	31,087,460.13
	a) credits and loans	1,768,630.68	1,768,630.68
	b) debt securities	0.00	0.00
	c) other financial liabilities	0.00	0.00
	d) trade payables, with due dates:	31,830,492.16	21,851,232.45
	- within 12 months	31,830,492.16	21,851,232.45
	- in more than 12 months	0.00	0.00
	e) advances received for deliveries	0.00	0.00
	f) bills of exchange	0.00	0.00
	g) tax, customs, insurance and other benefits	3,937,050.65	5,244,600.66
	h) payroll creditors	2,586,711.50	1,676,966.21
	i) other	1,313,675.22	546,030.13
3.	Special funds	2,574,831.92	2,631,950.93
IV.	**Accruals**	**19,800.38**	**300,726.64**
1.	Negative goodwill	0.00	0.00
2.	Other accruals	19,800.38	300,726.64
	- long-term	0.00	0.00
	- short-term	19,800.38	300,726.64
Total liabilities and equity		**336,508,324.44**	**134,093,156.09**

Warsaw, 30 March 2009

....

Location and date of preparation

....

Full name of person in charge of bookkeeping

....

Full names and signatures of the Company's Management Board

CASH FLOW STATEMENT
"Kojeje Mazowieckie – KM" sp. z o.o.

for the period from 1 January 2008 to 31 December 2008

data in PLN

Line	Cash flow statement	Financial year	
	(indirect method)	current	previous
1	*2*	*3*	*4*
A	**Operating cash flows**	**-24,253,241.13**	**19,393,445.84**
I.	Net profit (loss)	617,518.25	540,977.52
II.	Total adjustments	**-24,870,759.38**	**18,852,468.32**
1.	Depreciation	5,689,146.96	3,356,285.40
2.	Foreign exchange gains (losses)	0.00	0.00
3.	Interest and shares in profits (dividends)	735,539.50	0.00
4.	Profit (loss) on investment activities	-707,665.65	0.00
5.	Change in provisions	20,248,593.99	4,204,037.63
6.	Change in stock	-1,211,355.09	-15,913.99
7.	Change in receivables	116,122.09	14,456,866.10
8.	Change in short-term liabilities, except credits and loans	-46,245,353.43	3,928,177.48
9.	Change in prepayments	-5,510,481.75	-7,076,984.30
10.	Other adjustments	2,014,694.00	
III.	Net operating cash flows (I + II)	**-24,253,241.13**	**19,393,445.84**
B	**Investment cash flows**	**7,095,838.52**	**-31,575,524.51**
I.	Income	29,107,715.92	0.00
1.	Disposal of intangible and tangible fixed assets	29,107,715.92	0.00
2.	Disposal of investments in real estate and intangible fixed assets	0.00	0.00
3.	From financial assets, of which:	0.00	0.00
	a) in related parties	0.00	0.00
	b) in other entities	0.00	0.00
	- disposal of financial assets	0.00	0.00
	- dividends and shares in profits	0.00	0.00
	- repayment of long-term loans	0.00	0.00
	- interest	0.00	0.00
	- other income from financial assets	0.00	0.00
4	Other investment income	0.00	0.00
II.	Expenses	**22,011,877.40**	**31,575,524.51**
1.	Acquisition of intangible and tangible fixed assets	22,011,877.40	31,575,524.51
2.	Investments in real estate and intangible fixed assets	0.00	0.00
3.	For financial assets, of which:	0.00	0.00
	a) in related parties	0.00	0.00
	b) in other parties	0.00	0.00
	- acquisition of financial assets	0.00	0.00
	- long-term loans	0.00	0.00
4.	Other investment expenses	0.00	0.00
III.	Net investment cash flows (I-II)	**7,095,838.52**	**-31,575,524.51**
C.	**Financing cash flows**	**47,557,008.82**	**13,020,017.44**
I.	Income	**50,000,000.00**	**13,670,755.34**
1.	Net income from the issue of shares and other capital instruments and additional contributions to capital	50,000,000.00	0.00
2.	Credits and loans	0.00	13,670,755.34
3.	Debt securities	0.00	0.00
4.	Other financial income	0.00	0.00
	a. Interest on deposits, cash at bank	0.00	0.00
	b. Subsidies	0.00	0.00
II.	Expenses	2,442,991.18	650,737.90
1.	Acquisition of treasure shares	0.00	0.00
2.	Dividends and other payments to shareholders	0.00	0.00
3.	Distribution of profit other than payments to shareholders	0.00	0.00
4.	Repayment of credits and loans	1,707,451.68	650,737.90
5.	Purchase of debt securities		0.00
6.	Other financial liabilities	0.00	0.00
7.	Finance lease payments	0.00	0.00
8.	Interest	735,539.50	0.00
9.	Other financial expenses	0.00	0.00
III.	Net financing cash flows (I-II)	**47,557,008.82**	**13,020,017.44**
D.	**Total cash flows (A.III + B.III + C.III)**	**30,399,606.21**	**837,938.77**
E.	**Net change in cash balances, of which:**	**30,399,606.21**	**837,938.77**
	- change in cash balances relating to foreign exchange differences	**0.00**	**0.00**
F.	**Cash at beginning of period**	**19,686,587.75**	**18,848,648.98**
G.	**Cash at end of period (F + D),**	**50,086,193.96**	**19,686,587.75**
	of which - restricted cash	978,267.35	928,363.39

Warsaw, 30 March 2009
....
Location and date of preparation

....
Full name of person in charge of bookkeeping

....
Full names and signatures of the Company's Management Board

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
"Kojeje Mazowieckie – KM" sp. z o.o.

prepared for the year 2008

data in PLN

Line	Item	Financial year	
		CURRENT	*PREVIOUS*
I.	**Equity at beginning of period (OB)**	**24,065,451.48**	**23,524,473.96**
	- adjustment of errors	0.00	0.00
I a.	**Adjusted equity at beginning of period (OB.)**	**24,065,451.48**	**23,524,473.96**
1.	Share capital at beginning of period	22,213,500.00	22,213,500.00
1.1.	Changes in share capital	225,500,000.00	0.00
	a) increases (relating to)	225,500,000.00	0.00
	- contributions	225,500,000.00	0.00
	b) decreases (relating to)	0.00	0.00
	- redemptions		
1.2.	Share capital at end of period	247,713,500.00	0.00
2.	**Unpaid share capital at beginning of period**		
2.1.	Changes in unpaid share capital	0.00	0.00
	a) increases	0.00	0.00
	b) decreases	0.00	0.00
2.2.	Unpaid share capital at end of period	0.00	0.00
3.	**Treasury shares at beginning of period**		
	a) increases	0.00	0.00
	b) decreases	0.00	0.00
3.1.	Treasury shares at end of period	0.00	0.00
4.	**Reserve capital at beginning of period**		
4.1.	Changes in reserve capital	0.00	0.00
	a) increases	0.00	0.00
	b) decreases	0.00	0.00
4.2.	Reserve capital at end of period	0.00	0.00
5.	**Revaluation reserve at beginning of period**		
5.1.	Changes in revaluation reserve	0.00	0.00
	a) increases	0.00	0.00
	b) decreases	0.00	0.00
5.2.	Revaluation reserve at end of period	0.00	0.00
6.	**Other reserves at beginning of period**	**1,310,973.96**	**1,093,220.23**
6.1.	Changes in other reserves	1,310,973.96	0.00
	a) increases (relating to)	540,977.52	217,753.73
	- distribution of profit for the year	540,977.52	217,753.73
	b) decreases (relating to)	0.00	0.00
	- transfer to share capital - entry in KRS	0.00	0.00
6.2.	Other reserves at end of period	1,851,951.48	1,310,973.96
7.	**Accumulated profit (loss) from previous years at beginning of period**	**540,977.52**	**217,753.73**
7.1.	Accum. profit from previous years at beginning of period	540,977.52	217,753.73
	- adjustment of errors	0.00	0.00
	- changes in accounting policies	0.00	0.00
7.2.	Adjusted accum. profit from previous years at beginning of period	540,977.52	217,753.73
	a) increases	0.00	0.00
	b) decreases (relating to)	540,977.52	217,753.73
	- transfer of profit to reserve capital	540,977.52	217,753.73
7.3.	Accum. profit from previous years at end of period	2,014,694.00	0.00
7.4.	Accum. loss from previous years at beginning of period	0.00	0.00
	- adjustment of errors	0.00	0.00
7.5.	Adjusted accum. loss from previous years at beginning of period	0.00	0.00
	a) increases	0.00	0.00
	b) decreases	0.00	0.00
7.6.	Accum. loss from previous years at end of period	0.00	0.00
7.7.	Accumulated profit (loss) from previous years at end of period	2,014,694.00	0.00
8.	**Net profit (loss)**	**617,518.25**	**540,977.52**
	a) net profit	617,518.25	540,977.52
	b) net loss	0.00	0.00
	c) advanced distributions of profit	0.00	0.00
II.	**Equity at end of period (CB)**	**252,197,663.73**	**24,065,451.48**
III.	**Equity after proposed distribution of profit (coverage of loss)**	**252,197,663.73**	**24,065,451.48**

Warsaw, 30 March 2009
....
Location and date of preparation

.... *Full name of person in charge of bookkeeping*

.... *Full names and signatures of the Company's Management Board*

Polskie Towarzystwo Ekonomiczne - PROFIT
spółka z o. o.
FIRMA AUDYTORSKA (koncesja nr 250)

02-521 Warszawa, ul. Rakowiecka 41 lok. 28 ◎ tel. 22 848.60.42 ◎ fax 22 848.61.90
e-mail: prezes@pteprofit.pl ◎ www.pteprofit.pl ◎ NIP 521-008-89-95 ◎ kapitał zakładowy 61 560 zł
Sąd Rejonowy dla m.st. Warszawy w Warszawie XIII Wydział Gospodarczy KRS 0000014823

Independent Auditor's Opinion

To the General Meeting, the Supervisory Board and the Management Board of the "Koleje Mazowieckie-KM" sp. z o.o. company, with registered seat in Warsaw at 1 Lubelska Street.

I We have audited the financial statements for the year 2008 of the "Koleje Mazowieckie-KM" sp. z o.o. company, with registered seat in Warsaw at 1 Lubelska Street comprising:

1 Forward to the financial statements;
2 Balance sheet as at 31 December 2008 with total assets and total liabilities amounting to PLN 336,508,324.44;
3 Profit and loss account for the trading year begun on 1 January 2008 and ended on 31 December 2008 disclosing net profit amounting to PLN 617,518.25;
4 Statement of changes in shareholders' equity for the trading year begun on 1 January 2008 and ended on 31 December 2008 disclosing net increase in shareholders' equity amounting to PLN 228,132,212.25;
5 Cash flow statement for the trading year begun on 1 January 2008 and ended on 31 December 2008 disclosing net cash inflow amounting to PLN 30,399,606.21; and
6 Additional information and explanatory notes.

The Management Board of the Company is responsible for preparation of financial statements. Our responsibility was to audit the financial statements and to express an opinion whether these financial statements are true and fair and whether the accounting books, being the basis for preparation of these financial statements are true and fair.

II We conducted our audit in accordance with provisions relevant to financial statement of:

1 chapter 7 of the Accounting Act, dated 29 September 1994 (Official Journal of 2002, No. 76, item 694);
2 the auditing standards issued by the National Chamber of Auditors in Poland (published in the National Chamber of Auditors Bulletin No. 61, dated 20 December 2005); and
3 Commercial Companies Code, Act dated 15 September 2000 (Official Journal No. 94, item 1037, as amended).

We had conducted our audit of these financial statements in such a way as to obtain reasonable basis to express a competent opinion on the same financial statements.

In particular, the audit included: examining the adopted accounting principles (policies); examining, to a large extent on a test basis, the accounting records and entries supporting the amounts and disclosures in the financial statements. We also evaluated the overall presentation of the same financial statements.

We believe our audit has provided a reasonable basis to express a competent opinion.

III In our opinion, the audited financial statements, which include financial data and explanatory notes:

a) present truly and fairly all information material for the assessment of asset base and financial condition of the audited Company as at 31 December 2008 and its financial results for the trading year begun on 1 January 2008 and ended on 31 December 2008;

b) have been prepared, in all material respects, in compliance with the accounting principles (policies) specified by the Accounting Act cited above and on the basis of correctly maintained accounting books; and

c) are, in respect of their content, compliant with the legal regulations and the Company's corporate provisions governing the preparation of financial statements.

IV The report on activities of the Company is complete in the meaning of art. 49.2 of the Accounting Act while the information extracted from the audited financial statements and included in the same report on activities are consistent with the financial statements.

Warsaw, 30 March 2009

PTE-PROFIT Sp. z o.o.
41 Rakowiecka street, suite 28
02-521 Warsaw
Registration No. 250

WICEPREZES ZARZĄDU
Czesław Skowronek
biegły rewident nr legit. 8609

Teresa Bednarek
Certified Auditor No. 6317/836

Czesław Skowronek
Certified Auditor No. 8609
Management Board Vice President

PTE-PROFIT Sp. z o.o.
ul. Rakowiecka 41 lok. 28
02-521 Warszawa
Reg. 010100900 NIP 521-008-89-95

Description of Differences Between Polish Accounting Standards and IFRS

The below table covers only the most significant identified differences between IFRS and Polish Accounting Standards, and does not pertain to special requirements relating to the scope of disclosure:

Standard	IFRS provisions	Polish Accounting Standards	Effect of differences on the financial statements
IAS 16 – Property, Plant and Equipment	Component accounting IAS 16 introduces a requirement to treat components of tangible fixed asset separately if the useful lives of a tangible fixed asset and its components are different.	The Accounting Act defines tangible fixed assets as having an expected useful life of more than a year, being whole, useable and designated to serve the entity's needs, and calls for charging depreciation on the entire item.	There is no numerical data relating to depreciation adjustments if depreciation was calculated based on components.
	Deferred payment The acquisition cost of a tangible fixed asset is the equivalent of the price actually paid for the item ("cash price") as at the date of its recognition. If payment is deferred for a period longer than the ordinary trade credit terms, then the difference between the equivalent of the price paid in cash and the total payment amount is recognised as interest costs over the credit term, unless they are capitalised in whole or in part in accordance with the allowed alternative approach contained in IAS 23.	No similar regulations in Polish Accounting Standards.	In the first half of 2010 the Company acquired rolling stock for the net amount of PLN 42.7 million, payable over 10 years. Recognition of the transaction in accordance with IAS 16 would result in recognising the value of fixed assets and liabilities at a discounted amount. The value of fixed assets and other liabilities would be reduced as at the purchase date by PLN 9.4 million (when discounted using the WIBOR 1M rate of 30 June 2010 plus 1 percentage point of the financing institution's margin)). The difference would be charged in the various periods as financial costs, and the value of accounting depreciation of the acquired rolling stock in the various reporting periods would

Standard	IFRS provisions	Polish Accounting Standards	Effect of differences on the financial statements
			be lower.
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	IAS 20 is applied to record and disclose information on government grants and to inform of other forms of government assistance. The standard does not specify how to present income subsidies; it indicates the possibility of presenting a separate line in the profit and loss account or of reducing costs.	No related regulations.	In Note 1 to its financial statements the Guarantor disclosed income from subsidies; had it prepared its financial statements in accordance with IFRS, the value of income received from subsidies would be disclosed separately in the profit and loss account.
IAS 1 Presentation of Financial Statements	International Accounting Standards do not provide for the creation of a Company Social Benefits Fund (a "**Fund**") Fund, because the Guarantor does not exercise effective control over the Fund.	Polish Accounting Standards provide for the creation of a Fund.	The Fund's assets (cash, granted loans, etc.) would be eliminated from the financial statements, as would be the Guarantor's liabilities to the Fund. In consequence, the Guarantor's total assets and liabilities would be reduced by PLN 5.4 million.
IAS 17 Leasing	The standard calls for the disclosure of assets used based on finance lease agreements irrespective of their formal character in the balance sheet, and the disclosure of liabilities arising out of lease agreements.	Polish Accounting Standards are consistent with IAS 17.	The financial statements for the year 2008 do not contain a reclassification of lease agreements and do not disclose the assets or liabilities arising out of such agreements.
IAS 19 Employee Benefits	The standard calls for the formation of provisions for retirement benefits and jubilee bonuses using the actuarial method.	Polish Accounting Standards do not contain such a specific requirement.	In the financial statements for the year 2008 the Guarantor did not use the actuarial method to estimate the value of its provisions for retirement benefits and jubilee bonuses.
IAS 18 Revenue	In accordance with the standard, revenue from services is recognised as revenue as the services	Under Polish Accounting Standards the principle is similar, but there are no specific regulations relating to	Sales revenue includes, among others, revenue from the sale of long-term tickets allowing passengers to travel

Standard	IFRS provisions	Polish Accounting Standards	Effect of differences on the financial statements
	are provided.	the provision of services.	after the balance sheet date. The Guarantor has no record that would make it possible to determine the amount, which as at the balance sheet date constitutes the value of the prepayment and should be listed under deferred income. The above accounting methods were also applied in previous reporting periods.

Koleje Mazowieckie

FINANCIAL STATEMENTS

of the Company "Koleje Mazowieckie – KM" sp. z o.o. [Limited Liability Company]

as at 30.06.2010

WARSAW, 19 October 2010

Contents

INTRODUCTION TO FINANCIAL STATEMENTS.

The company „Koleje Mazowieckie - KM" spółka z ograniczoną odpowiedzialnością [limited liability company] was established on 29 July 2004 by the Local Government of Mazowieckie Province and "PKP Przewozy Regionalne" spółka z o.o. in Warsaw. The Company's registered office is located in: Mazowieckie Province, the capital city of Warsaw, commune/district Warsaw – Praga-Południe, at the address: Warsaw, 1 Lubelska Street, 03-802 Warsaw.

As at 30 June 2010, the sole Member of the company is Mazowieckie Province holding 594,758 shares with the overall value of PLN 297,379,000.00.

The Company's prevailing types of activity include:

- According to Polish Classification of Business Activities (PKD) 2007 passenger rail transport interurban 4910Z,
- According to PKD 2004 rail transport 6010Z.

The company is registered at the District Court for the capital city of Warsaw in Warsaw, XIII Business Division of the National Court Register, under No. KRS 0000222735. It bears the Company Identification Number REGON 015876404 awarded by the Statistical Office in Warsaw on 2 December 2004 and the Tax Identification Number NIP 1132520369 awarded by the Head of the Tax Office for Warsaw Praga on 7 December 2004.

The company "Koleje Mazowieckie – KM" commenced activity as of 1 January 2005, having obtained licenses required for pursuit of operating activities.

In 2009 the Maintenance Services Department was separated within the organizational structure of the Company KM. The Department does not keep its own books of account and does not prepare financial statements for external entities; it is not a self-financing entity. The Maintenance Services Departments has the status of employer as defined in provisions of the Labor Code. For this reason, the Maintenance Services Departament Has the status of withholding agent and uses its own Tax Identification Number 1080006429 awarded by the Head of the Second Mazowieckie Province Tax Office in Warsaw on 25 January 2009.

The Department has the Company Identification Number REGON 015876404-00028 awarded by the Statistical Office in Warsaw on 12 December 2008.

The Department's prevailing types of activity include:

- according to PKD 2007: other cleaning 8129Z,
- according to PKD 2004: clearing and cleaning of buildings and facilities 7470Z.

The financial statements cover the period from 1 January 2010 to 30 June 2010.

The interim financial statements have been prepared on the basis of the assumption that the Company "Koleje Mazowieckie-KM" will in foreseeable future continue its current activities with no material reductions of the scope thereof and will neither become liquidated nor declared bankrupt. Besides, we are not aware of any circumstances that might indicate the existence of serious threats to our company's going concern.

Determining the entity's ability to continue activities, the Management Board of the Company "Koleje Mazowieckie-KM" takes into consideration all information available as at the day of preparation of the financial statements and pertaining to foreseeable future of at least one year from the balance sheet day.

The financial statements have been prepared in compliance with the requirements for keeping the books of account, valuating assets and liabilities, and measuring the financial result that follow from the Accountancy Act of 29 September 1994 as amended.

Applying provisions of the Accountancy Act with due consideration to the prudence principle laid down in Article 7 thereof, the entity establishes provisions and assets on account of deferred income tax due to the timing differences between the book value of assets and liabilities and their tax value deductible in the future. The deferred part disclosed in the profit and loss account is the difference between provisions for and assets on account of deferred income tax as at the beginning and end of the reporting period.

Assets and liabilities have been valuated on the basis of principles laid down in the Accountancy Act, provided that:

1. The entity depreciates its fixed assets and intangible assets at rates included in the Annual Rates List attached to the Act of 15 February 1992 on corporate income tax as amended, except for the rolling stock for which the balance sheet rates are applied.
2. The values and expenditures of materials and goods in the quantitative and qualitative records are valuated under the FIFO method.
3. Provisions for and assets on account of deferred income tax are not mutually compensated.

The Company prepares financial statements consisting of:

1. Introduction
2. The profit and loss account – comparative variant,
3. Balance sheet,
4. The cash flow statement - indirect method,
5. Statement of changes in shareholders equity,
6. Notes to the financial statements.

PROFIT AND LOSS ACCOUNT for the period 01.01.-30.06.2010

	Note	01.01.-30.06.2010	01.01.-31.12.2009	01.01.-30.06.2009
A. Revenue from sales and sales equivalent, of which:	1	**253,373,897.32**	**488,753,174.00**	**231,682,069.99**
- from related parties	23	97,071,236.25	184,200,325.33	82,891,001.30
I. Revenue from the sale of finished products	1	252,975,520.06	487,941,521.57	231,345,535.03
II. Change in finished products (addition - positive value, disposal - negative value)		0.00	0.00	0.00
III. Cost of producing goods for the entity's own needs		0.00	0.00	0.00
IV. Net revenue from the sale of goods for resale and raw materials	1	398,377.26	811,652.43	336,534.96
B. Operating costs		**251,452,671.90**	**487,962,055.88**	**236,103,124.22**
I. Depreciation		7,890,004.75	11,987,802.40	5,092,420.74
II. Use of materials and energy		55,206,762.22	102,409,567.73	52,043,302.66
III. Third party services		117,282,563.73	230,326,180.00	113,639,521.98
IV. Taxes and charges, of which:		1,518,439.71	2,851,362.54	1,414,643.20
- excise tax		0.00	0.00	0.00
V. Remunerations		53,493,665.72	102,550,101.65	48,518,975.93
VI. Social insurance and other employee benefits		12,740,996.84	31,724,895.81	12,223,992.55
VII. Other costs by type		2,923,066.86	5,303,356.08	2,820,734.19
VIII. Cost of goods for resale and raw materials sold		397,172.07	808,789.67	349,532.97
C. Sales profit (loss) (A-B)		**1,921,225.42**	**791,118.12**	**-4,421,054.23**
D. Other operating revenue	3	**4,574,258.33**	**8,634,135.02**	**3,919,281.49**
I. Profit on the sale of non-financial fixed assets		0.00	0.00	0.00
II. Subsidies		0.00	194,354.00	0.00
III. Other operating revenue		4,574,258.33	8,439,781.02	3,919,281.49
E. Other operating costs	4	**5,446,997.71**	**2,668,434.88**	**824,156.10**
I. Loss on the sale of non-financial fixed assets		0.00	0.00	0.00
II. Revaluation of non-financial assets	5	4,286,467.82	275,345.40	0.00
III. Other operating costs		1,160,529.89	2,393,089.48	824,156.10
F. Operating profit (loss) (C+D-E)		**1,048,486.04**	**6,756,818.26**	**-1,325,928.84**
G. Financial revenue	6	**1,923,879.49**	**2,561,601.94**	**999,979.83**
I. Dividends and shares in profits, of which:		0.00	0.00	0.00
- from related parties		0.00	0.00	0.00
II. Interest, of which:		1,157,064.42	2,561,601.94	999,979.83
- from related parties		0.00	0.00	0.00
III. Profit on the sale of investments		0.00	0.00	0.00
IV. Revaluation of investments		0.00	0.00	0.00
V. Other		766,815.07	0.00	0.00
H. Financial costs	7	**1,762,284.10**	**1,417,909.84**	**286,571.27**
I. Interest, of which:		1,762,284.10	1,402,659.50	285,931.09
- to related parties	23	86,651.64	0.00	0.00
II. Loss on the sale of investments		0.00	0.00	0.00
III. Revaluation of investments		0.00	0.00	0.00
IV. Other		0.00	15,250.34	640.18
I. Profit (loss) on ordinary activities (F+G-H)		**1,210,081.43**	**7,900,510.36**	**-612,520.28**
J. Extraordinary gains/losses (J.I.-J.II.)		**0.00**	**0.00**	**0.00**
I. Extraordinary gains		0.00	0.00	0.00
II. Extraordinary losses		0.00	0.00	0.00
K. Gross profit (loss) (I+J)		**1,210,081.43**	**7,900,510.36**	**-612,520.28**
L. Income tax	8	**-302,579.53**	**7,184,942.00**	**-1,567,453.00**
M. Other taxes		**0.00**	**0.00**	**0.00**
N. Net profit (loss) (K-L-M)		**1,512,660.96**	**715,568.36**	**954,932.72**

BALANCE SHEET as at 30.06.2010

ASSETS	Note	30.06.2010	31.12.2009	30.06.2009
A. FIXED ASSETS		**371,992,286.52**	**296,704,095.89**	**253,576,308.16**
I. Intangible fixed assets	10	**148,810.38**	**182,942.76**	**138,457.60**
1. Research and development		0.00	0.00	0.00
2. Goodwill		0.00	0.00	0.00
3. Other intangible fixed assets		148,810.38	182,942.76	138,457.60
4. Advances for intangible fixed assets		0.00	0.00	0.00
II. Tangible fixed assets		**350,447,640.69**	**273,174,278.61**	**224,532,427.89**
1. Fixed assets	11.21	**316,502,116.69**	**272,754,098.61**	**224,438,547.89**
a) freehold land (including in perpetual usufruct)		0.00	0.00	0.00
b) buildings and constructions		975,777.38	988,912.34	1,002,047.51
c) plant and equipment		3,774,982.95	3,325,942.24	561,016.72
d) vehicles		311,285,615.27	267,930,140.94	222,699,978.23
e) other fixed assets		465,741.09	509,103.09	175,505.43
2. Assets under construction	2	**123,480.00**	**420,180.00**	**93,880.00**
3. Advances for assets under construction		**33,822,044.00**	**0.00**	**0.00**
III. Long-term receivables		**0.00**	**0.00**	**0.00**
IV. Long-term investments		**0.00**	**0.00**	**0.00**
V. Long-term prepayments		**21,395,835.45**	**23,346,874.52**	**28,905,422.67**
1. Deferred tax assets	9a	8,019,021.67	6,988,841.00	7,877,947.87
2. Other prepayments	15	13,376,813.78	16,358,033.52	21,027,474.80
B. CURRENT ASSETS		**138,160,964.77**	**127,749,780.55**	**108,603,902.86**
I. Stock	13	**6,188,327.81**	**5,572,917.87**	**4,695,535.37**
1. Raw materials		6,188,327.81	5,572,917.87	4,695,535.37
2. Semi-finished products and work in progress		0.00	0.00	0.00
3. Finished products		0.00	0.00	0.00
4. Goods for resale		0.00	0.00	0.00
5. Advances for deliveries		0.00	0.00	0.00
II. Short-term receivables		**32,660,495.85**	**33,969,941.09**	**37,288,144.62**
1. From related parties	12	1,152,359.55	334,613.42	51,069.00
a) trade receivables, with due dates:		1,152,359.55	334,613.42	51,069.00
- within 12 months		1,152,359.55	334,613.42	51,069.00
- in more than 12 months		0.00	0.00	0.00
b) other		0.00	0.00	0.00
2. From other parties		31,508,136.30	33,635,327.67	37,237,075.62
a) trade receivables, with due dates:		11,843,761.88	14,287,101.64	18,870,039.68
- within 12 months		11,843,761.88	14,287,101.64	18,870,039.68
- in more than 12 months		0.00	0.00	0.00
b) tax, subsidy, customs, social and health insurance receivables		15,801,723.42	15,910,354.89	15,378,587.28
c) other		3,862,651.00	3,437,871.14	2,988,448.66
d) receivables in court		0.00	0.00	0.00
III. Short-term investments	14	**70,936,373.66**	**65,338,919.17**	**50,774,960.12**
1. Short-term financial assets	14	70,936,373.66	65,338,919.17	50,774,960.12
a) in related parties		0.00	0.00	0.00
b) in other parties		0.00	0.00	0.00
c) cash and other cash assets	14	70,936,373.66	65,338,919.17	50,774,960.12
- cash on hand and at bank	14	5,651,786.99	9,720,173.78	3,016,982.49
- other cash	14	65,284,586.67	55,618,745.39	47,757,977.63
- other cash assets		0.00	0.00	0.00
2. Other short-term investments		0.00	0.00	0.00
IV. Short-term prepayments	15	**28,375,767.45**	**22,868,002.42**	**15,845,262.75**
TOTAL ASSETS		**510,153,251.29**	**424,453,876.44**	**362,180,211.02**

BALANCE SHEET as at 30.06.2010

LIABILITIES AND EQUITY	Note	30.06.2010	31.12.2009	30.06.2009
A. EQUITY		**305,287,902.72**	**303,775,241.76**	**253,152,596.45**
I. Share capital		**297,379,000.00**	**297,379,000.00**	**247,713,500.00**
II. Unpaid share capital (negative value)		**0.00**	**0.00**	**0.00**
III. Treasury shares (negative value)		**0.00**	**0.00**	**0.00**
IV. Reserve capital		**0.00**	**0.00**	**0.00**
V. Revaluation reserve		**0.00**	**0.00**	**1,851,951.48**
VI. Other reserves		**6,396,241.76**	**2,469,469.73**	**0.00**
VII. Accumulated profit (loss) from previous years		**0.00**	**3,211,203.67**	**2,632,212.25**
VIII. Net profit/loss for the year		**1,512,660.96**	**715,568.36**	**954,932.72**
IX. Advanced distributions of net profit (negative value)		**0.00**	**0.00**	**0.00**
B. LIABILITIES AND PROVISIONS		**204,865,348.57**	**120,678,634.68**	**109,027,614.57**
I. Provisions		**44,876,707.12**	**47,298,735.81**	**33,490,550.78**
1. Provision for deferred income tax	9b	8,579,075.14	9,049,973.00	906,023.45
2. Provision for employee benefits	16	34,357,181.47	36,321,302.01	26,243,741.58
- long-term	16	25,828,541.70	25,828,541.70	23,328,643.38
- short-term	16	8,528,639.77	10,492,760.31	2,915,098.20
3. Other provisions	16	1,940,450.51	1,927,460.80	6,340,785.75
- long-term		0.00	0.00	0.00
- short-term	16	1,940,450.51	1,927,460.80	6,340,785.75
II. Long-term liabilities	18	**56,384,789.17**	**19,557,953.16**	**9,543,935.08**
1. To related parties	18.23	2,757,994.00	0.00	0.00
2. To other parties	18	53,626,795.17	19,557,953.16	9,543,935.08
a) credits and loans	12	6,057,568.52	9,941,868.86	9,543,935.08
b) debt securities		0.00	0.00	0.00
c) other financial liabilities	18	8,530,244.54	9,616,084.30	0.00
d) other	18	39,038,982.11	0.00	0.00
III. Short-term liabilities		**88,321,086.26**	**49,154,802.94**	**48,944,516.76**
1. To related parties	23	8,509,910.50	66,071.43	0.00
a) trade payables, with due dates:		7,047,650.50	66,071.43	0.00
- within 12 months		7,047,650.50	66,071.43	0.00
- in more than 12 months		0.00	0.00	0.00
b) other		1,462,260.00	0.00	0.00
2. To other parties		74,371,927.23	46,335,815.87	44,370,401.80
a) credits and loans	12	1,034,482.68	2,497,102.68	3,138,682.34
b) debt securities		0.00	0.00	0.00
c) other financial liabilities		2,072,915.29	2,072,915.29	0.00
d) trade payables, with due dates:		53,987,140.80	28,902,346.95	29,163,124.25
- within 12 months		53,987,140.80	28,902,346.95	29,163,124.25
- in more than 12 months		0.00	0.00	0.00
e) advances received for deliveries		0.00	0.00	0.00
f) bills of exchange		0.00	0.00	0.00
g) tax, customs, insurance and other benefits		6,324,846.24	5,290,908.50	4,478,807.71
h) payroll creditors		7,301,466.53	6,800,865.24	6,598,917.30
i) other		3,651,075.69	771,677.21	990,870.20
3. Special funds	19	5,439,248.53	2,752,915.64	4,574,114.96
IV. Accruals	15	**15,282,766.02**	**4,667,142.77**	**17,048,611.95**
1. Negative goodwill		0.00	0.00	0.00
2. Other accruals	15	15,282,766.02	4,667,142.77	17,048,611.95
- long-term	15	1,440,000.00	0.00	0.00
- short-term	15	13,842,766.02	4,667,142.77	17,048,611.95
TOTAL LIABILITIES AND EQUITY		**510,153,251.29**	**424,453,876.44**	**362,180,211.02**

CASH FLOW STATEMENT (indirect method) (PLN)

Item	Note	01.01.- 30.06.2010	01.01.- 31.12.2009	01.01.- 30.06.2009
A. Operating cash flow		**17,194,890.71**	**26,151,496.26**	**11,214,701.13**
I. Net profit (loss)		**1,512,660.96**	**715,568.36**	**954,932.72**
II. Total adjustments		**15,682,229.75**	**25,435,927.90**	**10,259,768.41**
1. Depreciation		7,890,004.75	11,987,802.40	5,092,420.74
2. Foreign exchange gains (losses)		-776,363.20	0.00	0.00
3. Interest and shares in profits (dividends)		624,254.74	1,399,665.35	284,256.56
4. Profit (loss) on investment activity		0.00	15,692.14	3,001.25
5. Changes in provisions	22	-2,422,028.69	16,282,540.69	2,755,017.66
6. Changes in stock	22	-615,409.94	-866,451.18	10,931.32
7. Changes in receivables	22	1,309,445.24	-3,866,075.04	-7,184,278.57
8. Changes in short-term liabilities, excluding loans and credits	22	2,613,429.56	4,467,428.73	-1,612,686.58
9. Changes in prepayments and accruals	22	7,058,897.30	-3,984,675.19	10,911,106.03
10. Other adjustments		0.00	0.00	0.00
III. Net operating cash flow (I+II)		**17,194,890.71**	**26,151,496.26**	**11,214,701.13**
B. Investment cash flow		**-9,537,038.58**	**-58,364,517.79**	**-11,611,730.07**
I. Income		**0.00**	**0.00**	**0.00**
1. Sale of intangible and tangible fixed assets		0.00	0.00	0.00
2. Sale of investments in real estate and intangible fixed assets		0.00	0.00	0.00
3. From financial assets, including:		0.00	0.00	0.00
a) in related parties		0.00	0.00	0.00
b) in other parties		0.00	0.00	0.00
- sale of financial assets		0.00	0.00	0.00
- dividends and shares in profits		0.00	0.00	0.00
- repayment of long-term loans granted		0.00	0.00	0.00
- interest		0.00	0.00	0.00
- other income from financial assets		0.00	0.00	0.00
4. Other investment income		0.00	0.00	0.00
II. Expenses		**9,537,038.58**	**58,364,517.79**	**11,611,730.07**
1. Purchase of intangible and tangible fixed assets		9,537,038.58	58,364,517.79	11,611,730.07
2. Investments in real estate and intangible fixed assets		0.00	0.00	0.00
3. For financial assets, including:		0.00	0.00	0.00
a) in related parties		0.00	0.00	0.00
b) in other parties		0.00	0.00	0.00
- purchase of financial assets		0.00	0.00	0.00
- long-term loans granted		0.00	0.00	0.00
4. Other investment expenses		0.00	0.00	0.00
III. Net investment cash flow (I–II)		**-9,537,038.58**	**-58,364,517.79**	**-11,611,730.07**
C. Financing cash flow		**-2,836,760.84**	**47,465,746.74**	**1,085,795.10**
I. Income		**1,837,176.86**	**55,527,453.32**	**2,381,472.00**
1. Net income from the issue of shares and other capital instruments and additional payments to capital		0.00	49,665,500.00	0.00
2. Credits and loans		1,837,176.86	5,861,953.32	2,381,472.00
3. Issue of debt securities		0.00	0.00	0.00
4. Other financial income		0.00	0.00	0.00
II. Expenses		**4,673,937.70**	**8,061,706.58**	**1,295,676.90**
1. Acquisition of treasury shares		0.00		0.00
2. Dividends and other payments to shareholders		0.00		0.00
3. Distributions of profit other than payments to shareholders		0.00		0.00
4. Payment of credits and loans		2,963,843.20	4,758,633.00	1,011,420.34
5. Purchase of debt securities		0.00	0.00	0.00
6. Other financial liabilities		0.00	0.00	0.00
7. Finance lease payments		1,085,839.76	1,926,493.69	0.00
8. Interest		624,254.74	1,376,579.89	284,256.56
9. Other financing expenses		0.00	0.00	0.00
III. Net financing cash flow (I–II)		**-2,836,760.84**	**47,465,746.74**	**1,085,795.10**
D. Total net cash flow (A.III.+B.III+C.III)		**4,821,091.29**	**15,252,725.21**	**688,766.16**
E. Net change in cash balances, including:		**4,821,091.29**	**15,252,725.21**	**688,766.16**
– changes in cash balances relating to foreign exchange differences		776,363.20	0.00	0.00
F. Cash at beginning of period		**65,338,919.17**	**50,086,193.96**	**50,086,193.96**
G. Cash at end of period (F+D)		**70,160,010.46**	**65,338,919.17**	**50,774,960.12**
- restricted cash		1,577,738.48	31,972.32	1,656,244.97

STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

	01.01.-30.06.2010	01.01.-31.12.2009	01.01.-30.06.2009
I. Equity at beginning of period (Opening Balance)	**297,379,000.00**	**252,197,663.73**	**252,197,663.73**
- changes in accounting policies	**0.00**	**0.00**	**0.00**
- adjustments of errors	**0.00**	**0.00**	**0.00**
I.a. Adjusted equity at beginning of period (OB)	**297,379,000.00**	**252,197,663.73**	**252,197,663.73**
1. Share capital at beginning of period	**297,379,000.00**	**247,713,500.00**	**247,713,500.00**
1.1 Changes in share capital	0.00	49,665,500.00	0.00
a) additions (relating to)	0.00	49,665,500.00	0.00
- issue of shares	0.00	49,665,500.00	0.00
-	0.00	0.00	0.00
-	0.00	0.00	0.00
b) disposals (relating to)	0.00	0.00	0.00
- redemption of shares	0.00	0.00	0.00
-	0.00	0.00	0.00
-	0.00	0.00	0.00
1.2. Share capital at end of period	297,379,000.00	297,379,000.00	247,713,500.00
2. Unpaid share capital at beginning of period	**0.00**	**0.00**	**0.00**
2.1. Changes in unpaid share capital	0.00	0.00	0.00
a) additions (relating to)	0.00	0.00	0.00
-	0.00	0.00	0.00
-	0.00	0.00	0.00
b) disposals (relating to)	0.00	0.00	0.00
-	0.00	0.00	0.00
-	0.00	0.00	0.00
2.2. Unpaid share capital at end of period	0.00	0.00	0.00
3. Treasury shares at beginning of period	**0.00**	**0.00**	**0.00**
a) additions (relating to)	0.00	0.00	0.00
b) disposals (relating to)	0.00	0.00	0.00
3.1. Treasury shares at end of period	0.00	0.00	0.00
4. Reserve capital at beginning of period	**0.00**	**0.00**	**0.00**
4.1. Changes in reserve capital	0.00	0.00	0.00
a) additions (relating to)	0.00	0.00	0.00
- issue of shares above their nominal value	0.00	0.00	0.00
- distribution of profit (statutory)	0.00	0.00	0.00
- distribution of profits (in excess of statutory minimum)	0.00	0.00	0.00
- other	0.00	0.00	0.00
b) disposals (relating to)	0.00	0.00	0.00
- coverage of loss	0.00	0.00	0.00
- other	0.00	0.00	0.00
4.2. Reserve capital at end of period	0.00	0.00	0.00
5. Revaluation reserve at beginning of period	**0.00**	**0.00**	**0.00**
- changes in accounting policies	0.00	0.00	0.00
5.1. Changes in revaluation reserve	0.00	0.00	0.00
a) additions (relating to)	0.00	0.00	0.00
- revaluation adjustment	0.00	0.00	0.00
b) disposals (relating to)	0.00	0.00	0.00
- sale of fixed assets	0.00	0.00	0.00
- value adjustments	0.00	0.00	0.00
5.2. Revaluation reserve at end of period	0.00	0.00	0.00
6. Other reserves at beginning of period	**2,469,469.73**	**1,851,951.48**	**1,851,951.48**
6.1. Changes in other reserves	2,469,469.73	617,518.25	1,851,951.48
a) additions (relating to)	3,926,772.03	617,518.25	0.00
-	0.00	0.00	0.00
b) disposals (relating to)	0.00	0.00	0.00
-	0.00	0.00	0.00
6.2. Other reserves at end of period	6,396,241.76	2,469,469.73	1,851,951.48
7. Accumulated profit (loss) from previous years at beginning of period	**3,211,203.67**	**2,632,212.25**	**2,014,694.00**
7.1. Accumulated profit from previous years at beginning of period	3,926,772.03	2,632,212.35	2,632,212.25
- changes in accounting policies	0.00	0.00	0.00
- adjustments of errors	0.00	1,196,509.67	0.00
7.2. Adjusted accumulated profit from previous years at beginning of period	3,926,772.03	3,828,721.92	2,632,212.25
a) additions (relating to)	0.00	617,518.25	0.00
- distribution of profit from previous years	0.00	617,518.25	0.00
-	0.00		0.00
b) disposals (relating to)	3,926,772.03	0.00	0.00
- payment of dividend	0.00	0.00	0.00
- distribution of profit (to reserve capital)	3,926,772.03	0.00	0.00
7.3. Accumulated profit from previous years at end of period	0.00	3,211,203.67	2,632,212.25
7.4. Accumulated loss from previous years at beginning of period	0.00	0.00	0.00
- changes in accounting policies	0.00	0.00	0.00
- adjustments of errors	0.00	0.00	0.00
7.5. Adjusted accumulated loss from previous years at beginning of period	0.00	0.00	0.00
a) additions (relating to)	0.00	0.00	0.00
- transfer of loss from previous years to be covered	0.00	0.00	0.00

-	0.00	0.00	0.00
b) disposals (relating to)	0.00	0.00	0.00
-	0.00	0.00	0.00
	0.00	0.00	0.00
7.6. Accumulated loss from previous years at end of period	0.00	0.00	0.00
7.7. Accumulated profit (loss) from previous years at end of period	0.00	3,211,203.67	2,632,212.25
8. Net profit/loss	**1,512,660.96**	**715,568.36**	**954,932.72**
a) net profit	1,512,660.96	715,568.36	954,932.72
b) net loss	0.00	0.00	0.00
c) distribution of profit	0.00	0.00	0.00
II. Equity at end of period (Closing Balance)	**305,287,902.72**	**303,775,241.76**	**253,152,596.45**
III. Equity after proposed distribution of profit (coverage of loss)	**305,287,902.72**	**303,775,241.76**	**253,152,596.45**

NOTES TO THE FINANCIAL STATEMENTS		
Check the notes included in the financial statements.		
	Note 1	Revenue from sale of goods for resale and raw materials by type and territory
	Note 2	Cost of assets under construction, including interest and capitalized f/x differences on liabilities taken out to finance them
	Note 3	Other operating revenue
	Note 4	Other operating costs
	Note 5	Value and reasons for revaluation of fixed assets
	Note 6	Financial revenue
	Note 7	Financial costs
	Note 8	Settlement of main items differentiating income tax base from gross financial result (profit, loss)
	Note 9a	Change in deferred income tax assets
	Note 9b	Change in provision for deferred income tax
	Note 10	Changes in intangible fixed assets in the year 2009
	Note 11a	Changes in tangible fixed assets in the year 2009
	Note 11b	Value of non-depreciated fixed assets used based on rental, long-term rental or other agreements
	Note 12	Financial instruments - information on interest rate and credit risk
	Note 13	Stock
	Note 14	Cash and other cash assets
	Note 15	Prepayments and accruals
	Note 16	Provisions
	Note 17	Revaluation write downs
	Note 18	Long-term liabilities - ageing
	Note 19	Special funds
	Note 20	Liabilities secured on the entity's assets
	Note 21	Contingent liabilities
	Note 22	Breakdown of cash for the cash flow statement
	Note 23	Transactions with capital related companies, which are not covered by the consolidated financial statements
	Note 24	Average employment in financial year by occupational group
	Note 25	Remuneration, including shares in profits, paid to management and supervisory board members
	Note 26	Loans and benefits granted to members of the board and supervisory bodies of capital companies
	Note 27	Exchange rates used to value balance sheet and profit and loss account items expressed in foreign currencies
	Note 28	The nature and economic objective of concluded contracts which are not included in the balance sheet to the extent necessary to assess their impact on the material and financial situation as well as financial result of the entity

Note 1

Revenue from sale of goods for resale and raw materials by type and territory

	01.01.-30.06.2010	01.01.-30.06.2009
1. Sale of tickets and entitlements for passage discounts	113,440,584.46	105,354,157.93
2. Revenues from Office of the Marshal on account of an agreement for organization and financing of railway passenger traffic in Mazowieckie Province - received grant	93,699,675.76	82,750,247.39
4. Sales of services to other companies	27,510,577.95	28,934,777.06
5. Grant from the Ministry of Infrastructure	12,272,750.46	12,273,118.69
6. Net revenues from the sale of goods and materials	398,377.26	336,534.96
7. Other revenues	6,051,931.43	2,033,233.96
TOTAL	**253,373,897.32**	**231,682,069.99**

Note 2

Cost of assets under construction, including interest and capitalized f/x differences on liabilities taken out to finance them

	30.06.2010	30.06.2009
Assets under construction, including:	123,480.00	93,880.00
TOTAL	**123,480.00**	**93,880.00**

Note 2b

Expenses for non-financial fixed assets incurred last year and planned for next year

Expenses incurred in 01.01-30.06.2010	51,603,890.45
Expenses planned for 1.07.2010.10-31.12.2010	61,772,840.99

Note 3

Other operating revenue

	01.01.-30.06.2010	01.01.-30.06.2009
I. Revenue from the sale of non-financial fixed assets	0.00	0.00
II. Subsidies	0.00	0.00
III. Other operating revenue, including:	4,574,258.33	3,919,281.49
- additional charges for fare dodger journeys - paid	1,640,038.75	1,929,929.66
- contractual penalties and damages	2,190,699.68	1,499,171.92
- accrued and paid court fees	166,050.72	200,624.19
- handling fees on account of fare dodger journeys	23,021.33	24,223.95
- revenues on account of exceeding the limits of business telephone calls	104,548.91	116,066.15
- repayment of court and collector's fees	130,517.27	40,285.86
- other revenues	319,381.67	108,979.76
TOTAL	**4,574,258.33**	**3,919,281.49**

Note 4

Other operating costs

	01.01.-30.06.2010	01.01.-30.06.2009
I Cost of non-financial fixed assets sold	0.00	3,001.25
- value of liquidated fixed assets	0.00	3,001.25
II Revaluation of non-financial fixed assets	4,286,467.82	0.00
– revaluation of stock	676,496.08	
– revaluation of receivables	3,609,971.74	
III Other operating costs, including:	1,160,529.89	821,154.85
- damages, penalties and fines on account of defects of goods and services delivered	500.00	0.00
- other damages, penalties and fines	221,397.80	149,449.49
- costs of waste disposal	44,686.27	0.00
- costs rebilled to employees - phone calls	104,543.36	0.00
- costs of devastation	185,641.08	0.00
- legal and enforcement costs	497,869.07	500,628.89
- fees for release of address data	4,216.00	0.00
- stamp duty	96,349.00	0.00
- other operating costs	5,327.31	170,468.93
- amortized and uncollectible receivables	0.00	607.54
TOTAL	**5,446,997.71**	**824,156.10**

Note 5

Value and reasons for revaluation of fixed assets	**12,690.89**
Value of stock write downs referred to in art. 34 par. 5 of the Act	**676,496.08**

Note 6

Financial revenue

	01.01.-30.06.2010	01.01.-30.06.2009
I. Profits from stakes in other entities, including:	0.00	0.00
II. Interest, including:	1,157,064.42	999,979.83
-interest accrued and paid on receivables	249,953.90	71,922.33
-sale of receivables	0.00	0.00
-interest on cash at bank	905,704.11	928,057.50
-other financial revenue	1,406.41	0.00
III. Revenue from the sale of investments, including:	0.00	0.00
IV. Revaluation of investments	0.00	0.00
V. Other, including:	766,815.07	0.00
- foreign exchange differences on bank deposits	766,815.07	0.00
TOTAL	**1,923,879.49**	**999,979.83**

Note 7

Financial costs

	01.01.-30.06.2010	01.01.-30.06.2009
I. Interest, including:	1,762,284.10	285,931.09
-interest loans	86,651.64	22,602.91
-interest on bank facilities	184,939.52	261,653.65
-interest calculated on liabilities	8.11	1,644.00
-interest calculated on other liabilities	59,187.25	30.53
-financial leasing – interest part	352,663.58	0.00
-revaluation write-off	1,078,834.00	0.00
II. Cost of disposing of investments, including:	0.00	0.00
III. Revaluation of investments, including:	0.00	0.00
IV. Other, including:	0.00	640.18
-exchange rate differences	0.00	640.18
TOTAL	**1,762,284.10**	**286,571.27**

Note 8

Settlement of main items differentiating income tax base from gross financial result (profit, loss)

	30.06.2010
Gross PROFIT/LOSS	**1,210,081.43**
Non-tax deductible costs	**126,519,968.86**
– provisions for doubtful debts	4,205,343.46
-stock write downs	676,496.08
– PFRON (Public Fund for Rehabilitation of Disabled Persons)	1,215,396.00
-costs covered from grants from local government units and the State budget	105,972,426.22
-costs covered from grants from local government units and the State budget transferred from accrued revenue	3,050,324.24
-entertainment	184,978.70
-transport services to spouses and children	632,222.37
-expenses of repairs incurred in 2010 but not charged to costs as following from prepayments	9,829,363.60
-depreciation of financial lease for balance sheet purposes	533,491.20
-damages	217,585.16
– other non-tax deductible costs	2,341.83
Non-accounting taxable costs	**10,510,298.20**
-difference between tax and balance sheet depreciation	2,566,454.40
-costs of material and property insurance	240,129.03
-costs of account of operating for tax purposes	1,167,693.98
release of provisions not previously booked as tax deductible	923,453.15
-costs of repairs incurred in 2005-2009 and charged to 2010 costs	5,612,567.64
Non-taxable accounting revenue	**1,007,258.45**
- interest accrued	228,705.73
– unrealized foreign exchange differences	776,363.20
-other non taxable revenue	2,189.52
Non-accounting taxable revenue	**1,798,035.36**
- balance sheet revenues from water supply, sewage and waste management, power supply and other services according to due date	198,035.36
- establishment of a pledge	1,600,000.00
other non-accounting taxable revenue	0.00
Income deductions (e.g.. donations)	**111,702,638.82**
-non - taxable income (revenues)	109,022,750.46
Local government grant surplus as at interim 2010	-3,050,324.24
-tax loss from the previous year - 50%	5,730,212.60
Tax base	**6,307,890.18**
Current Income Tax	**1,198,498.99**
Change in value of deferred income tax asset	-1,030,180.66
Change in value of deferred income tax provision	-470,897.86
Payable tax listed in the profit and loss account	**-302,579.53**

Note 9a

Change in deferred income tax assets

1. Deferred income tax assets at beginning of period, including:	**6,988,841.00**
a) transferred to financial result	6,988,841.00
b) transferred to equity	0.00
c) transferred to goodwill or negative goodwill	0.00
2. Increases	**1,217,075.33**
a) transferred to financial result for the period due to temporary negative differences	1,217,075.33
- stock write down	128,535.27
- provision for unused annual leave	0.00
- provision for jubilee bonuses	0.00
- establishment of a pledge	304,000.00
- write-downs of receivables	204,978.46
- revaluation of finished products	0.00
- provision for costs of third party services	0.00
– surplus of calculated revenue over invoiced revenue	579,561.61
b) transferred to financial result for the period due to tax loss (relating to)	0.00
…	0.00
…	0.00
….	0.00
c) transferred to equity due to negative temporary differences	0.00
…	0.00
…	0.00
…	0.00
d) transferred to equity due to tax loss (relating to)	0.00
…	0.00
…	0.00
…	0.00
e) transferred to goodwill or negative goodwill due to negative temporary differences	0.00
…	0.00
…	0.00
…	0.00
3. Decreases	**186,894.66**
a) transferred to financial result for the period due to temporary negative differences (relating to)	186,894.66
-provision for awards and costs of social insurance institution	175,456.10
-other provision	11,438.56
…	0.00
b) transferred to financial result for the period due to tax loss (relating to)	0.00
…	0.00
…	0.00
…	0.00
c) transferred to equity due to negative temporary differences (relating to)	0.00
…	0.00
…	0.00
…	0.00
d) transferred to equity due to tax loss (relating to)	0.00
…	0.00
…	0.00
…	0.00
e) transferred to goodwill or negative goodwill due to negative temporary differences	0.00
…	0.00
…	0.00
…	0.00
4. Total deferred income tax assets at end of period, including:	**8,019,021.67**
a) transferred to financial result	8,019,021.67
b) transferred to equity	0.00
c) transferred to goodwill or negative goodwill	0.00

Note 9b

Change in provision for deferred income tax

1. Provision for deferred income tax at beginning of period, including:	**9,049,973.00**
a) transferred to financial result	9,049,973.00
b) transferred to equity	0.00
c) transferred to goodwill or negative goodwill	0.00
2. Increases:	**1,090,493.09**
a) transferred to financial result for the period due to positive temporary differences (relating to)	1,090,493.09
– surplus of calculated revenue over invoiced revenue relating to …	0.00
-costs of material and property insurance	45,624.52
-accounting depreciation slower than tax depreciation	487,626.34
-liability on account of operational leasing	356,757.41
-receivables on account of interest	52,975.81
– unrealized foreign exchange differences	147,509.01
b) transferred to equity due to positive temporary differences	0.00
…	0.00
…	0.00
c) transferred to goodwill or negative goodwill due to positive	0.00
…	0.00
…	0.00
…	0.00
3. Decreases	**1,561,390.95**
a) transferred to financial result for the period due to positive temporary differences (relating to)	1,561,390.95
-repair costs: tax costs upon expense, accounting costs according to prepayments	801,191.23
-liability on account of operational leasing	81,259.24
-revenues from fare dodger journeys - unpaid	641,536.80
other	37,403.67
b) transferred to equity due to positive temporary differences	0.00
…	0.00
…	0.00
- ...	0.00
c) transferred to goodwill or negative goodwill due to positive temporary differences	0.00
…	0.00
…	0.00
4. Total provision for deferred income tax at end of period, including:	**8,579,075.14**
a) transferred to financial result	8,579,075.14
b) transferred to equity	0.00
c) transferred to goodwill or negative goodwill	0.00

Note 10

Changes in intangible fixed assets for the period 01.01.-30.06.2010

	Cost of research and development	Goodwill	Permits, patents, licenses	Computer software	Other	Total
Gross opening balance	**0.00**	**0.00**	**0.00**	**0.00**	**465,901.75**	**465,901.75**
Additions, including:	0.00	0.00	0.00	0.00	2,064.10	2,064.10
– acquisition	0.00	0.00	0.00	0.00	0.00	0.00
- internal transfer	0.00	0.00	0.00	0.00	0.00	0.00
- other	0.00	0.00	0.00	0.00	0.00	0.00
Disposals	0.00	0.00	0.00	0.00	0.00	0.00
– liquidation	0.00	0.00	0.00	0.00	0.00	0.00
– revaluation	0.00	0.00	0.00	0.00	0.00	0.00
– sale	0.00	0.00	0.00	0.00	0.00	0.00
- internal transfer	0.00	0.00	0.00	0.00	0.00	0.00
- other	0.00	0.00	0.00	0.00	0.00	0.00
Gross closing balance	**0.00**	**0.00**	**0.00**	**0.00**	**467,965.85**	**467,965.85**
Accumulated amortization at beginning of period	**0.00**	**0.00**	**0.00**	**0.00**	**-282,958.99**	**-282,958.99**
Amortization – additions	0.00	0.00	0.00	0.00	-36,196.48	-36,196.48
Accumulated amortization - disposals	0.00	0.00	0.00	0.00	0.00	0.00
– liquidation	0.00	0.00	0.00	0.00	0.00	0.00
– sale	0.00	0.00	0.00	0.00	0.00	0.00
- internal transfer	0.00	0.00	0.00	0.00	0.00	0.00
- other	0.00	0.00	0.00	0.00	0.00	0.00
Total accumulated amortization at end of period	**0.00**	**0.00**	**0.00**	**0.00**	**-319,155.47**	**-319,155.47**
Net book value at end of period	**0.00**	**0.00**	**0.00**	**0.00**	**148,810.38**	**148,810.38**

Changes in intangible fixed assets for the period 01.01.-30.06.2009

	Cost of research and development	Goodwill	Permits, patents, licenses	Computer software	Other	Total
Gross opening balance	**0.00**	**0.00**	**0.00**	**0.00**	**314,569.61**	**314,569.61**
Additions, including:	0.00	0.00	0.00	0.00	77,962.14	77,962.14
– acquisition	0.00	0.00	0.00	0.00	0.00	0.00
- internal transfer	0.00	0.00	0.00	0.00	0.00	0.00
- other	0.00	0.00	0.00	0.00	0.00	0.00
Disposals	0.00	0.00	0.00	0.00	0.00	0.00
– liquidation	0.00	0.00	0.00	0.00	0.00	0.00
– revaluation	0.00	0.00	0.00	0.00	0.00	0.00
– sale	0.00	0.00	0.00	0.00	0.00	0.00
- internal transfer	0.00	0.00	0.00	0.00	0.00	0.00
- other	0.00	0.00	0.00	0.00	0.00	0.00
Gross closing balance	**0.00**	**0.00**	**0.00**	**0.00**	**392,531.75**	**392,531.75**
Accumulated amortization at beginning of period	**0.00**	**0.00**	**0.00**	**0.00**	**-236,508.75**	**-236,508.75**
Amortization – additions	0.00	0.00	0.00	0.00	-17,565.40	-17,565.40
Accumulated amortization - disposals	0.00	0.00	0.00	0.00	0.00	0.00
– liquidation	0.00	0.00	0.00	0.00	0.00	0.00
– sale	0.00	0.00	0.00	0.00	0.00	0.00
- internal transfer	0.00	0.00	0.00	0.00	0.00	0.00
- other	0.00	0.00	0.00	0.00	0.00	0.00
Total accumulated amortization at end of period	**0.00**	**0.00**	**0.00**	**0.00**	**-254,074.15**	**-254,074.15**
Net book value at end of period	**0.00**	**0.00**	**0.00**	**0.00**	**138,457.60**	**138,457.60**
					0.00	0.00

Note 11a

Changes in tangible fixed assets for the period 01.01.-30.06.2010

	Freehold land	Perpetual usufruct of land	Buildings and constructions	Plant and equipment	Vehicles	Other	Total
Gross opening balance	**0.00**	**0.00**	**1,050,805.44**	**7,258,743.79**	**285,636,716.87**	**897,301.16**	**294,843,567.26**
Additions, including:	0.00	0.00	0.00	727,052.35	50,833,354.16	41,419.84	51,601,826.35
– acquisition	0.00	0.00	0.00	0.00	0.00	0.00	0.00
– internal transfers	0.00	0.00	0.00	0.00	0.00	0.00	0.00
– other	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Disposals, including:	0.00	0.00	0.00	0.00	0.00	0.00	0.00
- liquidation	0.00	0.00	0.00	0.00	0.00	0.00	0.00
– revaluation	0.00	0.00	0.00	0.00	0.00	0.00	0.00
– sale	0.00	0.00	0.00	0.00	0.00	0.00	0.00
– internal transfers	0.00	0.00	0.00	0.00	0.00	0.00	0.00
- other	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gross closing balance	**0.00**	**0.00**	**1,050,805.44**	**7,985,796.14**	**336,470,071.03**	**938,721.00**	**346,445,393.61**
Accumulated depreciation at beginning of period	**0.00**	**0.00**	**-61,893.10**	**-3,932,801.55**	**-17,706,575.93**	**-388,198.07**	**-22,089,468.65**
Depreciation – additions	0.00	0.00	-13,134.96	-278,011.64	-7,477,879.83	-84,781.84	-7,853,808.27
Disposals, including:	0.00	0.00	0.00	0.00	0.00	0.00	0.00
– liquidation	0.00	0.00	0.00	0.00	0.00	0.00	0.00
– sale	0.00	0.00	0.00	0.00	0.00	0.00	0.00
– internal transfers	0.00	0.00	0.00	0.00	0.00	0.00	0.00
– other	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accumulated depreciation at end of period	**0.00**	**0.00**	**-75,028.06**	**-4,210,813.19**	**-25,184,455.76**	**-472,979.91**	**-29,943,276.92**
Net book value at end of period	**0.00**	**0.00**	**975,777.38**	**3,774,982.95**	**311,285,615.27**	**465,741.09**	**316,502,116.69**
Degree of depreciation compared with opening value (%)	0.00	0.00	7.14%	52.73%	7.48%	50.39%	8.64%

Changes in tangible fixed assets for the period 01.01.-30.06.2009

	Freehold land	Perpetual usufruct of land	Buildings and constructions	Plant and equipment	Vehicles	Other	Total
Gross opening balance	**0.00**	**0.00**	**1,050,805.44**	**3,912,384.02**	**216,190,433.54**	**506,855.74**	**221,660,478.74**
Additions, including:	0.00	0.00	0.00	20,820.20	16,590,990.00	29,839.46	16,641,649.66
– acquisition	0.00	0.00	0.00	0.00	0.00	0.00	0.00
– internal transfers	0.00	0.00	0.00	0.00	0.00	0.00	0.00
– other	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Disposals, including:	0.00	0.00	0.00	0.00	0.00	0.00	0.00
- liquidation	0.00	0.00	0.00	0.00	0.00	0.00	0.00
– revaluation	0.00	0.00	0.00	0.00	0.00	0.00	0.00
– sale	0.00	0.00	0.00	0.00	0.00	0.00	0.00
– internal transfers	0.00	0.00	0.00	0.00	0.00	0.00	0.00
- other	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Gross closing balance	**0.00**	**0.00**	**1,050,805.44**	**3,933,204.22**	**232,781,423.54**	**536,695.20**	**238,302,128.40**
Accumulated depreciation at beginning of period	**0.00**	**0.00**	**-35,622.97**	**-3,276,921.26**	**-5,152,455.70**	**-309,721.81**	**-8,774,721.74**
Depreciation – additions	0.00	0.00	-13,134.96	-95,266.24	-4,928,989.61	-51,467.96	-5,088,858.77
Disposals, including:	0.00	0.00	0.00	0.00	0.00	0.00	0.00
– liquidation	0.00	0.00	0.00	0.00	0.00	0.00	0.00
– sale	0.00	0.00	0.00	0.00	0.00	0.00	0.00
– internal transfers	0.00	0.00	0.00	0.00	0.00	0.00	0.00
– other	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Accumulated depreciation at end of period	**0.00**	**0.00**	**-48,757.93**	**-3,372,187.50**	**-10,081,445.31**	**-361,189.77**	**-13,863,580.51**
Net book value at end of period	**0.00**	**0.00**	**1,002,047.51**	**561,016.72**	**222,699,978.23**	**175,505.43**	**224,438,547.89**
Degree of depreciation compared with opening value (%)	0.00	0.00	4.64%	85.74%	4.33%	67.30%	5.82%

Note 11b

Value of non-depreciated fixed assets used based on rental, long-term rental or other agreements

	Type of agreement	Rental	Lease	Other type	Total
Opening balance 2010		**32,648,001.90**	**17,206,299.74**	**0.00**	**49,854,301.64**
- additions		14,507,206.42	310,000.00	0.00	14,817,206.42
- disposals		0.00	0.00	0.00	0.00
Closing balance 2010		**47,155,208.32**	**17,516,299.74**	**0.00**	**64,671,508.06**

Note 12

Type of financial instrument	Balance sheet value	Date of buyout or revaluation	Effective interest rate	Type of risk
bank loan	7,092,051.20	April 27, 2017	5.02	interest rate
loan (public funds - The Regional Fund for Environmental Protection and Water Management)	1,743,582.00	December 20, 2013	3.83	interest rate
loan (public funds - The Regional Fund for Environmental Protection and Water Management)	763,660.00	December 20, 2013	3.83	interest rate
loan (public funds - The Regional Fund for Environmental Protection and Water Management)	1,083,012.00	August 31, 2022	3.83	interest rate
loan (public funds - The Regional Fund for Environmental Protection and Water Management)	630,000.00	July 31, 2022	3.83	interest rate

Credit risk information
There was no significant concentration of credit risk as at the balance sheet date.

Note 13

Stock

	30.06.2010	30.06.2009
Raw materials	6,188,327.81	4,695,535.37
Semi-finished products and work in progress	0.00	0.00
Finished products	0.00	0.00
Goods for resale	0.00	0.00
Advances for deliveries	0.00	0.00
TOTAL	**6,188,327.81**	**4,695,535.37**

Note 14

Cash and other cash assets

	30.06.2010	30.06.2009
Cash on hand and at bank	5,651,786.99	3,016,982.49
Other cash equivalents	65,284,586.67	47,757,977.63
Other cash assets	0.00	0.00
TOTAL	**70,936,373.66**	**50,774,960.12**

Note 15

Prepayments and accruals

	30.06.2010	30.06.2009
Long-term prepaid expenses, including:	**21,395,835.45**	**28,905,422.67**
1. Deferred income tax assets	8,019,021.67	7,877,947.87
2. Other prepayments	13,376,813.78	21,027,474.80
-repairs and paint-coating of rolling stock	10,314,754.84	18,631,211.32
-repair of buildings and machinery	3,019,808.94	1,312,628.46
-repair of the rolling stock – post warranty repairs	42,250.00	193,864.15
-initial fee on account of leasing	0.00	889,770.87
Short-term prepayments, including:	**28,375,767.45**	**15,845,262.75**
-service uniforms	33,675.96	405,054.21
-telecommunications services	0.00	78.00
-passage performances	1,318,093.50	1,329,336.96
-subscription	52,997.94	1,568.08
-technical Transport Inspection	207,840.82	190,550.94
-paint-coating and repairs of rolling stock	13,427,097.27	7,807,161.74
-repair of buildings and machinery	3,233,349.68	732,986.30
-appropriation to fund the establishment of social benefits	1,700,737.55	1,527,304.80
-fee on account of rolling stock lease and rental – electrical trains	4,875,167.92	0.00
-initial fee on account of leasing	0.00	92,128.24
-costs of material and property insurance	240,129.03	0.00
-tax bill	-17,600.00	0.00
-input tax bill	22,380.98	0.00
-VAT due to be settled in subsequent periods	-644,181.08	-490,469.13
-VAT charged for settlement in subsequent periods	3,926,077.88	4,249,562.61
Accruals, including:	**15,282,766.02**	**17,048,611.95**
1. Negative goodwill	0.00	0.00
2. Other accruals, including:	4,904,687.79	3,637,729.17
a) long-term, of which:	0.00	0.00
b) short-term, of which:	4,904,687.79	3,637,729.17
-ticketing service to other carriers	2,849,872.65	3,273,592.37
-fee for the leasing of rolling stock	1,014,147.75	364,136.80
-other benefits for employees	1,040,667.39	0.00
3. Accrued revenue, including:	10,378,078.23	13,410,882.78
a) long-term, of which:	1,440,000.00	0.00
- establishment of a pledge	1,440,000.00	0.00
b) short-term, of which:	8,938,078.23	13,410,882.78
-accrued penalties	759,766.34	304,478.47
- establishment of a pledge	160,000.00	0.00
-revenues from Office of the Marshal on account of an agreement for organization and financing of railway passenger traffic in Mazowieckie Province	3,050,324.24	8,249,752.31
-drive-through benefits	4,932,320.11	4,842,640.87
-judgments, compensation	35,667.54	13,157.73
-other accruals	0.00	853.40

Note 16

Provisions

	Opening balance	Additions	Use	Release	Closing balance
1. For deferred income tax	9,049,973.00	1,090,493.09	0.00	1,561,390.95	8,579,075.14
2. For employee benefits, including:	36,321,302.01	0.00	0.00	1,964,120.54	34,357,181.47
a) long-term	25,828,541.70	0.00	0.00	0.00	25,828,541.70
b) short-term	10,492,760.31	0.00	0.00	1,964,120.54	8,528,639.77
3. Other provisions, including:	1,927,460.80	1,833,252.82	0.00	1,820,263.11	1,940,450.51
a) long-term, of which:	0.00	0.00	0.00	0.00	0.00
b) short-term, of which:	1,927,460.80	1,833,252.82	0.00	1,820,263.11	1,940,450.51
Total	**47,298,735.81**	**2,923,745.91**	**0.00**	**5,345,774.60**	**44,876,707.12**
	0.00				0.00

Note 17

Revaluation write downs

	Opening balance	Additions	Use	Release	Closing balance
Intangible fixed assets	0.00	0.00	0.00	0.00	0.00
Tangible fixed assets	12,690.89	0.00	0.00	0.00	12,690.89
Long-term investments	0.00	0.00	0.00	0.00	0.00
Stock	0.00	676,496.08	0.00	0.00	676,496.08
Short-term receivables	21,689,804.26	10,029,768.36	0.00	1,633,300.15	30,086,272.47
Other	0.00	0.00	0.00	0.00	0.00
Total	**21,702,495.15**	**10,706,264.44**	**0.00**	**1,633,300.15**	**30,775,459.44**

Note 18

Long-term liabilities - ageing

	1. To related parties	2. To other parties, including:					Total
		Total	a) credits and loans	b) securities	c) other financial liabilities	d) other	
Repayment period							
1 to 3 years	0.00	0.00	0.00	0.00	0.00	0.00	0.00
opening balance	2,925,240.00	5,989,335.08	2,068,965.36	0.00	3,920,369.72	0.00	8,914,575.08
closing balance	2,436,168.00	11,590,603.79	2,068,965.36	0.00	3,486,626.27	6,035,012.16	14,026,771.79
3 to 5 years	0.00	0.00	0.00	0.00	0.00	0.00	0.00
opening balance	441,819.00	4,622,417.05	2,068,965.36	0.00	2,553,451.69	0.00	5,064,236.05
closing balance	321,826.00	10,637,569.92	2,068,965.36	0.00	2,533,592.40	6,035,012.16	10,959,395.92
more than 5 years	0.00	0.00	0.00	0.00	0.00	0.00	0.00
opening balance	0.00	5,579,142.03	2,436,879.14	0.00	3,142,262.89	0.00	5,579,142.03
closing balance	0.00	31,398,621.46	1,919,637.80	0.00	2,510,025.87	26,968,957.79	31,398,621.46
Total	0.00	0.00	0.00	0.00	0.00	0.00	0.00
opening balance	3,367,059.00	16,190,894.16	6,574,809.86	0.00	9,616,084.30	0.00	19,557,953.16
closing balance	2,757,994.00	53,626,795.17	6,057,568.52	0.00	8,530,244.54	39,038,982.11	56,384,789.17

Note 19

Special funds

	30.06.2010	30.06.2009
Special funds	5,439,248.53	4,574,114.96
TOTAL	**5,439,248.53**	**4,574,114.96**

Note 20

Liabilities secured on the entity's assets

Type of collateral	Type of liability (credit, loan)	Value of collateral
- mortgage		0.00
- lien on goods for resale		0.00
- lien on tangible fixed assets		42,748,000.00
- relating to a sequestration order (i.e. where the assets are under the management of a third party until the dispute is resolved by the court)		0.00
- other		0.00
Total		**0.00**

Note 21

Contingent liabilities

	Amount
1. Warranties	0.00
2. Guarantees (including promissory notes)	0.00
3. Security deposits	0.00
4. Obligations relating to ...	0.00
5. Claims not recognized by the entity, disputed by contractors and taxes	0.00
6. Relating to agreements concluded, but not yet realized	0.00
7. Other contingent liabilities	0.00
Total	**0.00**

Note 22

Breakdown of cash for the cash flow statement

Item A.II.3. Interest and shares in profits (dividends)	**30.06.2010**	**31.12.2009**
Interest on deposits in excess of 3 months	624,254.74	1,399,665.35
Interest on loans granted	0.00	0.00
Interest on credits	0.00	0.00
Dividends received and booked	0.00	0.00
Dividends paid and booked	0.00	0.00
Other interest	0.00	0.00
Total interest	**624,254.74**	**1,399,665.35**

Item A.II.5. Changes in provisions	**30.06.2010**	**31.12.2009**
Provision for deferred income tax	8,579,075.14	9,049,973.00
Provision for retirement and similar benefits	34,357,181.47	36,321,302.01
Other provisions	1,940,450.51	1,927,460.80
Total	**44,876,707.12**	**47,298,735.81**
Change in value	**-2,422,028.69**	**16,282,540.69**

Item A.II.6. Change in stock	**30.06.2010**	**31.12.2009**
Total stock	6,188,327.81	5,572,917.87
Purchase costs	0.00	0.00
Revaluation of stock	0.00	0.00
Total	**6,188,327.81**	**5,572,917.87**
Change in value	**-615,409.94**	**-866,451.18**

Item A.II.7. Change in receivables	**30.06.2010**	**31.12.2009**
Long-term receivables	0.00	0.00
Short-term receivables from related parties	1,152,359.55	334,613.42
Short-term receivables from other parties	61,594,408.77	55,325,131.93
Total gross receivables	**62,746,768.32**	**55,659,745.35**
Provisions for doubtful debts	30,086,272.47	21,689,804.26
Total net receivables	32,660,495.85	33,969,941.09
Change in value of receivables	**1,309,445.24**	**-3,866,075.04**

Item A.II.8. Change in short-term liabilities, excluding credits and loans	**30.06.2010**	**31.12.2009**
Short-term liabilities to related parties	8,509,910.50	66,071.43
Short-term liabilities to other parties	70,676,211.20	46,335,815.87
Special funds	5,439,248.53	2,752,915.64
Total liabilities, including:	**84,625,370.23**	**49,154,802.94**
Liabilities relating to the purchase of intangible and tangible fixed assets	40,296,502.95	0.00
Liabilities relating to the purchase of investments in real estate and intangibles	0.00	0.00
Other liabilities relating to investment activities	0.00	0.00
Total liabilities relating to investment activities	**40,296,502.95**	**0.00**
Liabilities relating to the purchase of treasury shares	0.00	0.00
Liabilities relating to dividends and other payments to shareholders	0.00	0.00
Liabilities relating to the distribution of profit, other than payments to shareholders	0.00	0.00
Liabilities relating to debt securities	0.00	0.00
Other financial liabilities	0.00	0.00
Liabilities relating to finance lease agreements	10,603,159.83	11,688,999.59
Liabilities relating to credits and loans	11,312,305.20	12,438,971.54
Total liabilities from financing activities	**21,915,465.03**	**24,127,971.13**
Liabilities from operating activities	22,413,402.25	25,026,831.81
Change in value of liabilities	**2,613,429.56**	**4,467,428.73**

Item A.II.9. Change in prepayments and accruals	**30.06.2010**	**31.12.2009**
Long-term prepayments	21,395,835.45	23,346,874.52
Short-term prepayments	28,375,767.45	22,868,002.42
Total	**49,771,602.90**	**46,214,876.94**
1. Change in value	**-3,556,725.96**	**0.00**
Negative goodwill	0.00	0.00
Long-term accruals	0.00	0.00
Short-term accruals	0.00	0.00
Long-term accrued revenues	0.00	0.00
Short-term accrued revenues	15,282,766.02	4,667,142.77
Total	**15,282,766.02**	**4,667,142.77**
2. Change in value	**10,615,623.25**	**0.00**
Total change in prepayments and accruals (1+2)	**7,058,897.29**	**-3,984,675.19**

Item A. II. 10. Other adjustments	**30.06.2010**	**31.12.2009**

Non-financial losses caused by accidental events to investment activity components (plus)	0.00	0.00
Net write downs relating to impairment of value, adjusting the value of fixed assets and short-term financial assets (plus or minus)	0.00	0.00
Cancellation of credits and loans taken out (minus)	0.00	0.00
Cancellation of long-term loans (plus)	0.00	0.00
Write off of fixed assets under construction which gave no economic effect	0.00	0.00
Other	0.00	0.00
Total	**0.00**	**0.00**
Change in value	**0.00**	**0.00**

Item E. Net change in cash balances	**30.06.2010**	**31.12.2009**
Cash on hand	5,751.83	19,752.61
Cash at bank	7,333,058.63	11,319,166.56
Bank deposits up to 3 months	62,821,200.00	54,000,000.00
Cash equivalents, of which:	0.00	0.00
- checks ,	0.00	0.00
- promissory notes,	0.00	0.00
- other	0.00	0.00
Total cash and cash equivalents	**70,160,010.46**	**65,338,919.17**
Change in cash and cash equivalents	**4,821,091.29**	**15,252,725.21**
Balance sheet valuation of cash	776,363.20	0.00
Change in cash relating to foreign exchange differences	**5,597,454.49**	**0.00**
Restricted cash	**1,577,738.48**	**1,656,244.97**

Note 23

Transactions with related companies

Company's name	30.06.2010		30.06.2010		30.06.2010
	Receivables	**Liabilities**	**Sale**	**Purchase**	**Interest on loans**
Marshal Office of Mazowieckie Province	284,225.82	6,013,776.29	93,912,200.45	12,044,683.62	0.00
Regional Transport Sp. z o.o.	868,092.56	1,028,844.91	3,152,694.25	3,308,673.65	0.00
Warsaw Commuter Rail Sp. z o.o.	41.17	75.12	6,341.55	10,906.36	0.00
The Regional Fund for Environmental Protection and Water Management	0.00	4,220,254.00	0.00	0.00	86,651.64
Mazowiecki Real Estate Management	0.00	4,954.18	0.00	99,038.71	0.00
Mazowiecka Rolling Stock Company	0.00	0.00	0.00	169,392.72	0.00
	1,152,359.55	**11,267,904.50**	**97,071,236.25**	**15,632,695.06**	**86,651.64**

Note 24

Average employment in financial year by occupational group

	Average number of employees in financial year (30.06.2010)	Average number of employees in previous financial year (30.06.2009)
Total, of which:	**2,606.00**	**2,582.00**
- white collar (non-labor)	253.00	275.00
- blue collar (labor)	2,344.00	2,298.00
- apprentices	0.00	0.00
- persons performing piece work	0.00	0.00
- persons on maternity or unpaid leave	9.00	9.00

Note 25

Remuneration, including shares in profits, paid to management and supervisory board members

	30.06.2010
Management Board remuneration	353,770.19
Supervisory Board remuneration	82,909.92

Note 26

Loans and benefits granted to members of the board and supervisory bodies of capital companies

Loans and advances	Supervisory bodies	Management
Opening balance	0.00	7,000.00
- granted	0.00	22,200.00
- repaid	0.00	8,640.00
Closing balance	**0.00**	**20,560.00**

Interest rates and repayment terms of loans and other similar benefits granted to members of the board

Interest rates and repayment terms of loans and other similar benefits granted to members of supervisory bodies

Note 27

Exchange rates used to value balance sheet and profit and loss account items expressed in foreign currencies

Currency (average exchange rate)	30.06.2010	30.06.2009
Euro	4.1458	4.4696
Dollar	3.3946	3.1733

Note 28

The nature and economic objective of concluded contracts which are not included in the balance sheet to the extent necessary to assess their impact on the material and financial situation as well as financial result of the entity

Task description	Total task value (net) in PLN (as at tender date)	Recognized in balance sheet as at 30.06.2010	Due after 30.06.2010
1. Purchase of 11 engines for push-pull cars - contract number Mz-081-MEN-139/10 dated 14.04.2010. Value of task as per the signed contract is **40 520 000 EUR. Contract concluded with Bombardier Transportation GmbH with its registered office in Germany. Realization in the years 2010-2011.**	167,627,188.00 zł	33,655,101.60 zł	133,972,086.40 zł
2. Modernization and repair of own rolling stock in the years 2010-2011:	**127,990,374.92 zł**	**8,712,583.74 zł**	**119,277,791.18 zł**
2.1. Contract number Mz-081-MEN-22/10 – the subject of the contract is the performance of 89 revision repairs of ezt EN57 and 1 revision repair of ezt EN71 accompanied by a modernization of ezt type EN 57. Contract concluded with ZNTK Mińsk Mazowiecki on 18 February 2010. Realization by 31.12.2011.	41,994,800.00 zł	8,712,583.74 zł	33,282,216.26 zł
2.2. Contract number Mz-081-MEN-66/10 – the subject of the contract is the performance of 23 general overhauls with modernization of ezt series EN 57. Contract concluded with NEWAG SA, Nowy Sącz on 18 February 2010. Realization by 31.12.2011.	85,995,574.92 zł	0.00 zł	85,995,574.92 zł
TOTAL	**295,617,562.92 zł**	**42,367,685.34 zł**	**253,249,877.58 zł**

Additional information:

Several other contracts have been concluded with legal and financial advisors in connection with the eurobond issue.

Note 29

Information about an obligation to conclude an agreement that may have a significant effect on the Company's financial position

As a result of a court ruling issued in a case filed by the company Stadler with its registered office in Switzerland, Koleje Mazowieckie Sp. z o.o. is required to rescind a previous cancellation of a tender proceeding. In consequence, the bidder Stadler will be called upon to sign an agreement for the supply of 16 electrical traction systems as per its offer submitted as part of the tender proceeding, for the net amount of EUR 76,7 million.

Taking into account the need to meet the terms of delivery, in particular the delivery date, the Management does not exclude the possibility that Stadler will opt out of concluding the agreement.

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Independent Auditor's Review Report on the financial statements for the period from 1 January 2010 to 30 June 2010

We have reviewed the accompanying financial statements of Koleje Mazowieckie - KM Sp. z o.o. with its registered office in Warsaw, consisting of:

- the balance sheet prepared as at 30 June 2010, showing total assets and liabilities of **510 153 251,29** zł;
- the profit and loss account for the period from 1 January 2010 to 30 June 2010, showing a net profit of **1 512 660,96** zł;
- the statement of changes in shareholders' equity for the period from 1 January 2010 to 30 June 2010, showing an increase in shareholders' equity of **1 512 660,96** zł;
- the cash flow statement for the period from 1 January 2010 to 30 June 2010, showing a net cash increase of **4 821 091,29** zł;
- notes to the financial statements.

The Company's Management Board is responsible for the preparation of the financial statements in accordance with binding regulations.

Our responsibility was to perform a review of these financial statements.

We performed the review in accordance with the provisions of the professional standards relevant for reviews of Financial Statements issued by the International Federation of Accountants, as well as the Polish auditing standards issued by the Polish National Chamber of Certified Auditors. These standards require us to plan and perform the review to obtain moderate assurance that the financial statements are free of material misstatements.

We conducted the review mainly by analyzing the data presented in the financial statements, examining the books of account and using information provided by the management and employees in charge of the entity's finances and accounting.

The scope and methodology of a review of financial statements differ significantly from that of an audit based on which an opinion is issued on the truth and fairness of annual financial statements. Accordingly, we are unable to express such an opinion on the accompanying financial statements.

This document is a translation.
The Polish original should be referred to in matters of interpretation.

Sales revenue includes, among others, revenue from the sale of long-term tickets allowing passengers to travel after the balance sheet date. The Company has no record that would make it possible to determine the amount, which as at the balance sheet date constitutes the value of the prepayment and should be listed under deferred income. The above accounting methods were also applied in previous reporting periods.

Except for the matter described above, based on our review nothing has come to our attention that would prevent us from finding that the financial statements have been prepared, in all material respects, in accordance with the applicable accounting regulations, and that they give a true and fair view, in all material respects, of the Company's financial position as at 30 June 2010, as well as of its financial result for the period from 1 January 2010 to 30 June 2010 in accordance with the accounting methods specified in the Accounting Act (2009 Journal of Laws No. 152, item 1223 with subsequent amendments) and the related implementing regulations.

We draw your attention to the fact that the final revenue from subsidies from the Mazowieckie Voivodship Marshall's Office due to the Company for the year 2010 will be approved after the Company presents its annual financial statements along with the audit opinion; the revenue recognized in the financial statements arises out of quarterly subsidy settlements that are not subject to approval by the Marshall's Office.

Warsaw, 19 October 2010

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Authorized Audit Company No. 3355

Auditor in charge:

Hanna Sztuczyńska
Certified Auditor No. 9269

On behalf of BDO Sp. z o.o.:

André Helin, PhD
Senior Partner & CEO
Certified Auditor No. 90004

This document is a translation.
The Polish original should be referred to in matters of interpretation.

Description of Differences Between Polish Accounting Standards and IFRS

The below table covers only the most significant identified differences between IFRS and Polish Accounting Standards, and does not pertain to special requirements relating to the scope of disclosure:

Standard	**IFRS provisions**	**Polish Accounting Standards**	**Effect of differences on the financial statements**
IAS 16 – Property, Plant and Equipment	Component accounting IAS 16 introduces a requirement to treat components of tangible fixed asset separately if the useful lives of a tangible fixed asset and its components are different.	The Accounting Act defines tangible fixed assets as having an expected useful life of more than a year, being whole, useable and designated to serve the entity's needs, and calls for charging depreciation on the entire item.	There is no numerical data relating to depreciation adjustments if depreciation was calculated based on components.
	Deferred payment The acquisition cost of a tangible fixed asset is the equivalent of the price actually paid for the item ("cash price") as at the date of its recognition. If payment is deferred for a period longer than the ordinary trade credit terms, then the difference between the equivalent of the price paid in cash and the total payment amount is recognised as interest costs over the credit term, unless they are capitalised in whole or in part in accordance with the allowed alternative approach contained in IAS 23.	No similar regulations in PAS.	In the first half of 2010 the Guarantor acquired rolling stock for the net amount of PLN 42.7 million, payable over 10 years. Recognition of the transaction in accordance with IAS 16 would result in recognising the value of fixed assets and liabilities at a discounted amount. The value of fixed assets and other liabilities would be reduced as at the purchase date by PLN 9.4 million (when discounted using the WIBOR 1M rate of 30 June 2010 plus 1 percentage point of the financing institution's margin)). The difference would be charged in the various periods as financial costs, and the value of accounting depreciation of the acquired rolling stock in the various reporting periods would

Standard	IFRS provisions	Polish Accounting Standards	Effect of differences on the financial statements
			be lower.
IAS 20 Accounting for Government Grants and Disclosure of Government Assistance	IAS 20 is applied to record and disclose information on government grants and to inform of other forms of government assistance. The standard does not specify how to present income subsidies; it indicates the possibility of presenting a separate line in the profit and loss account or of reducing costs.	No related regulations.	In Note 1 to its financial statements the Guarantor disclosed income from subsidies; had it prepared its financial statements in accordance with IFRS, the value of income received from subsidies would be disclosed separately in the profit and loss account.
IAS 1 Presentation of Financial Statements	International Accounting Standards do not provide for the creation of a Company Social Benefits Fund (a "**Fund**"), because the Guarantor does not exercise effective control over the Fund.	Polish Accounting Standards provide for the creation of a Fund.	The Fund's assets (cash, granted loans, etc.) would be eliminated from the financial statements, as would be the Guarantor's liabilities to the Fund. In consequence, the Guarantor's total assets and liabilities would be reduced by PLN 5.4 million.
IAS 18 Revenue	In accordance with the standard, revenue from services is recognised as revenue as the services are provided.	Under Polish Accounting Standards the principle is similar, but there are no specific regulations relating to the provision of services.	Sales revenue includes, among others, revenue from the sale of long-term tickets allowing passengers to travel after the balance sheet date. The Guarantor has no record that would make it possible to determine the amount, which as at the balance sheet date constitutes the value of the prepayment and should be listed under deferred income. The above accounting methods were also applied in previous reporting periods.

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PTE-PROFIT Sp. z o.o. 41 Rutkowskiego Street, suite 28 02-521 Warsaw Poland	**POL-TAX Sp. z o.o.** 11A Wandy Street, suite 3 03-949 Warsaw Poland	**BDO Sp. z o. o.** ul. Postępu 12 02-676 Warszawa Poland

RF64739 Printed by Royle Financial Print