CONSOLIDATED SEMI-ANNUAL REPORT OF THE **PKP CARGO** GROUP FOR H1 2015

Warsaw, 27 August 2015

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This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

INDEPENDENT AUDITORS' REPORT ON REVIEW OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF PKP CARGO S.A. GROUP FOR THE PERIOD FROM 1 JANUARY 2015 TO 30 JUNE 2015

To the Shareholders of PKP CARGO S.A.

Introduction

We have reviewed the accompanying 30 June 2015 interim condensed consolidated financial statements of PKP CARGO S.A. Group ("the Group"), with its parent company's registered office in Warsaw, Grójecka 17 Street ("the interim condensed consolidated financial statements"), which comprise:

- the interim consolidated statement of financial position as at 30 June 2015,
- the interim consolidated statements of comprehensive income for the six- month period ended 30 June 2015,
- the interim consolidated statement of changes in equity for the six- month period ended 30 June 2015,
- the interim consolidated statement of cash flows for the six- month period ended 30 June 2015, and
- notes to the interim condensed consolidated financial statements.

Management of the parent company is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with the IAS 34 *Interim Financial Reporting* as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements, based on our review.

Scope of Review

We conducted our review in accordance with the National Standard on Auditing no. 3 *General principles of review of the financial statements/condensed financial statements and conducting of other assurance services* issued by the National Council of Certified Auditors and the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with national standards on auditing and International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2015 interim condensed consolidated financial statements of PKP CARGO S.A. Group are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
registration number 3546
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00-189 Warsaw

Signed on the Polish original

....
Monika Bartoszewicz
Key Certified Auditor
Registration No. 10268
Limited Liability Partner with power of attorney

26 August 2015

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE **PKP CARGO GROUP** FOR THE PERIOD OF 6 MONTHS ENDED 30 JUNE 2015 PREPARED IN ACCORDANCE WITH IFRS AS ENDORSED BY THE EUROPEAN UNION

Warsaw, 27 August 2015

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INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2015 TO 30 JUNE 2015

	Note	For the 6 months period ended 30/06/2015 (unaudited) PLN thousand	For the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Revenue from sales of services	5	1 896 539	2 053 326
Revenue from sales of goods and materials		17 674	23 655
Other operating revenue	7.1	148 353	22 847
Total operating revenue		**2 062 566**	**2 099 828**
Depreciation/amortisation and impairment losses	6.1	198 308	181 540
Consumption of raw materials and energy	6.2	312 430	313 806
External services	6.3	610 859	637 974
Taxes and charges		17 608	20 331
Employee benefits	6.4	718 401	724 799
Other expenses by kind		18 630	21 918
Cost of merchandise and raw materials sold		12 395	15 865
Other operating expenses	7.2	10 849	14 643
Total operating expenses		**1 899 480**	**1 930 876**
Profit on operating activities		**163 086**	**168 952**
Financial revenue	8.1	9 377	11 608
Financial expenses	8.2	16 558	16 477
Share in the profit / (loss) of entities accounted for under the equity method	12	3 482	(435)
Result on sale of entities accounted for under the equity method		1 865	-
Profit before tax		**161 252**	**163 648**
Income tax expense	9.1	5 167	35 499
NET PROFIT		**156 085**	**128 149**

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2015 TO 30 JUNE 2015 (cont'd.)

	Note	For the 6 months period ended 30/06/2015 (unaudited)	For the 6 months period ended 30/06/2014 (unaudited)
		PLN thousand	PLN thousand
NET PROFIT		**156 085**	**128 149**
Other comprehensive income			
Other comprehensive income that will be reclassified to profit or loss in subsequent periods:		**14 936**	**(1 043)**
The effective portion of changes in fair value of cash-flow hedging instruments		1 768	(1 288)
Income tax on other comprehensive income	9.1	(336)	245
Foreign exchange differences on translation of subsidiaries' financial statements		13 504	-
Other comprehensive income that will not be reclassified to profit or loss:		**51 547**	**-**
Actuarial gains / (losses) on employee benefits after employment period		63 638	-
Income tax on other comprehensive income	9.1	(12 091)	-
		66 483	**(1 043)**
TOTAL COMPREHENSIVE INCOME		**222 568**	**127 106**
Net profit / (loss) attributable to:			
Shareholders of the Parent company		156 228	126 737
Non-controlling interest		(143)	1 412
		156 085	**128 149**
Total comprehensive income / (loss) attributable to:			
Shareholders of the Parent company		222 711	126 158
Non-controlling interest		(143)	948
		222 568	**127 106**
Earnings per share (PLN per share)			
Earnings per share on operations (basic):	20.1	**3.49**	**2.86**
Earnings per share on operations (diluted):	20.2	**3.49**	**2.83**

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 JUNE 2015

	Note	As at 30/06/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
ASSETS			
Non-current assets			
Property, plant and equipment	10	4 898 646	4 011 542
Intangible assets		72 084	58 268
Goodwill		2 712	2 712
Investment property		1 336	1 362
Investments accounted for under the equity method	12,13	42 369	35 246
Other long-term receivables	16	7 082	-
Other long-term financial assets	14	9 788	6 051
Other long-term non-financial assets	15	20 917	14 645
Deferred tax assets	9.2	70 953	88 273
Total non-current assets		**5 125 887**	**4 218 099**
Current assets			
Inventories		139 331	115 298
Trade and other receivables	16	718 459	526 149
Income tax receivables		4 300	3 053
Other short-term financial assets	14	7 669	306 383
Other short-term non-financial assets	15	58 691	28 246
Cash and cash equivalents	17	220 813	429 178
		1 149 263	**1 408 307**
Assets classified as held for sale	18	18 483	17 560
Total current assets		**1 167 746**	**1 425 867**
Total assets		**6 293 633**	**5 643 966**

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 JUNE 2015 (cont'd.)

	Note	As at 30/06/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
EQUITY AND LIABILITIES			
Equity			
Share capital	19.1	2 239 346	2 239 346
Supplementary capital	19.2	619 407	615 343
Other items of equity		1 292	(51 687)
Foreign exchange differences on translation of subsidiaries' financial statements		13 504	-
Retained earnings		593 015	527 670
Equity attributable to the owners of the Parent company		**3 466 564**	**3 330 672**
Non-controlling interest	19.3	-	63 500
Total equity		**3 466 564**	**3 394 172**
Non-current liabilities			
Long-term bank loans and credit facilities	21	581 960	208 077
Long-term finance lease liabilities and leases with purchase option	23	222 726	190 836
Long-term trade and other payables	24	48 071	67 982
Long-term provisions for employee benefits	25	543 641	658 217
Other long-term provisions	26	23 220	8 416
Other long-term financial liabilities	22	146 518	-
Deferred tax provision	9.2	116 012	2 328
Non-current liabilities		**1 682 148**	**1 135 856**
Current liabilities			
Short-term bank loans and credit facilities	21	142 208	92 123
Short-term finance lease liabilities and leases with purchase option	23	86 264	127 742
Short-term trade and other payables	24	780 608	530 440
Short-term provisions for employee benefits	25	107 531	334 844
Other short-term provisions	26	23 328	24 214
Other short-term financial liabilities	22	4 595	3 934
Current tax liabilities		387	641
Total current liabilities		**1 144 921**	**1 113 938**
Total liabilities		**2 827 069**	**2 249 794**
Total equity and liabilities		**6 293 633**	**5 643 966**

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2015

			Other items of equity						
	Share capital	Supplementary capital	Actuarial gains/(losses) on employee benefits after employment period	Changes in fair value of cash-flow hedge	Foreign exchange differences on translation of subsidiaries' financial statements	Retained earnings	Attributable to shareholders of the Parent company	Attributable to non-controlling interest	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Balance as at 1/01/2014 (audited)	**2 166 901**	**692 761**	**(16 182)**	**(210)**	**-**	**603 247**	**3 446 517**	**62 377**	**3 508 894**
Net result for the period	-	-	-	-	-	126 737	**126 737**	1 412	**128 149**
Other net comprehensive income for the period	-	-	-	(579)	-	-	**(579)**	(464)	**(1 043)**
Total comprehensive income	**-**	**-**	**-**	**(579)**	**-**	**126 737**	**126 158**	**948**	**127 106**
Issuance of shares	72 445	25 529	-	-	-	-	**97 974**	-	**97 974**
Dividend payment	-	-	-	-	-	(137 496)	**(137 496)**	-	**(137 496)**
Share-based payment provision	-	(100 015)	-	-	-	-	**(100 015)**	-	**(100 015)**
Other changes in equity	-	7 527	-	-	-	(7 527)	**-**	-	**-**
Balance as at 30/06/2014 (unaudited)	**2 239 346**	**625 802**	**(16 182)**	**(789)**	**-**	**584 961**	**3 433 138**	**63 325**	**3 496 463**
Balance as at 1/01/2015 (audited)	**2 239 346**	**615 343**	**(50 056)**	**(1 631)**	**-**	**527 670**	**3 330 672**	**63 500**	**3 394 172**
Net result for the period	-	-	-	-	-	156 228	**156 228**	(143)	**156 085**
Other net comprehensive income for the period	-	-	51 547	1 432	13 504	-	**66 483**	-	**66 483**
Total comprehensive income	**-**	**-**	**51 547**	**1 432**	**13 504**	**156 228**	**222 711**	**(143)**	**222 568**
Dividend payment	-	-	-	-	-	(110 176)	**(110 176)**	-	**(110 176)**
Transactions with non-controlling interest	-	-	-	-	-	23 357	**23 357**	(63 357)	**(40 000)**
Other changes in equity	-	4 064	-	-	-	(4 064)	**-**	-	**-**
Balance as at 30/06/2015 (unaudited)	**2 239 346**	**619 407**	**1 491**	**(199)**	**13 504**	**593 015**	**3 466 564**	**-**	**3 466 564**

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 1 JANUARY 2015 TO 30 JUNE 2015 [INDIRECT METHOD]

	Note	For the 6 months period ended 30/06/2015 (unaudited)	For the 6 months period ended 30/06/2014 (unaudited)
		PLN thousand	PLN thousand
Cash flows from operating activities			
Profit before tax		**161 252**	**163 648**
Adjustments:			
Depreciation and amortisation of non-current assets	6.1	197 965	181 540
Impairment loss on non-current assets	6.1	343	-
(Gain) / loss on disposal / liquidation of property, plant and equipment and intangible assets		726	5 213
(Profit) / loss on investing activities		-	(8)
Foreign exchange (gain) / loss		(3 136)	643
(Gains) / losses on interest, dividends		8 060	4 280
Share in the (profit) / loss of entities accounted for under the equity method		(3 482)	435
Result on sales of entities accounted for under the equity method		(1 865)	-
Bargain purchase gain on acquisition of AWT	4	(137 779)	-
Other adjustments (1)		64 705	(1 287)
Changes in working capital:			
(Increase) / decrease in trade and other receivables		(25 140)	34 624
(Increase) / decrease in inventories		8 054	1 702
(Increase) / decrease in other assets		(28 492)	(35 828)
Increase / (decrease) in trade and other payables (2)		126 223	(120 214)
Increase / (decrease) in other financial liabilities		1 187	1 709
Increase / (decrease) in provisions (3)		(362 801)	(100 052)
Cash flows from operating activities		**5 820**	**136 405**
Interest received / (paid)		1 260	2 114
Income taxes received / (paid)		(8 235)	(3 329)
Net cash provided by/ (used in) operating activities		**(1 155)**	**135 190**

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 1 JANUARY 2015 TO 30 JUNE 2015 [INDIRECT METHOD] (cont'd.)

	Note	For the 6 months period ended 30/06/2015 (unaudited)	For the 6 months period ended 30/06/2014 (unaudited)
		PLN thousand	PLN thousand
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(244 010)	(309 891)
Proceeds from sale of property, plant and equipment and intangible assets		162	839
Acquisition of entities accounted for under the equity method		(1 613)	-
Proceeds from the sale of entities accounted for under the equity method		2 000	-
Acquisition of subsidiary, net of cash acquired	4	(325 956)	-
Interest received		5 963	15 066
Dividends received		104	269
Inflows / (outflows) from bank deposits over 3 months		299 834	398 601
Inflows / (outflows) related to the Employment Guarantees Program		-	79 614
Net cash (used in) / provided by investing activities		**(263 516)**	**184 498**
Cash flows from financing activities			
Payments of liabilities under finance lease		(82 416)	(62 774)
Payments of interest under lease agreement		(4 419)	(6 421)
Proceeds from credit facilities / loans received		345 436	-
Repayments of credit facilities / loans received		(45 150)	(40 762)
Interest on credit facilities / loans received		(4 811)	(3 261)
Grants received		-	11 390
Dividends paid to shareholders of the Parent company		(110 176)	(137 496)
Transactions with non-controlling interest	19.3	(40 000)	-
Other inflows / (outflows) from financing activities		(3 916)	(4 693)
Net cash (used in)/ provided by financing activities		**54 548**	**(244 017)**
Net increase / (decrease) in cash and cash equivalents		(210 123)	75 671
Opening balance of cash and cash equivalents	17	429 178	263 700
Effects of foreign exchange differences on the balance of cash denominated in foreign currency		1 758	-
Closing balance of cash and cash equivalents	17	**220 813**	**339 371**

(1) In the 6 months period ended 30 June 2015 an item includes mainly actuarial gains on employee benefits after employment period of PLN 63,638 thousand, recognized in the other comprehensive income.

(2) In the 6 months period ended 30 June 2015 an item includes increase in liabilities due to Voluntary Redundancy Program of PLN 101,809 thousand.

(3) In the 6 months period ended 30 June 2015 an item includes mainly a decrease in provision for Voluntary Redundancy Program of PLN 259,014 thousand and decrease in other employee benefits provision of PLN 82,875 thousand.

EXPLANATORY NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED AS AT 30 JUNE 2015

1. General information

1.1 Information on the Parent company

The Company PKP CARGO S.A. ("Company", "Parent company") was established based on the Notarial Deed dated 29 June 2001 (Repertory A No. 1287/2001). The registered office of the Company is located in Warsaw at Grójecka street no. 17. The Company is registered in the National Court Register in the District Court in Katowice, Department of the National Court Register under the number KRS 0000027702. Currently, due to a subsequent change of the registered office of the Parent company, records of the Parent company are run by the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register.

The Company was assigned a statistical number REGON 277586360 and a tax identification number (NIP) 954-23-81-960.

The financial year of the Parent company and the companies comprising PKP CARGO Group is the calendar year.

Composition of the Parent company's management and supervisory bodies as at the date of preparation of these Interim Condensed Consolidated Financial Statements is as follows:

Management Board:

Adam Purwin	- President of the Management Board
Jacek Neska	- Member of the Management Boards, responsible for Trade Matters
Łukasz Hadyś	- Member of the Management Boards, responsible for Finance Matters
Wojciech Derda	- Member of the Management Boards, responsible for Operation Matters
Dariusz Browarek	- Member of the Management Board, Employees' representative in the Management Board

Supervisory Board:

Jakub Karnowski	- Chairman
Piotr Ciżkowicz	- Vice Chairman
Krzysztof Czarnota	- Member
Marek Podskalny	- Member
Kazimierz Jamrozik	- Member
Konrad Anuszkiewicz	- Member
Stanisław Knaflewski	- Member
Jacek Leonkiewicz	- Member
Sławomir Baniak	- Member
Raimondo Eggink	- Member

On 18 February 2015 the Parent company's shareholder - PKP S.A. dismissed Mr. Jarosław Pawłowski from the Supervisory Board and appointed Mr. Zbigniew Klepacki as a Member of the Supervisory Board (effective from 19 February 2015).

On 13 March 2015 Mr. Paweł Ruka resigned from the position of a Member of the Supervisory Board (effective from 13 March 2015).

On 13 April 2015 the Extraordinary General Meeting of Shareholders of the Company appointed Mr. Raimondo Eggink as a Member of the Supervisory Board.

On 9 June 2015 Mr. Zbigniew Klepacki resigned from the position of a Member of the Supervisory Board (effective from 9 June 2015).

1.1 Information on the Parent company (cont'd.)

The Parent company's shareholder's structure as at 30 June 2015 is as follows:

Entity	Registered office	Number of shares	% of share capital held	% of voting rights
PKP S.A.[1]	Warsaw	14 784 194	33.01%	33.01%
ING OFE [2]	Warsaw	4 738 369	10.58%	10.58%
Morgan Stanley [3]	New York	2 380 008	5.31%	5.31%
Aviva OFE [4]	Warsaw	2 338 371	5.22%	5.22%
Other shareholders		20 545 975	45.88%	45.88%
Total		**44 786 917**	**100.00%**	**100.00%**

[1] In accordance with the notice sent by shareholder dated 24 June 2014.
[2] In accordance with the notice sent by shareholder dated 30 June 2014. On 20 July 2015 name of shareholder ING OFE was changed to Nationale-Nedelanden OFE.
[3] In accordance with the notice sent by shareholder dated 18 June 2014.
[4] In accordance with the notice sent by shareholder dated 13 August 2014.

PKP S.A. is the parent entity of PKP CARGO S.A. In accordance with the Parent company's Articles of Association PKP S.A. holds individual special rights to appoint and dismiss Members of the Supervisory Board in the amount equal to half of the Supervisory Board increased by one member. PKP S.A. holds individual right to appoint the Chairman of the Supervisory Board and to set the number of members of the Supervisory Board. Additionally, if PKP S.A. holds 50% or less of the share capital of the Parent company, PKP S.A. is individually entitled to solely designate candidates for the President of the Management Board of the Parent company. PKP S.A. always holds the individual rights when PKP S.A. owns at least 25% of the share capital of the Parent company.

1.2 Information on the Group

As at the reporting date PKP CARGO Group ("the Group") comprised of PKP CARGO S.A. as the Parent company and 32 subsidiaries. Additionally, the Group includes 6 associates and shares in 4 joint ventures.

Additional information about the subsidiaries and shares in associates and co-subsidiaries is presented in Notes 11, 12, 13.

Principal activity of the Group is rail transport of goods. In addition to the rail transport services, Group offers additional services:

a) intermodal services,
b) shipping (domestic and international),
c) terminals (handling and storage of goods),
d) siding services,
e) maintenance and repair of rolling stock,
f) recultivation services.

The duration of the companies belonging to the Group is unlimited, except for companies in liquidation.

1.3 Functional currency and presentation currency

These Interim Condensed Consolidated Financial Statements have been prepared in the Polish zloty (PLN). The Polish zloty (PLN) is the Group's functional and presentation currency. The data in the financial statements were presented in PLN thousand, unless more accuracy was required in particular cases.

Financial data of foreign subsidiaries are translated into PLN for consolidation purposes as follows:

- assets and liabilities at the exchange rate as at the end of the reporting period,
- items of the statement of comprehensive income and statement of cash flows according to the average exchange rate during the reporting period, calculated as the arithmetic average of the rates on the last day of each month in the period

Foreign exchange difference resulting from these translations are recognized in equity as Foreign exchange difference on translation of subsidiaries financial statements.

2. International Financial Reporting Standards applied

2.1 Basis for preparation of Interim Condensed Consolidated Financial Statements

These Interim Condensed Consolidated Financial Statements have been prepared in accordance with the International Accounting Standard 34 – Interim Financial Reporting ("IAS 34") and in accordance with accounting standards applicable to interim financial reporting adopted by the European Union ("IFRS EU"), issued and effective at the time of preparation these Interim Condensed Consolidated Financial Statements and in accordance with the Regulation of the Finance Minister dated 19 February 2009 on current and periodic information published by securities issuers and conditions of recognition the information required by the laws of non-member to the European Union as equivalent (Official Journal No. 33, item 257) ("Regulation").

These Interim Condensed Consolidated Financial Statements should be read along with audited Consolidated Financial Statements of the Group for the year ended 31 December 2014, prepared in accordance with International Financial Reporting Standards as endorsed by the European Union ("IFRS EU"), that include notes ("Consolidated Financial Statements prepared in accordance with IFRS EU").

These Interim Condensed Consolidated Financial Statements have been prepared under the going concern assumption of the Group in the foreseeable future. As at the date of preparation of these Interim Condensed Consolidated Financial Statements, there were no circumstances indicating a threat of going concern assumption of the Group during at least 12 months from the date of the financial statements.

These Interim Condensed Consolidated Financial Statements have been prepared on the historical cost basis except for derivatives measured at fair value, liability arising from the put option for non-controlling shares and non-current assets classified as held for sale.

These Interim Condensed Consolidated Financial Statements consist of the consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and selected explanatory notes.

During 2014 – 2015 the Group did not discontinue activity that requires recognition in these Interim Condensed Consolidated Financial Statements.

These Interim Condensed Consolidated Financial Statements were approved by the Management Board for publication on 26 August 2015.

2.2 Status of endorsement of the Standards in the EU

The following amendments to existing standards issued by the International Accounting Standards Board and adopted by European Union are effective since 2015:

- **Interpretation IFRIC 21 "Levies"** - applicable to the annual periods beginning on or after 17 June 2014.
- **Improvements to International Financial Reporting Standards 2011-2013** (annual improvements to IFRS from 2011-2013 contain 4 amendments to the standards, with consequential amendments to other standards and interpretations) - effective for annual periods beginning on or after 1 January 2015.

Adoption of these standards, amendments to the existing standards and interpretations did not have material impact on the Group's accounting policy.

2.3 Standards and Interpretations adopted by the EU that are not yet effective

When approving these Interim Condensed Consolidated Financial Statements, the Group did not apply the following standards, amendments to standards and interpretations that had been published and approved for use in the EU, but which have not yet come into force:

- **Amendment to IAS 19 "Employee Benefits"** entitled Defined Benefit Plans: Employee Contributions - effective for periods beginning on or after 1 February 2015.
- **Improvements to International Financial Reporting Standards 2010-2012** (annual improvements to IFRS 2010-2012 contain 8 changes to 7 standards, with consequential amendments to other standards and interpretations) - effective for periods beginning on or after 1 February 2015.

The Group has analyzed the potential impact of the aforementioned standards, interpretations and amendments to the standards on the Group's accounting policy. According to the Management Board they will not result in a material impact on the currently used accounting policy.

2.4 Standards and Interpretations issued by IASB but not yet endorsed by the EU

At present, IFRS as endorsed by the EU, do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in the EU as at 30 June 2015:

- **IFRS 9 "Financial Instruments"** - applicable to the periods beginning on or after 1 January 2018.
- **IFRS 14 "Regulatory Deferral Accounts"** - applicable to the annual periods beginning on or after 1 January 2016.
- **Amendments to IFRS 11 "Joint Arrangements"** entitled Accounting for Acquisitions of Interest in Joint Operations - applicable to the annual periods beginning on or after 1 January 2016.
- **Amendments to IAS 16 "Property, plant and Equipment" and IAS 38 "Intangible Assets**" entitled Clarification of Acceptable Methods of Depreciation and Amortization - applicable for annual periods beginning on or after 1 January 2016.
- **IFRS 15 "Revenue from Contracts with Customers"** - applicable for annual periods beginning on or after 1 January 2017.
- **Amendments to IAS 16 "Property, plant and Equipment" and IAS 41 "Agriculture"** entitled Agriculture: Bearer Plants - applicable for annual periods beginning on or after 1 January 2016.
- **Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investments in Associates"** entitled Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - applicable for periods beginning on or after 1 January 2016.
- **Improvements to International Financial Reporting Standards 2012-2014** (annual improvements to IFRS 2012-2014 contain 4 amendments to the standards, with consequential amendments to other standards and interpretations) - applicable for periods beginning on or after 1 January 2016.
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** entitled Investment Entities: Applying the Consolidation Exception - applicable for periods beginning on or after 1 January 2016.
- **Amendments to IAS 1 "Presentation of Financial Statements"** entitled Disclosure Initiative - applicable for periods beginning on or after 1 January 2016.

The Group has analyzed the potential impact of the aforementioned standards, interpretations and amendments to standards used by the Group's accounting policy. According to the Management Board they will not result in a material impact on the currently used accounting policy.

3. Applied accounting principles

3.1 Statement on accounting principles

The accounting principles and calculations methods adopted in the preparation of Interim Condensed Consolidated Financial Statements are consistent with those described in audited Consolidated Financial Statements for the year ended 31 December 2014 prepared in accordance with IFRS EU (see note 3 to Consolidated Financial Statements prepared for the year ended 31 December 2014, prepared in accordance with IFRS EU).

3.2. Explanations concerning seasonality or cyclicality of interim Company operations

Group activities are not subject to any significant seasonal or cyclical trends.

3.3. Changes in estimates

In the 6 months period ended 30 June 2015 the following changes in estimates occurred:

- the valuation of liabilities arising from put option for non-controlling shares – description of the applied method of estimates and the effect of the valuation as at 30 June 2015 is presented in note 4 of the Interim Condensed Consolidated Financial Statements,
- deferred income tax – the effect of recalculated balance of deferred income tax as at 30 June 2015 is presented in note 9 to the Interim Condensed Consolidated Financial Statements,
- provisions for employee benefits – provisions as at 30 June 2015 were estimated mainly based on actuarial valuation, the effect of valuation is presented in note 25 to the Interim Condensed Consolidated Financial Statements,

During the period of 6 months ended 30 June 2015 there were no other changes in estimates and methodology of making estimates that would affect the current or future periods.

4. Business combination

On 28 May 2015 the Parent company has acquired from Mr. Zdenek Bakala and The Bakala Trust 80% shares in share capital (entitling to 80% votes) of Advanced World Transport B.V. (hereinafter "AWT") with its registered office in Amsterdam.

The core business of AWT is primarily providing complex services of cargo rail transport. AWT renders services mainly in Czech Republic. Following the acquisition the Group should increase its presence on this market, develop new routes and provide complex logistics and transportation services for new customers. It is also expected that operating costs will be decreased as a consequence of economies of scale.

The acquisition was accounted for under the acquisition method in accordance with IFRS 3.

The Parent company concluded with Minezit S.E. (hereinafter "MSE"), a minority shareholder holding 20% shares of AWT, the Agreement on the purchase option (call) and sale option (put) of minority shares in AWT. Based on the Agreement, the Parent company is both buyer of a call option and the issuer of put option and therefore has both the right to purchase the shares from MSE through exercise of a call option and an obligation to purchase shares from MSE when MSE will exercise a put option.

According to the accounting policy applied by the Parent company:

- call option was not recognised in the statement of financial position as it did not meet the definition of a derivative in accordance with IAS 39;
- put option was recognised under the anticipated-acquisition method.

By recognition of the put option under the anticipated-acquisition method, the Parent company assumes that that future transaction has already taken place. As a consequence, the recognition of put option is the same as it would be when the option was exercised.

Assuming that the sales transaction has already taken place, under this method, non-controlling interests was derecognised when the financial liability was recognized - the non-controlling interests subject to the put option are assumed to have been acquired already, even though formally it is still non-controlling interests. In the consolidated statement of financial position and consolidated statement of comprehensive income these shares are presented as shares already held by the Parent company.

Under IFRS 3, the liability due to put option recognised under the anticipated-acquisition method is a part of the contingent consideration and influences the amount of bargain purchase gain.

The fair value of liability due to put option is based on the discounted cash flows, with applied discount rate adequate for such liabilities. The fair value of put option depends on the financial results of the AWT Group and is set as a multiplication of EBITDA and a coefficient defined in the Agreement, adjusted by the amount of net debt.

The table below presents the fair value of main categories of total consideration to be paid on the purchase of AWT:

Category of consideration	Fair value as at the acquisition date PLN thousand
Cash	427 300
Contingent consideration	144 460
Total consideration	**571 760**

As at the date of acquisition of AWT, the fair value of liability due to put option amounted to PLN 144,460 thousand. As at 30 June 2015 the liability amounted to PLN 146,518 thousand. The difference arising from valuation of PLN 2,058 thousand was recognized in financial expenses.

Because of the short period of time between acquisition date of AWT and the preparation of these Interim Condensed Consolidated Financial Statements, the process of analysis of facts and circumstances that existed as at the acquisition date and could have affected the fair value measurement of identified assets and acquired liabilities of AWT is not finished. In case of new information obtained about facts and circumstances that could have affected the fair value of identified assets and acquired liabilities determined as at the transaction date presented in these Interim Condensed Consolidated Financial Statements, the Parent company shall retrospectively adjust the provisional amounts during the measurement period in accordance with IFRS 3.

Provisional fair value of the identifiable assets and liabilities of AWT as at the acquisition date is as follows:

ASSETS	Fair value as at the acquisition date PLN thousand
Property, plant and equipment	847 597
Intangible assets	6 560
Investments in subsidiaries and associates	4 292
Trade and other receivables	166 902
Income tax receivables	1 561
Inventories	30 026
Other financial assets	4 749
Other non-financial assets	9 064
Cash and cash equivalents	93 066
Assets classified as held for sale	911
Total assets	**1 164 728**

LIABILITIES	Fair value as at the acquisition date PLN thousand
Bank loans and credit facilities	121 501
Finance lease liabilities and leases with purchase option	64 926
Trade and other payables	114 565
Provisions for employee benefits	13 511
Other provisions	19 909
Other financial liabilities	2 093
Deffered tax liabilities	112 253
Current tax liabilities	6 431
Total liabilities	**455 189**
Total identifiable net assets	**709 539**

The fair value of trade and other receivables amounted to PLN 166,902 thousand and comprises trade receivables of fair value of PLN 159,103 thousand. The contractual gross amount of due trade receivables is PLN 172,709 thousand, from which the receivables of PLN 13,606 thousand were considered uncollectable as at the acquisition date.

As a result that there occurred indications that purchased assets of AWT might be impaired, as at 30 June 2015 the Group performed impairment test for assets in accordance with IAS 36. Results of the performed test did not indicate a necessity to recognize impairment loss in these Interim Condensed Consolidated Financial Statements.

As the consideration transferred is lower than provisional fair value of acquired identifiable assets and liabilities, a bargain purchase gain of PLN 137,779 thousand was recognised, on the acquisition of AWT which is presented in other operating revenue.

The bargain purchase gain resulted from the seller's decision on restructuring its business and, as a consequence, the necessity to sell part of its own assets during short period of time. It is worth emphasizing that the value of acquired net assets represents their current market value, while consideration transferred was determined on the basis of current market conditions concerning a sector, in which the acquired company operates.

BARGAIN PURCHASE GAIN	PLN thousand
Consideration transferred	571 760
Fair value of identifiable net assets	709 539
Bargain purchase gain	**137 779**

Acquisition expenses totalled to PLN 7,965 thousand and were recognised as external services in the consolidated statement of comprehensive income for the 6 month period ended 30 June 2015 in the amount of PLN 2,046 thousand and in the consolidated statement of comprehensive income for the financial year ended 31 December 2014 in the amount of PLN 5,919 thousand.

These Interim Condensed Consolidated Financial Statements contains financial results of AWT for the period from the acquisition date till 30 June 2015. The revenues of AWT generated in this period amounted to PLN 65,237 thousand. The AWT Group achieved in this period the net profit of PLN 901 thousand.

If the business combination would have taken place on 1 January 2015, the consolidated revenues of the Group would amount to PLN 2,216,074 thousand and consolidated net loss would amount to PLN 3,937 thousand. The estimated amounts do not consider the bargain purchase gain on acquisition of AWT and at the same time it is assumed that provisionally determined fair value adjustments as at the acquisition date would not change if the acquisition took place on 1 January 2015.

The reconciliation of acquisition of AWT for the purposes of consolidated statement of cash flows is presented below:

CASH FLOWS RELATED TO AWT ACQUISITION	PLN thousand
Acquired cash and cash equivalents	93 066
Cash transferred according to historical exchange rate	(419 022)
Cash flows in the statement of cash flows	**(325 956)**

5. Revenue from sales of services

5.1 Products and services of the operating segment

The Group has not determined operating segments since it has a single product to which all services provided by the Group are assigned. The Group operates only in one segment - domestic and international transport of goods and providing comprehensive logistics services in the field of railway freight. The Management Board of the Parent company analyses financial data in a manner in which they have been presented in these Interim Condensed Consolidated Financial Statements. The Group additionally renders services connected with repairs of the rolling stock as well as recultivation services, however, they are not significant to the Group's activities and are not treated as separate operating segments.

Revenue of the Group from external customers according to geographical areas are presented in note 5.2.

5.2 Geographical information

The Group defines geographical area as a registered office of the client, not the country where the services are provided. The related analysis has brought the following conclusions:

The main geographical area in which operates the Group is Poland, however the Group actively extends the geographical area of its operation, taking advantage of opportunities arising from the liberalisation of the European railway market.

As a result of the acquisition of AWT shares, the PKP CARGO Group's share in the Czech market significantly increased. For the period of 6 months ended 30 June 2015, total revenue from Czech customers amounted to over 5% of total revenue from sales of services, while for the corresponding period of previous year it amounted to 2%. Because of the fact that these Interim Condensed Consolidated Financial Statements include financial data of AWT for the period of 1 month only, it is expected that the share will increase in the following reporting periods.

Below is presented revenue from sales of Group services to external customers by location:

	For the 6 months period ended 30/06/2015 (unaudited) PLN thousand	For the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Poland	1 577 831	1 753 694
Germany	72 613	86 997
Czech Republic	101 028	45 334
Slovakia	34 901	43 679
Cyprus	25 326	39 668
Other countries	84 840	83 954
Total	**1 896 539**	**2 053 326**

5.3 Structure of the sales revenue

Within the scope of its activities, the Group distinguish types of services presented in this note. However, the Management Board of Parent company does not take this division into account during evaluation of the Group's results and making decisions about the resource allocation to each group of services. Therefore the disclosed groups of activities cannot be treated as operating segments of the Group.

	For the 6 months period ended 30/06/2015 (unaudited) PLN thousand	For the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Transport revenue and railway shipping	1 697 630	1 874 532
Revenue from other transport activities	55 346	54 523
Siding and traction revenue	84 004	76 437
Cargo revenue	23 016	22 247
Recultivation of land	8 284	-
Other revenue (1)	28 259	25 587
Total	**1 896 539**	**2 053 326**

(1) The position of other revenue presents mainly revenue arising from repairs and renting of railroad fleet, revenue arising from renting of other assets as well as revenue arising from customs agencies.

6. Expenses by kind

6.1 Depreciation / amortisation

	For the 6 months period ended 30/06/2015 (unaudited)	For the 6 months period ended 30/06/2014 (unaudited)
	PLN thousand	PLN thousand
Depreciation of property, plant and equipment	189 895	172 711
Amortisation of intangible assets	8 070	8 829
Impairment losses recognised / (derecognised):		
Property, plant and equipment	343	-
Total depreciation / amortisation	**198 308**	**181 540**

6.2 Consumption of raw materials and energy

	For the 6 months period ended 30/06/2015 (unaudited)	For the 6 months period ended 30/06/2014 (unaudited)
	PLN thousand	PLN thousand
Fuel consumption	84 117	102 090
Consumption of materials	32 981	23 817
Electricity, gas and water consumption	194 159	189 629
Impairment losses recognised / (derecognised)	674	(2 700)
Other	499	970
Total consumption of materials and energy	**312 430**	**313 806**

6.3 External services

	For the 6 months period ended 30/06/2015 (unaudited)	For the 6 months period ended 30/06/2014 (unaudited)
	PLN thousand	PLN thousand
Access to infrastructure connections	307 718	326 541
Repair services	5 656	7 506
Rent and lease fees (real estate and railroad fleet)	78 765	82 240
Transport services	121 264	141 383
Telecommunication services	4 643	5 912
Legal, advisory and similar services	11 105	6 963
IT services	27 340	23 478
Services related to property maintenance and operation of fixed assets	11 762	17 735
Cargo services	10 645	8 740
Siding services	13 481	12 010
Other services	18 480	5 466
Total external services	**610 859**	**637 974**

6.4 Employee benefits

	For the 6 months period ended 30/06/2015 (unaudited) PLN thousand	For the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Salaries and wages	515 033	545 896
Costs of social insurance	106 656	109 141
Appropriation to the Company's Social Benefits Fund	13 800	16 545
Other employee benefits during employment	21 476	21 053
Other post-employment benefits	561	5 990
Voluntary Redundancy Program	70 179	-
Changes in provisions for employee benefits	(13 109)	25 608
Other employee benefit costs	3 805	566
Total employee benefits	**718 401**	**724 799**

7. Other operating revenue and expenses

7.1 Other operating revenue

	For the 6 months period ended 30/06/2015 (unaudited) PLN thousand	For the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Gains on disposal of assets:		
Gain on sales of non-current assets	292	-
Derecognised impairment losses:		
Trade receivables	2 021	1 737
Other (including interest on receivables)	210	492
	2 231	2 229
Other operating revenue:		
Bargain purchase gain on acquisition of AWT	137 779	-
Release of provisions for the fine imposed by OCCP	-	14 362
Release of provisions for other fines	6 097	3 406
Release of other provisions	495	-
Interest on trade and other receivables	639	1 002
Grants	75	37
Other	745	1 811
Total other operating revenue	**148 353**	**22 847**

7.2 Other operating expenses

	For the 6 months period ended 30/06/2015 (unaudited) PLN thousand	For the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Losses on disposal of assets:		
Loss on sales of non-current assets	-	1 504
Recognised impairment losses:		
Trade receivables	2 078	3 865
Other (including on interest on receivables)	272	321
	2 350	4 186
Other operating expenses:		
Costs of liquidation of non-current and current assets	1 174	4 740
Other fines provisions	247	800
Other provisions	2 062	-
Court and collection costs	373	369
Costs of transport benefits for non-employees	1 459	1 486
Interest on trade and other payables	232	19
Forex losses on trade receivables and payables	2 064	129
Other	888	1 410
Total other operating expenses	**10 849**	**14 643**

8. Financial revenue and expenses

8.1 Financial revenue

Interest income by class of financial instruments:	**For the 6 months period ended 30/06/2015 (unaudited)**	**For the 6 months period ended 30/06/2014 (unaudited)**
	PLN thousand	**PLN thousand**
Interest income:		
Bank deposits and accounts	3 816	10 635
Bid bonds and collateral	130	168
Loans granted	3	15
Other (including interest on state settlements)	167	198
Total interest income and dividends	**4 116**	**11 016**

Interest income by category of financial instruments:	**For the 6 months period ended 30/06/2015 (unaudited)**	**For the 6 months period ended 30/06/2014 (unaudited)**
	PLN thousand	**PLN thousand**
Interest income:		
Loans and receivables (including cash in hand and bank deposits)	3 949	10 818
Other (including interest on state settlements)	167	198
Total interest income and dividends	**4 116**	**11 016**
Other financial revenue		
Gains on shares:		
Reversal of impairment losses on shares	14	-
Gains on measurement of financial assets and liabilities at FVTPL	1 220	-
Other financial revenue:		
Net forex gain	3 995	-
Other	32	592
Total financial revenue	**9 377**	**11 608**

8.2. Financial expenses

Interest expense by class of financial instruments:	For the 6 months period ended 30/06/2015 (unaudited) PLN thousand	For the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Interest expense:		
Interest on loans and overdraft facilities	5 226	3 261
Interest on liabilities under finance lease agreements	4 912	6 421
Interest on long-term liabilities	2 915	4 143
Interest on bid bonds and guarantees	85	223
Other (including interest on state settlements)	352	283
Total interest expense	**13 490**	**14 331**

Interest expense by category of financial instruments:	For the 6 months period ended 30/06/2015 (unaudited) PLN thousand	For the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Interest expense:		
Financial liabilities measured at amortized cost	13 138	14 048
Other (including interest on state settlements)	352	283
Total interest expense	**13 490**	**14 331**

Other financial expenses		
Losses on shares:		
Recognised impairment losses on shares	-	9
Losses on measurement of financial assets and liabilities at FVTPL	2 058	941
Other financial expenses:		
Net forex result	-	736
Other	1 010	460
Total financial expenses	**16 558**	**16 477**

9. Income tax

9.1.1 Income tax recognised in profit or loss

	For the 6 months period ended 30/06/2015 (unaudited) PLN thousand	For the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Current income tax:		
Current tax expense	924	6 084
Adjustments recognised in the current period with respect to prior year tax	-	(625)
	924	**5 459**
Deferred income tax:		
Deferred tax that occurred in the reporting period	4 243	30 040
Total income tax expense recognised in profit or loss	**5 167**	**35 499**

The decrease of the effective tax rate for the period of 6 months ended 30 June 2015 in comparison with the corresponding period of the previous year was caused mainly by recognition in the current period of the bargain purchase gain on acquisition of AWT of PLN 137,779 thousand.

9.1.2. Income tax recognized in other comprehensive income

	For the 6 months period ended 30/06/2015 (unaudited) PLN thousand	For the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Deferred income tax		
Due to income and expenses recognised in other comprehensive income:		
Fair value measurement of financial instruments designated as cash flow hedges	336	(245)
Actuarial gains / (losses) on post-employment benefit plans	12 091	-
Foreign exchange from translation of deferred tax in foreign subsidiaries recognised in other comprehensive income	2 081	-
Income tax recognised in other comprehensive income	**14 508**	**(245)**

9.2 Deferred tax balance

Below is presented the balance of deferred tax assets and liabilities recognised in the Interim Consolidated Statement of Financial Position:

	As at 30/06/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Deferred tax assets	70 953	88 273
Deferred tax liabilities	(116 012)	(2 328)
Total	**(45 059)**	**85 945**

9.2.1 Deferred income tax:

For the 6 months period ended 30/06/2015	As at 01/01/2015 (audited)	Acquisition of AWT	Recognised in profit or loss	Recognised in other comprehensive income	Foreign exchange differences on translation of deferred tax in foreign subsidiaries	As at 30/06/2015 (unaudited)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Temporary differences resulting in items of deferred tax (liabilities) / assets						
Property, plant and equipment	(139 061)	(119 645)	23 732	-	(2 203)	(237 177)
Intangible assets	-	(765)	44	-	(14)	(735)
Assets classified as held for sale	3 364	-	(3 364)	-	-	-
Long-term liabilities	(1 575)	-	633	-	-	(942)
Inventories	(1 177)	219	104	-	5	(849)
Receivables - impairment allowances	6 128	651	395	-	14	7 188
Accrued interest on assets	(608)	-	477	-	-	(131)
Provisions for employee benefits	137 682	2 737	(7 409)	(12 091)	36	120 955
Provisions and liabilities due to Voluntary Redundancy Program	50 413	-	(39 589)	-	-	10 824
Other provisions	2 586	3 468	(315)	-	62	5 801
Accrued expenses	5 982	-	2 741	-	-	8 723
Deferred income	(5 454)	-	(3 078)	-	-	(8 532)
Unpaid employee benefits	8 244	89	(1 095)	-	1	7 239
Forex losses	6 974	-	(4 038)	-	-	2 936
Forex gain	6	-	(6)	-	-	-
Other (including derivatives)	2 670	383	(1 617)	(336)	6	1 106
	76 174	**(112 863)**	**(32 385)**	**(12 427)**	**(2 093)**	**(83 594)**
Unused tax losses						
Tax losses [(1)]	9 771	610	28 142	-	12	38 535
Total deferred tax assets/(liabilities)	**85 945**	**(112 253)**	**(4 243)**	**(12 427)**	**(2 081)**	**(45 059)**

[(1)] As at 30 June 2015 deferred tax assets arising from tax losses to be used in future periods represents loss incurred by entities comprising the Tax Capital Group of PLN 171,401 thousand and tax loss incurred by remaining subsidiaries of PLN 31,402 thousand.

9.2.1 Deferred income tax: (cont'd.)

For the 6 months period ended 30/06/2014	As at 01/01/2014 (audited) PLN thousand	Recognised in profit or loss PLN thousand	Recognised in other comprehensive income PLN thousand	As at 30/06/2014 (unaudited) PLN thousand
Temporary differences resulting in items of deferred tax (liabilities) / assets				
Property, plant and equipment (incl. Finance Lease)	(155 333)	(37 913)	-	(193 246)
Long-term liabilities	(3 031)	786	-	(2 245)
Inventories	4 364	(514)	-	3 850
Receivables - impairment allowance	9 042	(2 219)	-	6 823
Accrued interest on assets	(2 374)	1 901	-	(473)
Accrued interest on liabilities	1	(1)	-	-
Provisions for employee benefits	165 191	(34 288)	-	130 903
Other provisions	4 381	(1 102)	-	3 279
Accrued expenses	5 654	(1 192)	-	4 462
Deferred income	(2 665)	(4 529)	-	(7 194)
Unpaid employee benefits	9 050	(1 385)	-	7 665
Forex losses	9 354	(1 846)	-	7 508
Forex gains	(7)	(5)	-	(12)
Other (including derivatives)	1 754	(1 806)	245	193
	45 381	(84 113)	245	(38 487)
Unused tax losses				
Tax losses [(1)]	35 227	54 073	-	89 300
Total deferred tax assets/liabilities	**80 608**	**(30 040)**	**245**	**50 813**

[(1)] On 30 June 2014 deferred tax assets arising from tax losses to be used in future periods represents loss incurred by the Parent company of PLN 450,521 thousand and tax loss incurred by subsidiaries of PLN 19,477 thousand.

9.3 Tax losses and unused tax reliefs unrecognised in deferred tax asset

	As at 30/06/2015 (unaudited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
As at the reporting date, the following deferred tax assets remained unrecognised:		
- Unused tax losses [(1)]	87 858	12 960

[(1)] As at 30 June 2015 tax losses unrecognised in deferred tax asset represents the tax loss of companies belonging to the AWT Group of PLN 77,223 thousand (AWT B.V. of PLN 54,479 thousand, AWT Rail HU Zrt. of PLN 11,518 thousand, AWT Cechofracht a.s. of PLN 7,931 thousand, AWT Rosco a.s. of PLN 3,296 thousand), PKP CARGOTABOR Usługi Sp. z o.o. of PLN 8,797 thousand and Cargosped Terminal Braniewo Sp. z o.o. of PLN 1,838 thousand. As at 31 December 2014 tax losses unrecognised in deferred tax asset represented the tax loss of companies PKP CARGOTABOR Usługi Sp. z o.o. of PLN 8,737 thousand, PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o. of PLN 1,861 thousand and Cargosped Terminal Braniewo Sp. z o.o. of PLN 2,362 thousand.

10. Property, plant and equipment

Carrying amounts:	As at 30/06/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Land	155 102	139 876
Buildings, premises, civil and water engineering structures	598 468	504 665
Technical equipment and machinery	146 509	120 825
Means of transport	3 964 208	3 220 195
Other fixed assets	7 663	7 757
Fixed assets under construction	26 696	18 224
	4 898 646	**4 011 542**

including finance lease:	As at 30/06/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Technical equipment and machinery	10 000	6 138
Means of transport	384 919	324 810
	394 919	**330 948**

10. Property, plant and equipment (cont'd.)

For the 6 months period ended 30 June 2014 (unaudited)	**Land**	**Buildings, premises, civil and water engineering structures**	**Technical equipment and machinery**	**Means of transport**	**Other fixed assets**	**Total**
	PLN thousand	**PLN thousand**	**PLN thousand**	**PLN thousand**	**PLN thousand**	**PLN thousand**
Gross value						
Balance as at 1 January 2014	**142 430**	**600 987**	**290 583**	**4 235 250**	**31 926**	**5 301 176**
Additions:						
acquisition	-	19 026	6 606	232 808	457	258 897
other	-	194	208	2	-	404
Disposals:						
sales	-	-	(181)	(1 522)	(46)	(1 749)
liquidation	-	(9 602)	(1 711)	(97 263)	(66)	(108 642)
other	-	-	(313)	(494)	(393)	(1 200)
Balance as at 30 June 2014	**142 430**	**610 605**	**295 192**	**4 368 781**	**31 878**	**5 448 886**

For the 6 months period ended 30 June 2015 (unaudited)	**Land**	**Buildings, premises, civil and water engineering structures**	**Technical equipment and machinery**	**Means of transport**	**Other fixed assets**	**Total**
	PLN thousand	**PLN thousand**	**PLN thousand**	**PLN thousand**	**PLN thousand**	**PLN thousand**
Gross value						
Balance as at 1 January 2015	**140 567**	**610 590**	**309 442**	**4 516 074**	**32 904**	**5 609 577**
Additions:						
acquisition	76	4 340	7 572	196 585	418	208 991
acquisition of AWT	14 863	100 064	32 105	695 863	1 473	844 368
finance leases	-	-	-	1 770	-	1 770
foreign exchange differences on translation of subsidiaries' financial statements	287	1 734	613	13 146	26	15 806
other	-	-	-	50	-	50
Disposals:						
sales	-	-	(25)	(214)	(4)	(243)
liquidation	-	(31)	(1 370)	(70 518)	(317)	(72 236)
other	-	-	(6)	(37)	-	(43)
Balance as at 30 June 2015	**155 793**	**716 697**	**348 331**	**5 352 719**	**34 500**	**6 608 040**

10. Property, plant and equipment (cont'd.)

For the 6 months period ended 30 June 2014 (unaudited)	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Means of transport	Other fixed assets	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Accumulated depreciation						
Balance as at 1 January 2014	**-**	**84 519**	**156 222**	**1 201 203**	**21 991**	**1 463 935**
Additions:						
depreciation charges	-	11 722	16 165	142 932	1 892	172 711
other	-	-	131	-	-	131
Disposals:						
Sales	-	-	(108)	(1 495)	(18)	(1 621)
liquidation	-	(911)	(707)	(93 766)	(65)	(95 449)
Other	-	-	(106)	(296)	(372)	(774)
Balance as at 30 June 2014	**-**	**95 330**	**171 597**	**1 248 578**	**23 428**	**1 538 933**

For the 6 months period ended 30 June 2015 (unaudited)	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Means of transport	Other fixed assets	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Accumulated depreciation						
Balance as at 1 January 2015	**-**	**102 894**	**188 591**	**1 295 879**	**25 139**	**1 612 503**
Additions:						
depreciation charges	-	12 312	14 249	161 420	1 914	189 895
Disposals:						
Sales	-	-	(25)	(215)	(3)	(243)
liquidation	-	(8)	(1 362)	(68 536)	(221)	(70 127)
Other	-	-	-	(37)	-	(37)
Balance as at 30 June 2015	**-**	**115 198**	**201 453**	**1 388 511**	**26 829**	**1 731 991**

10. Property, plant and equipment (cont'd.)

For the 6 months period ended 30 June 2014 (unaudited)	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Means of transport	Other fixed assets	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Accumulated impairment loss						
Balance as at 1 January 2014	**691**	**11 300**	**-**	**-**	**-**	**11 991**
Disposals:						
impairment loss utilization	-	(8 610)	-	-	-	**(8 610)**
Balance as at 30 June 2014	**691**	**2 690**	**-**	**-**	**-**	**3 381**

For the 6 months period ended 30 June 2015 (unaudited)	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Means of transport	Other fixed assets	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Accumulated impairment loss						
Balance as at 1 January 2015	**691**	**3 031**	**26**	**-**	**8**	**3 756**
Additions						
impairment	-	-	343	-	-	**343**
Balance as at 30 June 2015	**691**	**3 031**	**369**	**-**	**8**	**4 099**

Fixed assets under construction	For the 6 months period ended 30/06/2015 (unaudited)	For the 6 months period ended 30/06/2014 (unaudited)
	PLN thousand	PLN thousand
Opening balance	**20 024**	**31 996**
Additions	216 021	251 439
Acquisition of AWT	3 229	-
Grants to property, plants and equipments	-	(2 538)
Disposals - transfer to non-current assets	(210 761)	(258 897)
Disposals - discontinued investments	(79)	(350)
Foreign exchange differences on translation of subsidiaries' financial statements	62	-
Closing balance	**28 496**	**21 650**

10. Property, plant and equipment (cont'd.)

Accumulated impairment of fixed assets under construction	For the 6 months period ended 30/06/2015 (unaudited)	For the 6 months period ended 30/06/2014 (unaudited)
	PLN thousand	PLN thousand
Opening balance	**1 800**	**1 800**
Additions	-	-
Disposals	-	-
Closing balance	**1 800**	**1 800**

11. Subsidiaries

Detailed information regarding subsidiaries consolidated using full method as at 30 June 2015 and 31 December 2014:

No.	Name of subsidiary	Core business	Place of registration and operation	% of interests held by the Parent company	
				As at 30/06/2015	As at 31/12/2014
1	CARGOSPED Sp. z o.o.	Forwarding services (transport of aggregate as well as domestic and international intermodal transport)	Warsaw	100.0%	100.0%
2	PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	Services supporting land transport, transshipment of goods, wholesale and retail sale of waste and metal scrap	Małaszewicze	100.0%	100.0%
3	PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o.	Transshipment of goods in other terminals	Żurawica	100.0%	100.0%
4	PKP CARGO SERVICE Sp. z o.o.	Siding services	Warsaw	100.0%	100.0%
5	Przedsiębiorstwo Spedycyjne Trade Trans Sp. z o.o. (1)	Shipping services	Warsaw	100.0%	55.6%
6	PKP CARGOTABOR Sp. z o.o.	Repair and maintenance of railroad fleet	Warsaw	100.0%	100.0%
7	PKP CARGOTABOR USŁUGI Sp. z o.o.	On 1 April 2015 the Company has suspended its business activities	Warsaw	100.0%	100.0%
8	CARGOTOR Sp. z o.o.	Management of logistics infrastructure including railway sidings and tracks	Warsaw	100.0%	100.0%
9	Cargosped Terminal Braniewo Sp. z o.o.	Transshipment of goods, customs depot	Braniewo	100.0%	100.0%
10	Advanced World Transport B.V. (2)	Holding and financial activity	Amsterdam	80.0%	-
11	Advanced World Transport a.s. (2)	Providing complex services: rail transport, railway shipping, siding services, repair of railroad fleet	Ostrava	80.0%	-
12	AWT ROSCO a.s. (2)	Managing and lease of railroad fleet	Ostrava	80.0%	-
13	AWT Čechofracht a.s. (2)	Railway shipping and customs service	Prague	80.0%	-
14	AWT Rekultivace a.s. (2)	Providing complex services: recultivation of land, construction services, waste management, designing of land development	Havířov-Prostřední Suchá	80.0%	-
15	AWT Rail HU Zrt. (2)	Providing complex services: rail transport, railway shipping, siding services,	Budapest	80.0%	-
16	AWT Coal Logistics s.r.o. (2)	Railway shipping	Prague	80.0%	-

(1) On 5 February 2015 the Parent company acquired 44.44% shares in PS Trade Trans Sp. z o.o. from Trade Trans Invest a.s. As at 30 June 2015 the Parent company owns 100% of the shares in PS Trade Trans Sp. z o.o.

(2) On 28 May 2015 the Company has acquired from Mr. Zdenek Bakala and The Bakala Trust 80% shares in share capital of Advanced World Transport B.V. ("AWT B.V.") with headquarters in Amsterdam. AWT B.V. is a Parent Company in AWT Group, which includes:

- 8 subsidiaries – controlled directly by AWT B.V.,
- 7 entities controlled indirectly by AWT B.V.,
- 1 entity jointly controlled by the subsidiary of AWT B.V.,
- 2 entities in which subsidiaries of AWT B.V. hold a minority stake in the share capital.

Acquisition of AWT is described in note 4 of these Interim Condensed Consolidated Financial Statements.

Detailed information regarding other subsidiaries belonging to the Group as at 30 June 2015 and 31 December 2014 are as follows:

	Name of subsidiary	Core business	Place of registration and operation	% of interests held by the Group	
				As at 30/06/2015	As at 31/12/2014
17	PKP CARGO International a.s. in liquidation (1)	Shipping outside of Poland	Bratislava	100.0%	51.0%
18	ONECARGO Sp. z o.o. (2)	Rail transport of goods	Warsaw	100.0%	-
19	ONECARGO CONNECT Sp. z o.o. (2)	Services supporting land transport	Warsaw	100.0%	-
20	Trade Trans Karya Sp. z o.o.	Transshipment of goods, customs depot	Lublin	100.0%	55.6%
21	Transgaz S.A.	Transport agency	Zalesie k. Małaszewicz	64.0%	35.5%
22	Trade Trans Finance Sp. z o.o.	Financial and accounting services	Warsaw	100.0%	55.6%
23	PPHU "Ukpol" Sp. z o.o.	Transshipment of goods, customs depot	Werchrata	100.0%	55.6%
24	AWT Rail SK a. s.	Rail transport, railway shipping	Bratislava	80.0%	-
25	AWT Rail PL Sp.z o.o.	Railway shipping	Rybnik	80.0%	-
26	AWT DLT s.r.o.	Siding services	Kladno	80.0%	-
27	XZD a.s. in liquidation	Railway shipping	Bratislava	80.0%	-
28	G.I.B., s.r.o. in liquidation	Railway shipping	Prague	80.0%	-
29	AWT Trading s.r.o.	Trading of military purpose products	Petřvald	80.0%	-
30	AWT Rekultivace PL Sp. z o.o.	Providing complex services: recultivation of land, construction services, waste management, designing of land development	Cieszyn	80.0%	-
31	Spedrapid Sp. z o.o.	Railway shipping	Gdynia	52.8%	-
32	RND s.r.o.	Railway shipping, monitoring	Olomouc	40.8%	-

(1) On 5 February 2015 the Parent company acquired 49% shares in PKP CARGO International a.s. in liquidation from Rail Cargo Spedition a.s. As at 30 June 2015 the Parent company owns 100% of the shares in PKP CARGO International a.s. in liquidation.

(2) In March 2015 two companies were registered. The Parent company owns 100% of the shares capital in these companies:

- ONECARGO Sp. z o.o.
- ONECARGO CONNECT Sp. z o.o.

The remaining changes in percentage of interests held by the Group are an effect of the concluded transactions for purchase of shares in PS Trade Trans Sp. z o.o. and Advanced World Transport B.V. described in this note.

12. Investments in entities accounted for under the equity method

	For the 6 months period ended 30/06/2015 (unaudited) PLN thousand	For the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Opening balance	**35 246**	**38 214**
Purchase of shares	1 613	-
Sales of shares	(135)	-
Share in profit / (loss) of investments accounted for under the equity method	1 571	(435)
Reversal of impairment allowance on investments accounted for under the equity method	1 911	-
Changes in equity arising from dividend payment	(2 185)	(1 051)
Change in method of consolidation of investments that were accounted for under the equity method to full method	-	(3 103)
Recognition of entities accounted for under the equity method on the acquisition of AWT	4 292	-
Foreign exchange differences on translation of subsidiaries' financial statements	56	-
Closing balance	**42 369**	**33 625**

13. Detailed information on entities accounted for under the equity method

Name of entity accounted for under the equity method	% of interests by the Group		Carrying amount of assets	
	As at 30/06/2015	As at 31/12/2014	As at 30/06/2015	As at 31/12/2014
	%	%	PLN thousand	PLN thousand
COSCO POLAND Sp. z o.o.	20.0	20.0	1 062	1 171
Pol – Rail S.r.l [4]	50.0	37.4	7 187	7 882
PKP CARGO INTERNATIONAL a.s. in liquidation [3]	100.0	51.0	3 514	-
Terminale Przeładunkowe Sławków – Medyka Sp. z o.o. [4]	50.0	27.8	19 606	19 989
Trade Trans Karya Sp. z o.o. [4]	100.0	55.6	-	-
Transgaz S.A. [4]	64.0	35.5	4 169	3 774
Trade Trans Finance Sp. z o. o. [4]	100.0	55.6	273	225
PPHU "Ukpol" Sp. z o.o. [4]	100.0	55.6	-	13
Rail Cargo Spedition GmbH [1]	-	20.9	-	-
Rentrans Cargo Sp. z o.o. [4]	28.3	15.2	1 982	1 771
Rail Cargo Service Sp. z o.o. [1]	-	11.1	-	135
SC Trade Trans Terminal S.r.l [1]	-	13.2	-	-
Gdański Terminal Kontenerowy S.A.	41.9	41.9	215	286
ONECARGO Sp. z o.o. [2]	100.0	-	5	-
ONECARGO CONNECT Sp. z o. o. [2]	100.0	-	5	-
AWT Rail SK a. s. [5]	80.0	-	4 351	-
Total			**42 369**	**35 246**

(1) On 5 February 2015 the company PS Trade Trans Sp. z o.o. sold 20% of shares in Rail Cargo Services Sp. z o.o., 37.7% of shares in Rail Cargo Spedition GmbH and 23.9% of shares in S.C. Trade Trans Terminal S.r.l. to Trans Trade Invest a.s. As at 30 June 2015 PS Trade Trans Sp. z o.o. does not own shares in aforementioned entities.

(2) In March 2015 two companies were registered. The Parent company owns 100% of the share capital in these companies:

- ONECARGO Sp. z o.o.
- ONECARGO CONNECT Sp. z o.o.

(3) On 5 February 2015 the Parent Company acquired 49% shares in PKP CARGO International a.s. in liquidation from Rail Cargo Speditions a.s. Moreover, in the period of 6 months ended 30 June 2015, the Parent company derecognised impairment allowance on shares in PKP CARGO International a.s. in liquidation of PLN 1,911 thousand.

(4) During period of 6 months ended 30 June 2015 value of shares indirectly held by the Group in entities accounted for under the equity method has changed because of the fact that the Parent company had acquired additional shares in PS Trade Trans Sp. z o.o.

(5) AWT Rail SK a.s. is accounted for under the equity method from the date of gaining control over AWT.

14. Other financial assets

	As at 30/06/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Financial instruments measured at fair value through profit or loss		
Currency forwards and spots	1 515	-
Investments in shares		
Shares in Polish entities [1]	7 078	6 020
Shares in foreign entities [1]	2 680	-
	9 758	6 020
Loans and receivables measured at amortized cost		
Loans granted to related parties	629	-
Loans granted to other entities	4 919	4 999
Deposits over 3 months	636	301 415
	6 184	306 414
Total	**17 457**	**312 434**
Non-current assets	9 788	6 051
Current assets	7 669	306 383
Total	**17 457**	**312 434**

[1] As at 30 June 2015 and as at 31 December 2014 the impairment allowance on investments in shares amounted to PLN 11,833 thousand.

15. Other non-financial assets

	As at 30/06/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Advances for purchase of fixed assets	1 059	1 059
Prepayments	77 759	40 664
Other	790	1 168
Total	**79 608**	**42 891**
Non-current assets	20 917	14 645
Current assets	58 691	28 246
Total	**79 608**	**42 891**

As at 30 June 2015 the most significant items of prepayments are: Social Benefit Fund appropriations of PLN 16.755 thousand, cost of prepaid rents related to future periods of PLN 14.020 thousand, costs of prepaid transport benefits for employees of PLN 8.790 thousand, cost of insurance of PLN 10.271 thousand and advances for purchase of remaining traction energy of PLN 9.818 thousand. As at 31 December 2014 the most significant items of prepayments were: advances for purchase of remaining traction energy of PLN 16.534 thousand, cost of prepaid rents related to future periods of PLN 16.174 thousand and the cost of IT services of PLN 3.706 thousand.

16. Trade and other receivables

	As at 30/06/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Trade receivables	856 573	581 790
Impairment allowance for receivables	(165 602)	(84 213)
Total	**690 971**	**497 577**
Settlements under public law (excluding CIT)	3 515	4 932
Guarantee, deposits and bid bonds	5 086	1 269
Dividend settlements	2 082	-
VAT settlements	20 559	16 262
Other settlements	3 328	6 109
Total	**725 541**	**526 149**
Non-current assets	7 082	-
Current assets	718 459	526 149
Total	**725 541**	**526 149**

On 20 January 2015, the Parent company issued a debit note in favour of one of the counterparties of PLN 51,360 thousands. Due to the fact that probability of receipt of payment is remote, the amount of receivable has been covered by impairment allowance in full amount.

17. Cash and cash equivalents

For the purpose of preparation of the Interim Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash in hand and cash at bank, including bank deposits up to 3 months maturity.

	As at 30/06/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Cash in hand and at bank	194 089	73 647
Bank deposits up to 3 months	26 724	355 531
Total	**220 813**	**429 178**

18. Non-current assets classified as held for sale

Non-current assets classified as held for sale	As at 30/06/2015 (unaudited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Land held for sale	5 202	4 994
Buildings, premises, civil and water engineering structures	715	-
Means of transport	12 566	12 566
Total	**18 483**	**17 560**

As at 30 June 2015 and as at 31 December 2014 the Group had some redundant non-current assets and decided to sell them. Non-current assets held for sale include 3 land properties, as well as 77 train engines, which due to their technical usage are not in Group's use.

As a result of the occurrence of events beyond the Group's control, sale of above mentioned assets have not been finalized within 12 months from the date of classification as assets held for sale. However, the Group is still determined to carry out the plan of sale and takes active steps to finalize it.

The increase in this position as at 30 June 2015 is the result of acquisition of AWT real estate that were classified as held for sale.

After the reporting date the following events regarding non-current assets held for sale occurred:

- The Group's has sold 6 engines classified as held for sale of a carrying amount of PLN 1,281 thousand as at 30 June 2015.
- The Supervisory Board of PKP Cargo S.A. has agreed to sale additional 256 train engines and 1,376 wagons of a carrying amount of PLN 48,837 thousand as at 30 June 2015.

19. Equity

19.1 Share capital

	As at 30/06/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Share capital consists of:		
Ordinary shares, fully paid and registered	2 239 346	2 239 346
Total share capital	**2 239 346**	**2 239 346**

As at 30 June 2015 and as at 31 December 2014 share capital consisted of ordinary shares with the nominal value of PLN 50 each. The fully paid ordinary shares with a nominal value of PLN 50 are equivalent to one vote at the meeting of shareholders and bear the right to dividend.

Within the period covered by these Interim Condensed Consolidated Financial Statement there were no changes in the share capital of the Parent company.

In the corresponding period of the previous year the changes in the share capital of the Parent company were as follows:

	Number of shares units	Share capital PLN thousand
As at 1 January 2014	**43 338 015**	**2 166 901**
Issuance of shares series C	1 448 902	72 445
As at 30 June 2014	**44 786 917**	**2 239 346**

19.2 Supplementary Capital

In the 6 months period ended 30 June 2015 changes in the supplementary capital of the Parent company were as follows:

On 21 April 2015 the Ordinary General Meeting of Shareholders (OGM) of PKP CARGO S.A. adopted a resolution on distribution of net profit of PLN 58,610 thousand achieved in 2014, as follows:
a) the amount of PLN 4,689 thousand was allocated to the supplementary capital,
b) the amount of PLN 53,921 thousand was allocated to the payment of the dividend.
In addition, the OGM decided to allocate PLN 56,255 thousand to the payment of the dividend derived from retained earnings. The dividend of PLN 110,176 thousand was paid on 26 June 2015.

Moreover, changes in the supplementary capital of the subsidiaries were as follows:
a) on 28 May 2015 the Ordinary Meeting of Shareholders (OGM) of Cargosped Terminal Braniewo Sp. z o. o. adopted a resolution to cover a net loss of PLN 650 thousand generated in 2014 from supplementary capital,
a) on 23 June 2015 the Ordinary Meeting of Shareholders (OGM) of PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o. o. adopted a resolution on distribution of net profit of PLN 3,085 thousand achieved in 2014, as follows:

- the amount of PLN 3,060 thousand was allocated to cover the loss from previous years,
- the amount of PLN 25 thousand was allocated to the supplementary capital.

19.3 Non-controlling interest

On 5 February 2015 the Parent company acquired 44.44% shares in PS Trade Trans Sp. z o.o. from Trade Trans Invest a.s. The purchase price amounted to PLN 40,000 thousand.

As at 30 June 2015 the Company owns 100% of the shares in PS Trade Trans Sp. z o.o.

The impact of the transaction on the Group's equity is presented below:

	Transactions with non-controlling interest PLN thousand
Consideration transferred	40 000
Change in non-controlling interest	(63 357)
Adjustment recognised in retained earnings of the Group	**23 357**

Non-controlling interest was not recognized as a result of acquisition of AWT in the Consolidated Statement of Financial Position. Details are described in note 4 to these Interim Condensed Separate Consolidated Financial Statements.

20. Earnings per share

Profit used to calculate basic earnings and diluted earnings per share:

	For the 6 months period ended 30/06/2015 (unaudited) PLN thousand	For the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Profit attributable to shareholders of the Parent company	**156 228**	**126 737**

20.1 Basic earnings per share

	For the 6 months period ended 30/06/2015 (unaudited)	For the 6 months period ended 30/06/2014 (unaudited)
Weighted average number of ordinary shares (units)	44 786 917	44 258 588
Basic earnings per share (PLN per share)	**3.49**	**2.86**

The net profit per share for each period is calculated as a quotient of the net profit for the period and the weighted average number of shares existing in that period. The weighted average number of shares existing in a given period includes own shares.

20.2 Diluted earnings per share

	For the 6 months period ended 30/06/2015 (unaudited)	For the 6 months period ended 30/06/2014 (unaudited)
Weighted average number of ordinary shares (units)	44 786 917	44 794 904
Diluted earnings per share (PLN per share)	**3.49**	**2.83**

The diluted number of shares was calculated as the weighted average of ordinary shares adjusted as if they were converted into shares that result in dilution of potential ordinary shares.

21. Credit facilities and loans received

	As at 30/06/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Credit facilities and loans received measured at amortized cost		
Overdraft facilities	228	271
Bank loans – pledged on assets	126 831	39 387
Bank loans – other	591 346	258 956
Borrowings from other entities	1 465	1 586
Borrowings from related parties	4 298	-
Total	**724 168**	**300 200**
Non-current liabilities	581 960	208 077
Current liabilities	142 208	92 123
Total	**724 168**	**300 200**

21.1 Summary of loan and borrowings agreements

Loans agreements that are denominated in PLN, were concluded mainly to finance the modernization and scheduled overhauls of the rolling stock and to finance the purchase of real estate. Loans agreements that are denominated in CZK and EUR were acquired on the acquisition of AWT. The agreements were signed mainly to finance the investment expenditures and to finance current operations. Details concerning the bank loans of the Group are presented below:

Parent company
As at 30/06/2015

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in PLN thousand	Liability in PLN thousand
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	05.10.2015	Bank enforcement	53 000	3 160
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	21.03.2016	Bank enforcement	36 400	5 290
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.03.2016	Bank enforcement	36 600	6 709
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Bank enforcement	39 000	16 932
Investment loan	FM Bank PBP S.A.	PLN	WIBOR 1M + margin	31.10.2017	Bank enforcement (1)	60 000	21 881
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2017	Bank enforcement	49 200	24 600
Investment loan	Bank Millennium S.A.	PLN	WIBOR 3M + margin	21.08.2017	Mortgage to the amount of PLN 20,000 thousand	16 667	7 215
Investment loan	Bank Gospodarstwa Krajowego	PLN	WIBOR 1M + margin	31.03.2021	Bank enforcement	515 200	426 876
Investment loan	European Investment Bank	PLN	WIBOR 3M + margin	31.05.2020	No pledges	240 000	85 000
						Total	**597 663**

(1) On 18 February 2015 the Company concluded with FM PBP Bank S.A. an annex to investment loan exempting pledge in the form of registered pledges on train engines.

Subsidiaries
As at 30/06/2015

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in PLN thousand	Liability in PLN thousand
Loan	BGŻ Leasing Sp. z o.o.	PLN	WIBOR 1M + margin	15.08.2015	Transfer of ownership, registered pledge on company's assets	186	7
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2015	1) Transfer of receivables, 2) Authorization to charge bank accounts, 3) Statement of submission to enforcement, 4) Registered pledge	18 400	1 269
Overdraft facility	PKO BP S.A.	PLN	WIBOR 1M + margin	15.04.2016	Capped mortgage in amount of PLN 700 thousand, pledge on inventories PLN 600 thousand	1 300	228
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.09.2016	Surety of PKP CARGO S.A.	911	226
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.10.2016	Surety of PKP CARGO S.A.	1 200	331
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Surety of PKP CARGO S.A.	894	341
Loan	WFOŚIGW Łódź	PLN	Fixed interest rate [(1)]	31.03.2024	Surety of PKP CARGO S.A.	1 686	1 458
Investment loan	ING Bank N.V. UniCredit Bank Czech Republic, a.s.	CZK	PRIBOR 6M + margin	30.09.2016	1) security over the shares of AWT a.s. 2) security over tangible fixed assets	215 767	95 206
Investment loan	ING Bank N.V. UniCredit Bank Czech Republic, a.s.	EUR	EURIBOR 6M + margin	30.09.2016	1) security over the shares of AWT a.s. 2) security over tangible fixed assets	40 778	18 955
Investment loan	Raiffeisenbank a.s.	EUR	Fixed interest rate [(1)]	30.06.2016	1) registered pledge on tangible fixed assets and receivables 2) promissory notes 3) assignment of insurance	28 746	4 186
Loan	AWT Rail SK a.s.	EUR	Fixed interest rate [(1)]	30.06.2016	No pledges	3 355	3 355
Loan	G.I.B. s.r.o. in liquidation	CZK	Fixed interest rate [(1)]	31.12.2015	No pledges	679	943
						Total	**126 505**

[(1)] The interest rate on the bank loans and the other loans with a fixed interest rate falls between 2.5% and 6.5%.

Parent company
As at 31/12/2014

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in PLN thousand	Liability in PLN thousand
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	05.10.2015	Bank enforcement	53 000	8 500
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	21.03.2016	Bank enforcement	36 400	8 950
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.03.2016	Bank enforcement	36 600	11 185
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Bank enforcement	39 000	21 174
Investment loan	FM Bank PBP S.A.	PLN	WIBOR 1M + margin	31.10.2017	Registered pledge on the diesel engines ST44 to the amount of PLN 90,000 thousand	60 000	27 442
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2017	Bank enforcement	49 200	29 520
Investment loan	Bank Millennium S.A.	PLN	WIBOR 3M + margin	21.08.2017	Mortgage to the amount of PLN 20,000 thousand	16 667	8 883
Investment loan	Bank Gospodarstwa Krajowego	PLN	WIBOR 1M + margin	31.03.2021	Bank enforcement	515 200	178 429
						Total	**294 083**

Subsidiaries
As at 31/12/2014

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in PLN thousand	Liability in PLN thousand
Loan	BGŻ Leasing Sp. z o.o.	PLN	WIBOR 1M + margin	15.03.2015	Transfer of ownership, registered pledge on company's assets	88	8
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	30.06.2015	1) Transfer of receivables, 2) Authorization to charge bank accounts, 3) Statement of submission to enforcement, 4) Registered pledge	7 600	524
Loan	BGŻ Leasing Sp. z o. o.	PLN	WIBOR 1M + margin	15.08.2015	Transfer of ownership, registered pledge on company's assets	186	28
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2015	1) Transfer of receivables, 2) Authorization to charge bank accounts, 3) Statement of submission to enforcement, 4) Registered pledge	18 400	2 538
Overdraft facility	PKO BP S.A.	PLN	WIBOR 1M + margin	15.04.2016	Capped mortgage in amount of PLN 700 thousand, pledge on inventories PLN 600 thousand	1 300	271
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.09.2016	Surety of PKP CARGO S.A.	911	317
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.10.2016	Surety of PKP CARGO S.A.	1 200	455
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Surety of PKP CARGO S.A.	894	426
Loan	WFOŚIGW Łódź	PLN	Fixed interest rate	31.03.2024	Surety of PKP CARGO S.A	1 500	1 550
						Total	**6 117**

21.2 Not utilized credit and overdraft facilities

Type of loan	Name of bank	Currency	As at 30/06/2015 (unaudited)	As at 31/12/2014 (audited)
			PLN thousand	PLN thousand
Investment loan	Bank Gospodarstwa Krajowego	PLN	72 576	336 771
Investment loan	European Investment Bank	PLN	155 000	240 000
Overdraft facility	mBank S.A.	PLN	100 000	100 000
Overdraft facility	PKO BP S.A.	PLN	1 072	1 029
Overdraft facility	ING Bank Śląski S.A.	PLN	19 000	-
Overdraft facility	Bank Pekao S.A.	PLN	-	2 500
Overdraft facility	ING Bank N.V. UniCredit Bank Czech Republic, a.s.	CZK	27 300	-
Total not utilized credit and overdraft facilities			**374 948**	**680 300**

21.3 Events of default in loan agreement

Within the period covered by these Interim Condensed Consolidated Financial Statements no breaches of covenants in loan agreements occurred.

22. Other financial liabilities

	As at 30/06/2015 (unaudited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Financial instruments measured at fair value through profit or loss		
Interest-rate swap (IRS)	2 988	3 284
Currency forwards and spots	-	650
Commodity derivatives	1 607	-
Other financial liabilities		
Liabilities due to put option for non-controlling shares [1]	146 518	-
Total	**151 113**	**3 934**
Non-current liabilities	146 518	-
Current liabilities	4 595	3 934
Total	**151 113**	**3 934**

[1] Position is described in note 4 to these Interim Condensed Consolidated Financial Statements.

23. Finance lease liabilities and leases with purchase option

23.1 General terms of lease

The Group uses rolling stock components, transshipment devices, technical facilities equipment, cars and computer hardware under finance leases. The leases are concluded for 3 to 11 years. The lease contracts are denominated in PLN, EUR, CHF and CZK.

23.2 Finance lease liabilities

	Minimum lease payments	
	As at 30/06/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Up to one year	97 254	137 662
Over one year, up to five years	178 811	161 747
Over five years	67 560	48 136
	343 625	**347 545**
Less future lease charges	(34 635)	(28 967)
Present value of minimum lease payments	**308 990**	**318 578**

	Present value of minimum lease payments	
	As at 30/06/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Up to one year	86 264	127 742
Over one year, up to five years	157 855	144 327
Over five years	64 871	46 509
Present value of minimum lease payments	**308 990**	**318 578**

	As at 30/06/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Included in the financial statements as:		
Long-term finance lease liabilities and leases with purchase option	222 726	190 836
Short-term finance lease liabilities and leases with purchase option	86 264	127 742
Total	**308 990**	**318 578**

24. Trade and other payables

	As at 30/06/2015 (unaudited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Trade payables	300 754	227 664
Accruals	64 362	20 453
Liabilities due to purchase of non-financial non-current assets	119 985	134 685
Liabilities related to securities (deposits, bid bonds)	41 468	21 624
State settlements	110 400	106 215
Liabilities due to Voluntary Redundancy Program (1)	101 809	-
Other settlements with employees	68 017	79 764
Other settlements (2)	16 409	3 987
VAT settlements	5 475	4 030
Total	**828 679**	**598 422**
Non-current liabilities (3)	48 071	67 982
Current liabilities	780 608	530 440
Total	**828 679**	**598 422**

(1) Voluntary Redundancy Program liabilities are described in note 25.1 to these Interim Condensed Consolidated Financial Statements.

(2) As at 30 June 2015 other settlements include mainly payables arising from obligatory appropriations to the Social Benefit Fund and other settlements with related parties.

(3) Non-current liabilities include in particular payments regarding the modernization of rolling-stock in Parent Company. Payments are made in accordance with pre-defined schedules.

25. Employee benefits

The actuarial valuation as at 30 June 2015 and 31 December 2014 was based on the following assumptions:

	Measurement as at 30/06/2015	31/12/2014
	%	%
Discount rates	3.1	2.6
The average annual increase assumed for the basis of calculation of the provision for retirement benefits and jubilee bonuses	1.5	1.5
Assumed increase in the price of benefit entitlement	2.5	2.5
The average annual increase assumed for the basis of calculation of the provision for Social Benefit Fund	3.6	3.6
Weighted average employee mobility ratio	2.5	2.5
Inflation (annual)	2.5	2.5

Amount recognised in the Interim Condensed Consolidated Statement of Financial Position in relation to Group's liabilities arising from employee benefit plans is as follows:

	As at 30/06/2015 (unaudited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Post-employment defined benefit plans		
– retirement benefits	147 976	158 448
– appropriations to the Social Benefit Fund for pensioners [1]	116 228	168 876
– transport benefits	31 659	37 719
Other employee benefits		
– jubilee bonuses	309 395	323 382
– other employee benefits (including unused holidays)	39 597	39 305
– provision for Voluntary Redundancy Program (VRP)	6 317	265 331
Total	**651 172**	**993 061**
including:		
– long-term	543 641	658 217
– short-term	107 531	334 844
Total	**651 172**	**993 061**

25.1 Employee benefits - Voluntary Redundancy Program

Based on Resolutions of the Management Board and Supervisory Board of PKP CARGO S.A and PKP CARGOTABOR Sp. z o.o, Voluntary Redundancy Programs for the employees (VRP or Program) were introduced in both companies in the second quarter of 2015. The main purpose of the Program was restructuring of employment in the Group. These Programs did not meet the definition of collective redudancies within the meaning of Act of 13 March 2013 on the specific principies of terminating labour relationship for reasons not attributable to employees.

The employees were allowed to apply for the Voluntary Redundancy Program at the following dates:

a) from 1 June 2015 to 17 June 2015 in PKP CARGO S.A. and,

b) from 1 July 2015 to 15 July 2015 in PKP CARGOTABOR Sp. z o.o.

As a result of the verification of declarations of employees, the Companies agreed that 981 employees could benefit from the Program.

The total value of liabilities resulting from the implemented Program was estimated on PLN 70,179 thousand, of which the amount of PLN 6,317 thousand (connected with Program introduced by PKP CARGOTABOR Sp. z o.o.) was presented as an employee benefits provision, due to fact that the amount of the future benefit was unknown as at 30 June 2015.

The major part of payments of benefits related to the VRP will take place together with the salary payments for July and August 2015. The part of the payment of benefits related to the VRP of PLN 10,301 thousand, will take place in January 2016.

As at 30 June 2015 the Group also recognized liabilities arising from the Program that was introduced in 2014 of PLN 37,948 thousand, which will be paid in January 2016.

Amount relating to the Group's liabilities concerning the Voluntary Redundancy Program recognised in the Interim Consolidated Statement of Financial Position is as follows:

	As at 30/06/2015 (unaudited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Long-term employee benefits	-	37 852
Short-term employee benefits	6 317	227 479
Trade and other payables	101 809	-

26. Other provisions

	As at 30/06/2015 (unaudited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Provision for the fine imposed by OCCP	8 416	8 416
Warranty provisions	7 217	-
Provision for onerous contracts	10 302	-
Other provisions	20 613	24 214
Total	**46 548**	**32 630**
Long-term provisions	23 220	8 416
Short-term provisions	23 328	24 214
Total	**46 548**	**32 630**

Other provisions	Provision for the fine imposed by OCCP	Warranty provisions	Provision for onerous contracts	Other provisions	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
As at 1 January 2014 (audited)	**22 778**	**-**	**-**	**26 203**	**48 981**
Provisions recognised	-	-	-	2 591	2 591
Derecognised	(14 362)	-	-	(5 867)	(20 229)
As at 30 June 2014 (unaudited)	**8 416**	**-**	**-**	**22 927**	**31 343**
As at 1 January 2015 (audited)	**8 416**	**-**	**-**	**24 214**	**32 630**
Acquisition of AWT	-	7 262	10 107	2 541	19 910
Provisions recognised	-	-	1	2 309	2 310
Derecognised	-	(183)	-	(6 409)	(6 592)
Used	-	-	-	(2 091)	(2 091)
Foreign exchange differences on translation of subsidiaries financial statements	-	138	194	49	381
As at 30 June 2015 (unaudited)	**8 416**	**7 217**	**10 302**	**20 613**	**46 548**

Provision for the fine imposed by Office of Competition and Consumer Protection (OCCP)

As at 30 June 2015 and 31 December 2014, the provision represents the estimate of the Management Board of the Parent company in connection with the probability of paying two fines imposed to Parent company by the Office of Competition and Consumer Protection of PLN 6,630 thousand and PLN 1,786 thousand, respectively.

During the period of 6 months ended 30 June 2015 no circumstances occurred that could result in change of estimates applied by the Parent company. As a result of future events, this assessment may change in next reporting periods.

Warranty provisions

Provisions for warranties are recognized to cover the future expenses related to the recultivation works that has already been performed. The provision was estimated at the present value of the expected future expenses.

Provision for onerous contracts

Provision corresponds to the minimum lease payments, that the Group is going to pay according to the concluded lease contracts, less expected income generated by the Group during the lease period. The provision was recognized at the present value of the expected future cash flows.

Other provisions

According to the Management Board of Parent company the amount of other provisions as at 30 June 2015 and 31 December 2014 represents the best estimate of probable payment. If any penalties are imposed, their value is dependent on the future events with uncertain result. Consequently, the amount of provisions may change in future periods.

27. Categories and classes of financial instruments

Financial instruments by categories	**As at 30/06/2015 (unaudited)**	**As at 31/12/2014 (audited)**
	PLN thousand	**PLN thousand**
Financial assets		
Financial assets measured at fair value through profit or loss	587	-
Assets arising from derivatives designated as hedges: hedge accounting	928	-
Loans and receivables	917 968	1 233 169
Total assets by category	**919 483**	**1 233 169**
Financial liabilities		
Financial liabilities measured at fair value through profit or loss	146 518	633
Liabilities arising from derivatives designated as hedges: hedge accounting	4 595	3 301
Financial liabilities measured at amortized cost	1 209 269	683 002
Liabilities excluded from IAS 39 (finance lease)	308 990	318 578
Total liabilities by category	**1 669 372**	**1 005 514**

Financial instruments by classes	**As at 30/06/2015 (unaudited)**	**As at 31/12/2014 (audited)**
	PLN thousand	**PLN thousand**
Trade receivables	690 971	497 577
Loans granted	5 548	4 999
Bank deposits over 3 months	636	301 415
Cash	220 813	429 178
Derivatives designated as cash flow hedges	928	-
Derivatives - held for trading	587	-
Total financial assets	**919 483**	**1 233 169**
Credit facilities and loans	724 168	300 200
Trade payables	365 116	248 117
Liabilities arising from purchase of non-current assets	119 985	134 685
Finance leases	308 990	318 578
Derivatives designated as cash flow hedges	4 595	3 301
Derivatives - held for trading	-	633
Liabilities due to put option for non-controlling shares	146 518	-
Total financial liabilities	**1 669 372**	**1 005 514**

28. Related party transactions

28.1 Commercial transactions

During the period covered by these Interim Condensed Consolidated Financial Statements, the Group entered into the following commercial transactions with related parties:

	For the 6 months period ended 30/06/2015 (unaudited)		For the 6 months period ended 30/06/2014 (unaudited)	
	Sales to related parties	Purchases from related parties	Sales to related parties	Purchases from related parties
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Parent company (PKP S.A.)	487	39 581	550	35 277
Subsidiaries / co-subsidiaries	2 497	5 250	1 060	3 927
Associates	2 118	442	4 643	1 136
Other related parties from PKP S.A. Group	23 888	574 810	35 723	600 290

	As at 30/06/2015 (unaudited)		As at 31/12/2014 (audited)	
	Receivables from related parties	Liabilities to related parties	Receivables from related parties	Liabilities to related parties
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Parent company (PKP S.A.)	156	6 957	1 026	6 584
Subsidiaries / co-subsidiaries	5 127	6 607	2 475	530
Associates	1 363	1	-	-
Other related parties from PKP S.A. Group	5 600	127 696	9 971	86 556

All related party transactions were concluded on the arm's length basis.

28.2 Loans granted to / received from related parties

	As at 30/06/2015 (unaudited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Loans granted to related parties	629	-
Loans received from related parties	4 298	-

28.3 Remuneration of executive management

Remuneration of Members of the Management Board of the Parent company:	For the 6 months period ended 30/06/2015 (unaudited)	For the 6 months period ended 30/06/2014 (unaudited)
	PLN thousand	PLN thousand
Short-term benefits	2 509	1 255
Post-employment benefits	69	562
Employment termination benefits	-	255
Total	**2 578**	**2 072**

Remuneration of Members of the Supervisory Board of the Parent company:	For the 6 months period ended 30/06/2015 (unaudited) PLN thousand	For the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Short-term benefits	645	204
Total	**645**	**204**

Remuneration of Parent company's other executive management (Proxies, Managing Directors) in the reporting period:	For the 6 months period ended 30/06/2015 (unaudited) PLN thousand	For the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Short-term benefits	1 145	805
Post-employment benefits	23	-
Share-based payments	-	11
Employment termination benefits	84	19
Total	**1 252**	**835**

Remuneration of Members of the Management Boards of the Subsidiaries:	For the 6 months period ended 30/06/2015 (unaudited) PLN thousand	For the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Short-term benefits	2 696	2 344
Post-employment benefits	443	923
Total	**3 139**	**3 267**

Remuneration of Members of the Supervisory Boards of the Subsidiaries:	For the 6 months period ended 30/06/2015 (unaudited) PLN thousand	For the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Short-term benefits	1 295	1 662
Post-employment benefits	48	-
Employment termination benefits	61	-
Total	**1 404**	**1 662**

Remuneration of Subsidiaries other executive management (Proxies, Managing Directors) in the reporting period:	For the 6 months period ended 30/06/2015 (unaudited) PLN thousand	For the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Short-term benefits	1 941	824
Post-employment benefits	15	-
Employment termination benefits	135	-
Total	**2 091**	**824**

In the 6 months period ended 30 June 2015 and 30 June 2014 Members of Management Boards and Supervisory Boards of the Parent company and subsidiaries of the Group did not grant or receive any loans or guarantees.

29. Commitments to incur expenses

In May 2013 the Parent company concluded an agreement with a counterparty regarding modernisation of 30 SM-48 series diesel engines. Until 30 June 2015, the Company received 23 modernized engines. As at 30 June 2015 the future value of the liabilities connected with the aforementioned agreement ranges between PLN 45,966 - 48,690 thousand, depending on fulfillment of specific technical conditions. According to the timetable, the completion date of the agreement expires in February 2016.

In September 2013 the Parent company concluded an agreement with a counterparty for construction and delivery of 330 newly built Sggrss container wagons. Until 30 June 2015, the Company received 280 wagons. As at 30 June 2015 the future value of liabilities connected with the aforementioned agreement amounts to PLN 17,681 thousand.
For the implementation of this project, the Parent company was granted a funding under the Operational Program "Infrastructure and Environment", in a total amount not exceeding 30% of contract value.
On 2 July 2015 the Parent company, as part of agreement described above, received another tranche of financing of PLN 2,833 thousand.

As at 30 June 2015 the other entities belonging to the Group did not have significant commitments to incur expenses.

30. Contingent liabilities

	As at 30/06/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Guarantees issued by banks on request of PKP Cargo Group (i)	77 752	36 431
Proceedings carried out by OCCP (ii)	9 946	9 946
Other contingent liabilities (iii)	81 050	75 797
Total	**168 748**	**122 174**

(i) Guarantees issued by banks on request of PKP CARGO Group

As at 30 June 2015 and 31 December 2014 the contingent liabilities of the Group include guarantees issued by banks on request of the entities belonging to the PKP CARGO Group. The guarantees mainly include good performance bonds and bid bonds.

The increase of the contingent liabilities o the guarantees issued by banks in the period of 6 months 2015.

(ii) OCCP proceedings

As at 30 June 2015 and 31 December 2014 the Parent company recognised as a contingent liability a part of provision for the fine imposed by the OCCP (PLN 9,946 thousand) that has not been recognised in provisions for liabilities.

On 22 August 2014 the Management Board of the Parent company was informed by the President of the Office of Competition and Consumer Protection about further conducting of the antimonopoly proceeding regarding the Parent company's abuse of the dominant position on the domestic market of rail transport of goods (proceeding which resulted in decision no. DOK-3/2009). The amount of potential contingent liability resulting from conducted proceeding is not known.

During the period of 6 months ended 30 June 2015 no circumstances occurred that could result in change of estimates applied by the Parent company. As a result of future events, this assessment may change in next reporting periods.

(iii) Other liabilities

In 2014 the Parent company received payment requests from external entities. The total value of claims does not exceed PLN 48,000 thousand. On the basis of legal analysis of these claims, the Parent company estimates that as at 30 June 2015 and as at 31 December 2014 the likelihood of outflow of cash connected with these claims is remote. As a result of future events, this assessment may change in next periods.

Other liabilities include mainly conducted by the subsidiary PS Trade Trans Sp. z o.o. guarantee agreements with recourse to insurance company. As at 30 June 2015 value of these contracts amounted to PLN 30,600 thousand, and as at 31 December 2014 amounted to PLN 27,100 thousand.

31. Events after reporting date

On 29 July 2015 The Extraordinary General Meeting of PKP CARGO International a.s. in liquidation distributed the liquidation mass. The payment of the liquidation mass to the sole shareholder - PKP CARGO S.A. occurred on 5 August 2015. Finalization of the process of liquidation of PKP Cargo International a.s. is scheduled on September 2015 and is subject to the approvals of the relevant local administrative bodies.

On 23 July 2015 the Supervisory Board of the Parent company has agreed to sale additional part of rolling stock. Details are presented in note 18 of these Interim Condensed Separate Financial Statements.

32. Approval of the financial statements

These Interim Condensed Consolidated Financial Statements were approved for publication by the Management Board on 26 August 2015.

Management Board of the Parent company

Adam Purwin	President of the Management Board
Jacek Neska	Member of the Management Board
Łukasz Hadyś	Member of the Management Board
Wojciech Derda	Member of the Management Board
Dariusz Browarek	Member of the Management Board

Warsaw, 26 August 2015

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This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.

INDEPENDENT AUDITORS' REPORT ON REVIEW OF THE INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS OF PKP CARGO S.A. FOR THE PERIOD FROM 1 JANUARY 2015 TO 30 JUNE 2015

To the Shareholders of PKP CARGO S.A.

Introduction

We have reviewed the accompanying 30 June 2015 interim condensed separate financial statements of PKP CARGO S.A. with its registered office in Warsaw, Grójecka 17 Street ("the interim condensed separate financial statements"), which comprise:

- the interim separate statement of financial position as at 30 June 2015,
- the interim separate statements of comprehensive income for the six-month period ended 30 June 2015,
- the interim separate statement of changes in equity for the six- month period ended 30 June 2015,
- the interim separate statement of cash flows for the six-month period ended 30 June 2015, and
- notes to the interim condensed separate financial statements.

Management is responsible for the preparation and presentation of these interim condensed separate financial statements in accordance with the IAS 34 *Interim Financial Reporting* as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed separate financial statements, based on our review.

Scope of Review

We conducted our review in accordance with the National Standard on Auditing no. 3 *General principles of review of the financial statements/condensed financial statements and conducting of other assurance services* issued by the National Council of Certified Auditors and the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with national standards on auditing and International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2015 interim condensed separate financial statements of PKP CARGO S.A. are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnościa sp.k.
registration number 3546
ul. Inflancka 4A,
00-189 Warsaw

Signed on the Polish original

....
Monika Bartoszewicz
Key Certified Auditor
Registration No. 10268
Limited Liability Partner with power of attorney

26 August 2015

INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS OF THE **PKP CARGO S.A.** FOR THE PERIOD OF 6 MONTHS ENDED 30 JUNE 2015 PREPARED IN ACCORDANCE WITH IFRS AS ENDORSED BY THE EUROPEAN UNION

Warsaw, 27 August 2015

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INTERIM SEPARATE STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2015 TO 30 JUNE 2015

	Note	for the 6 months period ended 30/06/2015 (unaudited)	for the 6 months period ended 30/06/2014 (unaudited)
		PLN thousand	PLN thousand
Revenue from sales of services	4	1 670 345	1 851 693
Revenue from sales of goods and materials		5 253	10 778
Other operating revenue	6.1	8 301	22 199
Total operating revenue		**1 683 899**	**1 884 670**
Depreciation/amortisation and impairment losses	5.1	176 853	164 137
Consumption of raw materials and energy	5.2	289 332	305 494
External services	5.3	530 430	572 109
Taxes and charges		14 626	18 429
Employee benefits	5.4	622 423	653 188
Other expenses by kind		21 512	9 209
Cost of merchandise and raw materials sold		2 895	5 523
Other operating expenses	6.2	8 538	11 459
Total operating expenses		**1 666 609**	**1 739 548**
Profit on operating activities		**17 290**	**145 122**
Financial revenue	7.1	43 134	28 874
Financial expenses	7.2	36 575	13 407
Profit before tax		**23 849**	**160 589**
Income tax expense	8.1	(760)	30 728
NET PROFIT		**24 609**	**129 861**

INTERIM SEPARATE STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2015 TO 30 JUNE 2015 (cont'd.)

	Note	for the 6 months period ended 30/06/2015 (unaudited)	for the 6 months period ended 30/06/2014 (unaudited)
		PLN thousand	PLN thousand
NET PROFIT		**24 609**	**129 861**
Other comprehensive income that will not be reclassified to profit or loss:		**49 805**	**-**
Actuarial gains / (losses) on employee benefits after employment period		61 488	-
Income tax on other comprehensive income		(11 683)	-
TOTAL COMPREHENSIVE INCOME		**74 414**	**129 861**
Earnings per share (PLN per share):			
Earnings per share on operations (basic):	20.1	**0.55**	**2.93**
Earnings per share on operations (diluted):	20.2	**0.55**	**2.90**

INTERIM SEPARATE STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 JUNE 2015

	Note	As at 30/06/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
ASSETS			
Non-current assets			
Property, plant and equipment	9	3 737 035	3 709 121
Intangible assets		63 810	55 990
Investments in subsidiaries and associates	13	733 670	262 846
Other long-term financial assets	14	6 021	6 021
Other long-term non-financial assets	15	6 907	1 464
Deferred tax assets	8.3	47 456	58 359
Total non-current assets		**4 594 899**	**4 093 801**
Current assets			
Inventories		70 043	75 759
Trade and other receivables	16	469 801	423 171
Other short-term financial assets	14	587	301 818
Other short-term non-financial assets	15	44 049	24 921
Cash and cash equivalents	17	124 095	381 420
		708 575	**1 207 089**
Assets classified as held for sale	18	17 560	17 560
Total current assets		**726 135**	**1 224 649**
Total assets		**5 321 034**	**5 318 450**

INTERIM SEPARATE STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 JUNE 2015 (cont'd.)

	Note	As at 30/06/2015 (unaudited)	As at 31/12/2014 (audited)
		PLN thousand	PLN thousand
EQUITY AND LIABILITIES			
Equity			
Share capital	19	2 239 346	2 239 346
Supplementary capital	19.1	589 202	584 513
Other items of equity		10 163	(39 642)
Retained earnings		377 825	468 081
Total equity		**3 216 536**	**3 252 298**
Non-current liabilities			
Long-term bank loans and credit facilities	21	466 225	206 112
Long-term finance lease liabilities and leases with purchase option	23	92 721	114 027
Long-term trade and other payables	24	44 447	67 938
Long-term provisions for employee benefits	25	492 648	611 418
Other long-term provisions	26	8 416	8 416
Other long-term financial liabilities	22	25 507	-
Non-current liabilities		**1 129 964**	**1 007 911**
Current liabilities			
Short-term bank loans and credit facilities	21	131 440	87 971
Short-term finance lease liabilities and leases with purchase option	23	70 331	120 505
Short-term trade and other payables	24	643 977	457 602
Short-term provisions for employee benefits	25	83 944	315 213
Other short-term provisions	26	13 371	17 414
Other short-term financial liabilities	22	31 360	59 393
Current tax liabilities		111	143
Total current liabilities		**974 534**	**1 058 241**
Total liabilities		**2 104 498**	**2 066 152**
Total equity and liabilities		**5 321 034**	**5 318 450**

INTERIM SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2015

	Share capital	Supplementary capital	Actuarial gains/(losses) on employee benefits after employment period	Retained earnings	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Balance as at 1/01/2014 (audited)	**2 166 901**	**651 472**	**(9 901)**	**554 494**	**3 362 966**
Net result for the period	-	-	-	129 861	**129 861**
Other net comprehensive income for the period	-	-	-	-	**-**
Total comprehensive income	**-**	**-**	**-**	**129 861**	**129 861**
Issuance of shares	72 445	25 529	-	-	**97 974**
Dividend payment	-	-	-	(137 496)	**(137 496)**
Share-based payment provision	-	(100 015)	-	-	**(100 015)**
Other changes in equity	-	7 527	-	(7 527)	**-**
Balance as at 30/06/2014 (unaudited)	**2 239 346**	**584 513**	**(9 901)**	**539 332**	**3 353 290**
Balance as at 1/01/2015 (audited)	**2 239 346**	**584 513**	**(39 642)**	**468 081**	**3 252 298**
Net result for the period	-	-	-	24 609	**24 609**
Other net comprehensive income for the period	-	-	49 805	-	**49 805**
Total comprehensive income	**-**	**-**	**49 805**	**24 609**	**74 414**
Dividend payment	-	-	-	(110 176)	**(110 176)**
Other changes in equity	-	4 689	-	(4 689)	**-**
Balance as at 30/06/2015 (unaudited)	**2 239 346**	**589 202**	**10 163**	**377 825**	**3 216 536**

INTERIM SEPARATE STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 1 JANUARY 2015 TO 30 JUNE 2015 [INDIRECT METHOD]

	Note	for the 6 months period ended 30/06/2015 (unaudited)	for the 6 months period ended 30/06/2014 (unaudited)
		PLN thousand	PLN thousand
Cash flows from operating activities			
Profit before tax		**23 849**	**160 589**
Adjustments:			
Depreciation and amortisation of non-current assets	5.1	176 853	164 137
(Gain) / loss on disposal / liquidation of property, plant and equipment and intangible assets		230	4 649
(Profit) / loss on investing activities		(1 911)	9
Foreign exchange (gain) / loss		(3 073)	643
(Gains) / losses on interest, dividends		(26 004)	(16 233)
Other adjustments 1)		61 487	-
Changes in working capital:			
(Increase) / decrease in trade and other receivables		(38 371)	17 784
(Increase) / decrease in inventories		7 181	(1 602)
(Increase) / decrease in other assets		(24 743)	(35 240)
Increase / (decrease) in trade and other payables 2)		177 509	(106 238)
Increase / (decrease) in other financial liabilities		24 874	-
Increase / (decrease) in provisions 3)		(354 081)	(93 379)
Cash flows from operating activities		**23 800**	**95 119**
Interest received / (paid)		574	2 114
Income taxes received / (paid)		(779)	512
Net cash provided by operating activities		**23 595**	**97 745**

INTERIM SEPARATE STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 1 JANUARY 2015 TO 30 JUNE 2015 [INDIRECT METHOD] (cont'd.)

	Note	for the 6 months period ended 30/06/2015 (unaudited)	for the 6 months period ended 30/06/2014 (unaudited)
		PLN thousand	PLN thousand
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(227 509)	(302 832)
Proceeds from sale of property, plant and equipment and intangible assets		115	5 480
Acquisition of subsidiaries, associates and joint venture		(460 635)	-
Interest received		5 321	14 424
Dividends received		23 965	66
Proceeds from loans granted		-	(5 030)
Repayments of loans granted		433	5 599
Inflows / (outflows) from bank deposits over 3 months		300 000	401 446
Inflows / (outflows) related to the Employment Guarantees Program		-	70 300
Net cash (used in) / provided by investing activities		**(358 310)**	**189 453**
Cash flows from financing activities			
Proceeds from issuance of shares		-	8 763
Payments of liabilities under finance lease		(77 424)	(59 176)
Payments of interest under lease agreement		(2 592)	(4 129)
Proceeds from credit facilities / loans received		345 453	-
Repayments of credit facilities / loans received		(41 873)	(29 866)
Interest on credit facilities / loans received		(4 631)	(3 034)
Grants received		-	11 390
Dividends paid to shareholders of the Company		(110 176)	(137 496)
Cash pool inflows / (outflows)		(27 452)	(6 447)
Other inflows / (outflows) from financing activities		(3 915)	(4 143)
Net cash used in financing activities		**77 390**	**(224 138)**
Net increase / (decrease) in cash and cash equivalents		(257 325)	63 059
Opening balance of cash and cash equivalents	17	381 420	229 232
Closing balance of cash and cash equivalents	17	**124 095**	**292 291**

1) In the 6 months period ended 30 June 2015 an item includes actuarial gains on employee benefits after employment period recognized in the other comprehensive income.

2) In the 6 months period ended 30 June 2015 an item includes increase in liabilities due to Voluntary Redundancy Program of PLN 101,713 thousand.

3) In the 6 months period ended 30 June 2015 an item includes mainly a decrease in provision for Voluntary Redundancy Program of PLN 257,116 thousand and decrease in other provisions for employee benefits of PLN 92,922 thousand.

EXPLANATORY NOTES TO INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS PREPARED AS AT 30 JUNE 2015

1. General information

1.1 Information on the Company

The Company PKP CARGO S.A. ("Company") was established based on the Notarial Deed dated 29 June 2001 (Repertory A No. 1287/2001). The registered office of the Company is located in Warsaw at Grójecka street no. 17. The Company is registered in the National Court Register in the District Court in Katowice, Department of the National Court Register under the number KRS 0000027702. Currently, due to a subsequent change of the registered office of the Company, records of the Company are run by the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register.

The Company was assigned a statistical number REGON 277586360 and a tax identification number (NIP) 954-23-81-960.

The financial year of the Company is the calendar year.

Principal activity of the company is rail transport of goods. In addition to the rail transport services, PKP CARGO S.A. offers additional services:

a) intermodal services,
b) shipping (domestic and international),
c) terminals (handling and storage of goods),
d) siding services,
e) maintenance and repair of rolling stock.

Composition of the Company's management and supervisory bodies as at the date of preparation of these Interim Condensed Separate Financial Statements is as follows:

Management Board:

Adam Purwin	-	President of the Management Board
Jacek Neska	-	Member of the Management Boards, responsible for Trade Matters
Łukasz Hadyś	-	Member of the Management Boards, responsible for Finance Matters
Wojciech Derda	-	Member of the Management Boards, responsible for Operation Matters
Dariusz Browarek	-	Member of the Management Board, Employees' representative in the Management Board

Supervisory Board:

Jakub Karnowski	-	Chairman
Piotr Ciżkowicz	-	Vice Chairman
Krzysztof Czarnota	-	Member
Marek Podskalny	-	Member
Kazimierz Jamrozik	-	Member
Konrad Anuszkiewicz	-	Member
Stanisław Knaflewski	-	Member
Jacek Leonkiewicz	-	Member
Sławomir Baniak	-	Member
Raimondo Eggink	-	Member

On 18 February 2015 the Company's shareholder - PKP S.A. dismissed Mr. Jarosław Pawłowski from the Supervisory Board and appointed Mr. Zbigniew Klepacki as a Member of the Supervisory Board (effective from 19 February 2015).

On 13 March 2015 Mr. Paweł Ruka resigned from the position of a Member of the Supervisory Board (effective from 13 March 2015).

On 13 April 2015 the Extraordinary General Meeting of Shareholders of the Company appointed Mr. Raimondo Eggink as a Member of the Supervisory Board.

On 9 June 2015 Mr. Zbigniew Klepacki resigned from the position of a Member of the Supervisory Board (effective from 9 June 2015).

The Company's shareholder's structure as at 30 June 2015 is as follows:

Entity	Registered office	Number of shares	% of share capital held	% of voting rights
PKP S.A.(1)	Warsaw	14 784 194	33.01%	33.01%
ING OFE (2)	Warsaw	4 738 369	10.58%	10.58%
Morgan Stanley (3)	New York	2 380 008	5.31%	5.31%
Aviva OFE (4)	Warsaw	2 338 371	5.22%	5.22%
Other shareholders		20 545 975	45.88%	45.88%
Total		**44 786 917**	**100.00%**	**100.00%**

(1) In accordance with the notice sent by shareholder dated 24 June 2014.
(2) In accordance with the notice sent by shareholder dated 30 June 2014. On 20 July 2015 name of shareholder ING OFE was changed to Nationale-Nedelanden OFE.
(3) In accordance with the notice sent by shareholder dated 18 June 2014.
(4) In accordance with the notice sent by shareholder dated 13 August 2014.

PKP S.A. is the parent entity of PKP CARGO S.A. In accordance with the Company's Articles of Association PKP S.A. holds individual special rights to appoint and dismiss Members of the Supervisory Board in the amount equal to half of the Supervisory Board increased by one member. PKP S.A. holds individual right to appoint the Chairman of the Supervisory Board and to set the number of members of the Supervisory Board. Additionally, if PKP S.A. holds 50% or less of the share capital of the Company, PKP S.A. is individually entitled to solely designate candidates for the President of the Management Board of the Company. PKP S.A. always holds the individual rights when PKP S.A. owns at least 25% of the share capital of the Company.

1.2 Information on the Group

As at the reporting date PKP Cargo Group ("the Group") comprised of PKP CARGO S.A. as the Parent company and 32 subsidiaries. Additionally, the Group includes 6 associates and shares in 4 joint ventures.

Additional information about the subsidiaries and shares in associates and co-subsidiaries is presented in Notes 10, 11, 12, 13.

The duration of the companies belonging to the Group is unlimited, except for companies in liquidation.

1.3 Functional currency and presentation currency

These Interim Condensed Separate Financial Statements have been prepared in the Polish zloty (PLN). The Polish zloty (PLN) is the Company's functional and presentation currency. The data in the financial statements were presented in PLN thousand, unless more accuracy was required in particular cases.

2. International Financial Reporting Standards applied

2.1 Basis for preparation of Interim Condensed Separate Financial Statements

These Interim Condensed Separate Financial Statements have been prepared in accordance with the International Accounting Standard 34 – Interim Financial Reporting ("IAS 34") and in accordance with accounting standards applicable to interim financial reporting adopted by the European Union ("IFRS EU"), issued and effective at the time of preparation these Interim Condensed Separate Financial Statements and in accordance with the Regulation of the Finance Minister dated 19 February 2009 on current and periodic information published by securities issuers and conditions of recognition the information required by the laws of non-member to the European Union as equivalent (Official Journal No. 33, item 257) ("Regulation").

These Interim Condensed Separate Financial Statements should be read along with audited Separate Financial Statements of the Company for the year ended 31 December 2014, prepared in accordance with International Financial Reporting Standards as endorsed by the European Union ("IFRS EU"), that include notes ("Financial Statements prepared in accordance with IFRS EU").

These Interim Condensed Separate Financial Statements have been prepared under the going concern assumption of the Company in the foreseeable future. As at the date of preparation of these Interim Condensed Separate Financial Statements, there were no circumstances indicating a threat of going concern assumption of the Company during at least 12 months from the date of the financial statements.

These Interim Condensed Separate Financial Statements have been prepared on the historical cost basis except for derivatives measured at fair value and non-current assets classified as held for sale.

These Interim Condensed Separate Financial Statements consist of the separate statement of comprehensive income, separate statement of financial position, separate statement of changes in equity, separate statement of cash flows and selected explanatory notes.

During 2014 – 2015 the Company did not discontinue activity that requires recognition in these Interim Condensed Separate Financial Statements.

2.2 Status of endorsement of the Standards in the EU

The following amendments to existing standards issued by the International Accounting Standards Board and adopted by European Union are effective since 2015:

- **Interpretation IFRIC 21 "Levies"** - applicable to the annual periods beginning on or after 17 June 2014.
- **Improvements to International Financial Reporting Standards 2011-2013** (annual improvements to IFRS from 2011-2013 contain 4 amendments to the standards, with consequential amendments to other standards and interpretations) - effective for annual periods beginning on or after 1 January 2015.

Adoption of these standards, amendments to the existing standards and interpretations did not have material impact on the Company's accounting policy.

2.3 Standards and Interpretations adopted by the EU that are not yet effective

When approving these Interim Condensed Separate Financial Statements, the Company did not apply the following standards, amendments to standards and interpretations that had been published and approved for use in the EU, but which have not yet come into force:

- **Amendment to IAS 19 "Employee Benefits"** entitled Defined Benefit Plans: Employee Contributions - effective for periods beginning on or after 1 February 2015.
- **Improvements to International Financial Reporting Standards 2010-2012** (annual improvements to IFRS 2010-2012 contain 8 changes to 7 standards, with consequential amendments to other standards and interpretations) - effective for periods beginning on or after 1 February 2015.

The Company has analyzed the potential impact of the aforementioned standards, interpretations and amendments to the standards on the Company's accounting policy. According to the Management Board they will not result in a material impact on the currently used accounting policy.

2.4 Standards and Interpretations issued by IASB but not yet endorsed by the EU

At present, IFRS as endorsed by the EU, do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in the EU as at 30 June 2015:

- **IFRS 9 "Financial Instruments"** - applicable to the periods beginning on or after 1 January 2018.
- **IFRS 14 "Regulatory Deferral Accounts"** - applicable to the annual periods beginning on or after 1 January 2016.
- **Amendments to IFRS 11 "Joint Arrangements"** entitled Accounting for Acquisitions of Interest in Joint Operations - applicable to the annual periods beginning on or after 1 January 2016.
- **Amendments to IAS 16 "Property, plant and Equipment" and IAS 38 "Intangible Assets**" entitled Clarification of Acceptable Methods of Depreciation and Amortization - applicable for annual periods beginning on or after 1 January 2016.
- **IFRS 15 "Revenue from Contracts with Customers"** - applicable for annual periods beginning on or after 1 January 2017.
- **Amendments to IAS 16 "Property, plant and Equipment" and IAS 41 "Agriculture"** entitled Agriculture: Bearer Plants - applicable for annual periods beginning on or after 1 January 2016.
- **Amendments to IAS 27 "Separate Financial Statements**" entitled Equity Method in the Separate Financial Statements - applicable for periods beginning on or after 1 January 2016.
- **Improvements to International Financial Reporting Standards 2012-2014** (annual improvements to IFRS 2012-2014 contain 4 amendments to the standards, with consequential amendments to other standards and interpretations) - applicable for periods beginning on or after 1 January 2016.
- **Amendments to IAS 1 "Presentation of Financial Statements"** entitled Disclosure Initiative - applicable for periods beginning on or after 1 January 2016.

The Company has analyzed the potential impact of the aforementioned standards, interpretations and amendments to standards used by the Company's accounting policy. According to the Management Board they will not result in a material impact on the currently used accounting policy.

3. Applied accounting principles

3.1 Statement on accounting principles

The accounting principles and calculations methods adopted in the preparation of Interim Condensed Separate Financial Statements are consistent with those described in audited Separate Financial Statements for the year ended 31 December 2014 prepared in accordance with IFRS EU (see note 3 to Separate Financial Statements prepared for the year ended 31 December 2014, prepared in accordance with IFRS EU).

3.2. Explanations concerning seasonality or cyclicality of interim Company operations

Company activities are not subject to any significant seasonal or cyclical trends.

3.3. Changes in estimates

In the 6 months period ended 30 June 2015 the following changes in estimates occurred:

• deferred income tax – the effect of recalculated balance of deferred income tax as at 30 June 2015 is presented in note 8 to the Interim Condensed Separate Financial Statements,

• provisions for employee benefits – provisions as at 30 June 2015 were estimated mainly based on actuarial valuation, the effect of valuation is presented in note 25 to the Interim Condensed Separate Financial Statements,

• the valuation of assets arising from purchase option of AWT B.V. shares (call) and liabilities from the sale option of AWT B.V. share (put) – description of the applied method of estimates and the effect of the valuation as at 30 June 2015 is presented in note 22 of the Interim Condensed Separate Financial Statements.

During the period of 6 months ended 30 June 2015 there were no other changes in estimates and methodology of making estimates that would affect the current or future periods.

4. Revenue from sales of services

4.1 Products and services of the operating segment

The Company has not determined operating segments since it has a single product to which all services provided by the Company are assigned. The Company operates only in one segment - domestic and international transport of goods and providing comprehensive logistics services in the field of railway freight. The Management Board of the Company analyzes financial data in a manner in which they have been presented in these Interim Condensed Separate Financial Statements.

Revenue of the Company from external customers according to geographical areas are presented in note 4.2.

4.2 Geographical information

The Company defines geographical area as a registered office of the client, not the country where the services are provided. The related analysis has brought the following conclusions:

The Company operates in one geographical area, Poland, which is its country of residence. The total revenue for all geographical areas except for Poland for the period of 6 months of 2015 and for the period of 6 months of 2014 did not exceed 12% of total revenue from sales of services. No other geographical area (except for Poland) exceeds 10% of revenue from sales of services.

Below is presented revenue from sales of services to external customers by location:

	for the 6 months period ended 30/06/2015 (unaudited) PLN thousand	for the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Poland	1 484 841	1 643 463
Germany	50 835	66 052
Czech Republic	50 177	41 745
Slovakia	29 475	35 782
Cyprus	24 413	33 002
Other countries	30 604	31 649
Total	**1 670 345**	**1 851 693**

4.3 Structure of the sales revenue

The Company distinguishes several groups of services provided within the scope of its domestic and international activity (transport of goods and providing comprehensive logistics services in the field of railway freight) which have been presented in this note. However, the Management Board of Company does not take this division into account during evaluation of the Company's results and making decisions about the resource allocation to each group of services. Therefore the disclosed groups of activities cannot be treated as operating segments of the PKP CARGO S.A.

	for the 6 months period ended 30/06/2015 (unaudited) PLN thousand	for the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Transport revenue and railway shipping	1 614 466	1 787 896
Siding and traction revenue	33 746	39 624
Other revenue (1)	22 133	24 173
Total	**1 670 345**	**1 851 693**

(1) The position of other revenue for the 6 months period ended 30 June 2015 presents mainly revenue arising from renting of assets of PLN 12,624 thousand, revenue arising from repair services of railroad fleet of PLN 2,326 thousand and revenue arising from complex operational support services of PLN 624 thousand. For the period ended 30 June 2014 this position presents mainly revenue arising from renting of assets of PLN 12,640 thousand, revenue arising from repair services of railroad fleet of PLN 2,879 thousand and revenue arising from complex operational support services of PLN 3,735 thousand.

5. Expenses by kind

5.1 Depreciation / amortisation

	for the 6 months period ended 30/06/2015 (unaudited) PLN thousand	for the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Depreciation of property, plant and equipment	169 684	155 829
Amortisation of intangible assets	7 169	8 308
Total depreciation / amortisation	**176 853**	**164 137**

5.2 Consumption of raw materials and energy

	for the 6 months period ended 30/06/2015 (unaudited) PLN thousand	for the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Fuel consumption	75 256	97 591
Consumption of materials	23 757	22 709
Electricity, gas and water consumption	189 489	186 899
Impairment losses recognised / (derecognised)	331	(2 675)
Other	499	970
Total consumption of materials and energy	**289 332**	**305 494**

5.3 External services

	for the 6 months period ended 30/06/2015 (unaudited) PLN thousand	for the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Access to infrastructure connections	320 791	349 857
Repair services	35 482	35 505
Rent and lease fees (real estate and railroad fleet)	64 950	73 104
Transport services	37 406	51 625
Telecommunication services	3 997	5 373
Legal, advisory and similar services	9 714	5 418
IT services	26 090	22 608
Services related to property maintenance and operation of fixed assets	12 627	14 474
Cargo services	12 850	8 803
Other services	6 523	5 342
Total external services	**530 430**	**572 109**

5.4 Employee benefits

	for the 6 months period ended 30/06/2015 (unaudited) PLN thousand	for the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Salaries and wages	448 224	490 531
Costs of social insurance	91 496	98 715
Appropriation to the Company’s Social Benefits Fund	11 899	13 850
Other employee benefits during employment	15 695	17 340
Other post-employment benefits	560	6 059
Voluntary Redundancy Program	63 862	-
Changes in provisions for employee benefits	(13 054)	26 126
Other employee benefit costs	3 741	567
Total employee benefits	**622 423**	**653 188**

6. Other operating revenue and expenses

6.1 Other operating revenue

	for the 6 months period ended 30/06/2015 (unaudited) PLN thousand	for the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Gains on disposal of assets:		
Gain on sales of non-current assets	246	-
Derecognised impairment losses:		
Trade receivables	1 169	1 981
Other (including interest on receivables)	211	468
	1 380	2 449
Other operating revenue:		
Release of provisions for the fine imposed by OCCP	-	14 362
Release of provisions for other fines	5 957	3 325
Interest on trade and other receivables	588	1 071
Other	130	992
Total other operating revenue	**8 301**	**22 199**

6.2 Other operating expenses

	for the 6 months period ended 30/06/2015 (unaudited) PLN thousand	for the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Losses on disposal of assets:		
Loss on sales of non-current assets	-	994
	-	994
Recognised impairment losses:		
Trade receivables	2 035	2 821
Other (including on interest on receivables)	273	165
	2 308	2 986
Other operating expenses:		
Costs of liquidation of non-current and current assets	814	4 590
Other provisions	1 914	420
Court and collection costs	312	273
Costs of transport benefits for non-employees	1 347	1 416
Interest on trade and other payables	88	10
Forex losses on trade receivables and payables	1 420	246
Other	335	524
Total other operating expenses	**8 538**	**11 459**

7. Financial revenue and expenses

7.1 Financial revenue

Interest income by class of financial instruments:	for the 6 months period ended 30/06/2015 (unaudited) PLN thousand	for the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Interest income:		
Bank deposits and accounts	3 173	9 775
Bid bonds and collateral	125	168
Loans granted	2	131
Other (including interest on state settlements)	84	77
	3 384	10 151
Dividends from capital investments	33 022	18 723
Total interest income and dividends	**36 406**	**28 874**

Interest income by category of financial instruments:	for the 6 months period ended 30/06/2015 (unaudited) PLN thousand	for the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Interest income:		
Loans and receivables (including cash in hand and bank deposits)	3 300	10 074
Other (including interest on state settlements)	84	77
	3 384	10 151
Dividends from capital investments	33 022	18 723
Total interest income and dividends	**36 406**	**28 874**

Other financial revenue		
Gains on shares:		
Reversal of impairment losses on shares	1 911	-
	1 911	-
Gains on measurement of financial assets and liabilities at FVTPL	1 220	-
Other financial revenue:		
Net forex gain	3 597	-
Total financial revenue	**43 134**	**28 874**

7.2. Financial expenses

Interest expense by class of financial instruments:	for the 6 months period ended 30/06/2015 (unaudited) PLN thousand	for the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Interest expense:		
Interest on loans and overdraft facilities	4 631	3 034
Interest on liabilities under finance lease agreements	2 592	4 129
Interest on long-term liabilities	2 915	4 143
Interest on bid bonds and guarantees	83	216
Other (including interest on state settlements)	307	170
Total interest expense	**10 528**	**11 692**

Interest expense by category of financial instruments:	for the 6 months period ended 30/06/2015 (unaudited) PLN thousand	for the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Interest expense:		
Financial liabilities measured at amortized cost	10 221	11 522
Other (including interest on state settlements)	307	170
Total interest expense	**10 528**	**11 692**

Other financial expenses		
Losses on shares:		
Recognised impairment losses on shares	-	9
Losses on measurement of financial assets and liabilities at FVTPL	25 507	941
Other financial expenses:		
Net forex result	-	643
Other financial expenses	540	122
Total financial expenses	**36 575**	**13 407**

8. Income tax

8.1 Income tax recognised in profit or loss

	for the 6 months period ended 30/06/2015 (unaudited) PLN thousand	for the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Current income tax:		
Current tax expense	20	260
Adjustments recognised in the current period with respect to prior year tax	-	(626)
	20	**(366)**
Deferred income tax:		
Deferred tax that occurred in the reporting period	(780)	31 094
Total tax expense recognised in profit or loss	**(760)**	**30 728**

8.2 Income tax recognized in other comprehensive income

	for the 6 months period ended 30/06/2015 (unaudited) PLN thousand	for the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Deferred income tax		
Due to income and expenses recognised in other comprehensive income:		
Actuarial gains / (losses) on post-employment benefit plans	11 683	-
Income tax recognised in other comprehensive income	**11 683**	**-**

8.3 Deferred income tax:

for the 6 months period ended 30/06/2015	**As at 01/01/2015 (audited)**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**As at 30/06/2015 (unaudited)**
	PLN thousand	**PLN thousand**	**PLN thousand**	**PLN thousand**
Temporary differences resulting in items of deferred tax (liabilities) / assets				
Property, plant and equipment	(140 505)	21 754	-	(118 751)
Long-term liabilities	(1 574)	554	-	(1 020)
Inventories	(1 212)	43	-	(1 169)
Receivables - impairment allowances	3 853	139	-	3 992
Accrued interest on assets	(528)	466	-	(62)
Provisions for employee benefits	127 207	(5 973)	(11 683)	109 551
Provisions and liabilities due to Voluntary Redundancy Program	48 852	(39 950)	-	8 902
Other provisions	1 246	283	-	1 529
Accrued expenses	5 980	2 367	-	8 347
Deferred income	(7 036)	(2 443)	-	(9 479)
Unpaid employee benefits	7 036	(1 042)	-	5 994
Forex losses	6 956	(4 021)	-	2 935
Valuation of derivatives	120	4 615	-	4 735
Other	-	(1 361)	-	(1 361)
	50 395	(24 569)	(11 683)	14 143
Unused tax losses and other reliefs				
Tax losses [(1)]	7 964	25 349	-	33 313
Total deferred tax assets / (liabilities)	**58 359**	**780**	**(11 683)**	**47 456**

[(1)] As at 30 June 2015 deferred tax assets arising from tax losses to be used in future periods represents a tax loss incurred by Company during the operation of Tax Capital Group of PLN 160,648 thousand and a loss incurred by Company in the previous periods of PLN 14,697 thousand, which can be utilized after the period of operation of the Tax Capital Group.

8.3 Deferred income tax: (cont'd.)

for the 6 months period ended 30/06/2014	As at 01/01/2014 (audited) PLN thousand	Recognised in profit or loss PLN thousand	Recognised in other comprehensive income PLN thousand	As at 30/06/2014 PLN thousand
Temporary differences resulting in items of deferred tax (liabilities) / assets				
Property, plant and equipment	(156 931)	(37 800)	-	(194 731)
Long-term liabilities	(3 031)	786	-	(2 245)
Inventories	4 328	(508)	-	3 820
Receivables - impairment allowance	9 612	(5 347)	-	4 265
Accrued interest on assets	(2 098)	1 911	-	(187)
Provisions for employee benefits	-	-		122 515
Other provisions	153 589	(31 074)	-	1 068
Accrued expenses	1 136	(68)	-	5 113
Deferred income	5 654	(541)	-	(7 193)
Unpaid employee benefits	(2 665)	(4 528)	-	6 548
Forex losses	8 018	(1 470)	-	7 508
Forex gains	9 347	(1 839)	-	(12)
Valuation of derivatives	-	(12)	-	(244)
Other	(423)	(1 499)	-	(1 678)
	26 536	(81 989)	-	(55 453)
Unused tax losses and other reliefs				
Tax losses	34 703	50 895	-	85 598
Total deferred tax assets / (liabilities)	**61 239**	**(31 094)**	**-**	**30 145**

9. Property, plant and equipment

Carrying amounts:	As at 30/06/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Land	125 393	125 393
Buildings, premises, civil and water engineering structures	389 924	396 770
Technical equipment and machinery	66 865	72 759
Means of transport	3 135 645	3 098 477
Other fixed assets	3 752	4 868
Fixed assets under construction	15 456	10 854
	3 737 035	**3 709 121**

including finance lease:	As at 30/06/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Technical equipment and machinery	3 302	4 355
Means of transport	221 113	243 732
	224 415	**248 087**

9. Property, plant and equipment (cont'd.)

For the 6 months period ended 30 June 2014 (unaudited)	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Means of transport	Other fixed assets	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Gross value						
Balance as at 1 January 2014	**127 256**	**450 380**	**170 554**	**4 064 899**	**18 293**	**4 831 382**
Additions:						
acquisition	-	12 731	3 904	230 217	90	246 942
other	-	-	152	-	-	152
Disposals:						
sales	-	-	(141)	(85)	(2)	(228)
liquidation	-	(9 584)	(435)	(94 899)	(13)	(104 931)
other	-	-	-	-	(152)	(152)
Balance as at 30 June 2014	**127 256**	**453 527**	**174 034**	**4 200 132**	**18 216**	**4 973 165**

For the 6 months period ended 30 June 2015 (unaudited)	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Means of transport	Other fixed assets	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Gross value						
Balance as at 1 January 2015	**125 393**	**451 872**	**184 887**	**4 345 808**	**19 061**	**5 127 021**
Additions:						
acquisition	-	1 489	3 321	189 041	167	194 018
finance leases	-	-	-	740	-	740
other	-	-	-	50	-	50
Disposals:						
Sale	-	-	(7)	(213)	(3)	(223)
Liquidation	-	-	(24)	(69 086)	(222)	(69 332)
Balance as at 30 June 2015	**125 393**	**453 361**	**188 177**	**4 466 340**	**19 003**	**5 252 274**

9. Property, plant and equipment (cont'd.)

For the 6 months period ended 30 June 2014 (unaudited)	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Means of transport	Other fixed assets	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Accumulated depreciation						
Balance as at 1 January 2014	**-**	**41 433**	**91 152**	**1 159 846**	**12 475**	**1 304 906**
Additions:						
depreciation charges	-	7 984	10 017	136 778	1 050	155 829
other	-	-	130	-	-	130
Disposals:						
sales	-	-	(69)	(65)	(2)	(136)
liquidation	-	(909)	(245)	(91 499)	(13)	(92 666)
other	-	-	-	-	(130)	(130)
Balance as at 30 June 2014	**-**	**48 508**	**100 985**	**1 205 060**	**13 380**	**1 367 933**

For the 6 months period ended 30 June 2015 (unaudited)	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Means of transport	Other fixed assets	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Accumulated depreciation						
Balance as at 1 January 2015	**-**	**52 412**	**112 128**	**1 247 331**	**14 193**	**1 426 064**
Additions:						
depreciation charges	-	8 335	9 209	150 952	1 188	169 684
Disposals:						
sales	-	-	(7)	(213)	(3)	(223)
liquidation	-	-	(18)	(67 375)	(127)	(67 520)
Balance as at 30 June 2015	**-**	**60 747**	**121 312**	**1 330 695**	**15 251**	**1 528 005**

9. Property, plant and equipment (cont'd.)

For the 6 months period ended 30 June 2014 (unaudited)	**Land**	**Buildings, premises, civil and water engineering structures**	**Technical equipment and machinery**	**Means of transport**	**Other fixed assets**	**Total**
	PLN thousand	**PLN thousand**	**PLN thousand**	**PLN thousand**	**PLN thousand**	**PLN thousand**
Accumulated impairment loss						
Balance as at 1 January 2014	**-**	**11 300**	**-**	**-**	**-**	**11 300**
Disposals:						
impairment loss utilization	-	(8 610)	-	-	-	**(8 610)**
Balance as at 30 June 2014	**-**	**2 690**	**-**	**-**	**-**	**2 690**

For the 6 months period ended 30 June 2015 (unaudited)	**Land**	**Buildings, premises, civil and water engineering structures**	**Technical equipment and machinery**	**Means of transport**	**Other fixed assets**	**Total**
	PLN thousand	**PLN thousand**	**PLN thousand**	**PLN thousand**	**PLN thousand**	**PLN thousand**
Accumulated impairment loss						
Balance as at 1 January 2015	**-**	**2 690**	**-**	**-**	**-**	**2 690**
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Balance as at 30 June 2015	**-**	**2 690**	**-**	**-**	**-**	**2 690**

9. Property, plant and equipment (cont'd.)

Fixed assets under construction	**for the 6 months period ended 30/06/2015 (unaudited) PLN thousand**	**for the 6 months period ended 30/06/2014 (unaudited) PLN thousand**
Opening balance	**12 654**	**20 454**
Additions	199 360	244 479
Grants to property, plants and equipments	-	(2 538)
Disposals - transfer to non-current assets	(194 758)	(246 942)
Closing balance	**17 256**	**15 453**

Accumulated impairment of fixed assets under construction	**for the 6 months period ended 30/06/2015 (unaudited) PLN thousand**	**for the 6 months period ended 30/06/2014 (unaudited) PLN thousand**
Opening balance	**1 800**	**1 800**
Additions	-	-
Disposals	-	-
Closing balance	**1 800**	**1 800**

10. Subsidiaries

Detailed information regarding subsidiaries as at 30 June 2015 and 31 December 2014:

No.	Name of subsidiary	Core business	Place of registration and operation	% of interests held by the Company	
				As at 30/06/2015	As at 31/12/2014
1	CARGOSPED Sp. z o.o.	Forwarding services (transport of aggregate as well as domestic and international intermodal transport)	Warsaw	100.0%	100.0%
2	PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	Services supporting land transport, transshipment of goods, wholesale and retail sale of waste and metal scrap	Małaszewicze	100.0%	100.0%
3	PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o.	Transshipment of goods in other terminals	Żurawica	100.0%	100.0%
4	PKP CARGO SERVICE Sp. z o.o.	Siding services	Warsaw	100.0%	100.0%
5	PKP CARGO International a.s. in liquidation (1)	Shipping outside of Poland	Bratislava	100.0%	51.0%
6	Przedsiębiorstwo Spedycyjne TRADE TRANS Sp. z o.o. (2)	Shipping services	Warsaw	100.0%	55.6%
7	PKP CARGOTABOR Sp. z o.o.	Repair and maintenance of railroad fleet	Warsaw	100.0%	100.0%
8	PKP CARGOTABOR USŁUGI Sp. z o.o.	On 1 April 2015 the Company has suspended its business activities	Warsaw	100.0%	100.0%
9	CARGOTOR Sp.z o.o.	Management of logistics infrastructure including railway sidings and tracks	Warsaw	100.0%	100.0%
10	ONECARGO Sp. z o.o. (3)	Rail transport of goods	Warsaw	100.0%	0.0%
11	ONECARGO CONNECT Sp. z o.o. (3)	Services supporting land transport	Warsaw	100.0%	0.0%
12	Advanced World Transport B.V. (4)	Holding and financial activity	Amsterdam	80.0%	0.0%

(1) On 5 February 2015 the Company acquired 49% shares in PKP CARGO International a.s. in liquidation from Rail Cargo Spedition a.s. As at 30 June 2015 the Company owns 100% of the shares in PKP CARGO International a.s. in liquidation.

(2) On 5 February 2015 the Company acquired 44.44% shares in PS Trade Trans Sp. z o.o. from Trade Trans Invest a.s. The purchase price amounted to PLN 40,000 thousand. As at 30 June 2015 the Company owns 100% of the shares in Przedsiębiorstwo Spedycyjne Trade Trans Sp. z o.o.

(3) In March 2015 two companies were registered. The Company owns 100% of the shares capital in these companies:

- ONECARGO Sp. z o.o.
- ONECARGO CONNECT Sp. z o. o.

(4) On 28 May 2015 the Company has acquired from Mr. Zdenek Bakala and The Bakala Trust 80% shares in share capital of Advanced World Transport B.V. ("AWT B.V.") with headquarters in Amsterdam. AWT B.V. is a Parent Company in AWT Group, which includes:

- 8 subsidiaries – controlled directly by the AWT B.V.,
- 7 entities controlled indirectly by the AWT B.V.,
- 1 entity jointly controlled by the subsidiaries of AWT B.V.,
- 2 entities in which subsidiaries of AWT B.V. hold a minority stake in the share capital.

Core business of AWT Group is mainly railway shipping services.

The purchase price of the acquired shares amounted to PLN 427,299 thousand.

Based on the Shareholders Agreement, the Company has concluded with a minority shareholder at AWT B.V. an agreement on the purchase option (call) and sale option (put) of a minority shares in AWT B.V. Detailed information is provided in Note 22 of these Interim Condensed Separate Financial Statements.

Information on the companies which are indirectly dependent (belonging to PS Trade Trans Sp. z o.o.) are as follows:

	Name of subsidiary	Core business	Place of registration and operation	% of interests held by the subsidiary (nominal value)	
				As at 30/06/2015	As at 31/12/2014
13	Trade Trans Karya Sp. z o.o.	Transshipment of goods, customs depot	Lublin	100.0%	100.0%
14	Transgaz S.A.	Transport agency	Zalesie k. Małaszewicz	64.0%	64.0%
15	Trade Trans Finance Sp. z o.o.	Financial and accounting services	Warsaw	100.0%	100.0%
16	PPHU "Ukpol" Sp. z o.o.	Transshipment of goods, customs depot	Werchrata	100.0%	100.0%

Information on the companies which are indirectly dependent (belonging to Cargosped Sp. z o.o.) are as follows:

	Name of subsidiary	Core business	Place of registration and operation	% of interests held by the subsidiary (nominal value)	
				As at 30/06/2015	As at 31/12/2014
17	Cargosped Terminal Braniewo Sp. z o.o.	Transshipment of goods, customs depot	Braniewo	100.0%	100.0%

Information on the companies which are indirectly dependent (belonging to AWT Group) are as follows:

	Name of subsidiary	Core business	Place of registration and operation	% of interests held by the subsidiary (nominal value)	
				As at 30/06/2015	As at 31/12/2014
18	Advanced World Transport a.s.	Providing complex services: rail transport, railway shipping, siding services, repair of railroad fleet	Ostrava	100.0%	0.0%
19	AWT ROSCO a.s.	Managing and lease of railroad fleet	Ostrava	100.0%	0.0%
20	AWT Čechofracht a.s.	Railway shipping and customs service	Prague	100.0%	0.0%
21	AWT Rekultivace a.s.	Providing complex services: recultivation of land, construction services, waste management, designing of land development	Havířov-Prostřední Suchá	100.0%	0.0%
22	AWT Rail HU Zrt.	Providing complex services: rail transport, railway shipping, siding services,	Budapest	100.0%	0.0%
23	AWT Coal Logistics s.r.o.	Railway shipping	Prague	100.0%	0.0%
24	AWT Rail SK, a. s	rail transport, railway shipping	Bratislava	100.0%	0.0%
25	AWT Rail PL Sp.z o.o.	Railway shipping	Rybnik	100.0%	0.0%
26	AWT DLT s.r.o.	Siding services	Kladno	100.0%	0.0%
27	XZD a.s. in liquidation	Railway shipping	Bratislava	100.0%	0.0%
28	G.I.B., s.r.o. in liquidation	Railway shipping	Prague	100.0%	0.0%
29	AWT Trading s.r.o.	Trading of military purpose products	Petřvald	100.0%	0.0%
30	AWT Rekultivace PL Sp. z o.o.	Providing complex services: recultivation of land, construction services, waste management, designing of land development	Cieszyn	100.0%	0.0%
31	Spedrapid Sp. z o.o.	Railway shipping	Gdynia	66.0%	0.0%
32	RND s.r.o.	Railway shipping, monitoring	Olomouc	51.0%	0.0%

11. Investments in associates

Detailed information regarding associates as at 30 June 2015 and 31 December 2014 are described below:

	Name of subsidiary	Core business	Place of registration and operation	% of interests held by the Company (nominal value)	
				As at 30/06/2015	As at 31/12/2014
1	COSCO POLAND Sp. z o.o.	Sea-land service of container cargo	Gdynia	20.0%	20.0%
2	Międzynarodowa Spedycja MIRTRANS Sp. z o.o. in liquidation	Shipping services	Gdynia	44.0%	44.0%

Information about the companies which are indirectly dependent (belonging to PS Trade Trans Sp. z o.o.) are as follow:

	Name of subsidiary	Core business	Place of registration and operation	% of interests held by the subsidiary (nominal value)	
				As at 30/06/2015	As at 31/12/2014
3	Rentrans Cargo Sp. z o.o.	Railway transport	Szczecin	28.3%	27.4%
4	Rail Cargo Service Sp. z o.o. (1)	Railway transport, IT services	Wrocław	0.0%	20.0%
5	Rail Cargo Spedition GmbH (1)	Railway transport	Vienna	0.0%	37.7%
6	S.C. Trade Trans Terminal SRL (1)	Transshipment, transport, shipping services	Curtici	0.0%	23.9%

(1) On 5 February 2015 PS Trade Trans Sp. z o.o. has sold to Trade Trans Invest a.s. 20% of shares held in Rail Cargo Service Sp. z o.o., 37.7% of shares held in Rail Cargo Spedition GmbH and 23.9% of shares held in S.C. Trade Trans Terminal SRL. As at 30 June 2015 PS Trade Trans Sp. z o.o. has no shares in these entities.

Information about the companies which are indirectly dependent (belonging to Cargosped Sp. z o.o.) are as follow:

	Name of subsidiary	Core business	Place of registration and operation	% of interests held by the subsidiary (nominal value)	
				As at 30/06/2015	As at 31/12/2014
7	Gdański Terminal Kontenerowy S.A.	Handling, storage, transport and forwarding	Gdańsk	41.9%	41.9%

Information about the companies which are indirectly dependent (belonging to AWT Group) are as follow:

	Name of subsidiary	Core business	Place of registration and operation	% of interests held by the subsidiary (nominal value)	
				As at 30/06/2015	As at 31/12/2014
8	CD Logistics, a.s.	Railway shipping	Prague	22.0%	0.0%
9	DEPOS Horni Sucha, a.s.	Waste management	Horni Sucha	20.6%	0.0%

12. Joint ventures

The Company owns directly and indirectly through its subsidiaries: PS Trade Trans Sp. z o.o., Cargosped Sp. z o.o., AWT B.V. and PKP CARGO International a.s. in liquidation the following shares in joint subsidiaries:

	Name of subsidiary	Core business	Place of registration and operation	% of interests held by the Company and subsidiaries (nominal value)	
				As at 30/06/2015	As at 31/12/2014
1	PKP CARGO CFL International S.A. in liquidation (1)	Forwarding and shipping services	Bratislava	0.0%	50.0%
2	Terminale Przeładunkowe Sławków - Medyka Sp. z o.o.	Terminal service in intermodal transport, transshipment and security palletized cargo shipping and mass metallurgical goods	Sławków	50.0%	50.0%
3	POL – RAIL S.r.l.	International railway transport	Rome	50.0%	50.0%
4	Cargosped Składy Celne Sp. z o.o.	Storage of goods in a customs depot, storage of goods in a domestic warehouse and service of stored goods	Gdańsk	50.0%	50.0%
5	LEX logistics express, s.r.o.	Forwarding and shipping services, property rental	Prague	50.0%	0.0%

(1) On 30 June 2015 PKP CARGO International a.s. in liquidation has sold 31 shares (representing 50% of share capital) in PKP CARGO CFL International S.A. in liquidation to other shareholder – CFL CARGO S.A. As a result of this transaction, as at 30 June 2015 PKP CARGO International a.s. in liquidation has no shares in PKP CARGO CFL International S.A. in liquidation.

13. Investments in subsidiaries and associates

	As at 30/06/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Advanced World Transport B.V.	427 300	-
CARGOSPED Sp. z o.o.	20 599	20 599
CARGOTOR Sp. z o.o.	20 182	20 182
COSCO POLAND Sp. z o.o.	1 100	1 100
ONECARGO Sp. z o.o.	5	-
ONECARGO CONNECT Sp. z o.o.	5	-
PKP CARGO International a.s. in liquidation	3 514	-
PKP CARGOTABOR Sp. z o.o.	84 181	84 181
PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	40 439	40 439
PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o.	6 666	6 666
PKP CARGO SERVICE Sp. z o.o.	12 676	12 676
PKP CARGOTABOR USŁUGI Sp. z o.o.	16 319	16 319
POL – RAIL S.r.l.	1 870	1 870
PS TRADE TRANS Sp. z o.o.	98 814	58 814
Total	**733 670**	**262 846**

13.1 Investments in subsidiaries and associates

	For the 6 months period ended 30/06/2015 (unaudited) PLN thousand	For 6 months period ended 30/06/2014 (unaudited) PLN thousand
Investments in subsidiaries		
Opening balance	**259 876**	**240 194**
including impairment allowance	*(7 561)*	*(7 561)*
Additions	470 824	19 682
Acquisition [1]	468 913	19 682
Reversal of impairment allowance [2]	1 911	-
Closing balance	**730 700**	**259 876**
including impairment allowance	*(5 650)*	*(7 561)*
Investments in associates		
Opening balance	**2 970**	**2 970**
including impairment allowance	*(1 018)*	*(1 018)*
Closing balance	**2 970**	**2 970**
including impairment allowance	*(1 018)*	*(1 018)*

[1] In the 6 months period ended 30 June 2015 an item includes mainly acquisition of shares in AWT B.V., PS Trade Trans Sp. z o.o. and PKP CARGO International a.s. in liquidation. These transactions are described in Note 10.

[2] In the 6 months period ended 30 June 2015 the Company reversed impairment allowance on shares in PKP CARGO International a.s. in liquidation of PLN 1,911 thousand.

14. Other financial assets

	As at 30/06/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Financial instruments measured at fair value through profit or loss		
Currency forwards and spots	587	-
Investments in shares		
Shares in Polish entities (1)	6 021	6 021
Loans and receivables measured at amortized cost		
Loans granted to other entities	-	433
Deposits over 3 months	-	301 385
	-	301 818
Total	**6 608**	**307 839**
Non-current assets	6 021	6 021
Current assets	587	301 818
Total	**6 608**	**307 839**

(1) As at 30 June 2015 and as at 31 December 2014 the impairment allowance on investments in shares amounted to PLN 11,833 thousand.

15. Other non-financial assets

	As at 30/06/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Advances for purchase of fixed assets	1 059	1 059
Prepayments	49 126	24 165
Other	771	1 161
Total	**50 956**	**26 385**
Non-current assets	6 907	1 464
Current assets	44 049	24 921
Total	**50 956**	**26 385**

As at 30 June 2015 the most significant items of prepayments are: Social Benefit Fund appropriations of PLN 14,330 thousand, advances for purchase of remaining traction energy of PLN 9,818 thousand, costs of prepaid transport benefits for employees of PLN 7,895 thousand, cost of insurance of PLN 9,868 thousand and cost of property tax of PLN 3,725 thousand. As at 31 December 2014 the most significant items of prepayments for external services are: advances for purchase of remaining traction energy of PLN 16,534 thousand, cost of IT services of PLN 3,613 thousand and cost of rents for the subsequent periods of PLN 1,764 thousand.

16. Trade and other receivables

	As at 30/06/2015 (unaudited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Trade receivables	576 750	472 002
Impairment allowance for receivables	(127 690)	(59 600)
Total	**449 060**	**412 402**
Settlements under public law (excluding CIT)	3 229	4 917
Dividend settlements	9 057	-
VAT settlements	5 553	4 491
Other settlements	2 902	1 361
Total	**469 801**	**423 171**
Current assets	469 801	423 171
Total	**469 801**	**423 171**

On 20 January 2015, the Company issued a debit note in favour of one of the counterparties of PLN 51,360 thousands. Due to the fact that probability of receipt of payment is remote, the amount of receivable has been covered by impairment allowance in full amount.

17. Cash and cash equivalents

For the purpose of preparation of the Interim Separate Statement of Cash Flows, cash and cash equivalents consist of cash in hand and cash at bank, including bank deposits up to 3 months maturity.

	As at 30/06/2015 (unaudited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Cash in hand and at bank	109 903	63 188
Bank deposits up to 3 months	14 192	318 232
Total	**124 095**	**381 420**

18. Non-current assets classified as held for sale

Non-current assets classified as held for sale	As at 30/06/2015 (unaudited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Land held for sale	4 994	4 994
Means of transport	12 566	12 566
Total	**17 560**	**17 560**

As at 30 June 2015 and as at 31 December 2014 the Company had some redundant non-current assets and decided to sell them. Non-current assets held for sale include 3 land properties, as well as 77 train engines, which due to their technical usage are not in Company's use.

As a result of the occurrence of events beyond the Company's control, sale of above mentioned assets have not been finalized within 12 months from the date of classification as assets held for sale. However, the Company is still determined to carry out the plan of sale and takes active steps to finalize it.

After the reporting date the following events regarding non-current assets held for sale occurred:

- The company has sold 6 engines classified as held for sale of a carrying amount of PLN 1,281 thousand as at 30 June 2015.

- The Supervisory Board of PKP Cargo S.A. has agreed to sale additional 256 engines and 1,376 wagons of a carrying amount of PLN 48,837 thousand as at 30 June 2015.

19. Equity

19.1 Share capital

	As at 30/06/2015 (unaudited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Share capital consists of:		
Ordinary shares, fully paid and registered	2 239 346	2 239 346
Total share capital	**2 239 346**	**2 239 346**

As at 30 June 2015 and as at 31 December 2014 share capital consisted of ordinary shares with the nominal value of PLN 50 each. The fully paid ordinary shares with a nominal value of PLN 50 are equivalent to one vote at the meeting of shareholders and bear the right to dividend.

Within the period covered by these Interim Condensed Separate Financial there were no changes in the share capital of the Company. In the corresponding period of the previous year the changes in the share capital of the Company were as follows:

	Number of shares	Share capital
	units	PLN thousand
As at 1 January 2014	**43 338 015**	**2 166 901**
Issuance of shares series C	1 448 902	72 445
As at 30 June 2014	**44 786 917**	**2 239 346**

19.2 Supplementary Capital

In the 6 months period ended 30 June 2015 changes in the supplementary capital of the Company were as follows:

On 21 April 2015 the Ordinary General Meeting of Shareholders (OGM) of the PKP CARGO S.A. adopted a resolution on distribution of net profit of PLN 58,610 thousand achieved in 2014, as follows:
a) the amount of PLN 4,689 thousand was allocated to the supplementary capital,
b) the amount of PLN 53,921 thousand was allocated to the payment of the dividend.

In addition, the OGM decided to allocate to the payment of the dividend of PLN 56,255 thousand derived from retained earnings. The dividend in the amount of PLN 110,176 thousand was paid on 26 June 2015.

20. Earnings per share

Profit used to calculate basic earnings and diluted earnings per share:

	For the 6 months period ended 30/06/2015 (unaudited) PLN thousand	For the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Profit used to calculate basic earnings per share	**24 609**	**129 861**

20.1 Basic earnings per share

	For the 6 months period ended 30/06/2015 (unaudited)	For the 6 months period ended 30/06/2014 (unaudited)
Weighted average number of ordinary shares (units)	44 786 917	44 258 588
Basic earnings per share (PLN per share)	**0.55**	**2.93**

The net profit per share for each period is calculated as a quotient of the net profit for the period and the weighted average number of shares existing in that period. The weighted average number of shares existing in a given period includes own shares.

20.2 Diluted earnings per share

	For the 6 months period ended 30/06/2015 (unaudited)	For the 6 months period ended 30/06/2014 (unaudited)
Weighted average number of ordinary shares (units)	44 786 917	44 794 904
Diluted earnings per share (PLN per share)	**0.55**	**2.90**

The diluted number of shares was calculated as the weighted average of ordinary shares adjusted as if they were converted into shares that result in dilution of potential ordinary shares.

21. Credit facilities and loans received

	As at 30/06/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Credit facilities and loans received measured at amortized cost		
Bank loans - pledged on assets	7 215	36 325
Bank loans - other	590 450	257 758
Total	**597 665**	**294 083**
Non-current liabilities	466 225	206 112
Current liabilities	131 440	87 971
Total	**597 665**	**294 083**

21.1 Summary of loan and borrowings agreements

Investment loans agreements in the Company were signed mainly to finance the modernization and scheduled overhauls of rolling stock and to finance the purchase of real estate. The reference rate for loan agreements is WIBOR 1M and 3M plus margin. The agreements are usually signed for the period of maximum 5 years. According to signed agreements repayment is made in PLN. Details concerning the bank loans of the Company are presented below:

As at 30 June 2015

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in PLN thousand	Liability in PLN thousand
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	05.10.2015	Bank enforcement	53 000	3 160
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	21.03.2016	Bank enforcement	36 400	5 290
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.03.2016	Bank enforcement	36 600	6 710
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Bank enforcement	39 000	16 932
Investment loan	FM Bank PBP S.A.	PLN	WIBOR 1M + margin	31.10.2017	Bank enforcement [1)]	60 000	21 882
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2017	Bank enforcement	49 200	24 600
Investment loan	Bank Millennium S.A.	PLN	WIBOR 3M + margin	21.08.2017	Mortgage to the amount of PLN 20,000 thousand	16 667	7 215
Investment loan	Bank Gospodarstwa Krajowego	PLN	WIBOR 1M + margin	31.03.2021	Bank enforcement	515 200	426 876
Investment loan	European Investment Bank	PLN	WIBOR 3M + margin	31.05.2020	No pledges	240 000	85 000
						Total	**597 665**

[1)] On 18 February 2015 the Company concluded with FM PBP Bank S.A. an annex to investment loan exempting pledge in the form of registered pledges on train engines.

As at 31 December 2014

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in PLN thousand	Liability in PLN thousand
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	05.10.2015	Bank enforcement	53 000	8 500
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	21.03.2016	Bank enforcement	36 400	8 950
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.03.2016	Bank enforcement	36 600	11 185
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Bank enforcement	39 000	21 174
Investment loan	FM Bank PBP S.A.	PLN	WIBOR 1M + margin	31.10.2017	Registered pledge on the diesel engines ST44 to the amount of PLN 90,000 thousand	60 000	27 442
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2017	Bank enforcement	49 200	29 520
Investment loan	Bank Millennium S.A.	PLN	WIBOR 3M + margin	21.08.2017	Mortgage to the amount of PLN 20,000 thousand	16 667	8 883
Investment loan	Bank Gospodarstwa Krajowego	PLN	WIBOR 1M + margin	31.03.2021	Bank enforcement	515 200	178 429
						Total	**294 083**

21.2 Not utilized credit and overdraft facilities

Type of loan	Name of bank	Currency	As at 30/06/2015 (unaudited)	As at 31/12/2014 (audited)
			PLN thousand	PLN thousand
Investment loan	Bank Gospodarstwa Krajowego	PLN	72 576	336 771
Investment loan	European Investment Bank	PLN	155 000	240 000
Overdraft facility	mBank S.A.	PLN	100 000	100 000
Overdraft facility	ING Bank Śląski S.A.	PLN	19 000	-
Total not utilized credit and overdraft facilities			**346 576**	**676 771**

21.3 Events of default in loan agreement

Within the period covered by these Interim Condensed Separate Financial Statements no breaches of covenants in loan agreements occurred.

22. Other financial liabilities

	As at 30/06/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Financial instruments measured at fair value through profit or loss		
Currency forwards and spots	-	633
Net liability due to put and call option for minority shares in AWT B.V. (1)	25 507	-
Other financial liabilities		
Cash pooling	31 360	58 760
Total	**56 867**	**59 393**
Non-current liabilities	25 507	-
Current liabilities	31 360	59 393
Total	**56 867**	**59 393**

(1) Based on the Shareholders Agreement, the Company has concluded with a minority shareholder of AWT B.V. an agreement on the purchase option (call) and sale option (put) of a minority shares in AWT B.V. Based on the agreement, the Company is both buyer of a call option (call) and the issuer of put option (put), and therefore has both the right to purchase the remaining shares in AWT B.V. through call option (call) and an obligation to purchase shares in AWT B.V. when the minority shareholder will realize a put option (put).

Period of execution sale option (put) has been set from 1 January 2017 to 31 December 2020, while the purchase option period (call) has been set from 1 January 2017 to 31 December 2021.

Net liabilities related to the purchase option (call) and sale option (put) of shares in AWT B.V. from a minority shareholder recognized were initially at fair value at the date of taking control of the AWT B.V. After the initial recognition net liabilities due to the purchase option (call) and sale option (put) are measured at fair value through profit or loss in accordance with IAS 39. The fair value is estimated as the current present value of discounted future result of settlement of options. Any changes in net liabilities due to the purchase option (call) and sale option (put) are recognized in financial revenues/expenses.

Due to the fact that the sale option (put) and purchase option (call) have been concluded at the same time, between the same parties, and the implementation of one of the options disables the ability of the second, the valuation of both options is presented in the compensated value as an asset or a liability, depending on which of them has the greater value. As at 30 June 2015 net valuation of both options was presented as other financial liabilities. The basic assumptions considered in the valuation of options are: EBITDA, net debt, discount rate and the ratio of EUR / PLN.

23. Finance lease liabilities and leases with purchase option

23.1 General terms of lease

The Company uses cargo wagons, transshipment devices, computer hardware, wagons and train engines under finance leases. The leases are concluded for 3 to 7 years. EURIBOR 1M, 3M, 6M is the reference rate for contracts denominated in EUR, LIBOR 6M CHF is the reference rate for those denominated in CHF, and WIBOR 1M and 3M is the reference rate for those denominated in PLN.

23.2 Finance lease liabilities

	Minimum lease payments	
	As at 30/06/2015 (unaudited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Up to one year	74 036	125 417
Over one year, up to five years	95 908	119 115
	169 944	**244 532**
Less future lease charges	(6 892)	(10 000)
Present value of minimum lease payments	**163 052**	**234 532**

	Present value of minimum lease payments	
	As at 30/06/2015 (unaudited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Up to one year	70 331	120 505
Over one year, up to five years	92 721	114 027
Present value of minimum lease payments	**163 052**	**234 532**

	As at 30/06/2015 (unaudited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Included in the financial statements as:		
Long-term finance lease liabilities and leases with purchase option	92 721	114 027
Short-term finance lease liabilities and leases with purchase option	70 331	120 505
Total	**163 052**	**234 532**

24. Trade and other payables

	As at 30/06/2015 (unaudited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Trade payables	240 071	191 770
Accruals	35 398	19 837
Liabilities due to purchase of non-financial non-current assets	118 921	132 817
Liabilities related to securities (deposits, bid bonds)	36 038	17 297
State settlements	90 091	93 204
Liabilities due to Voluntary Redundancy Program [1]	101 713	-
Other settlements with employees	50 819	70 002
Other settlements [2]	15 373	613
Total	**688 424**	**525 540**
Non-current liabilities [3]	44 447	67 938
Current liabilities	643 977	457 602
Total	**688 424**	**525 540**

[1] Voluntary Redundancy Program liabilities are described in note 25.1 to the Interim Condensed Separate Financial Statements

[2] As at 30 June 2015 other settlements include mainly payables arising from obligatory appropriations to the Social Benefit Fund of PLN 7,165 thousand and other settlements with related parties of PLN 7,291 thousand.

[3] Non-current liabilities include in particular payments regarding the modernization of rolling-stock in Company. Payments are made in accordance with pre-defined schedules.

25. Employee benefits

The actuarial valuation as at 30 June 2015 and 31 December 2014 was based on the following assumptions:

	Measurement as at 30/06/2015 %	31/12/2014 %
Discount rates	3.1	2.6
The average annual increase assumed for the basis of calculation of the provision for retirement benefits and jubilee bonuses	1.5	1.5
Assumed increase in the price of benefit entitlement	2.5	2.5
The average annual increase assumed for the basis of calculation of the provision for Social Benefit Fund	3.6	3.6
Weighted average employee mobility ratio	2.5	2.5
Inflation (annual)	2.5	2.5

Amount recognised in the Interim Condensed Statement of Financial Position in relation to Company's liabilities arising from employee benefit plans is as follows:

	As at 30/06/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Post-employment defined benefit plans		
– retirement benefits	135 651	145 424
– appropriations to the Social Benefit Fund for pensioners [1)]	112 249	164 487
– transport benefits	31 528	37 587
Other employee benefits		
– jubilee bonuses	274 796	290 716
– other employee benefits (including unused holidays)	22 368	31 301
– provision for Voluntary Redundancy Program (VRP)	-	257 116
Total	**576 592**	**926 631**
including:		
– long-term	492 648	611 418
– short-term	83 944	315 213
Total	**576 592**	**926 631**

25.1 Employee benefits - Voluntary Redundancy Program

Based on Resolution No. 229/2015 of the Management Board of PKP CARGO S.A. from 18 June 2015 and Resolution No. 1439/V/2015 of the Supervisory Board of PKP CARGO S.A. from 23 June 2015 PKP CARGO S.A. introduced the Voluntary Redundancy Program for its employees (VRP or Program). The main purpose of the Program was restructuring of employment in the PKP CARGO S.A. The Program did not introduce in the Company the collective redudancies within the meaning of Act of 13 March 2003 on the specific principles of terminating labour relationship for reasons not attributable to employees.

From 1 June 2015 to 17 June 2015 the employees of PKP CARGO S.A. were allowed to apply to join the Voluntary Redundancy Program. As a result of the verification of declarations of employees, the Company agreed that 874 employees could benefit from the Program. Employees who benefited from the Program, except for a statutory severance pay, dependent on the length of service, received also additional compensation, amount of which depended on whether an employee was beneficiary of an employment guarantee and, if so, on the type of it (4- or 10- year). The total value of liabilities resulting from the implemented Program amounted to PLN 63,861 thousand. Payment of benefits related to the VRP will take place in two tranches. The first tranche of PLN 54,362 thousand was paid in July 2015 together with the salary for June 2015. The second tranche of PLN 9,500 thousand will be paid in February 2016.

As at 30 June 2015 the Company recognized also has liabilities arising from the Program introduced in 2014 of PLN 37,852 thousand, which will be paid in January 2016.

Amount relating to the Company's liabilities concerning the Voluntary Redundancy Program recognised in the Interim Separate Statement of Financial Position is as follows:

	As at 30/06/2015 (unaudited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Long-term employee benefits	-	37 852
Short-term employee benefits	-	219 264
Trade and other payables	101 713	-

26. Other provisions

	As at 30/06/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Provision for the fine imposed by OCCP	8 416	8 416
Other provisions	13 371	17 414
Total	**21 787**	**25 830**
Long-term provisions	8 416	8 416
Short-term provisions	13 371	17 414
Total	**21 787**	**25 830**

Other provisions	Provision for the fine imposed by OCCP PLN thousand	Other provisions PLN thousand	Total PLN thousand
As at 1 January 2014 (audited)	**22 778**	**20 450**	**43 228**
Provisions recognised	-	420	420
Derecognised	(14 362)	(4 488)	(18 850)
As at 30 June 2014 (unaudited)	**8 416**	**16 382**	**24 798**
As at 1 January 2015 (audited)	**8 416**	**17 414**	**25 830**
Provisions recognised	-	1 914	1 914
Derecognised	-	(5 957)	(5 957)
As at 30 June 2015 (unaudited)	**8 416**	**13 371**	**21 787**

Provision for the fine imposed by Office of Competition and Consumer Protection (OCCP)

As at 30 June 2015 and 31 December 2014, the provision represents the estimate of the Management Board of the Company in connection with the probability of paying two fines imposed to Company by the Office of Competition and Consumer Protection of PLN 6,630 thousand and PLN 1,786 thousand, respectively.

During the period of 6 months ended 30 June 2015 no circumstances occurred that could result in change of estimates applied by the Company. As a result of future events, this assessment may change in next reporting periods.

Other provisions

According to the Management Board of Company the amount of other provisions as at 30 June 2015 and 31 December 2014 represents the best estimate of probable payment. If any penalties are imposed, their value is dependent on the future events with uncertain result. Consequently, the amount of provisions may change in future periods.

27. Categories and classes of financial instruments

Financial instruments by categories	As at 30/06/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Financial assets		
Financial assets measured at fair value through profit or loss	587	-
Loans and receivables	573 155	1 095 640
Total assets by category	**573 742**	**1 095 640**
Financial liabilities		
Financial liabilities measured at fair value through profit or loss	25 507	633
Financial liabilities measured at amortized cost	1 023 415	697 267
Liabilities excluded from IAS 39 (finance lease)	163 052	234 532
Total liabilities by category	**1 211 974**	**932 432**

Financial instruments by classes	As at 30/06/2015 (unaudited) PLN thousand	As at 31/12/2014 (audited) PLN thousand
Trade receivables	449 060	412 402
Loans granted	-	433
Bank deposits over 3 months	-	301 385
Cash	124 095	381 420
Assets from measurement of derivatives and embedded derivatives including:		
Derivatives - held for trading	587	-
Total financial assets	**573 742**	**1 095 640**
Credit facilities and loans	597 665	294 083
Trade payables	275 469	211 607
Liabilities arising from purchase of non-current assets	118 921	132 817
Finance leases	163 052	234 532
Cash pool	31 360	58 760
Measurement of derivatives and embedded derivatives, including:		
Derivatives - held for trading	25 507	633
Total financial liabilities	**1 211 974**	**932 432**

28. Related party transactions

28.1 Commercial transactions

During the period covered by this Interim Condensed Separate Financial Statement, the Company entered into the following commercial transactions with related parties:

	For the 6 months period ended 30/06/2015 (unaudited)		For the 6 months period ended 30/06/2014 (unaudited)	
	Sales to related parties	Purchases from related parties	Sales to related parties	Purchases from related parties
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Parent company (PKP S.A.)	470	32 774	462	32 816
Subsidiaries / co-subsidiaries	227 783	176 384	272 284	228 657
Other related parties from PKP S.A. Group	23 021	554 946	32 618	574 804

	As at 30/06/2015 (unaudited)		As at 31/12/2014 (audited)	
	Receivables from related parties	Liabilities to related parties	Receivables from related parties	Liabilities to related parties
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Parent company (PKP S.A.)	17	6 022	998	5 608
Subsidiaries / co-subsidiaries	71 931	62 840	62 755	32 915
Associates	-	-	9	-
Other related parties from PKP S.A. Group	5 003	125 868	9 452	83 995

In the 6 months period ended 30 June 2015 and 30 June 2014 all transactions were concluded on the arm's length basis.

28.2 Loans granted to / received from related parties

	As at 30/06/2015 (unaudited)	As at 31/12/2014 (unaudited)
	PLN thousand	PLN thousand
Loans granted to related parties	-	433
Total	**-**	**433**

28.3 Remuneration of executive management

Remuneration of Members of the Supervisory Board of the Company:	For the 6 months period ended 30/06/2015 (unaudited) PLN thousand	For the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Short-term benefits	645	204
Total	**645**	**204**

Remuneration of Members of the Management Board of the Company:	For the 6 months period ended 30/06/2015 (unaudited) PLN thousand	For the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Short-term benefits	2 509	1 255
Post-employment benefits	69	562
Employment termination benefits	-	256
Total	**2 578**	**2 073**

Remuneration of other executive management (Proxies - Managing Directors):	For the 6 months period ended 30/06/2015 (unaudited) PLN thousand	For the 6 months period ended 30/06/2014 (unaudited) PLN thousand
Short-term benefits	1 145	805
Post-employment benefits	23	-
Share-based payments	-	11
Employment termination benefits	84	19
Total	**1 252**	**835**

During 6 months period ended 30 June 2015 and 30 June 2014 Members of Management Board and Supervisory Board of the Company did not grant or receive any loans or guarantees.

29. Commitments to incur expenses

In May 2013 the Company concluded an agreement with a counterparty regarding modernisation of 30 SM-48 series diesel engines. Until 30 June 2015, the Company received 23 modernized engines. As at 30 June 2015 the future value of the liabilities connected with the aforementioned agreement ranges between PLN 45,966 a 48,690 thousand, depending on fulfillment of specific technical conditions. According to the timetable, the completion date of the agreement expires in February 2016.

In September 2013 the Company concluded an agreement with a counterparty for construction and delivery of 330 newly built Sggrss container wagons. Until 30 June 2015, the Company received 280 wagons. As at 30 June 2015 the future value of liabilities connected with the aforementioned agreement amounts to PLN 17,681 thousand.

For the implementation of this project, the Company was granted a funding under the Operational Program “Infrastructure and Environment”, in a total amount not exceeding 30% of contract value.

On 2 July 2015 the Company as part of agreement described above, the Company received another tranche of financing of PLN 2,833 thousand.

30. Contingent liabilities

	As at 30/06/2015 (unaudited)	As at 31/12/2014 (audited)
	PLN thousand	PLN thousand
Sureties granted to subsidiaries (i)	24 451	24 518
Guarantees issued on request of PKP Cargo S.A. (ii)	24 308	22 759
Proceedings carried out by OCCP (iii)	9 946	9 946
Other contingent liabilities (iv)	48 000	48 000
Total	**106 705**	**105 223**

(i) Sureties and guarantees granted to subsidiaries

As at 30 June 2015 and as at 31 December 2014 the following sureties granted by the Company were valid: PKP Cargo Service Sp. z o.o. (surety regarding a multi-currency credit facility agreement), PKP CARGOTABOR Sp. z o.o. (surety regarding an operating lease, surety regarding three credit agreements and surety regarding a loan agreement).

(ii) Guarantees issued by banks on behalf of PKP CARGO

As at 30 June 2015 a number of guarantees issued by banks on behalf of the Company to counterparties were effective. The guarantees included bid bonds (worth PLN 850 thousand), good performance bonds (worth PLN 22,194 thousand) and payment bonds (worth PLN 1,264 thousand).

As at 31 December 2014 a number of guarantees issued by banks on behalf of the Company to counterparties were effective. The guarantees included bid bonds (worth PLN 240 thousand), good performance bonds (worth PLN 18,286 thousand) and payment bonds (worth PLN 4,233 thousand).

(iii) OCCP proceedings

As at 30 June 2015 and 31 December 2014 the Company recognised as a contingent liability a part of provision for the fine imposed by the OCCP (PLN 9,946 thousand) that has not been recognised in provisions for liabilities.

On 22 August 2014 the Management Board of the Company was informed by the President of the Office of Competition and Consumer Protection about further conducting of the antimonopoly proceeding regarding the Company's abuse of the dominant position on the domestic market of rail transport of goods (proceeding which resulted in decision no. DOK-3/2009). The amount of potential contingent liability resulting from conducted proceeding is not known.

During the period of 6 months ended 30 June 2015 no circumstances occurred that could result in change of estimates applied by the Company. As a result of future events, this assessment may change in next reporting periods.

(iv) Other liabilities

In 2014 the Company received payment requests from external entities. The total value of claims does not exceed PLN 48,000 thousand. On the basis of legal analysis of these claims, the Company estimates that as at 30 June 2015 and as at 31 December 2014 the likelihood of outflow of cash connected with these claims is remote. As a result of future events, this assessment may change in next periods.

31. Events after reporting date

On 29 July 2015 the Extraordinary General Meeting of PKP CARGO International a.s. in liquidation distributed the liquidation mass. The payment of the liquidation mass to the sole shareholders - PKP CARGO S.A. occurred on 5 August 2015. Finalization of the process of liquidation of PKP Cargo International a.s. is scheduled on September 2015 and is subject to the approvals of the relevant local administrative bodies.

On 23 July 2015 the Supervisory Board has agreed to sale additional part of rolling stock. Details are presented in note 18 of these Interim Condensed Separate Financial Statements.

32. Approval of the financial statements

These Interim Condensed Separate Financial Statements were approved for publication by the Management Board on 26 August 2015.

Management Board of the Company

Adam Purwin	President of the Management Board
Jacek Neska	Member of the Management Board
Łukasz Hadyś	Member of the Management Board
Wojciech Derda	Member of the Management Board
Dariusz Browarek	Member of the Management Board

Warsaw, 26 August 2015

MANAGEMENT BOARD REPORT
ON THE ACTIVITY OF THE **PKP CARGO GROUP**
FOR H1 2015

Warsaw, 27 August 2015

MANAGEMENT BOARD REPORT ON THE ACTIVITY OF THE PKP CARGO GROUP FOR H1 2015

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1. Financial highlights of PKP CARGO S.A. and the PKP CARGO Group

Table 1 Financial highlights of the PKP CARGO Group

PKP CARGO Group	PLN 000s		EUR 000s	
	6 months* 2015	6 months* 2014	6 months 2015	6 months 2014
Operating revenues	2,062,566	2,099,828	498,915	502,544
Profit on operating activities	163,086	168,952	39,449	40,435
Profit before tax	161,252	163,648	39,005	39,165
Net profit	156,085	128,149	37,755	30,669
Total comprehensive income attributable to shareholders of the parent company	222,711	126,158	53,872	30,193
*Adjusted profit on operating activities****	*95,486*	*168,952*	*23,097*	*40,435*
*Adjusted profit before tax****	*93,652*	*163,648*	*22,654*	*39,165*
*Adjusted net profit****	*75,151*	*128,149*	*18,178*	*30,669*
*Adjusted total comprehensive income attributable to shareholders of the parent company****	*141,777*	*126,158*	*34,295*	*30,193*
Weighted average number of shares (units)	44,786,917	44,258,588	44,786,917	44,258,588
Weighted average number of shares used to calculate diluted profit (units)	44,786,917	44,794,904	44,786,917	44,794,904
Earnings per share (PLN)	3.49	2.86	0.84	0.68
*Adjusted earnings per share (PLN)****	*1.68*	*2.86*	*0.41*	*0.68*
Diluted earnings per share (PLN)	3.49	2.83	0.84	0.68
Net cash flow from operating activities***	-1,155	135,190	-279	32,354
Net cash flow from investing activities	-263,516	184,498	-63,742	44,155
Net cash flow from financing activities	54,548	-244,017	13,195	-58,400
Movement in cash and cash equivalents	-210,123	75,671	-50,827	18,110
	30/06/2015	**31/12/2014**	**30/06/2015**	**31/12/2014**
Non-current assets	5,125,887	4,218,099	1,222,079	989,630
Current assets	1,149,263	1,408,307	273,999	330,410
Non-current assets classified as held for sale	18,483	17,560	4,407	4,120
Share capital	2,239,346	2,239,346	533,889	525,384
Equity attributable to owners of the parent company	3,466,564	3,330,672	826,474	781,426
Equity attributable to minority shareholders	0	63,500	0	14,898
Non-current liabilities	1,682,148	1,135,856	401,046	266,489
Current liabilities	1,144,921	1,113,938	272,964	261,347

Source: Condensed interim consolidated financial statements of the PKP CARGO Group for the period of 6 months ended 30 June 2015 prepared according to EU IFRS

* each time whenever the Report mentions 6 months of 2015, it should be understood as 6 months ended 30 June 2015

** each time whenever the Report mentions 6 months of 2014, it should be understood as 6 months ended 30 June 2014

*** the data for H1 2015 were adjusted for presentation purposes for the profit on bargain purchase of AWT in the amount of PLN 137.8 million and costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Board and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million.

**** including the performance of liabilities stemming from the implemented Voluntary Redundancy Program in the amount of PLN 227 million

Table 2 Financial highlights of PKP CARGO S.A.

PKP CARGO S.A.	**PLN 000s**		**EUR 000s**	
	6 months 2015	**6 months 2014**	**6 months 2015**	**6 months 2014**
Operating revenues	1,683,899	1,884,670	407,319	451,051
Profit on operating activities	17,290	145,122	4,182	34,731
Profit before tax	23,849	160,589	5,769	38,433
Net profit	24,609	129,861	5,953	31,079
Comprehensive income	74,414	129,861	18,000	31,079
*Adjusted profit on operating activities**	*81,152*	*145,122*	*19,630*	*34,731*
*Adjusted profit before tax**	*87,711*	*160,589*	*21,216*	*38,433*
*Adjusted net profit**	*76,337*	*129,861*	*18,465*	*31,079*
*Adjusted comprehensive income**	*126,142*	*129,861*	*30,513*	*31,079*
Weighted average number of shares (units)	44,786,917	44,258,588	44,786,917	44,258,588
Weighted average number of shares used to calculate diluted profit (units)	44,786,917	44,794,904	44,786,917	44,794,904
Earnings per share (PLN)	0.55	2.93	0.13	0.70
*Adjusted earnings per share (PLN)**	*1.70*	*2.93*	*0.41*	*0.70*
Diluted earnings per share (PLN)	0.55	2.90	0.13	0.69
Net cash flow from operating activities**	23,595	97,745	5,707	23,393
Net cash flow from investing activities	-358,310	189,453	-86,672	45,341
Net cash flow from financing activities	77,390	-224,138	18,720	-53,642
Movement in cash and cash equivalents	-257,325	63,059	-62,245	15,092
	30/06/2015	**31/12/2014**	**30/06/2015**	**31/12/2014**
Non-current assets	4,594,899	4,093,801	1,095,484	960,468
Current assets	708,575	1,207,089	168,934	283,201
Non-current assets classified as held for sale	17,560	17,560	4,187	4,120
Share capital	2,239,346	2,239,346	533,889	525,384
Equity	3,216,536	3,252,298	766,864	763,038
Non-current liabilities	1,129,964	1,007,911	269,398	236,471
Current liabilities	974,534	1,058,241	232,342	248,279

Source: Condensed Interim Standalone Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2015 prepared according to EU IFRS

* the H1 2015 data were adjusted for presentation purposes for costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Board and Supervisory Board of PKP CARGO S.A. in the amount of PLN 63.9 million.

** including the performance of liabilities stemming from the implemented 1st Voluntary Redundancy Program in the amount of PLN 219.3 million

The following average PLN to EUR exchange rates set by the National Bank of Poland have been used to translate selected financial data in the periods covered by the Condensed Interim Standalone Financial Statements and Condensed Interim Consolidated Financial Statements:

- exchange rate prevailing on the last day of the reporting period: 30 June 2015 - 4.1944 PLN/EUR, 31 December 2014 - 4.2623 PLN/EUR;
- the average exchange rate in the period calculated as the arithmetic mean of the FX rates prevailing on the last day of each month in a given period: 01 January - 30 June 2015 - 4.1341 PLN/EUR, 01 January - 30 June 2014 - 4.1784 PLN/EUR.

2. Organization of the PKP CARGO Group

2.1. Highlights on the Company and the PKP CARGO Group[1]

The PKP CARGO Group is the second largest rail freight operator in the European Union („EU"). The Group's development is focused on enhancing and extending its operations in terms of its product range and geographic area. At present, the Group is the leader on the Polish market (according to the Office of Rail Transport - UTK[2]) and it is the second largest operator on the Czech market (according to SZDC[3]). Notwithstanding the areas mentioned above, the Group conducts operations that it is constantly developing in Slovakia, Germany, Austria, Belgium, the Netherlands, Lithuania and Hungary.

The Group offers comprehensive logistics handling under which, on top of the rail freight transport service, the following auxiliary and complementary services are provided:

- intermodal logistics;
- freight forwarding (domestic and international);
- terminal services - intermodal and conventional (freight trans-shipment and storage);
- siding and traction services;
- maintenance and repair of rolling stock;
- reclamation activity.

2.2. Units subject to consolidation

The condensed interim consolidated financial statements for the period of 6 months ended 30 June 2015 encompass PKP CARGO S.A. and 16 subsidiaries consolidated by the full method:

1. PKP CARGO SERVICE Sp. z o.o.
2. PKP CARGOTABOR Sp. z o.o.
3. PKP CARGOTABOR USŁUGI Sp. z o.o.
4. PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.
5. PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o.
6. CARGOSPED Sp. z o.o.
7. CARGOSPED Terminal Braniewo Sp. z o.o.
8. CARGOTOR Sp. z o.o.
9. Przedsiębiorstwo Spedycyjne TRADE TRANS Sp. z o.o.
10. Advanced World Transport B.V. ("AWT B.V.")
11. Advanced World Transport a.s. ("AWT a.s.")
12. AWT ROSCO a.s.
13. AWT Čechofracht a.s.
14. AWT Rekultivace a.s.
15. AWT Coal Logistics s.r.o.
16. AWT Rail HU Zrt.

[1] Whenever the Report mentions:
- the Company or Parent Company it should be construed to mean PKP CARGO S.A.,
- PKP CARGO Group, Group or Capital Group it should be construed to mean PKP CARGO S.A. and its subsidiaries collectively.

[2] Office of Rail Transport

[3] Správa železniční dopravní cesty (entity responsible for management of the state railway network in the Czech Republic)

In addition, the following companies are measured using the equity method as at 30 June 2015 in the PKP CARGO Group's Condensed Interim Consolidated Financial Statements:

- COSCO POLAND Sp. z o.o.
- Pol – Rail S.r.l.
- PKP CARGO International a.s. w likwidacji
- Terminale Przeładunkowe Sławków – Medyka Sp. z o.o.
- Trade Trans Karya Sp. z o.o.
- Transgaz S.A.
- Trade Trans Finance Sp. z o.o.
- PPHU "Ukpol" Sp. z o.o.
- Rentrans Cargo Sp. z o.o.
- Gdański Terminal Kontenerowy S.A.
- ONECARGO CONNECT Sp. z o.o.
- ONECARGO Sp. z o.o.
- AWT Rail SK a.s.

A short description of the companies whose financial statements are subject to consolidation by the full method has been presented below.

PKP CARGO S.A.

The Parent Company was established by the power of article 14 of the Act of 8 September 2000 on Commercialization, Restructuring and Privatization of the state-owned enterprise „Polskie Koleje Państwowe". The Company was founded by a notary deed of 29 June 2001, and subsequently registered under the name of PKP CARGO Spółka Akcyjna in the District Court in Katowice, VIII Commercial Division of the National Court Register under file number KRS 0000027702. As a consequence of moving the Company's registered office, which as of 7 October 2002 was specified as Warsaw, ul. Grójecka 17, the registration files are kept by the District Court for the capital city of Warsaw, XII Commercial Division of the National Court Register. From its inception the Company has functioned within the PKP Group. The Company's core business is domestic and international rail freight transportation.

PKP CARGO SERVICE Sp. z o.o.

PKP CARGO SERVICE Sp. z o.o. was established as Agencje Celne PKP CARGO Sp. z o.o. on 11 July 2002 by PKP CARGO S.A. It launched operations on 1 December 2002. The company's core business is to provide services concerning the comprehensive handling of sidings as well as transporting cargo by rail transport. In areas where the company concentrates its rail siding activity execution areas are created to handle rail sidings. PKP CARGO SERVICE Sp. z o.o. also conducts vehicle unloading activity supporting rail freight forwarding.

PKP CARGOTABOR Sp. z o.o.

On 1 July 2014 the operations of companies belonging to the PKP CARGO Group dedicated to the repair and maintenance of rolling stock were consolidated. At present, the competences in this area are concentrated in PKP CARGOTABOR Sp. z o.o. This company's core business entails services in the area of repair and maintenance of rolling stock and the physical decommissioning of wagons and locomotives. Moreover, this company renders comprehensive services concerning repairs of electrical machines and wheelsets as well as weighing and regulating rolling stock. This company focuses on repairing and maintaining rolling stock in the PKP CARGO Group.

PKP CARGOTABOR USŁUGI Sp. z o.o.

Until 22 October 2014 PKP CARGOTABOR USŁUGI Sp. z o.o. did business as PKP CARGOLOK Sp. z o.o. The Company's line of business includes activity related to collecting, processing and neutralizing waste and recovery of raw materials.

As of 1 April 2015 PKP CARGOTABOR USŁUGI Sp. z o.o. suspended business activity for 9 months, i.e. until the end of 2015; however, as of 1 July 2015 it resumed activity.

PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.

PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o. was established on 22 February 2010. This company's line of business is to provide comprehensive cargo handling through trans-shipment, storage, segregation, packaging, crushing and a number of other border services. PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o. holds terminals that facilitate the trans-shipment of bulk and unit commodities.

PKP CARGO Centrum Logistyczne Medyka – Żurawica Sp. z o.o.

PKP CARGO Centrum Logistyczne Medyka – Żurawica Sp. z o.o. was established on 5 January 2011. The Company has been operating since 1 February 2011. This company's line of business is to provide comprehensive cargo handling through trans-shipment, storage, segregation, packaging, crushing and a number of other border services. The company has the ability to offer rail gauge switching services (change of carriages at an intersection point between normal, i.e. 1,435 mm and wide, i.e. 1,520 mm gauge rail tracks), chiefly in the transport of hazardous materials and the trans-shipment of oversized consignments necessitating the usage of specialized trans-shipment equipment.

CARGOSPED Sp. z o.o.

CARGOSPED Sp. z o.o. was established on 29 February 2000. In 2005 PKP CARGO S.A. received a 100% stake in CARGOSPED Sp. z o.o. from PKP S.A. as a contribution-in-kind. This company's core business entails freight forwarding and logistics services in Poland and abroad, especially in rail freight transportation and related logistics services.

In pursuing the process of optimizing the operations of the freight forwarding companies in the PKP CARGO Group this company is devoted to providing freight forwarding services in the area of intermodal transport, aggregate transport and terminal service, including in proprietary terminals. Within the framework of intermodal transport CARGOSPED Sp. z o.o. offers among others door-to-door, just-in-time and place-on-time services.

PS TRADE TRANS Sp. z o. o.

PS TRADE TRANS Sp. z o.o. was established on 8 March 1990. Its core business entails freight forwarding and logistics services in Poland and abroad. The company provides comprehensive logistics services using rail and vehicle, marine and inland water transportation organizing transport, trans-shipment, storage, warehousing, packaging and distribution. The company also provides overall customs service to clients of the PKP CARGO Group.

Cargosped Terminal Braniewo Sp. z o. o.

Cargosped Terminal Braniewo Sp. z o.o. has been part of the PKP CARGO Group since January 2010 when it was acquired by CARGOSPED Sp. z o.o. The company's major areas of activity constitute re-loading goods and buying and selling coal. The company is a direct importer of coal from Russia and it is active in wholesale and retail sales in this area.

CARGOTOR Sp. z o.o.

CARGOTOR Sp. z o.o. was registered on 13 November 2013 and PKP CARGO S.A. subscribed for a 100% equity stake. This company does business across Poland in the area of managing track and service infrastructure in the form of rail sidings and track systems along with the requisite plant and buildings. It also makes infrastructure available to rail operators on commercial terms.

In April 2015, the President of the Office of Rail Transport (UTK) issued CARGOTOR Sp. z o.o. a railway infrastructure manager security authorization, which makes it possible to make the railway infrastructure available to operators.

Advanced World Transport B.V.

The Parent Company in the AWT Group. The company's line of business is to discharge the function of the holding company. The company was established under Dutch law on 11 June 2007. PKP CARGO S.A. acquired an 80% stake in the company on 28 May 2015.

Advanced World Transport a.s.

ADVANCED WORLD TRANSPORT a.s. was established on 1 January 1994 doing business as OKD DOPRAVA, a.s. The company is the largest entity in the structure of the AWT Group. The company's line of business is to render comprehensive rail freight transport and siding handling services. At present, the company is the second largest rail operator in the Czech Republic. Rail freight transport service is also rendered by the company in Slovakia and Poland.

On top of providing transportation service on its own leveraging its own authorizations, the company continues to be active as a rail freight forwarder throughout Central and Eastern Europe.

In addition, the company manages an intermodal terminal located in the community of Paskov in the Silesian region and it offers comprehensive services to make deliveries and pick-ups by road transport ("last mile").

AWT Čechofracht a.s.

AWT ČECHOFRACHT a.s. was established on 1 January 1991. The company's primary line of business is to offer international freight forwarding services.

AWT Rekultivace a.s.

The company was established on 1 January 1994 with its registered offices in Hawierzów.The company is specialized in civil engineering construction activity. The company's core offering consists of managing and revitalizing post-industrial premises (including mining areas), work to raze objects, managing facilities allocated to utilize waste, eliminate underground mining pits, de-contanimate the soil, providing specialist technical resources, storage of coal etc.

On account of the nature of this activity, the services rendered by the company frequently require transportation handling, which in the event of AWT a.s. handling the rail transport, makes it possible to generate added value and ensure comprehensive service for its clients.

AWT ROSCO a.s.

The company has been operating under the group doing business as AWT VADS a.s. since 1 May 2010. In July 2011 the company's name was changed to AWT ROSCO a.s. The company is dedicated to the AWT Group's wagon fleet management. Within the scope of its operations the company's fundamental mission is to provide the rolling stock needed for the AWT Group's transportation companies to perform transportation services. The company's operations entail the rental of rail wagons and the cleaning of rail and automobile cisterns.

AWT Coal Logistics s.r.o.

The company was registered on 4 April 2013. The Company's main line of business is railway freight forwarding focused on catering to the transportation of hard coal from mines belonging to OKD a.s.

AWT Rail HU Zrt.

The company was registered on 31 December 2008. It offers rail transport services and rail siding handling in Hungary on the basis of its own rail operator's license. The company's development is an element of the Group's international expansion. At present, the company is participating in handling a large amount of international transportation taken care of in cooperation with other Group entities.

2.3. Structure of the PKP CARGO Group

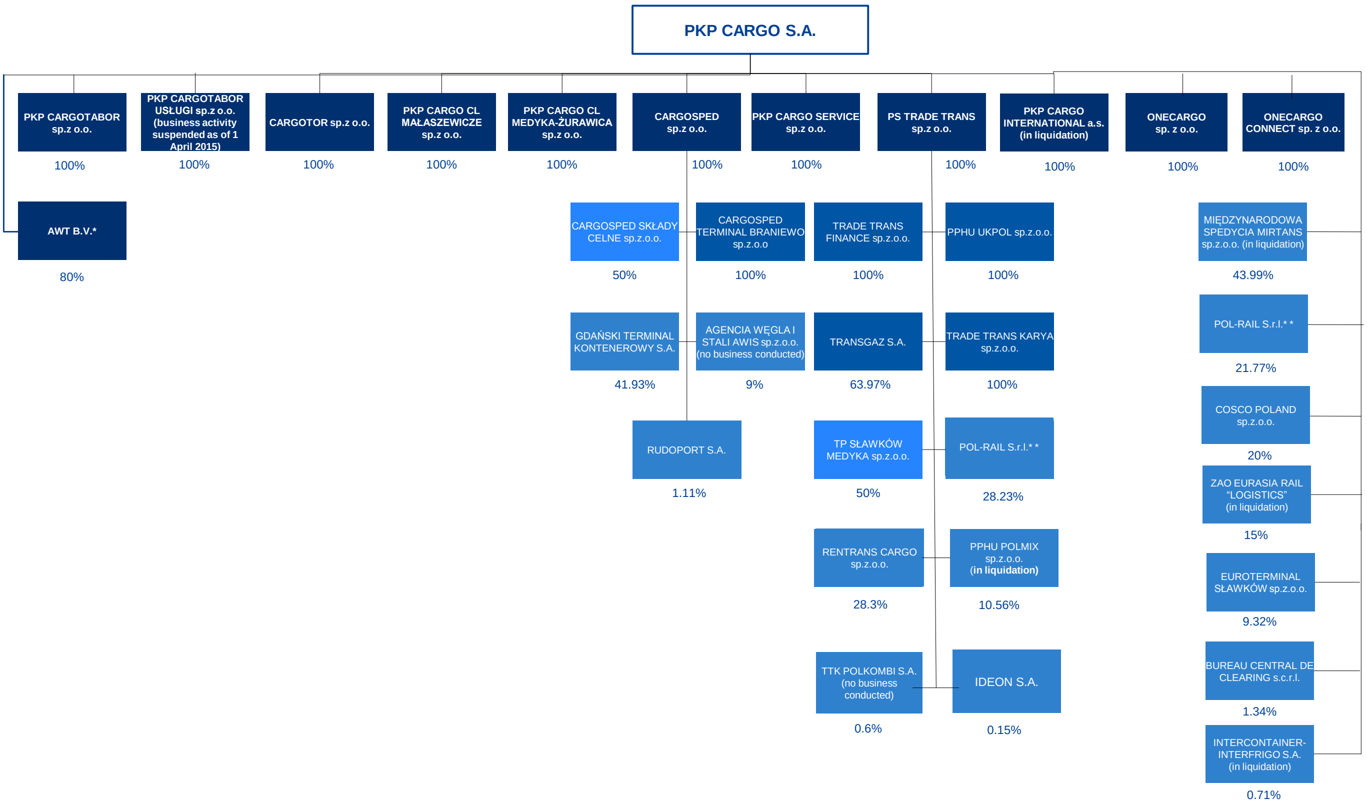
As of 30 June 2015, the PKP CARGO Group, consisted of the following entities besides PKP CARGO S.A.:

- 32 subsidiaries of PKP CARGO S.A. or entities controlled by PKP CARGO S.A., including:
  - 12 subsidiaries controlled directly by PKP CARGO S.A.,
  - 13 subsidiaries controlled directly by companies directly controlled by PKP CARGO S.A. (and indirectly controlled by PKP CARGO S.A.),
  - 7 AWT Group companies controlled directly by companies indirectly controlled by PKP CARGO S.A. (indirectly controlled by PKP CARGO S.A.)
- 4 jointly controlled companies (in which entities from the PKP CARGO Group hold a 50% stake), including:
  - 2 companies under joint control of companies controlled directly by PKP CARGO S.A. (under indirect joint control of PKP CARGO S.A.) - CARGOSPED SKŁADY CELNE sp. z o.o. and TP SŁAWKÓW MEDYKA sp. z o.o.,
  - 1 company under joint control of a company controlled indirectly by PKP CARGO S.A. - LEX Logistics Express s.r.o.,
  - 1 company - POL-RAIL s.r.l. with its registered office in Rome (Italy) jointly controlled by the PKP CARGO Group in which both PKP CARGO S.A. and one of the companies controlled directly by PKP CARGO S.A. - PS TRADE TRANS Sp. z o.o. hold shares in such a manner that in total these two entities belonging to the PKP CARGO Group hold a 50% equity stake in the share capital of POL-RAIL s.r.l.;

Moreover, PKP CARGO S.A. or PKP CARGO S.A.'s subsidiaries (direct or indirect) hold shares or interests in 15 companies that were not controlled or jointly controlled by PKP CARGO S.A. or subsidiaries of PKP CARGO S.A., including:

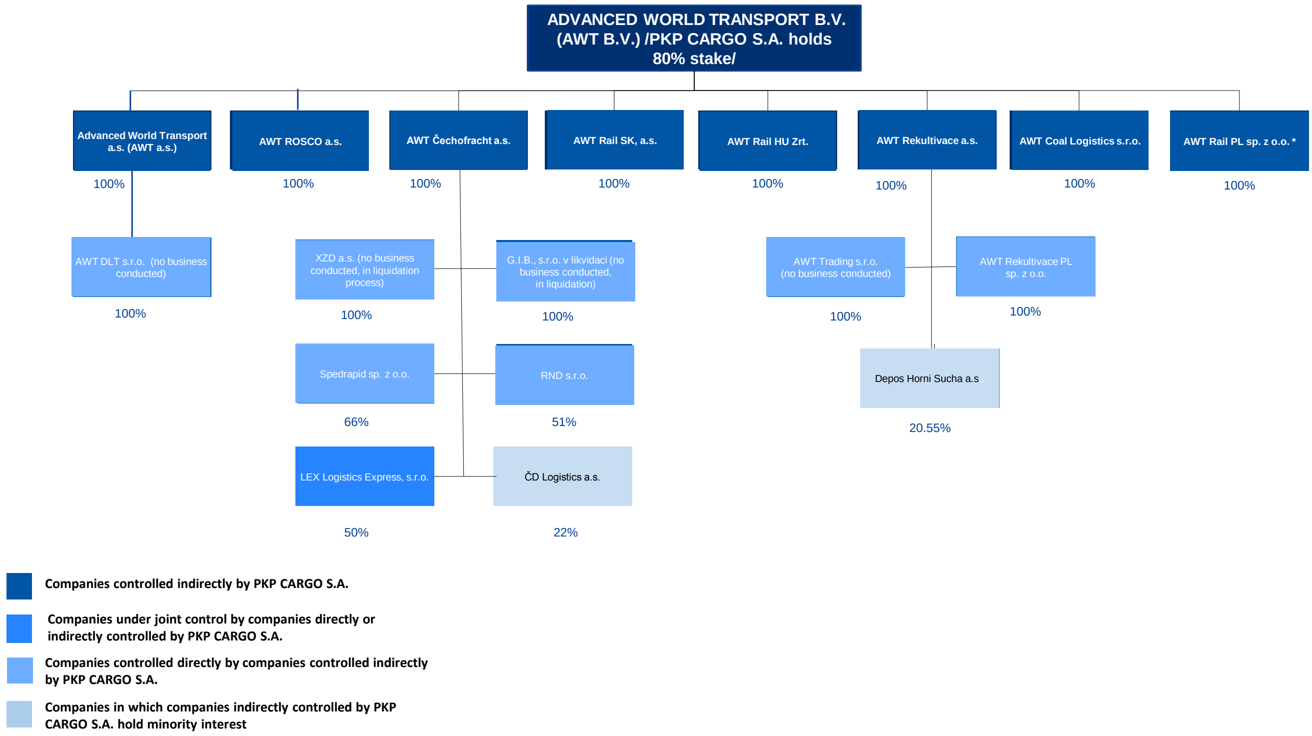
- 6 companies in which PKP CARGO S.A. directly holds a minority stake (this does not include POL-RAIL s.r.l., which has been classified as an entity jointly controlled by the PKP CARGO Group),
- 7 companies in which direct subsidiaries of PKP CARGO S.A. hold a minority stake that does not make it possible to exercise control or joint control (this does not include POL-RAIL s.r.l., which has been classified as an entity jointly controlled by the PKP CARGO Group),
- 2 companies from the AWT Group in which indirect subsidiaries of PKP CARGO S.A. hold a minority stake that does not make it possible to exercise control or joint control.

Figure 1 Structure of the PKP CARGO Group as at 30 June 2015



** Figure no. 2 depicts the AWT Group's full structure and capital ties with companies in which the AWT Group's companies hold shares or interests (minority stakes)*
*** both PKP CARGO S.A. and one of the companies controlled directly by PKP CARGO S.A. - PS TRADE TRANS Sp. z o.o. hold shares in POL-RAIL s.r.l. with its registered office in Rome in such a manner that in total these two entities belonging to the PKP CARGO Group hold a 50% equity stake in the share capital of POL-RAIL s.r.l.*

Figure 2 Structure of the AWP Group as at 30 June 2015



** on 7 August 2015, the Extraordinary Shareholder Meeting of AWT Rail PL sp. z o.o. adopted a resolution to dissolve AWT Rail PL and open its liquidation as of 7 August 2015*

2.4. Consequences of changes to the structure of the Company and the Group in H1 2015

In H1 2015, PKP CARGO S.A. acquired shares in its subsidiaries:

- on 5 February 2015 PKP CARGO S.A. acquired 640 shares in PS TRADE TRANS sp. z o.o. with its registered office in Warsaw, representing in total a 44.44% stake in this company's share capital in the possession of Trade Trans Invest a.s. with its registered office in Bratislava. As a result of this transaction, PKP CARGO S.A. became this company's sole shareholder with a 100% equity stake in its share capital. These changes intend to acquire full control over the company to optimize the structure of the PKP CARGO Group, including inter alia the conduct of freight forwarding and terminal activity.

- on 5 February 2015 PKP CARGO S.A. acquired 490 shares in PKP CARGO International, a.s. w likwidacji (in liquidation) with its registered office in Bratislava, representing in total a 49% stake in this company's share capital in the possession of Rail Cargo Spedition, a.s. with its registered office in Bratislava. As a result of this transaction, PKP CARGO S.A. became this company's sole shareholder with a 100% equity stake in its share capital.

In parallel, in the PKP CARGO Group, on 5 February 2015 PS TRADE TRANS Sp. z o.o. sold to Trade Trans Invest a 20% stake in Rail Cargo Service Sp. z o.o. with its registered office in Wrocław, a 37.7% stake in Rail Cargo Spedition GmbH with its registered office in Vienna (Austria) and a 23.9% stake in S.C. Trade Trans Terminal SRL with its registered office in Curtici (Romania). As a result of these transactions PS TRADE TRANS Sp. z o.o. no longer holds any shares in these companies.

On 31 March 2015 PKP CARGO International, a.s. w likwidacji (in liquidation) entered into an agreement with CFL CARGO S.A. to sell 31 shares (all the shares it held - 50% of the share capital) in PKP CARGO CFL International S.A. w likwidacji (in liquidation). As a result of this transaction PKP CARGO International, a.s. w likwidacji (in liquidation) no longer holds any shares in PKP CARGO CFL International S.A. w likwidacji (in liquidation).

Moreover, PKP CARGO S.A. subscribed for shares in newly-established commercial companies in which it holds 100% of the shares in their share capital (companies wholly-owned by PKP CARGO S.A.). The companies were registered in the Register of Entrepreneurs of the National Court Register. These companies are as follows:

- ONECARGO CONNECT Sp. z o.o. with its registered office in Warsaw (date of registration in the National Court Register: 11 March 2015) and
- ONECARGO Sp. z o.o. with its registered office in Warsaw (date of registration in the National Court Register: 13 March 2015).

In addition, as of 28 May 2015, PKP CARGO S.A. acquired 60,000 shares, representing in total 80% of the share capital, in Advanced World Transport B.V. with its registered office in Amsterdam (Netherlands). Another shareholder in this company, holding 15,000 shares, representing in total 20% of the share capital of AWT B.V., is MINEZIT SE with its registered office in Prague (Czech Republic). AWT B.V. has in its group:

- 8 subsidiaries - directly controlled by AWT B.V.,
- 7 subsidiaries indirectly controlled by AWT B.V.,
- 1 subsidiary under joint control of AWT B.V.'s subsidiary,
- 2 companies in which AWT B.V.'s subsidiaries hold a minority stake in the share capital.

The business activities are primarily AWT comprehensive services of rail freight. AWT provides services mainly in the Czech Republic. Following the acquisition the Group should increase its presence in this market, develop new routes and provide comprehensive logistics services and transport for new customers. It is also expected to reduce operating costs through economies of scale.

In parallel with the AWT B.V. acquisition agreement, PKP CARGO S.A. also concluded a shareholder agreement with Minezit SE ("MSE") regarding AWT ("Shareholder Agreement"). The agreement provides for, among others, MSE's right to request the Company to purchase all the AWT shares held by MSE ("Put Option") and the Company's right to request MSE to sell the AWT shares held by MSE to the Company ("Call Option"). Additionally, the Shareholder Agreement awards the Company the pre-emption rights to purchase the AWT shares held by MSE when MSE sells them and provides for MSE's tag along right in case the Company sells its AWT shares.

The Put Option may be exercised by MSE in the period from 1 January 2017 to 31 December 2020 for the market price calculated using the formula provided in the Shareholder Agreement, where the price depends on AWT Group's consolidated EBITDA and its net debt, but will not be less than EUR 27 million.

The Company will be able to exercise the Call Option in the period from 1 January 2017 to 31 December 2021 for the market price calculated using the formula provided in the Shareholder Agreement in reference to AWT Group's EBITDA and its net debt, but no less than the difference between (i) EUR 40 million and (ii) the amount of all dividend and similar payments made by AWT to MSE.

Detailed information have been described in note 4 to the Condensed Interim Consolidated Financial Statements of the PKP CARGO Group.

As of 1 April 2015 PKP CARGOTABOR USŁUGI Sp. z o.o. suspended business activity for 9 months, i.e. until the end of 2015. Suspension of business activity by the company did not affect the operations of the PKP CARGO Group. As of 1 July 2015 it resumed activity.

3. Information about the Parent Company

3.1. Composition of the Management Board and Supervisory Board of PKP CARGO S.A.

COMPANY'S MANAGEMENT BOARD

The Management Board of PKP CARGO S.A. with registered office in Warsaw operates on the basis of regulations of law, and in particular:

1. the Act of 15 September 2000 entitled Commercial Company Code ("CCC") (Journal of Laws, Number 94, Item 1037, as amended)
2. the Act of 8 September 2008 on Commercialization, Restructuring and Privatization of the State-Owned Enterprise „Polskie Koleje Państwowe" (Journal of Laws, Number 84, Item 948, as amended)
3. The Articles of Association of PKP CARGO S.A., whose consolidated version was adopted by Resolution no. 1424/V/2015 of the PKP CARGO S.A. Supervisory Board on 30 April 2015.
4. The Bylaws of the PKP CARGO S.A. Management Board adopted by Resolution no. 222/2015 of the PKP CARGO S.A. Management Board on 17 November 2015, approved by Resolution no. 1434/V/2015 adopted by the Supervisory Board on 23 June 2015.
5. other internal regulations.

Powers of the Management Board

The Management Board handles the Company's affairs, manages its assets and represents the Company before third parties. The scope of the Management Board's activity includes all the activities, which are not reserved for the Company's Shareholder Meeting or the Supervisory Board. Management Board resolutions are adopted by an absolute majority of votes, with at least half of the Management Board members attending the meeting. The President of the Management Board acting individually or two Management Board members acting jointly or a Management Board member acting jointly with a commercial proxy are authorized to make declarations of will.

Operation of the Management Board

The procedure of the Management Board's operation is described in detail in the Management Board Bylaws. The Bylaws are adopted by the Management Board and approved by the Company's Supervisory Board. According to the Management Board Bylaws, the Management Board makes decisions in the form of resolutions. Management Board resolutions are adopted by an absolute majority of votes, with at least half of the Management Board members attending the meeting; they may only be adopted if all the Management Board Members have been duly notified about the Management Board meeting. According to the Bylaws, if an equal number of votes is cast "for" and "against" together with abstentions, the President of the Management Board will have the casting vote. Management Board meetings are held at least once a week.

In special justified cases, Management Board meetings may be held at a later date, but no later than within 14 days of the date of the preceding meeting.

According to the Management Board Bylaws, if a conflict of interests arises between the Company and a Management Board member, a spouse, kin or relative (up to the second degree of affinity) or another person with whom the Management Board member has personal relations, the Management Board member should immediately inform the remaining Management Board Members about the conflict and in the case of the President of the Management Board, also the Company's Supervisory Board, and refrain from discussing and from voting on a resolution in the matter in which the conflict of interests has arisen and may demand this to be recorded in the minutes of the Management Board meeting.

The table below presents the composition of the Management Board as at the delivery date of the report.

Table 3 Composition of the PKP CARGO S.A. Management Board from 1 January 2015 to the delivery date of the report

Full name	Position	Period in office from	to
Adam Purwin	President of the Management Board	06 February 2014	to date
Wojciech Derda	Management Board Member responsible for Operations	24 April 2014	to date
Jacek Neska	Management Board Member responsible for Trade	24 April 2014	to date
Dariusz Browarek	Management Board Member – Employee Representative in the Management Board	24 April 2014	to date
Łukasz Hadyś	Management Board Member responsible for Financial Matters	12 May 2014	to date

Source: Proprietary material

The internal allocation of tasks and functions discharged by Management Board members in H1 2015 was as follows:

1. President of the Management Board – the scope of the President's activity include directing the activities of the Management Board and the Company's ongoing operations and overseeing the management of specific areas of the Company's activity, in particular:
   - business strategy,
   - safety of business and internal audit,

   Special powers of the President of the Company's Management Board include performance of the Company's defense tasks resulting from the regulations on general defense obligation.
2. Management Board Member responsible for Finance – the scope of activity of the Management Board Member responsible for Finance include responsibility for rational management of the Company's resources and overseeing the management of specific areas of the Company's activity, in particular:
   - finance management,
   - purchase and sale of assets.

   Special powers of the Management Board Member responsible for Finance include the performance, on behalf of PKP CARGO S.A., of obligations arising from accounting, tax and insurance regulations.
3. Management Board Member responsible for Trade – the scope of activity of the Management Board Member responsible for Trade include responsibility for adequate sales levels and customer relations and overseeing the management of specific areas of the Company's activity, in particular:
   - commercial policy,
   - sales of transportation services.
4. Management Board Member responsible for Operations – the scope of this Management Board Member's activity include overseeing the management of specific areas of the Company's activity, in alignment with the powers assigned in a separate resolution adopted by the Management Board, as regards:
   - management of transportation,
   - organization of transportation.

5. Management Board Member - Employee Representative in the Management Board - the scope of activity of the Management Board Member - Employee Representative includes overseeing the supervision of specific areas of the Company's activity, in accordance with the powers established by a separate Management Board resolution, as regards:
   - monitoring of relations with social partners,
   - contacts with social organizations.

Commercial proxies established and revoked:

A joint commercial proxy for Mr. Witold Bawor was in effect until 12 February 2015 – Resolution No. 325/2012 adopted by the Management Board of PKP CARGO S.A. on 17 July 2012. As of 12 February 2015, following the procedure of Art. 371 §5 of the Commercial Company Code, the commercial proxy powers granted to Mr. Witold Bawor were revoked.

A joint commercial proxy for Mr. Grzegorz Kiczmachowski was in effect until 6 March 2015 – Resolution No. 585/2013 adopted by the Management Board of PKP CARGO S.A. on 5 December 2013. As of 6 March 2015, following the procedure of Art. 371 §5 of the Commercial Company Code, the commercial proxy powers granted to Mr. Grzegorz Kiczmachowski were revoked.

Joint commercial proxy for Mr. Arkadiusz Pokropski – Resolution No. 170/2014 adopted by the Management Board of PKP CARGO S.A. and for Mr. Ireneusz Wasilewski – Resolution No. 324/2012 adopted by the Management Board of PKP CARGO S.A. on 17 July 2012. As of 17 March 2015, following the procedure of Art. 371 §5 of the Commercial Company Code, the commercial proxy powers granted to Mr. Arkadiusz Pokropski and to Mr. Ireneusz Wasilewski were revoked. At the same time, joint commercial proxy was granted to Mr. Arkadiusz Pokropski – Resolution No. 104/2015 adopted by the Management Board of PKP CARGO S.A. and for Mr. Ireneusz Wasilewski – Resolution No. 103/2015 adopted by the Management Board of PKP CARGO S.A. on 17 March 2015.

SUPERVISORY BOARD

In accordance with the Articles of Association of PKP CARGO S.A., the Supervisory Board consists of 11 to 13 members (including the Supervisory Board Chairperson and Deputy Chairperson) appointed for a joint term of office. The Supervisory Board is appointed and dismissed by the Shareholder Meeting, subject to provisions of § 19 sections 2 and 3 of the Articles of Association of PKP CARGO S.A. The table below presents the composition of the Supervisory Board as at the delivery date of the report.

Table 4 Composition of the PKP CARGO S.A. Supervisory Board from 1 January 2015 to the delivery date of the report

Full name	Position	Period in office	
		from	to
Jakub Karnowski	Supervisory Board Chairman	24 May 2012	to date
Piotr Ciżkowicz	Supervisory Board Deputy Chairman	29 July 2014 (appointed Deputy Chairman on 31 July 2014)	to date
Krzysztof Czarnota	Supervisory Board member	6 July 2006; 24 May 2012 for the 5th term of office	to date
Marek Podskalny	Supervisory Board member	6 July 2006; 24 May 2012 for the 5th term of office	to date
Kazimierz Jamrozik	Supervisory Board member	24 May 2012	to date
Konrad Anuszkiewicz	Supervisory Board member	13 December 2013	to date
Stanisław Knaflewski	Supervisory Board member	17 December 2013	to date
Paweł Ruka	Supervisory Board member	17 December 2013	13 March 2015
Jarosław Pawłowski	Supervisory Board member	26 April 2014	18 February 2015
Jacek Leonkiewicz	Supervisory Board member	29 July 2014	to date
Sławomir Baniak	Supervisory Board member	24 November 2014	to date
Zbigniew Klepacki	Supervisory Board member	19 February 2015	09 June 2015
Raimondo Eggink	Supervisory Board member	13 April 2015	to date

Source: Proprietary material

SUPERVISORY BOARD AUDIT COMMITTEE

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

Table 5 Composition of the PKP CARGO S.A. Supervisory Board Audit Committee from 1 January 2015 to the delivery date of the report

Full name	Position	Period in office	
		from	to
Paweł Ruka	Committee Chairman	06.02.2014	13.03.2015
Konrad Anuszkiewicz	Committee Chairman	06.02.2014 (appointed Chairman on 11.05.2015)	to date
Raimondo Eggink	Committee Member	30.04.2015	to date
Stanisław Knaflewski	Committee Member	06.02.2014	to date

Source: Proprietary material

NOMINATION COMMITTEE

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

Table 6 Composition of the PKP CARGO S.A. Supervisory Board Nomination Committee from 1 January 2015 to the delivery date of the report

Full name	Position	Period in office	
		from	to
Stanisław Knaflewski	Committee Chairman	17 December 2013	to date
Jakub Karnowski	Committee Member	17 December 2013	to date
Jacek Leonkiewicz	Committee Member	31 July 2014	to date

Source: Proprietary material

3.2. Structure of PKP CARGO S.A.'s share capital

The structure of PKP CARGO S.A.'s share capital as at the delivery date of this report is presented in the table below:

Table 7 Structure of PKP CARGO S.A.'s share capital

Shares	Issue date	Issue registration date	Number of shares
Series A	8 July 2013	2 October 2013	43,338,000
Series B	8 July 2013	2 October 2013	15
Series C	2 October 2013	25 April 2014	1,448,902
Total			**44,786,917**

Source: Proprietary material

3.3. Shareholders holding at least 5% of the total votes

On 17 February 2015, the Management Board of the Company received a notice sent by the European Bank for Reconstruction and Development ("EBRD") with information that as a result of a sale of the Company's shares in a block transaction concluded on the Warsaw Stock Exchange ("WSE) on 11 February 2015, settled on 13 February 2015, EBRD reduced its stake below 5% of all the votes at the Company's Shareholder Meeting.

As at the delivery date of this report, i.e. 27 August 2015, the total number of shares in the Company was 44,786,917. According to the notices received by the Company, the following shareholders held, directly or indirectly through subsidiaries, at least 5% of the total number of votes at the Shareholder Meeting:

Table 8 Shareholder structure of PKP CARGO S.A. as at 12 May 2015 and as at the delivery date of this report

Shareholder	Number of shares	% in share capital	Number of votes	% in the total number of votes at the Shareholder Meeting
PKP S.A.(1)	14,784,194	33.01%	14,784,194	33.01%
Nationale-Nederlanden OFE (2)	4,738,369	10.58%	4,738,369	10.58%
Morgan Stanley (3)	2,380,008	5.31%	2,380,008	5.31%
Aviva OFE (4)	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	20,545,975	45.88%	20,545,975	45.88%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

(1) According to the notice sent by a shareholder on 24 June 2014.
(2) According to the notice sent by a shareholder on 30 June 2014;
on the date of 10 July 2015 ING OFE changed the name to Nationale-Nederlanden OFE
(3) According to the notice sent by a shareholder on 18 June 2014.
(4) According to the notice sent by a shareholder on 13 August 2014.

Source: Proprietary material

In the period from the delivery date of the Q1 2015 report, i.e. from 12 May 2015 until the delivery of this report, the structure of shareholders who hold, directly or indirectly through subsidiaries at least 5% of the total number of votes at the Shareholder Meeting, did not change.

3.4. Listing of shares held by management and supervisory board members

The holdings of Company's shares or rights to such shares by members of the Company's Management Board from 12 May 2015, i.e. the delivery date of the Q1 2015 report to the delivery date of this report, was as follows:

Table 9 PKP CARGO S.A. shares held by Management Board members

Full name	Number of PKP CARGO S.A. shares held by Management Board members
as at the delivery date of this report	
Adam Purwin	545
Jacek Neska	450
Wojciech Derda	300
Łukasz Hadyś	300
Dariusz Browarek	370
as at 12 May 2015	
Adam Purwin	545
Jacek Neska	450
Wojciech Derda	300
Łukasz Hadyś	300
Dariusz Browarek	370

Source: Proprietary material

The holdings of Company's shares or rights to such shares by members of the Company's Supervisory Board from 12 May 2015, i.e. the delivery date of the Q1 2015 report to the delivery date of this report, was as follows:

Table 10 PKP CARGO S.A. shares held by Supervisory Board members

Full name	**Number of PKP CARGO S.A. shares held by Supervisory Board members**
as at the delivery date of this report	
Jakub Karnowski	915
Piotr Ciżkowicz	675
Krzysztof Czarnota	70
Kazimierz Jamrozik	70
Marek Podskalny	70
Konrad Anuszkiewicz	0
Sławomir Baniak	0
Stanisław Knaflewski	0
Jacek Leonkiewicz	0
Raimondo Eggink	0
as at 12 May 2015	
Jakub Karnowski	915
Piotr Ciżkowicz	675
Krzysztof Czarnota	70
Kazimierz Jamrozik	70
Marek Podskalny	70
Konrad Anuszkiewicz	0
Sławomir Baniak	0
Stanisław Knaflewski	0
Jacek Leonkiewicz	0
Zbigniew Klepacki	0
Raimondo Eggink	0

Source: Proprietary material

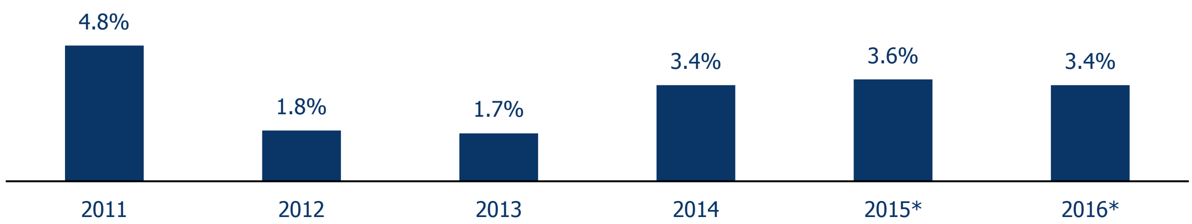
4. Key areas of operation of the PKP CARGO Group

4.1. Macroeconomic environment

Polish economy[4]

Current forecasts[5] of economic growth indicate that the Polish economy will record growth of 3.6% in 2015. The favorable situation in industry confirms good market conditions - industrial production sold in the first half of the current year rose by 4.6% yoy. This is confirmed by positive readings of the PMI index (*Purchasing Managers Index*). The PMI in June was 54.3 points, confirming the high level of activity and the robust sentiments in Polish industry, compared to 50.3 points in June 2014.
The expected growth of the Polish economy will be considerably outpace the growth of other EU economies for which the average projected GDP growth in 2015 is 1.8%[6].

Figure 3 GDP growth in Poland in 2011-2014 per annum and 2015 and 2016 forecast



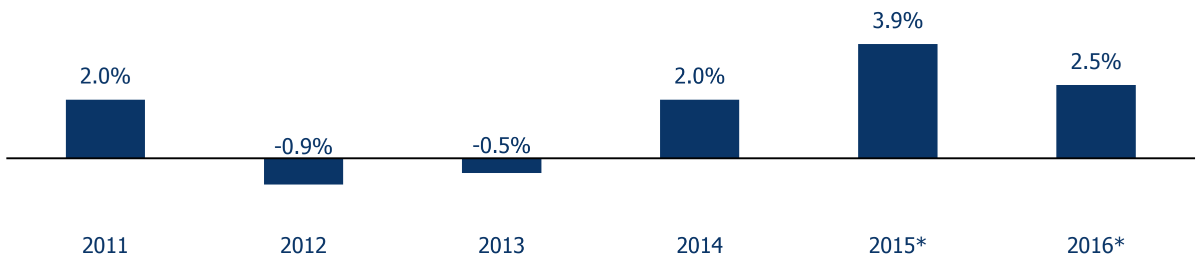
Source: Central Statistical Office of Poland (note: in 2014, the Central Statistical Office of Poland aligned its GDP calculation methodology with the ESA 2010 standards; this modified methodology has also been applied to adjust GDP readings in the previous years)

* NBP forecast (July 2015)

Czech economy

In 2014 the Czech economy reverted to the path of growth at 2.0% yoy and low inflation - at the level of 0.4% yoy. Internal demand was the driver of growth. Growth was recorded in household consumption, government consumption and capital expenditures for fixed assets. The Czech Finance Ministry's forecast calls for real GDP growth of 3.9% in 2015 and 2.5% in 2016.[7] In Q1 2015 GDP growth was 4.2% yoy thereby beating expectations (the forecasts indicated growth of 2% yoy).[8,9]

Figure 4 Real GDP growth in the Czech Republic in 2011-2014 per annum and 2015 and 2016 forecast



Source: Czech Republic's Finance Ministry, Macroeconomic Forecast July 2015

[4]Unless specified otherwise, data based on GUS
[5] NBP's forecast (July 2015) and the Budget Act for 2015 (September 2014)
[6] EC forecasts, European Economic Forecast Spring 2015.
[7]Czech Republic's Finance Ministry, Macroeconomic Forecast April 2015
[8] Raiffeisen Bank International
[9] The Economist

According to the survey pertaining to macroeconomic forecasts prepared by the Czech Republic's Finance Ministry[10], in 2015 and 2016 the following macroeconomic trends are to be expected:

- GDP will grow by 3.9% in 2015. The institutions participating in the survey expect delicate slowdown in the GDP growth rate in 2016 (up to 2.5%). It is anticipated that economic growth will be driven by internal demand (as well as by investments in fixed assets);
- In 2015 very low inflation caused chiefly by the impact exerted by low oil prices is expected. This year's inflation rate will be 0.5% while in 2016 consumer prices should rise by 1.5%;
- The labor market circumstances should gradually improve thanks to economic growth. Headcount is expected to increase 1% yoy in 2015 and 0.2% yoy in 2016, while the unemployment rate will gradually recede to 5.7% and 5.5% in 2015 and 2016, respectively;
- Growth in the salary fund of 4.2% and 4.1%, respectively in 2015 and 2016 is anticipated.
- The current account in the balance of payments should show a slight surplus in 2015 and 2016. Low oil prices will exert a positive impact on the current account.

European economy

Individual consumption continues to be the driver of the European Union's economic growth. The Industrial PMI for the Eurozone reached 52.5 points indicating a slight recovery, chiefly thanks to robust internal demand coupled with moderate growth in external demand. Currently, the economic growth forecast for the EU in 2015 (according to the European Commission) is 1.8%. Further GDP expansion is in jeopardy on account of the observed stagnation in the economies of France and Italy, which are, respectively, the second and third largest economies of the area and on account of the tough circumstances in the Greek economy.[11]In Hungarian economy, the GDP growth rate in 2015 and 2016 is expected to fall to 2.8% yoy and 2.2% yoy, respectively. The deceleration in the pace of growth is precipitated by less support from EU funds. Inflation should hit a level close to zero this year and the budgetary deficit in the period covered by the forecast will remain below 3% of GDP[12].

Central and Eastern European countries remain a positive growth stimulus for the entire European Union; as emerging economies, they show the greatest ease in recovering after a crisis and continue to post the highest economic growth figures in the European Union.

Attention should also be drawn to Greece whose future in the Eurozone is highly uncertain. Talks of the Greek authorities with 3 lenders (European Commission, European Central Bank and the International Monetary Fund) should be completed in August of this year. The International Monetary Fund's assessment may make a significant contribution to making decisions. This organization has issued a statement that Greece is not eligible for IMF aid unless the authorities of this country elect to conduct profound reforms and the Eurozone countries restructure its debt.

Industry in Poland

The level of rail freight is closely linked to market conditions in the main sectors of industry - the mining, steel and construction industries. The chemical, wood and automotive industries are of significant importance to rail freight.

In H1 2015, most sectors of industry recorded growth in production sold, including hard coal and lignite mining with 7.5% yoy, production of wooden products (including cork, straw and wicker products) with 3.5% yoy, production of coke and petroleum oil refined products with 4.3% yoy, production of chemical agents and chemicals with 3.2% yoy, production of metallic goods with 6.5% yoy and production of metals with 2.9% yoy[13]. More efficient coal mining by mines undergoing a restructuring program has contributed to higher hard coal production. The abolishment of the embargo on Iran will affect the production sold of oil and its refined products. Iran is one of the leading oil exporters; it is projected that within 3 months from signing the nuclear program agreement and abolishing the previous limitations Iran will ramp up to the level of exports from prior

[10] Finance Ministry
Twice a year the Finance Ministry runs research (called the Colloquium) whose purpose is to learn how significant institutions see the Czech economy's prospects and how they assess the major trends in the forecasts. Results 39 The Colloquium held in April 2015 relied on the forecasts of 20 institutions (MoF; Ministry of Industry and Trade; Ministry of Labor and Social Affairs; Czech National Bank; Citibank; CYRRUS; Česká spořitelna; ČSOB; Generali Investments CEE; Czech Chamber of Commerce; IDEA CERGE-EI; Institute of Economic Studies, Faculty of Social Sciences, Charles University; ING Bank; J&T Banka; Komerční banka; Liberální Institut + Faculty of Economics, University of Economics; Raiffeisenbank; Union of Czech and Moravian Production Co-operatives; Confederation of Industry of the Czech Republic; UniCredit Bank). To make this survey more representative, EC's forecasts (winter 2015) and the European IMF's economic forecasts (April 2015 World Economic Outlook) were added.
[11] eGospodarka.pl
[12] EC forecasts, European Economic Forecast Spring 2015
[13] GUS Statistical Bulletin

to the imposition of sanctions. More declines in oil prices may ensue accompanied by shrinking market shares among the oil giants[14], above all Saudi Arabia and Russia.

Production growth has been recorded chiefly in sectors that derive a considerable portion of their sales receipts from international markets. This means improvement in the economic conditions of trade partners who are ramping up their consumption of Polish goods, too.

The prices for industrial production sold in H1 2015 were 2.4% lower than in the corresponding period of the previous year (where the recorded price declines were 1.1% in the mining and extraction industry and 3% in the manufacturing industry). The very low prices of energy commodities, including hard coal and crude oil, had an impact on the decrease of prices. We should note that the global decline in crude oil prices has already been reflected in the prices of petrochemical products and a number of other products, due to the lower prices charged for transportation services.

Mining industry

In Poland, in H1 2015, the mining industry recorded hard coal production in the range of 34.5 million tons, compared to 35.5 million tons in H1 2014, which means that the output dropped 2.7% yoy. In the same period, average monthly ARA prices decreased. In December 2014, the average ARA price was USD 70.7/t, and in June of this year 12.9 USD/t less and was USD 57.8/t.[15] Regardless of the adverse global market conditions, the difficult situation in coal production in Poland in the aforementioned period was also a result of high inventories of coal in mine storage yards. In December 2014 coal inventories were 8.2 million tons, and then fell to 6.4 million tons in June 2015.[16]

In addition, in May PSCMI 1 (Polish Steam Coal Market Index) - the monthly average coal price index for the Polish electricity generation market in June of this year amounted to PLN 207.82/t, compared to PLN 232.68/t in June 2014. The end of the heating season, atmospheric warming and the high oversupply of coal on the Polish market will probably contribute to the PSMCI 1 index falling in subsequent months.[16]

The continuous restructuring process of the hard coal mining industry (especially Kompania Węglowa) for the purpose of implementing the necessary changes to enhance the efficiency of coal mines also affects the standing of the Polish mining industry. Accordingly, more Górnictwo Węgla Kamiennego (“GWK”) entities are being transferred to Spółka Restrukturyzacji Kopalń S.A. („SRK”) for modernization of the mines: Bobrek, Piekary and Makoszowy. In addition, on 29 May 2015 KWK "Kazimierz-Juliusz" Sp. z o.o. discontinued mining operations, while on 31 May of this year the decision was signed to transfer this mine to SRK S.A. and to close the mine.

Steel industry

In H1 2015 Polish steel mills ramped up raw steel production to 4.9 million tons (17,6% growth yoy). In this same period global steel production edged downward by 2% yoy, while the European Union recorded growth of a mere 0.5% yoy[17]. In June alone domestic steel production recorded two-digit growth by 24.3% yoy to 870 thousand tons. This trend may persist in the upcoming years in connection with road and rail investments as well as in the power sector and the natural gas industry.

The steel consumption observed in Europe and globally indicate that the metallurgic industry has still not recovered fully after the collapse in 2008. Ever greater improvement in market conditions are present, mainly thanks to planned investments and purchase orders for materials to be used in planned infrastructural construction projects.

A major element shaping the current market conditions in the industry is the downward trend observed since April 2015 in the prices for goods. This was a result of price pressure and the low price of commodities and semi-finished products used in manufacturing. In June of this year, the price for a ton of iron ore in global trade rose for the second month in a row (following growth in My of roughly USD 10/ton to USD 61/ton) to USD 62.29/ton. This commodity’s prices reached their peak in 2013 (approximately USD 150/ton) and in 2011 when they were nearly USD 190/ton.

The World Steel Association’s projections indicate that they anticipate growth in global steel consumption, which is supposed to be 1,544 million tons[18] in 2015. If these forecasts prove true, the industry will record growth of 0.5% yoy. The prospects

[14] Puls Biznesu
[15] Globalcoal.com
[16] Polish Coal Market
[17] Wirtualny Nowy Przemysł
[18] World Steel Association

in the upcoming months for the Polish metallurgic industry are also stated as being positive. This is linked to the planned high capital expenditures in infrastructural construction for which the metallurgical industry is an important supplier. The government's activities to implement mechanisms (reverse VAT charges) preventing dishonest practices, which have severely plagued the industry and the "Silesia 2.0" program to enhance the ability to compete with other EU players are very important measures.

Construction industry

The increase in the construction production index in H1 2015 was 1.0% yoy, which was supported most significantly by civil and hydro engineering investments (by 2.2% yoy) and specialized construction work (by 1.3% yoy). At the same time, a decline was recorded in investments to build buildings (by 0.3% yoy).

In June the market conditions index in the construction industry was -2, compared to -2 in May and -3.5 in April of this year, which means that businesses in this sector perceive the overall standing on the market to be similar to what it was in May and April. This did not, however, translate into higher employment in the construction sector. A decline in average headcount in the sectors of the construction industry has been recorded in the first six months of this year which specialize in specialized construction work (by 6.8% yoy), construction of buildings (by 6.8% yoy) and the construction of civil and hydro engineering facilities (by 5.6% yoy). This is linked to the major obstacles enumerated by Polish businesses i.e. high costs of employment (important to 62% of businesses) and competition (56%).

Despite improvement pessimistic sentiments continue to persist in this industry caused by the less dynamic implementation of infrastructural projects. Financing more expressways and modernizing railway lines from the EU budget in the 2014-2020 perspective will probably accrue growth in the industry in H2 2015.

This is especially important for the producers of aggregate, cement and ready-mixed concrete. The forecasts of the Polish Association of Aggregate Producers ("PZPK") indicate that the demand for aggregate in 2015 will be at a lower level than one year ago. In 2014 the demand for this material was estimated to be roughly 230 million tons. The forecasts for the producers of cement and ready-mixed concrete are more optimistic. PZPK estimates that in the full year of 2015 the market will absorb 16 million tons of cement (up 2.6% yoy) and 20 million tons of ready-mixed concrete (up 4.2% growth yoy).[19]

Industry in the Czech Republic

After two years of recession industrial production reverted to a path of growth in 2014. Moderate growth in H2 2014 was caused by the high prime interest rate from H2 2013 when Czech industry experienced very pronounced recovery. In full year 2014 Czech industrial production rose by 5.0% yoy (following a 0.8% decline yoy in 2012 and 0.1% yoy in 2013), while production in the manufacturing industry by 6.7% yoy. The major attribute of most manufacturing sectors in 2014 was stability, while in the mining and minerals sector and in the generation and distribution of electricity, natural gas and heat further it was decline (3.0% yoy).[20]Moreover, in Q1 2015 growth was recorded in total industrial production (4.5% yoy), manufacturing production (5.4% yoy) and in the generation and distribution of electricity, natural gas and heat (2.7% yoy). In Q1 of this year there was another decline in production in the mining and minerals sector by 8.9% yoy.[21]

In 2014 the major driver of industrial growth continued to be the production of motor vehicles whose percentage accounted for more than one-fourth (26.1%) and total industrial revenues, with dynamic growth of 13% yoy. The quantity of production rose in twenty sectors of the manufacturing industry (representing 90.1% of the total). Apart from the production of motor vehicles, higher growth was recorded in the production of computers, electronic and optical goods (18.1%), coke and petroleum oil refined products (11.8%), production of chemical agents and chemicals (9.6%) and, following many years, the production of furniture (7.9%).[22]

Not only the recovery of the economies of Western European countries, which precipitated higher foreign purchase orders, but also higher consumption in Czech households contributed to these results. Household consumption is reflected by higher domestic purchase orders. Last year's performance of the Czech industry established a firm foundation for industry in 2015. That is why growth is expected to continue year on year, at a similar level as last year. Early 2015 has demonstrated robust growth and appears to confirm previous estimates. The sentiments of consumers and businesses and investor confidence are

[19] Wirtualny Nowy Przemysł
[20] Český statistický úřad ČSÚ
[21] Český statistický úřad ČSÚ
[22] Ministry of Industry and trade, "Main trends in industry in 2014 and thoughts", April 2015

also improving in Germany, the Czech Republic's most important trading partner. This transpired in early 2015, primarily as a result of low oil and energy prices and the EUR/USD exchange rate. This will also be reflected in the results of the Czech industry.[20]

Mining industry

The value of the Czech Republic's mining sector is roughly USD 2.3 billion. The following commodities are to be mined, among others: hard coal, lignite and uranium while the sector is served by a relatively small sector of the industry concerning mining equipment, technology and services.[23]

The Czech Republic, as a country relying on coal to generate heat and electricity, is the fourth largest producer of hard coal in the European Union and it will continue to be one of the largest coal producers in Europe. The Czech Republic is expected to mine 53.4 million tons of coal in 2018.[24]

The Czech Republic is dominated by coal-fired power plants (51% of the energy generated in 2013, down from 58% in 2010) and nuclear power plants (35% in 2013, up from 33% in 2010)[25], which shows that the generation of energy from coal and uranium is very important to this country.[26]

Hard coal is mined in the Upper Silesian Basin. The locations where lignite is mined are widely spread with the largest deposits in the western part of the Czech Republic close to the German border. Total coal resources in the Czech Republic in 2013 were estimated to be 25 billion tons.[27]

Steel industry

Metal and metal products manufacturing in the Czech Republic consists mainly of sub-groups: metallurgy (ferrous and non-ferrous) and the metal foundry industry. This sector's development has recently been under the influence of robust demand from the automotive, construction and mechanical engineering industries. The impediment the Czech Republic's economy faces is its geographic location – lack of access to the sea and water connections. As a result, the costs of international transport are higher, thereby forming an export barrier of sorts.[28]

According to Eurofer (European Steel Association), the SWIP index (Steel Weighted Industrial Production) in the Czech Republic increased 5.7% yoy in 2014, and in 2015 a 4.3% increase is anticipated. The index measures the development of such steel industry sectors as: motor industry, construction industry, metal products, steel pipes and machinery construction. Each of the aforementioned sectors recorded a significant growth in 2014 (from 1.5% yoy in mechanical engineering to 13.1% yoy in motor industry) and is expected to continue to grow over the next two years. Among the general causes of the growth in the steel industry one should list, among others, a significant increase in economic recovery in 2014, and notable increase of orders from local and foreign manufacturers. Other factors which had impact on the development of these industries included changes in the motor industry production (due to development of and demand for new models), increase of manufacture of metal products (mainly for exports) and yoy growth of the construction industry.[29]

Construction industry

After seven years of declines in the Czech construction industry, signs of recovery are ever more clearly visible. This sector is expected to growth at a level of 1% in 2015. According to Euroconstruct's projections, the years of stagnation in the European construction industry have definitively ended.[30]

Real construction production rose in May of this year by 11.9% yoy. In this same month the institutions responsible for the process of planning and construction monitoring obtained 5.5% more building permits yoy (a total of 7,209 building permits), with the estimated value of the permitted construction projects having fallen by 7.2% yoy (CZK 21.8 billion). The number of investment projects launched in residential construction fell in this same period by 25.7% yoy.

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[23] Business Monitor International Czech Republic Mining Report 2014
[24] Business Monitor International Czech Republic Mining Report 2014
[25] 4liberty.eu
[26] Eurostat, "Energy, transport and environment indicators" 2013
[27] Mineral Commodity Summaries of the Czech Republic 2014
[28] http://www.budoucnostprofesi.cz/sectoral-studies/industries-development/14_manufacture-of-basic-metals-and-fabricated-metal-products.htm
[29] Steel Production in Czech Republic, Eurofer Economic Committee Meeting April 2015
[30] www.czech.cz/Podnikani

Automotive Industry

The automotive industry is very important to the Czech Republic and it is one of key driving forces of the Czech economy, not just because it provides a considerable number of jobs, has a long-standing tradition and regularly manufactures more than one million vehicles per year – another reason is the Czech Republic's position in this industry on the European market. Even though it has a relatively small economy and a small land mass as a country compared to other member states, the automotive industry in the Czech Republic has not forfeited its pace of growth, but has even been called a future-looking one on the basis of the following indices, among others: the number of cars produced, the percentage of employees in the automotive sector. According to CzechInvest (Investment and Development Agency), 56 of the top 100 suppliers in the automotive industry have their base in the Czech Republic.[31]

The major car passenger manufacturers are: Škoda Auto, Hyundai Motor Manufacturing Czech (HMMC) and Toyota Peugeot Citroen Automobile (TPCA). Coaches and delivery vehicles are manufactured by: SOR Libchavy, Iveco Bus, Škoda Electric and Tatra.[31]

In 2014, in the Czech Republic, 1,277,875 motor vehicles were manufactured (up 12.7% yoy), of which 1,252,293 cars and 25,582 trailers. This is the highest annual production of vehicles in the history of the Czech Republic and Czechoslovakia. In the period January-May 2015, in total 554,709 vehicles were manufactured in the Czech Republic.[32]

Chemical industry

The Czech chemical industry comprises mainly the following sectors: petrochemical and chemical production, rubber industry, plastics and pharmaceuticals and cosmetic industry. Industry is concentrated mainly in the northern region of the Czech Republic – from Ústí nad Labem to Hradec Králové. The Moravian chemical area is located primarily along the middle and lower section of the Morava river and in the Ostrava region. Oil is processed in the areas located near the pipeline, primarily in the cities of Litvínov and Kralupy nad Vltavou.

4.2. Freight transportation activity

The situation in the rail transport market is presented from the perspective of the Polish and Czech market. The inclusion of the Czech market follows from the integration of the AWT Group with the PKP CARGO Group as of 28 May 2015. The leading markets for the key carriers from the PKP CARGO are: Poland for PKP CARGO S.A. and the Czech Republic for AWT a.s.

4.2.1. Rail freight market in Poland

On the domestic market for rail freight transportation in 2014, in addition to the PKP CARGO Group, freight transportation services were provided by 65 railway carriers holding a license to provide freight transport services, and in June 2015 their number dropped to 63.

Over the first 6 months of 2015, 106.1 million tons of freight were transported by rail, which means a decrease by 2.4% yoy.

In terms of the freight turnover, the volume over the first 6 months of 2015 amounted to 23.9 billion tkm, i.e. 0.1% less than the year before. The average haul increased by 5.3 km (+2.4% yoy).

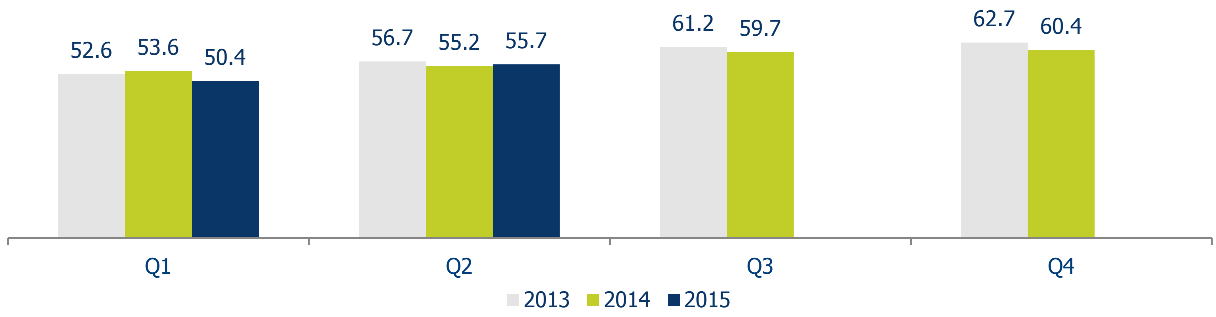
The decrease of the freight volume in H1 was caused, among other factors, by: (i) strikes in Jastrzębska Spółka Węglowa ("JSW") and Kompania Węglowa (at the end of January and the beginning of February), (ii) the military conflict in Ukraine's Donbass region, which affects the level of transportation of, for example, metals, and (iii) delays in road investments (lower transport of aggregates).

In connection with completion of the construction projects and delays in commencement of new ones, H1 2015 was characterized by decreasing transport of aggregates, sand and gravel. However, according to forecasts, the demand for aggregates in 2015 will be at a lower level than that in the previous year.[33] Following the approval of the plan, GDDKiA will be

[31] CzechInvest „Automotive Industry in the Czech Republic", February 2015
[32] PlasticPortal.eu
[33] http://budownictwo.wnp.pl/slaby-rynek-kruszyw-wieksze-wzrosty-dopiero-w-2018-2019,252139_1_0_0.html

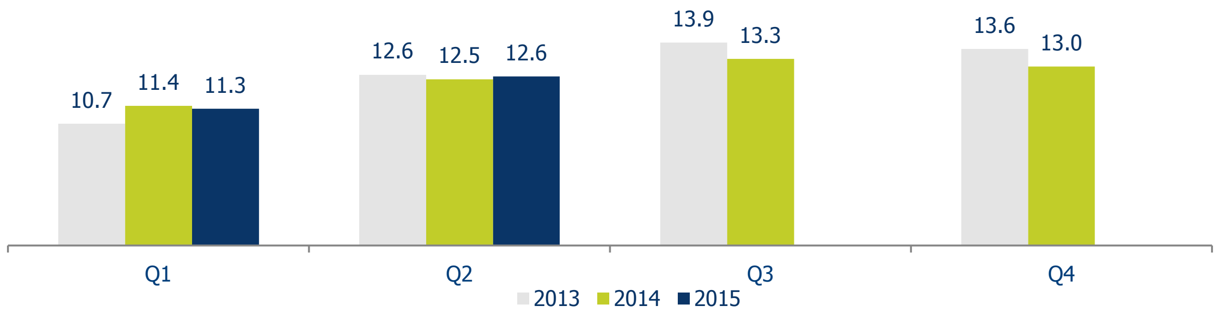
able to plan its budget and launch its investment projects. It is expected that increases will be recorded in 2016 and 2017 when railway modernization projects under the 2007-2014 framework are completed.[34]

Figure 5 Rail freight volumes in Poland (in million tons) in individual quarters of 2013-2015



Source: Office of Rail Transport

Figure 6 Rail freight volumes in Poland (in billion tkm) in individual quarters of 2013-2015



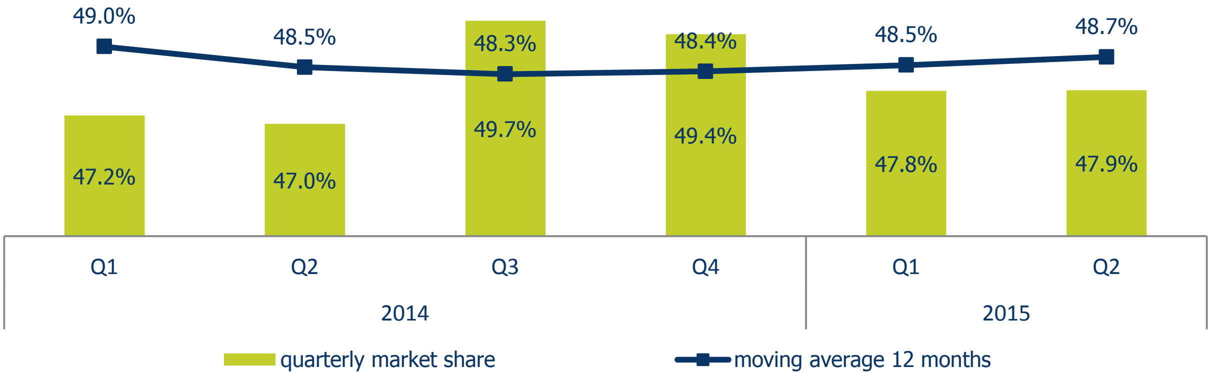
Source: Office of Rail Transport

4.2.2. Position of the PKP CARGO Group in the rail transport market in Poland

During the first 6 months of 2015, the PKP CARGO Group retained the market leader position with a 47.9% market share (+0.8 p.p. yoy) in terms of freight volume carried, whereas as regards the freight turnover this share amounted to 56.2% (-0.6 p.p. yoy).

[34] http://budownictwo.wnp.pl/boom-na-materialy-budowlane-nadejdzie-pozniej,253403_1_0_0.html

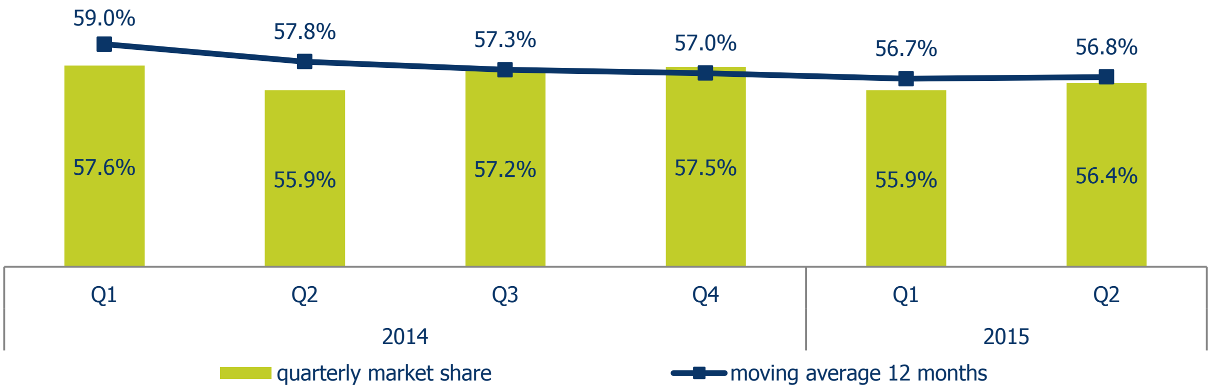
Figure7Share of the PKP CARGO Group in freight volume in 2014 and in 2015 in Poland



* Data for Q4 2014 and Q1 2015 have been adjusted.

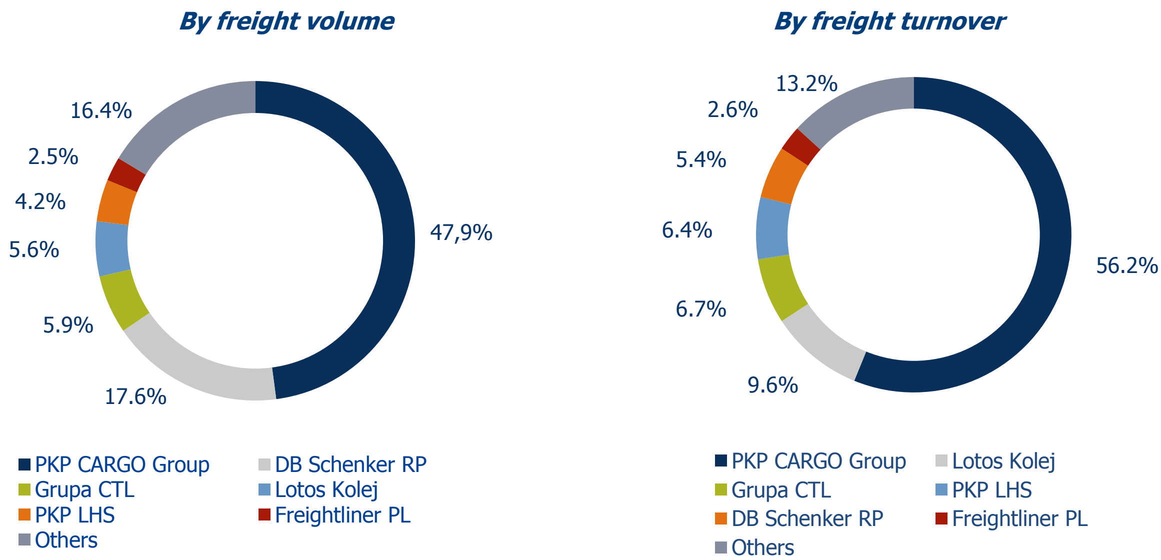
Source: Proprietary material

Figure 8 Share of the PKP CARGO Group in realized freight turnover in 2014 and 2015 in Poland



Source: Proprietary material

Figure 9 Rail operators' market shares by freight volume and freight turnover in January-June 2015 in Poland



Source: Proprietary material

Among rail operators being the PKP CARGO Group's competitors, the leading carriers included: DB Schenker Group, CTL Group, Lotos Kolej, PKP LHS and Freightliner PL.

In H1 2015, The most important competitors in terms of freight volume were: DB Schenker (17.6%), the CTL Group (5.9%) and Lotos Kolej (5.6%). In turn, in terms of freight turnover, the main rivals were: Lotos Kolej (9.6%), CTL Group (6.7%) and PKP LHS (6.4%).

The biggest increase of transportation activity in terms of freight turnover after 6 months 2015, compared to the corresponding period of the year before, was recorded by Lotos Kolej (+161.2 million tkm – a change by +7.5%) and Orlen Kol-Trans (+57 million tkm, change by +10.5%).

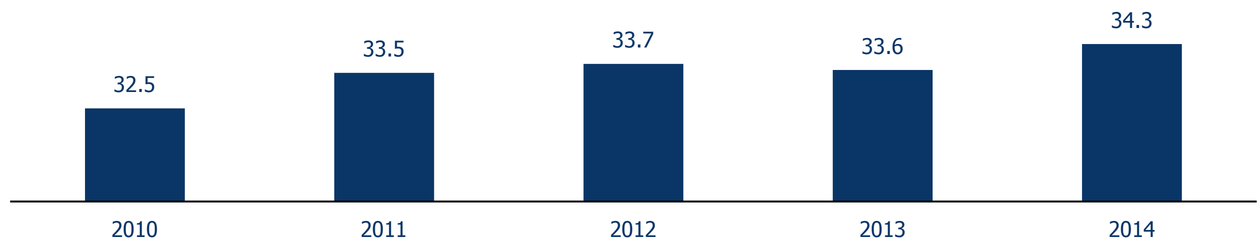
4.2.3. Rail freight market in the Czech Republic

The rail freight market in the Czech Republic amounts to approx. 480 million tons per annum.[35] The market is dominated by road freight with an 81% share in total freight.

Rail transport is the second most important means of freight transport, carrying 19% of total freight.

The rail transport market in the Czech Republic in 2010-2015 increased 6%, to 34.3 million tons.

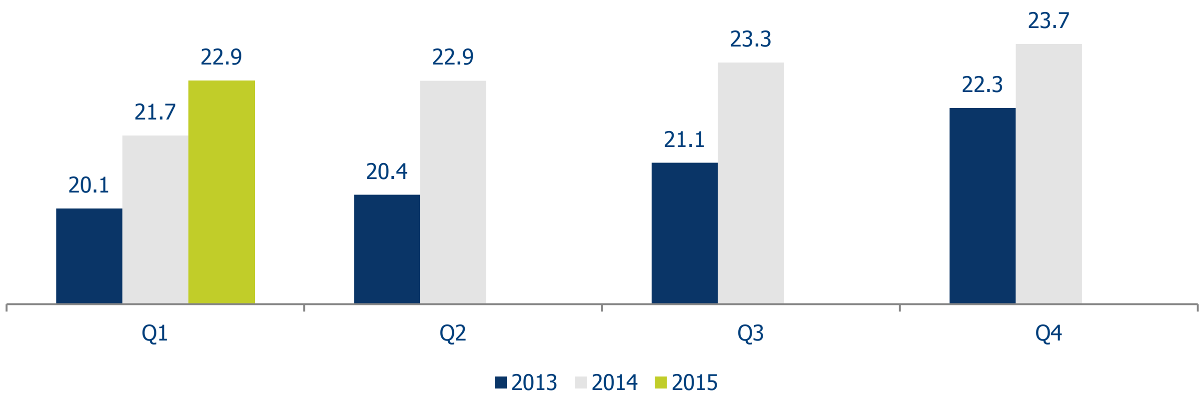
Figure 10 Development of rail transport in the Czech Republic (million tons)



Source: SŽDC, Annual Report 2014

In Q1 2015, approx. 22.9 million tons of cargo was transported by rail, which represents an increase by 5.3% yoy. Rail transport has been on an upward trend since 2013 in quarterly terms yoy.

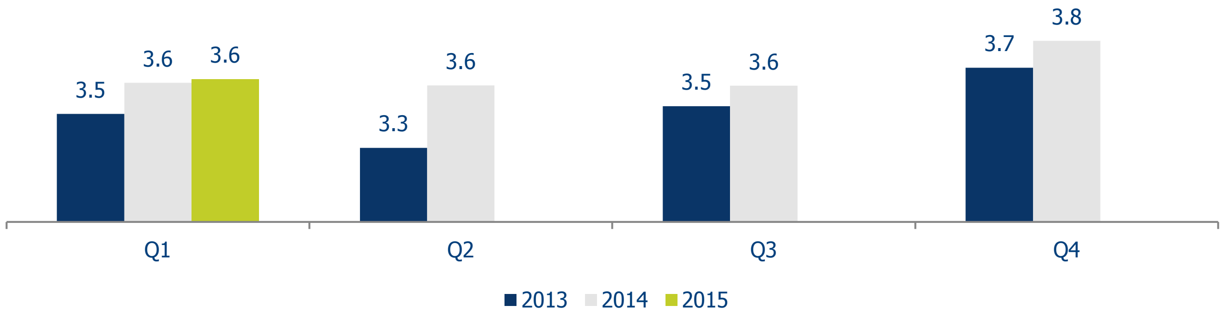
Figure 11 Rail transport by freight volume in the Czech Republic in individual quarters of 2013-2015 (in millions of tons)



Source: Czech Statistical Office

[35] *Czech Statistical Office, data for 2014.*

Figure 12 Rail transport by freight turnover in the Czech Republic in individual quarters of 2013-2015 (in billions of tkm)



Source: Czech Statistical Office

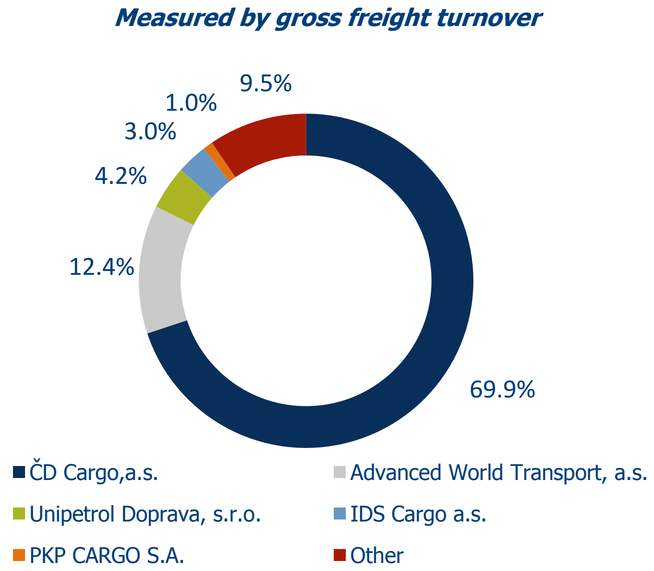
4.2.4. Position of the AWT Group in the rail transportation market in the Czech Republic

According to the annual report of the Czech infrastructure manager (SŽDC), in 2014 rail freight services in the Czech Republic were provided by 89 carriers.[36]

The downward trend in rail freight transport (in terms of freight turnover) recorded in Q1-Q3 of last year has been stopped. Freight turnover in 2014 even reached a slightly higher level than in 2013. However the share of ČD Cargo a.s., which is the biggest Czech carrier, dropped in 2014 to 69.9% from 76.3% in 2013 (shares measured in btkm). The shares lost by ČD Cargo a.s. were taken over largely by the AWT Group, which increased its market share from 7.8% in 2013 to 12.4% in 2014 (shares measured in btkm).[37]

The key carriers in the Czech market are: state-controlled ČD Cargo a.s. and Advanced World Transport a.s., being the biggest private rail carriers in the Czech Republic. Other market participants included: Unipetrol Doprava, s.r.o., IDS Cargo a.s. SD – Kolejova doprava and Rail Cargo Austria. In 2014, PKP CARGO S.A. held 0.95% of the market in terms of btkm.

Figure 13 Market shares of rail operators according to operational freight turnover in 2014 in the Czech Republic (btkm)

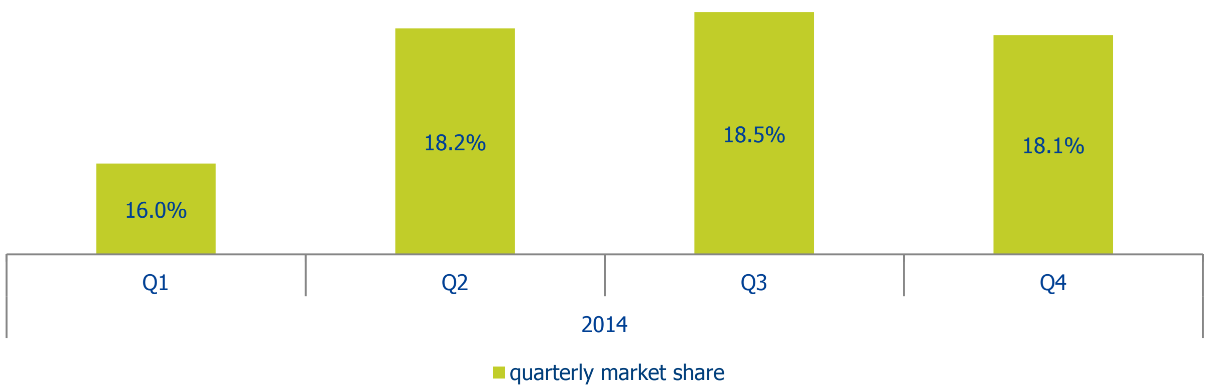


Source: SŽDC, Annual Report 2014

[36] Správa železniční dopravní cesty (SŽDC)
[37] SŽDC, Annual Report 2014

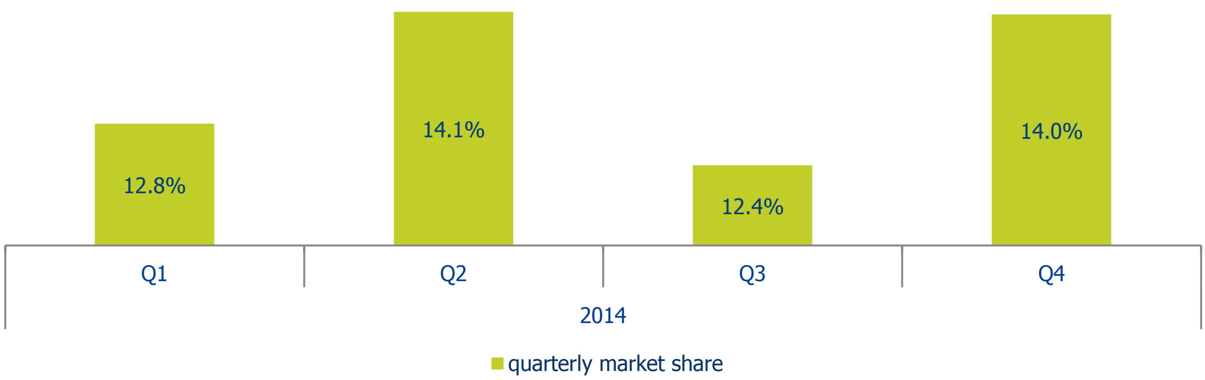
Considering the freight market, in 2014 AWT held a 17.7% share in the freight volume and 12.4% in gross freight turnover.[38]

Figure 14 AWT's market shares in freight volume in 2014; data for freight within the Czech Republic



Source: Czech Statistical Office (www.czso.cz), AWT data

Figure 15 AWT's market shares in realized freight turnover in 2014; data for freight within the Czech Republic (ntkm)



Source: Czech Statistical Office (www.czso.cz), AWT data

[38]Proprietary material on the basis of AWT and Czech Statistical Office data

4.2.5. PKP CARGO Group's rail transport

The data on the transport activity conducted by the PKP CARGO Group in H1 2015 and H1 2014 comprise consolidated data for PKP CARGO S.A., PKP CARGOSERVICE Sp. z o.o. and the AWT Group[39], however the data on the AWT Group pertain only to the period from the date of purchase (start of consolidation using the full method as of 28 May 2015). In the period from acquisition, AWT recorded freight turnover of 122 million tkm and carried freight volume of 1.068 thousand tons.

The transport activity in H1 2015 was conducted by 5 entities from the Group. Following the acquisition (80% of shares) of the Czech company AWT B.V., 3 carriers (AWT a.s., AWT Rail HU Zrt, AWT Rail SK a.s.) joined as of 28 May 2015 the two other carriers from the PKP CARGO Group, i.e. PKP CARGO S.A. and PKP CARGO SERVICE sp. z o.o. (a 100% subsidiary of PKP CARGO S.A.).

The PKP CARGO Group provides rail freight services in the territory of Poland and eight other European Union states, i.e.: Germany, the Czech Republic, Slovakia, Austria, Belgium, the Netherlands, Hungary and Lithuania. The presence in these markets is a growth opportunity for the Group, since it allows the Group to independently handle the volumes transported from/to key European seaports, including those located in the North Sea (Amsterdam, Rotterdam, Zeebrugge, Antwerp, Hamburg) and those located in the Mediterranean Sea (Koper, Triest, Rijeka). The size of the rail freight market in the countries where the PKP CARGO Group operates in 2013 was 231 billion tkm.[40]

Regardless of foreign ports, the Group remains actively involved in the operation and further development of transport as part of a route leading from China through Poland to Western Europe, which has led to work on the establishment of a joint venture aimed at developing a whole-train rail link between China and Europe via Małaszewicze and developing strategic cooperation in the field of transshipment activity in Małaszewicze. The primary objective of the project is to increase the volumes of intermodal transport between China and Western Europe.

The PKP CARGO Group works with the largest Polish and global groups, including ArcelorMittal, PKN Orlen, PGNiG, Lafarge Group, Azoty Group, Węglokoks, Jastrzębska Spółka Węglowa, Kompania Węglowa, Enea Group, PGE Group, International Paper and the Tauron Group. The contracts with these counterparties are regularly renewed, which confirms the quality of the transportation services provided. This is exemplified by won tender procedures for transport of coal to the Kozienice power plant (ENEA Wytwarzanie) and the Veolia Group co-generation plants, transport of timber and wood chips (International Paper Kwidzyn, Kronospan Szczecinek, Mondi Świecie), and aggregates for the construction of roads and rail infrastructure.

In H1 2015, the PKP CARGO Group carried 52.2 million tons of cargo (+2% yoy) and achieved freight turnover of 13.8 billion tkm (unchanged yoy). The Group's transport results in H1 were negatively affected by the transports in Q1 2015. In Q2 2015, the transportation activity recovered, resulting in an increase in freight volume by 8% yoy (to 27.9 million tons) and realized freight turnover by 4% yoy (to 7.3 billion tkm).

The Group's transport activity in H1 2015 was characterized by increased inter-branch and intra-branch price competition. Solid fuels were the main type of goods carried by the Group, with hard coal being the dominating cargo. Transportation of solid fuels accounted for 53% of transported volumes and 45% of realized freight turnover by the PKP CARGO Group in H1 2015. In the same period, transportation of solid fuels was higher in terms of freight turnover by 6% yoy and 6% yoy in terms of freight volume. Thanks to an active sales policy, increased was the share of rail transport of coal in the Polish market, resulting in a 6% higher hard coal volume carried in H1 2015, in addition to transport within the territory of Poland (an increase by 9% yoy) affected also by transit transport (increase by 28% yoy) and exports (increase by 5% yoy) due to stabilization of the hard coal prices in global markets. An unfavorable impact on the transport of solid fuels in H1 2015 was exerted by the transport of coke, whose volume was 2% lower yoy, mainly due to decreasing demand for coke transport to Germany and via seaports.

Aggregates and construction materials were the second largest group of products carried by the PKP CARGO Group in H1 2015, with a 17% share in freight turnover (19% in the corresponding period of 2014). The transportation of aggregates and construction materials in H1 2015 (decrease by 8% yoy in terms of freight volume) was affected by the stagnation in infrastructural investment projects while waiting for the decisions on pending tenders and commencement of work on new infrastructural investment projects (in July 2015 the price proposals for more than ten sections of such roads as S5, S6, S7, S17

[39] This applies to the AWT Group companies consolidated using the full method.
[40] Eurostat, for Poland: Office of Rail Transport.

were opened). One should note that last year saw intensification of transport in connection with the need to urgently complete the investments from the EU framework for 2007-2013.

Products associated with the metallurgic industry, i.e. metals and iron ore, are another important market area serviced by the PKP CARGO Group. The share of this group of commodities in the PKP CARGO Group's freight turnover in H1 2015 was 13% (unchanged compared to the corresponding period of 2014). The increase in freight volume by 1% yoy was driven by increased transportation of iron ores (an increase by 47% yoy in terms of freight turnover and an increase by 32% yoy in terms of freight volume) and lower transportation of metals (limited transportation of metals imported from Ukraine as a result of the reallocation of some production processes to other countries, including Poland). The potential for transportation of products associated with the metallurgic industry is confirmed by the result recorded in Q2 2015 (a 7% increase in freight volume and 13% in freight turnover).

The decrease of freight turnover in timber and agricultural produce was attributable to decreased transportation of timber from Belarus (mainly due to high raw material prices). In Q2 2015 the negative dynamics was reversed due to increase of freight volume by 6% yoy.

The PKP CARGO Group continues to lead the Polish market in intermodal transport, which is an important element of the Group's growth strategy. In H1 2015, the transport of intermodal units increased in terms of container freight volume (by 2% yoy) but freight turnover remained unchanged. The increase in intermodal transport results from the acquisition of new clients and routes, which is closely associated with the development of this segment of the rail market. However the decrease of transit through Poland (Slovakia/Germany-Russia) was a negative impact due to decreased transport of containers with spare car parts and cars due to the economic sanctions imposed on the Russian Federation. The HUB terminal located in Poznań Franowo is of fundamental importance for the expansion of the intermodal connection network (the construction of the terminal has started to increase its capacity by nearly 40%).

*Table 11 Freight turnover of the PKP CARGO Group in H1 2014 and Q2 2014 and 2015**

Item	**6 months of 2015**	**6 months of 2014**	**Change**	**% change**	**6 months of 2015**	**6 months of 2014**	**Q2 2015**	**Q2 2014**	**% change**
	(million tkm)			*%*	*percentage of total (%)*		*(million tkm)*		*%*
Solid fuels[1]	6,125	5,758	367	6%	45%	42%	3,190	2,858	12%
of which hard coal	5,565	5,028	537	11%	40%	37%	2,920	2,499	17%
Aggregates and construction materials[2]	2,359	2,674	-315	-12%	17%	20%	1,412	1,616	-13%
Metals and ores[3]	1,847	1,842	5	0%	13%	13%	946	835	13%
Chemicals[4]	1,029	878	151	17%	7%	6%	530	450	18%
Liquid fuels[5]	346	342	4	1%	3%	2%	217	170	27%
Timber and agricultural produce[6]	791	930	-139	-15%	6%	7%	412	420	-2%
Intermodal transport	913	917	-4	0%	7%	7%	449	484	-7%
Other[7]	349	383	-34	-9%	3%	3%	193	220	-13%
Total	**13,759**	**13,724**	**35**	**0%**	**100%**	**100%**	**7,349**	**7,053**	**4%**

* In connection with the integration with AWT, foreign transports started to be presented under own licenses, hence data for the first 6 months of 2014 have been updated.

Source: Proprietary material

Table 12 PKP CARGO Group's freight volume in H1 and Q2 2014 and 2015

Item	6 months of 2015	6 months of 2014	Change	% change	6 months of 2015	6 months of 2014	Q2 2015	Q2 2014	% change
	(000s tons)			*%*	*percentage of total (%)*		*(000s tons)*		*%*
Solid fuels[1]	27,482	25,816	1,666	6%	53%	50%	14,372	12,395	16%
of which hard coal	25,132	23,426	1,706	7%	48%	46%	13,129	11,182	17%
Aggregates and construction materials[2]	8,576	9,348	-772	-8%	17%	18%	5,220	5,622	-7%
Metals and ores[3]	6,234	6,163	71	1%	12%	12%	3,184	2,965	7%
Chemicals[4]	2,998	2,911	87	3%	6%	6%	1,498	1,397	7%
Liquid fuels[5]	1,274	1,212	62	5%	2%	2%	792	623	27%
Timber and agricultural produce[6]	2,336	2,446	-110	-5%	4%	5%	1,199	1,135	6%
Intermodal transport	2,335	2,287	48	2%	4%	5%	1,161	1,210	-4%
Other[7]	935	1,038	-103	-10%	2%	2%	520	576	-10%
Total	**52,170**	**51,221**	**949**	**2%**	**100%**	**100%**	**27,946**	**25,923**	**8%**

Source: Proprietary material

Table 13 PKP CARGO Group's average distance in H1 and Q2 2014 and 2015

Item	6 months of 2015	6 months of 2014	Change	% change	Q2 2015	Q2 2014	% change
	Km			*%*	*Km*		*%*
Solid fuels[1]	223	223	0	0%	222	231	-4%
of which hard coal	221	215	6	3%	222	224	0%
Aggregates and construction materials[2]	275	286	-11	-4%	270	287	-6%
Metals and ores[3]	296	299	-3	-1%	297	282	5%
Chemicals[4]	343	302	42	14%	354	322	10%
Liquid fuels[5]	272	282	-10	-4%	273	273	0%
Timber and agricultural produce[6]	339	380	-41	-11%	344	370	-7%
Intermodal transport	391	401	-10	-2%	387	400	-3%
Other[7]	373	369	4	1%	371	382	-3%
Total	**264**	**268**	**-4**	**-2%**	**263**	**272**	**-3%**

Source: Proprietary material

From the point of view of the directions in which the PKP CARGO Group's transportation services were provided, the dominant share was transportation within Poland (97% of the realized freight turnover). In H1 2015, compared to the same period of the previous year, the highest growth was recorded in transportation from Poland to Germany (73% yoy), from Poland to the Czech Republic (60% yoy) and from the Czech Republic to Slovakia (no transportation in H1 2015). The increase in realized freight turnover within the Czech Republic and within Hungary is a result of the consolidation of AWT B.V.

4.3. Other services

The core business of the Group is the rail transport. In addition to rail freight services the Group offers additional services:

- traction services and locomotive lease services which involve the provision of a traction unit with an operating team to perform a railway transport operation or to ensure its readiness, e.g. to propel repair or rescue trains. Such services are provided on the Polish market and abroad;
- comprehensive siding services, entailing among others formation of trains, maneuvering services, rail traffic management on sidings, loading and unloading, warehouse management, conservation and ongoing maintenance of point infrastructure. PKP CARGO SERVICE Sp. z o.o. and AWT a.s. are the main entities providing these services. Siding services are offered in Poland, the Czech Republic, Slovakia and Hungary;

- transshipment services – the PKP CARGO Group has developed its transshipment activity based on conventional and intermodal transshipment terminals owned by PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o., PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o., PS TRADE TRANS Sp. z o.o., CARGOSPED Sp. z o.o. and AWT a.s.

- intermodal logistics services – the Group takes care of all the elements of the logistics chain, including: rail transport, road transport, transshipment and storing intermodal units. This activity is based on a network of intermodal terminals. In the Group, CARGOSPED Sp. z o.o. is the company specializing in, and dedicated to, comprehensive intermodal transport service. The service of constantly monitoring the traffic of intermodal trains called "Track and Trace" implemented by AWT brings added value to the Group's offer.

- other forwarding services – the Group's freight forwarding offering consists of comprehensive logistics services using vehicle, marine and inland water transportation incorporating transshipment, storage, warehousing and packaging. The Group also offers customs handling. The comprehensive transport solutions designed and implemented (3PL solutions) are an additional strength for the Group's services. Freight forwarding services are provided chiefly by PS TRADE TRANS Sp. z o.o., CARGOSPED Sp. z o.o. and AWT Čechofracht, a.s.

- rolling stock repair services – the Group's rolling stock maintenance is taken care mainly by a dedicated company PKP CARGOTABOR Sp. z o.o. Additionally, selected repair and maintenance work is also done in the facilities situated in the structures of the Units of PKP CARGO S.A. and by AWT a.s.

- land reclamation services – the Group's service offering in this area consists of managing and revitalizing post-industrial premises (including mining areas), work to raze objects, managing facilities allocated to utilize waste, eliminating underground mining pits and de-contaminating soil. Additionally, the Group offers services in the area of civil engineering. The land reclamation activity is carried out by AWT Rekultivace a.s. and AWT Rekultivace PL sp. z o.o., chiefly in the Czech Republic in the vicinity of Ostrava where mining waste deposits are located.

The Group has not determined operating segments since it has a single product to which all services provided by the Group are assigned. The Group operates only in one segment - domestic and international transport of goods and providing comprehensive logistics services in the field of railway freight. The Management Board of the Parent Company analyses financial data in a manner in which they have been presented in Interim Condensed Consolidated Financial Statements. The Group additionally renders services connected with repairs of the rolling stock as well as reclamation services, however, they are not significant to the Group's activities and are not treated as separate operating segments.

4.4. Headcount

Due to the consolidation, as of 28 May 2015, of the AWT Group companies, the following data include their employees: in terms of data presented only as at 30 June 2015; as regards the average headcount data, the figures take into account only data from the date of purchase.

Information on changes in the headcount in the PKP CARGO Group in H1 2015 and 2014 is provided below.

Table 14 Headcount in H1 2015 in the PKP CARGO Group (taking into account only active employees)

Item	Headcount as at:			Change YTD	Change in Q2 2015
	30/06/2015*	31/03/2015	31/12/2014		
Company	18,743	18,657	20,830	-2,087	86
Subsidiaries	5,915	3,899	4,130	1,785	2,016
Total	**24,658**	**22,556**	**24,960**	**-302**	**2,102**

** Including the AWT Group's employees (2,107 persons).*

Source: Proprietary material

Table 15 Headcount in H1 2014 in the PKP CARGO Group (taking into account only active employees)

Item	Headcount as at:			Change YTD	Change in Q2 2014
	30/06/2014	31/03/2014	31/12/2013		
Company	22,046	22,252	22,480	-434	-206
Subsidiaries	4,216	4,226	4,073	143	-10
Total	**26,262**	**26,478**	**26,553**	**-291**	**-216**

Source: Proprietary material

Table 16 Average headcount in H1 2015 and 2014 in the PKP CARGO Group (taking into account only active employees)

Item	Average headcount in FTEs		Change	Average headcount in persons		Change
	6 months 2015*	6 months 2014		6 months 2015*	6 months 2014	
Company	19,053	22,216	-3,163	19,055	22,219	-3,164
Subsidiaries	5,975	4,171	1,804	6,001	4,203	1,798
Total	**25,028**	**26,387**	**-1,359**	**25,056**	**26,422**	**-1,366**

** Including the AWT Group's employees from the date of acquisition AWT B.V. (2,103 FTEs / 2,107 persons)*

Source: Proprietary material

Table 17 Change in the headcount structure in H1 2015 in the PKP CARGO Group (taking into account only active employees)

Item	Headcount as at:			Change YTD	Change in Q2 2015
	30/06/2015*	31/03/2015	31/12/2014		
White-collar positions	5,415	4,798	5,349	66	617
Blue-collar positions	19,243	17,758	19,611	-368	1,485
Total	**24,658**	**22,556**	**24,960**	**-302**	**2,102**

** Including the AWT Group's employees (2,107 persons).*

Source: Proprietary material

Table 18 Change in the headcount structure in H1 2014 in the PKP CARGO Group (taking into account only active employees)

Item	Headcount as at:			Change YTD	Change in Q2 2014
	30/06/2014	31/03/2014	31/12/2013		
White-collar positions	5,539	5,532	5,566	-27	7
Blue-collar positions	20,723	20,946	20,987	-264	-223
Total	**26,262**	**26,478**	**26,553**	**-291**	**-216**

Source: Proprietary material

In H1 2015, the average headcount in the PKP CARGO Group decreased by 1,359 FTEs in comparison to H1 2014, mainly as a result of the headcount optimization process in the form of Voluntary Redundancy Program. As a result of verification of applications for the first Voluntary Redundancy Program, 3,041 employees were given consent to take advantage of the Program. They stopped being employees as of 1 February 2015.

In addition, the Group's headcount was also decreased as a result of termination of employment contracts in connection with obtaining retirement rights.

Moreover, on 10 May 2015, the Management Board of PKP CARGO S.A. adopted a resolution to continue the optimization of headcount through the implementation of the Voluntary Redundancy Program. As a result of verification of applications for the second Voluntary Redundancy Program, 874 employees were given consent to take advantage of the Program. They stopped being employees of PKP CARGO S.A. as of 1 July 2015.

The program was also implemented in PKP CARGOTABOR Sp. z o.o. As a result of verification of applications, 107 employees were given consent to leave as of 1 August 2015.

Accordingly, the resulting decline in the Group's headcount will be recorded only Q3.

The increase in headcount in Q2 2015 is associated with the acquisition of the AWT Group, which itself employed 2,107 staff as at the end of the reporting period.

4.5. PKP CARGO Group's investments

During the first 6 months of 2015, the Group incurred capital expenditures for the acquisition of property, plant and equipment and intangible assets in the form of purchases, modernizations and the so-called overhaul component (periodic repairs of the rolling stock) in the amount of PLN 231.2 million, which accounted for 90% of the actuals for the first 6 months of 2014.

The biggest part of capital expenditures in H1 2015 in the Group was allocated for the execution of investment tasks associated with the rolling stock, mainly for periodic repairs of the rolling stock, modernization of locomotives (13 locomotives) and purchase of wagons (40 platform wagons for transport of containers) for a total amount of PLN 201.2 million. In addition, expenditures were incurred on computerization, i.e. purchases of computer hardware and intangible assets (software) in the amount of PLN 19.6 million, investment construction activity in the amount of PLN 4.2 million and purchases of other machinery and equipment for PLN 6.3 million.

A detailed schedule of capital expenditures in the first 6 months of 2015 and a comparison with the actuals from the first 6 months of 2014 is presented in the table below.

Table 19 Capital expenditures on property, plant and equipment and intangible assets in the PKP CARGO Group in H1 2015 as compared to H1 2014 (thousands of PLN)

Item	6 months 2015	6 months 2014	Change	Change %
Investment construction activity	4,153	5,850	-1,697	-29%
Modernization of locomotives	51,439	47,547	3,892	8%
Purchase of wagons	11,457	28,613	-17,156	-60%
Machinery and equipment	4,259	1,079	3,180	295%
ITC development	19,633	7,695	11,938	155%
Other	2,026	948	1,078	114%
Components in overhaul:	138,257	165,011	-26,754	-16%
Periodic repairs of locomotives	*75,588*	*49,936*	*25,652*	*51%*
Periodic repairs of wagons	*62,669*	*115,075*	*-52,406*	*-46%*
Total	**231,224**	**256,743**	**-25,519**	**-10%**

Source: Proprietary material

In addition to capital expenditures on property, plant and equipment and intangible assets, as part of capital investments in H1 2015, PKP CARGO S.A.:

- acquired 640 shares in PS TRADE TRANS sp. z o.o., representing in total a 44.44% stake in this company's share capital, having incurred expenditures of PLN 40 million;
- acquired 490 shares in PKP CARGO International a.s. in liquidation, representing in total a 49% stake in this company's share capital, having incurred expenditures of PLN 1.6 million;
- acquired 60,000 shares in Advanced World Transport B.V., representing in total an 80% stake in this company's share capital, having incurred expenditures of PLN 427 million.

4.6. Key information and events

Table 20 Key information and events which occurred during the interim period and after the balance sheet date

Period	Event
January	• PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o., as employers, gave consent to 3,041 out of 3,300 interested employees from the PKP CARGO Group to take advantage of the Voluntary Redundancy Program. The final total amount of the resulting liabilities was PLN 266 million. This amount, as a provision for future liabilities under the Voluntary Redundancy Program, was reflected in the ledgers and charged to the consolidated result of the PKP CARGO Group for Q4 2014. The people who obtained the employers' consent stopped being employees of the PKP CARGO Group companies as of 1 February 2015. Severance payments under the Voluntary Redundancy Program: the first tranche in the amount of approx. PLN 227 million was paid out together with the salaries for January 2015 and the second tranche in the amount of approx. PLN 38 million will be paid out in January 2016. • PKP CARGO S.A. announced a tender for the purchase of 20 multi-system locomotives for cross-border connections, out of which 5 are optional. The total value of the order may amount to PLN 400 million. The hand-over of the first new locomotives for operation is planned for H2 2016. They will take trains to Germany, Czech Republic, Slovakia, Austria, Hungary and Netherlands. • PKP CARGO S.A. signed a railway infrastructure access agreement with PKP PLK S.A. The agreement is in force from 14 December 2014 to 12 December 2015. The expected value of the Agreement during its term will total PLN 684,713,941 net (PLN 842,198,147 gross). • The Company submitted a notification of a collective dispute with a trade union organization - Federation of Trade Unions of Polish Rail Employees (FZZPPK), active in PKP CARGO S.A. Due to elapse of the deadline for acceptance of the demands (mainly of compensation nature) and presentation of the method of meeting them, the Company embarked on a collective dispute with FZZPPK, effective as of 13 January 2015. • PKP CARGO S.A. decided to expand the Poznań - Franowo terminal. The storage area will increase from the existing 1,280 TEUs to 1,760 TEUs. The expansion will be co-financed in 50% from EU funds. The total value of the investment project is PLN 5.8 million. Completion of the construction work is planned for November 2015. • A tax group under the name of PKP CARGO LOGISTICS – Tax Group ("Tax Group") started to operate in the Group. The agreement will be in force for 3 years until 31 December 2017. The Tax Group comprises PKP CARGO S.A. as the representative company, CARGOSPED Sp. z o.o., PKP CARGO SERVICE Sp. z o.o., PKP CARGOTABOR Sp. z o.o. and CARGOTOR Sp. z o.o.
February	• PKP CARGO S.A. entered into a memorandum of agreement ending the collective dispute effective as of 30 October 2014. The memorandum of agreement envisages partial fulfilment of the postulates pertaining primarily to: a benefit paid on the occasion of the Railway Man Day, introduction of a benefit for change of the work schedule, increase of daily rates for purchase of supportive meals and regenerative meals, introduction of an allocation and incentive allowance, and organizational matters. • Receipt of a notice that as a result of a sale of the Company's shares in a block trade, the European Bank for Reconstruction and Development reduced its shareholding below 5% of the total number of votes at the PKP CARGO S.A. shareholder meeting ("SM"). Before the Transaction EBRD held 5.10% of the Company's share capital and was entitled to 5.10% of the total number of votes. • PKP CARGO S.A. and KGHM Polska Miedź S.A. entered into a preliminary agreement on potential acquisition, by PKP CARGO S.A., of 49% shares in Pol-Miedź Trans (PMT), which is currently wholly-owned by KGHM. • PKP CARGO S.A. received information from Mr. Zdenek Bakala and The Bakala Trust on the fulfillment of one of the conditions precedent laid down in the agreement on acquisition, by PKP CARGO S.A., of 80% shares in the share capital of Advanced World Transport B.V. (AWT), involving convalidation of the transfer of the legal title to a collective share slip of AWT. • PKP CARGO S.A. signed a purchase agreement for 44.44% shares in PS Trade Trans Sp. z o.o. from Trade Trans Invest a.s. Currently PKP CARGO S.A. owns 100% shares in the company. • PKP CARGO S.A. signed an agreement for the acquisition of 49% of shares in PKP CARGO International a.s. in liquidation from Rail Cargo Spedition a.s. Currently, PKP CARGO S.A. holds 100% shares in the company.

	• PS Trade Trans Sp. z o.o. signed agreements for the sale of shares in Rail Cargo Spedition GmbH, Trade Trans Terminal SRL and Rail Cargo Service Sp. z o.o. Currently, PS Trade Trans Sp. z o.o. does not hold any shares in these companies.
March	• PKP CARGO S.A. received information from Mr. Zdeněk Bakala and The Bakala Trust on the fulfillment of the second condition precedent laid down in the agreement on acquisition, by PKP CARGO S.A., of 80% shares in the share capital of Advanced World Transport B.V. (AWT), involving the obtaining of confirmation by some AWT group companies from banks and other financial institutions funding the AWT Group's activities that the transaction will not constitute a breach of the agreements with these institutions. • PKP CARGO S.A. signed a strategic cooperation agreement with HŽ Cargo, a Croatian national rail freight carrier. Both companies will cooperate in providing services to their existing customers, transporting goods in the North-South corridor and will prepare a joint logistic offering for prospective new customers. • PKP CARGO S.A. signed agreements with three leaders of the Polish industries using wood – International Paper Kwidzyn, Kronospan Szczecinek and Mondi Świecie. These are agreements for the transportation of, among others, timber, wooden products and wood chips. The total volume of the goods transported by PKP CARGO S.A. over 2 years will exceed 5 million tons, out of which 65% will be the transportation of timber.
April	• The Annual Shareholder Meeting (ASM) adopted a resolution on distributing the profit earned in 2014 – the ASM resolved to earmark the net profit of PLN 58,610,399.18 for: 1. payment of dividend in the amount of PLN 53,921,567.25; 2. supplementary capital in the amount of PLN 4,688,831.93. Additionally, the ASM resolved to earmark for dividend the amount of PLN 56,254,248.57 from retained earnings. At the same time, the Company's ASM set 15 June 2015 as the dividend record date and 26 June 2015 as the dividend payment date. The total value of the dividend is PLN 110,175,815.82, i.e. PLN 2.46 per share. The dividend applies to all 44,786,917 shares in the Company. The contents of the ASM resolution were consistent with the Company's Management Board recommendation regarding distribution of the profit earned in 2014. As for allocation of the additional amount for dividend from retained earnings, the Management Board recommended the amount of PLN 56,078,432.75. • The President of the Office of Rail Transport issued to PKP CARGO S.A. for 5 years safety certificate part B no. PL 1220150006 valid from 23 April 2015, being an extension of safety certificate part B no. PL 1220100001 dated 22 April 2010. The safety certificate confirms acceptance of the regulations adopted by the rail company to satisfy the national requirements regarding security of transport in a given network, in accordance with Directive 2004/49/EC and pertinent national regulations. • commencement of the consolidation process of freight forwarding activities in the Group. Freight forwarding services provided by PKP CARGO S.A. are currently spread between three companies: Trade Trans, CARGOSPED and PKP CARGO S.A. itself. The objective of the process is to harmonize the provision of services primarily from the customer's perspective. • The Extraordinary Shareholder Meeting adopted changes in PKP CARGO S.A.'s Articles of Association; the Supervisory Board adopted the consolidated version of the Company's Articles of Association. • PKP CARGOTABOR USŁUGI Sp. z o.o. suspended business activity for 9 months, i.e. until the end of 2015 (if necessary, this activity may be resumed earlier by the company – before the elapse of 9 months). • The President of the Office of Rail Transport (UTK) issued a security authorization for railway infrastructure manager to CARGOTOR Sp. z o.o., a PKP CARGO Group company. This constitutes confirmation that this company ensures safe conduct of railway traffic and railway infrastructure access to rail operators.
May	• On 10 May 2015, the Management Board of PKP CARGO S.A. adopted a resolution to continue the optimization of headcount in the Company through the implementation of the Voluntary Redundancy Program. The anticipated value of liabilities arising from the implemented Program has been estimated at approx. PLN 20 million. This amount of liabilities is based on the assumption that approx. 250 employees will take advantage of the Voluntary Redundancy Program. A condition for an employee's eligibility for the Voluntary Redundancy Program is to obtain the employer's consent.

	● The PKP CARGO S.A. Management Board reported that the last condition precedent has been fulfilled, i.e. that the Company has obtained, from the relevant antitrust authorities, approval of the concentration between the Company and AWT as laid down in the agreement for the Company's acquisition of a 80% stake in AWT's share capital. The transfer of legal title to shares in AWT's share capital will take place under a Dutch notarial deed in return for the Company's payment of the purchase price. ● PKP CARGO S.A. won a tender for the transportation of coal for PLN 62.5 million and will continue to deliver coal from Bogdanka in Lublin and from the Silesian mines to ENEA Wytwarzanie's Kozienice Power Plant. The new contract will be in force for 12 months starting in July 2015. The total volume of fuel to be transported under this agreement will be in excess of 5 million tons. ● In the performance of a share purchase agreement entered into on 30 December 2014, PKP CARGO S.A. acquired 60,000 shares in AWT's share capital with a par value of EUR 1 each, representing 80% of AWT's total share capital and carrying the right to exercise 80% of the total number of votes at AWT's shareholder meeting, following the Company's execution of an agreement transferring ownership of the shares to the Company and the Company's payment of EUR 103,200 thousand (PLN 427,300 thousand).
June	● The final value of liabilities following from running the Voluntary Redundancy Program is PLN 63.9 million. 1,193 employees in the Company in total filed applications to enroll in the Voluntary Redundancy Program. Considering the need to preserve continuity in running processes and the economic conditions, 319 interested employees did not receive consent to take advantage of this Program. The 874 employees in the Company who received their employers' consent to enroll in the Voluntary Redundancy Program ceased to be employed by the Company starting on 1 July 2015. Severance payments in the Voluntary Redundancy Program will be made in two tranches: the first tranche of approx. PLN 54.5 million was paid out together with the salaries for June 2015 and the second tranche of approx. PLN 9.5 million will be paid out in February 2016. Liabilities under the Voluntary Redundancy Program amounting to PLN 63.9 million was charged to the Company's financial result for Q2 2015. ● Execution by PKP CARGO S.A. of an annex to the Overdraft Facility Agreement with mBank S.A. changing the repayment date to 31 May 2017. ● Signing of a letter of intent specifying the scope and terms and conditions of cooperation between PKP CARGO S.A. and Zhengzhou International Hub. A joint venture will be established to deal with the rail transport of containers between central China and Europe. The project's key component is the expansion of the dry port in Małaszewicze owned by PKP CARGO S.A. on the Polish-Belarussian border. As a result, the number of trains from China to Europe co-handled by PKP CARGO S.A. may grow to 300 per annum. ● PKP CARGO S.A. signed a three-year agreement with Veolia in Poland to transport 4.25 million tons of hard coal. This contract will be performed in 2016-2018. This contract chiefly anticipates coal supplies from Silesian mines to central and western Poland. ● AWT a.s., AWT B.V., AWT Rekultivace a.s. and AWT Coal Logistics s.r.o. as borrowers signed an annex to the Consortium Credit Facility Agreement. The consortium's members are as follows: ING Bank N.V. and UniCredit Bank Czech Republic and Slovakia, a.s. as lenders. According to the executed Annex, the term of validity of the line of credit and the lines for bank guarantees and letters of credit is extended for one year, until September 2016 for the line of credit and the usage of new guarantees and until September 2017 for bank guarantees and letters of credit. As of the date of signing the Annex (25 June 2015), the outstanding amount to be repaid under this facility is roughly EUR 27 million. ● In PKP CARGOTABOR Sp. z o.o., a workforce optimization project has been implemented in the form of the Voluntary Redundancy Program. As a result of verification of applications, 107 employees were given consent to leave as of 1 August 2015. The provision for future liabilities under the implementation of the program amounting to PLN 6.3 million was recognized in the Company's financial result for Q2 2015.

July	● Signing of a letter of intent between PKP CARGO S.A. and Greenbrier Europe Wagony Świdnica on launching the production of wagons in Szczecin. Under this cooperation Greenbrier will furnish the indispensable documentation, technology, quality control standards and the production line equipment. PKP CARGOTABOR Sp. z o.o. (a company belonging to the PKP CARGO Group) will be charged among others with providing qualified production and administrative staff and workshops. ● On 8 July 2015 the Company filed a notification with the State Labor Inspection Service on the emergence of a collective dispute with the trade union organizations operating in the Company. By letter dated 2 July 2015, four trade union organizations operating in the Company requested the implementation of their demands pertaining to increases in employee compensation, setting a five-day time limit, expiring on 7 July 2015, for such implementation. The demands put forward by the trade unions in their letter of 2 July 2015 concern the following issues: 1. Implementing a wage increase as of 1 July 2015 in base salary in the amount of PLN 250 for all employees paid in accordance with the Collective Bargaining Agreement ("CBA") for persons employed in PKP CARGO as of 1 July 2015; 2. Implementing a change in the base for the ratio to Q4 2014 for PKP CARGO S.A.'s employees paid on a ratio basis according to the Management Board's Resolution, where the consequence of the refusal to fulfill these demands will be entry into a collective dispute in respect of each one of the postulates described above. According to the Company's estimates, the annual cost of fulfillment of the demands put forward by the trade union organizations would amount to approx. PLN 120 million. The PKP CARGO S.A. Management Board, in its letter dated 7 July 2015, refused to fulfill the demands formulated by the trade unions in their letter of 2 July 2015, as a result of which a collective dispute emerged with effect from 2 July 2015. The Management Board refused to accept the demands put forward by the social side during the mediation held on 30 July 2015. A consequence of the failure to reach an agreement was to complete the mediation within the framework of a collective dispute by preparing a discrepancy report, which took place on 30 July 2015. The completion of the mediation stage entitles the trade unions to take strike action. ● On 29 July 2015, the Company's Management Board adopted a resolution to increase employee salaries as of 1 July 2015: (i) for employees remunerated under the Company Collective Bargaining Agreement, the gross base salary is to increase by PLN 110, (ii) for employees remunerated on the ratio basis, the net salary is to increase by PLN 110. The Management Board will request the Supervisory Board for consent to raise the salaries. According to the Company's estimates, the cost of such a raise, including associated payments, is approx. PLN 50 million per full calendar year. ● PKP CARGO S.A. commenced an expansion of the container terminal in Poznań Franowo. After completing this work, its capacity will be enhanced by nearly 40%. This investment is slated for completion in December 2015. In the future this terminal will form part of the Logistics Center in Poznań, which renders comprehensive logistics services. As a result of this expansion, the terminal in Poznań Franowo will obtain a new maneuvering plaza and storage yard with an area of 8.2 thousand square meters, while this facility's storage capacity in Franowo will grow from its current 1,280 TEUs to nearly 1,800 TEUs. The expansion will be co-financed in 50% from EU funds. The total net value of the investment is PLN 6.8 million. ● The Extraordinary General Meeting of PKP CARGO International a.s. in liquidation distributed the liquidation mass. The payment of the liquidation mass to the sole shareholder - PKP CARGO S.A. occurred on 5 August 2015. Finalization of the process of liquidation of PKP Cargo International a.s. is scheduled on September 2015 and is subject to the approvals of the relevant local administrative bodies. ● The Supervisory Board of the PKP CARGO S.A. has agreed to sale additional part of rolling stock.
August	● The Extraordinary Shareholder Meeting of AWT Rail PL sp. z o.o. adopted a resolution to dissolve AWT Rail PL, open its liquidation as of 7 August 2015 and appoint the liquidators. A petition for the opening of the liquidation proceedings will be filed with the court of registration in Gliwice. ● In a resolution adopted on 10 August 2015, the Company's Supervisory Board issued a positive opinion on the resolution adopted by the Management Board of PKP CARGO S.A. on 29 July 2015 providing for salary increases for employees working for employers operating in the Company in the following amounts: (i) PLN 110 gross for employees remunerated under the Company Collective Bargaining Agreement, (ii) PLN 110 net for employees remunerated on the ratio basis, with the change in salaries due to take effect as of 1 July 2015.

Source: Proprietary material

4.7. Description of the key threats and risks associated with the remaining six months of the financial year

Risks related to the economic and market environment

Risk of deterioration in business conditions – The transportation sector, both rail and vehicle, is a material component of every economy. Rail transport development is correlated with business conditions in Poland and across the globe, i.e. with the development of industry, reviving activity on international markets and the rising or declining production of import-intensive branches of industry contributing to change in foreign trade turnover, and hence it affects the magnitude of demand for freight transport. Vehicle transport also has a major impact on the development of rail freight transport as it is perceived by transportation service clients as a substitute on the land-based transport market.

The PKP CARGO Group operates in a sector that is positively correlated with economic growth and the macroeconomic situation, where long-term volatility observed in the overall economy pertaining to production and trade exerts a very strong impact on this sector. In particular, the growth rate of freight turnover in rail freight transport in Poland demonstrates a positive correlation with the GDP growth rate.

The vast majority of revenues in the PKP CARGO Group comes from activity linked to domestic rail freight transport with a material part thereof being allocated to exports, imports and transit. As a consequence, the market situation not just in Poland and the Czech Republic but also in countries that are the main trading partners materially affects the operations and the Group's financial results. The deterioration of the economic situation of Poland, the Czech Republic or other countries forming current or prospective markets to operate on, may exert an adverse impact on the demand for the services rendered.

Moreover, the most recent situation in Greece is not devoid of significance for the entire European Union. Greece's material level of debt and the problem with repaying its current debt mean that the situation on the market is uncertain. Greece is being supported by a bridge loan from the European Financial Stability Mechanism, which temporarily allows it to meet its current liabilities.

The signing of the Iranian nuclear agreement that abolished sanctions on petroleum oil exports has also become an important factor for the market. It should be expected that Iran will strive to regain its market position by driving up oil exports that will affect its price.

Risk related to the situation on the transport market in the main cargo categories – The situation in the rail freight turnover market in Poland hinges chiefly on the situation on the market for coal, aggregate, coke, iron ore and metals as well as petroleum oil refinery products, chemical products and container transport.

The growth in freight turnover volumes in the PKP CARGO Group hinges on the degree of development of transport in the foregoing cargo categories.

The uncertain situation in the mining industry affects that on the market for hard coal transportation. It is primarily caused by:

- price pressure on the international coal market – the average ARA price in December 2014 was USD 70.68/t[41], while in June 2015 it was USD 57.82/t, which is the worst result in this half-year,
- persistently high levels of coal inventories – in Poland at the end of June there were 5.1 million tons[42] – down from 8.2 million tons in December 2014[43],
- competition from renewable energy sources ("RES") – according to estimates in Poland in 2014 the share accounted for by renewable energy in gross final energy consumption was 11.5%[44], in 2013 – 11.2%, 2012 – 11%[45], while ultimately in 2020 its share is to rise to 15%; in the Czech Republic according to estimates RES provided 11% of electricity while the plan is to obtain 13% by 2020[46].

34.5 million tons of coal were mined in Poland in H1 2015, i.e. down 2.7% yoy. This decline is the outcome of excess coal supply on the domestic market (the large amount of inventory on coal yards). In the Czech Republic, the situation is equally

[41] Wirtualny Nowy Przemysł
[42] Information Center on the Energy Market
[43] Polish Coal Market
[44] Wysokienapiecie.pl
[45] GUS „Energia 2015"
[46] Wysokienapiecie.pl

tough: 8.6 million tons of hard coal were mined there in 2014, i.e. 2% less year on year while the coal production sold plunged by 14% yoy.

The persisting trend concerning the generation of electricity in power plants in Poland is also a material factor. According to the National Electrical Energy System and the Balancing Market, 79,527 GWh of electricity were generated in Poland in H1 2015, signifying generation growth of 2.9% yoy. In turn, the energy mix proved to be unfavorable to hard coal (the generation of energy using hard coal receded by 1.2% yoy) coupled with growth in the generation of electricity using wind power plants (21.9% growth yoy).

Iran's current situation and the signing of the nuclear agreement while simultaneously abolishing sanctions on the exports of this commodity may pose a significant threat of lower rail transportation. If cheap oil comes from Iran, there is a threat that road transportation will be used to transport this commodity from Iran.

Risk associated with the rail freight sector - Both the Polish and the Czech rail freight markets are very competitive in the EU. The liberalization of the regulations governing the operations of rail operators means that new players competing with the PKP CARGO Group are appearing on both markets.

Roughly 60 entities currently hold a rail operator's license in Poland. The competition holds a total of approximately 50% of the market share measured by freight volume (data for May 2015); however, the PKP CARGO Group continues to maintain its position as the largest Polish rail freight operator. In turn, on the Czech market PKP CARGO Group has an approx. 11.5% share (based on data for Q1 2015) in terms of transported volumes.

The high level of competitiveness on the market compels us to search for new markets and to expand the operating area.

The key players on the rail freight market in Poland are: the PKP CARGO Group, DB Schenker Rail Polska, CTL Logistics and Lotos Kolej. The activity of competing rail operators entails among others whole train transport of coal, aggregate and other dry bulk commodities, liquid fuels, chemical articles and intermodal transport.

In the Czech Republic, the key players on the rail freight market are: ČD CARGO, Unipetrol Doprava, Loko-Trans SD-KD (SD - Kolejová doprava), and also Metrans in some areas of rail freight transport (intermodal services). Competitive activities include, similarly to Poland: rail transport services for coal and other dry bulk commodities, liquid fuels, chemical materials and intermodal transport.

The diminished demand for steam coal, the delays in the process of road and rail investments and the unstable volume of transshipment at the Polish-Ukrainian border in connection with the political crisis in Ukraine are the main areas of risk pertaining to the Group's freight transport.

Risks in the operations conducted

Risks associated with rail infrastructure - The activities of the PKP CARGO Group depend on the condition of the railway infrastructure and the railway network being used is characterized by low quality. An intensive railway network modernization program, although ultimately it will entail improvement of operating conditions, during the course of the construction and renovation work will cause hindrances and a necessity to route the railway traffic using detours.

In addition to the ongoing infrastructure work on the PKP PLK network from August to December 2014, two major track closures will take place that will make it impossible to utilize (concurrently) two Polish-Czech rail border crossings.

Risk of fuel price growth - The current global petroleum oil prices are at minimum levels in several years. If the largest global producers elect to limit the current high production levels of this commodity, it is possible that the current trends will reverse and this commodity's price will rise, which as a result will contribute to higher prices for liquid fuels.

Road transport constitutes increasing competition for the Group - Road transport poses the largest competition to rail freight transport in Poland. In recent years the Polish government ran an intensive modernization program on road infrastructure whereby its condition has improved considerably. In particular, the motorway and express road network has been expanded. At the end of 2014, there were 1,552.2 km of motorways and 1,604.6 km of express roads in use.[47] Thus the total

[47] PSWNA – Polish Association of Asphalt Surface Contractors

length of major roads for road transport is 3,156.8 km. In addition, in 2014-2020 thanks to EU co-funding in the new perspective the number of kilometers of roads to be commissioned for usage is supposed to grow by another 1,770 km[48].

The Czech Republic also continues to expand its motorway and express road network. It was possible to use 690 km of motorways and 365 of express roads up to the end of 2014, yielding a total of 1,055 km of roads.[49] Moreover, another 95 km of motorways and express roads funded by the EU in the 2014-2020 perspective will be built in upcoming years.

The expansion of the road network will lead to shortening delivery times and reducing the costs of road transport, whose competitive edge additionally involves the ability to deliver goods "door-to-door", i.e. directly to or from a client without having to change the means of transport. Giving consideration to the above, one cannot preclude further decline in the significance of rail transport.

The Group's client base is largely dependent on a limited number of industrial branches and their suppliers - Even though long-term contracts prevail in the composition of contracts entered into with clients, partially involving a statement of the guaranteed purchase order levels, there is a risk that the Group will not retain its clients in the future or that the volumes specified in the contracts will not be realized in full. Moreover, in the event of losing key clients, the Group cannot procure that it will easily be able to replace them with other clients to whom it will render services on comparable terms and conditions.

In the Czech rail transport market, one of the Group's key clients is OKD a.s. - the only producer of hard coal in the Czech Republic. In 2014 the company underwent a restructuring process thanks to which in the short perspective its situation has stabilized. There is a risk that the Group, as OKD's important partner in rail transport and siding operator, will significantly respond to all fluctuations following from volatility of the situation in the hard coal market.

Structural changes in the operations of key clients – Structural changes in the operations of the Group's key clients may affect its operations; they may drive the Companies' various clients to establish or develop their own subsidiaries dealing with rail freight transport.

At present, several of the PKP CARGO Group's large clients conduct rail freight transport through their own subsidiaries. These subsidiaries may take over part of the services rendered by the Group in favor of their parent companies or start rendering services in favor of other clients and start competing with the PKP CARGO Group.

Nor can one rule out that the PKP CARGO Group's major clients will move the location of their operations or alter their production cycle, which may affect the level of transport services provided.

Risk associated with acquisition activity - The results of the acquisition processes in which PKP CARGO S.A. participated and presently participates will have impact on the Group's results. The transactions may not bring the expected business and financial results.

Risk associated with shortage of trained personnel - In connection with increase of the average age of many train crews and shortage of graduates, the Group has undertaken a number of actions aimed at reducing the risk of shortage of personnel. However there is still a risk of shortage of key professionals, such as members of train crews, mainly train engineers. However the Group takes measures to mitigate the risk such as recruitment campaigns, dialogue with technical education institutions, personnel skills improvement and broadening the knowledge of routes.

Risk of continuation of collective disputes and strike - In the period from 28 to 30 July 2015 mediations were conducted in the collective dispute; as no agreement was achieved regarding satisfaction of the trade union demands, the mediations ended with signing of a discrepancy report.

On 28 July 2014, a protest and strike committee was established to carry out protests and strikes and a strike referendum by 21 August 2015. At the same time some trade union organizations intensified their activity, making an appeal to all trade unions and employees of the Company for active support in implementation of their postulates.

A potential protest and strike may have negative impact on the Group's financial results.

[48] GDDKiA
[49] AutoEurope.pl

Financial risks

Liquidity risk - The Group is exposed to liquidity risk following from the ratio of current assets to current liabilities. To ensure an additional source of funds required to secure its short-term liquidity the Group has current account overdraft facilities. Additionally, to secure its long-term liquidity, the Group uses investment loans and leasing (financing of capital expenditures).

To optimize the financial costs in the PKP CARGO Group, a cash pooling system is in place which comprises, as at 30 June 2015, 8 Group companies.

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

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

FX risk - The Group is exposed to FX risk resulting from its receivables, cash and payables. The Group's receivables expressed in foreign currencies are short-term receivables (up to 1 month) and payables expressed in foreign currencies are mostly short- and long-term leasing liabilities.

Balance sheet valuation of the receivables and liabilities expressed in foreign currencies, and settlements in foreign currencies both on the side of receivables and liabilities, lead to financial revenues (positive FX differences) and costs (negative FX differences). The level of financial revenues and costs fluctuates during the year, which is caused by changes of the exchange rates.

Due to the long maturities, short- and long-term leasing liabilities denominated in EUR have the biggest share in financial revenue and expenses, and cause volatility in the Company's result on the level of financial expenses and revenues on account of unrealized FX differences. In 2015, due to repayment of liabilities, the risk of volatility of results due to valuation of FX financial liabilities has been successively decreasing.

Cash flows in EUR were partly hedged with forward transactions and, in the remaining part, natural hedging was used.

Cash in foreign currencies deposited on bank accounts follow from timing mismatch of receipts and expenditures and the surplus of receipts over expenditures.

In the long run, the valuation risk matches the risk of change of cash flows, therefore the Company's cash flows are partly balanced out by the costs in the same currency.

For the EUR/PLN exchange rate, there is partial natural hedging due to the fact that sales revenues in EUR are partly balanced out by costs in the same currency. In accordance with the Financial Risk Management Policy prevailing in the Group, the remaining part of revenues in EUR is partly hedged until the end of Q2 2016 through application of derivative transactions.

In Q2 2015, cash flows in EUR were subject to a one-off event associated with settlement of the AWT purchase transaction. The funds for the purchase of AWT came partly from the surplus of AWT's cash and partly from execution of EUR purchase transactions.

To present the effects of the hedging transactions in accordance with their economic content in the Group, one of the subsidiaries uses hedge accounting.

Interest rate risk - Most financial investments made by the Group are overnight bank deposits and term bank deposits which are concluded for the period of several days to approx. 3 months, depending on the Group's liquidity needs.

In addition, the Group is exposed to the risk of volatility of interest rate cash flows following from bank loans, leasing based on variable interest rates. Interest on leasing agreements is accrued according to the reference rates increased by the financing party's margin. The reference rate for agreements denominated in EUR is EURIBOR 1M, 3M, 6M, for CZK – PRIBOR 6M, and for agreements denominated in CHF – LIBOR 6M CHF. The interest rate risk in leasing agreements is executed through revaluation of leasing installments in the periods of 1 month, 3 months, 6 months, depending on the agreement. Interest on loan agreements were accrued according to the WIBOR 1M and WIBOR 3M reference rate plus the banks' margin. The interest rate risk in loan agreements is executed through revaluation of loan installments in monthly periods.

In accordance with the financial risk management policy prevailing in the Group, Group companies (PS Trade Trans and AWT) applied interest rate hedging transactions, the so-called IRS.

Credit risk - Conducting its commercial activity the Group sells services to business entities with a deferred payment date, which may lead to the risk of counterparties defaulting with meeting the deadlines for payment of the amounts due for the provided services. To minimize the credit risk, the Group manages the risk through a prevailing client creditworthiness assessment procedure. This assessment is carried out for all clients who use a deferred payment date. As part of its internal policy, the Group makes application of the deferred term of payment conditional on acceptability of the counterparty's condition and positive history of cooperation. Counterparties' receivables are monitored on a regular basis. In the case of overdue receivables, in accordance with prevailing procedures, the delivery of services is suspended and recovery procedures are triggered.

Concentration of risk associated with trade receivables is limited due to the large number of counterparties with commercial credit dispersed among different sectors of economy. In addition, to reduce the risk of problems with recovery of trade receivables, the Group accepts from their customers securities in the form of, among others: bank/insurance guarantees, assignment of contracts, blockage on bank accounts, and promissory notes.

The credit risk associated with cash and bank deposits is perceived as low. All entities in which the Group invests free cash operate in the financial sector.

The maximum exposure to credit risk is presented by balance sheet balances of trade and other receivables, cash and other financial assets. This exposure is limited through securities established in favor of the Group (in the form of, inter alia, bank/insurance guarantees, guarantee deposits).

5. Analysis of the financial situation and assets of the PKP CARGO Group

5.1. Rules for preparing the condensed interim consolidated financial statements

The Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period from 1 January 2015 to 30 June 2015 were prepared in accordance with the International Accounting Standard ("IAS") 34 - Interim Financial Reporting ("IAS 34") and in accordance with the relevant accounting standards applicable to interim financial reporting, adopted by the European Union (EU IFRS), published and in effect during the preparation of the Condensed Interim Consolidated Financial Statements and in accordance with the Finance Minister's Regulation of 19 February 2009 on the current and periodic information transmitted by securities issuers and the conditions for recognizing the information required by the regulations of a non-member state as equivalent (Journal of Laws No. 33 Item 259) ("Regulation").

The Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period from 1 January 2015 to 30 June 2015 should be read in conjunction with the audited Consolidated Financial Statements of the Group for the year ended 31 December 2014 prepared in accordance with the International Financial Reporting Standards as approved by the European Union ("EU IFRS") with notes ("Consolidated Financial Statements prepared in accordance with EU IFRS").

The Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period from 1 January 2015 to 30 June 2015 have been prepared with the assumption that the Group are a going concern in the foreseeable future. As at the preparation date of these Condensed Interim Consolidated Financial Statements, there are no circumstances indicating any substantial doubt about the Group's ability to continue as a going concern operations for the period of at least 12 months of the date of the financial statements.

The Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period from 1 January 2015 to 30 June 2015 have been prepared in accordance with the historic cost principle, except for derivatives measured at fair value, liability arising from the put option for non-controlling shares and non-current assets classified as held for sale.

5.2. Basic economic and financial figures

5.2.1. Statement of comprehensive income

In connection with the acquisition of an 80% stake in AWT B.V., the figures include AWT's financial data from the date of purchase. Analysis of basic economic and financial figures of the PKP CARGO Group presented in this chapter takes into account a presentation adjustment of data in H1 2015. The presentation data adjusted for costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Board and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million. This amount was captured in the costs of employee benefits. The adjustments were made also in other operating income after recognition of the profit from bargain purchase of AWT. The profit on this transaction amounted to PLN 137.8 million.

In H1 2015, the PKP CARGO Group transported 52.2 million tons of cargo (i.e. 2% more than in H1 2014) and recorded freight turnover at the level of 13.8 billion tkm (i.e. 35 million less than in H1 2014), which is described in detail in the "PKP CARGO Group rail transport" chapter.

The Group's operating revenues dropped 1.8% yoy and operating expenses 1.6%. In H1 2015, the Group generated profit on operating activities and net profit in the amount of PLN 163.1 million and PLN 156.1 million, respectively. The Group's adjusted operating revenues, in turn, dropped 8.3% yoy and operating expenses 5.3%. The Group's adjusted results are: profit on operating activities in the amount of PLN 95.5 million and net profit in the amount of PLN 75.2 million.

The details of individual line items of the statement of comprehensive income are presented in the further part of this section.

The key economic and financial results in H1 2015 compared to the corresponding period of 2014 are presented in the table below.

Table 21 Results of the PKP CARGO Group in H1 2015 compared to H1 2014 (thousands of PLN)

No.	Item	6 months 2015	6 months 2014	Change 2015 - 2014	Change 2015 - 2014 %	6 months 2015 adjusted *	6 months 2014	Change 2015 adjusted * - 2014	Change 2015 adjusted * - 2014 %
1	Total operating revenue	2,062,566	2,099,828	-37,262	-1.8%	1,924,787	2,099,828	-175,041	-8.3%
2	Total operating expenses	1,899,480	1,930,876	-31,396	-1.6%	1,829,301	1,930,876	-101,575	-5.3%
3	**Profit on operating activities**	**163,086**	**168,952**	**-5,866**	**-3.5%**	**95,486**	**168,952**	**-73,466**	**-43.5%**
4	Financial revenue	9,377	11,608	-2,231	-19.2%	9,377	11,608	-2,231	-19.2%
5	Financial expenses	16,558	16,477	81	0.5%	16,558	16,477	81	0.5%
6	Share in profits of entities accounted for under the equity method	3,482	-435	3,917	-	3,482	-435	3,917	-
7	Result on the sale of shares in entities accounted for under the equity method	1,865	-	1,865	-	1,865	-	1,865	-
8	**Profit before tax**	**161,252**	**163,648**	**-2,396**	**-1.5%**	**93,652**	**163,648**	**-69,996**	**-42.8%**
9	Income tax	5,167	35,499	-30,332	-85.4%	18,501	35,499	-16,998	-47.9%
10	**NET PROFIT**	**156,085**	**128,149**	**27,936**	**21.8%**	**75,151**	**128,149**	**-52,998**	**-41.4%**

* The data for H1 2015 were adjusted for presentation purposes for the profit on bargain purchase of AWT in the amount of PLN 137.8 million and costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Board and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million.

Source: Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2015 prepared according to EU IFRS

<u>Operating revenues</u>

Table 22 Operating revenue of the PKP CARGO Group in H1 2015 compared to H1 2014

No.	Item	6 months 2015	6 months 2014	Change 2015 - 2014	Change 2015 - 2014 %	6 months 2015 adjusted *	6 months 2014	Change 2015 adjusted * - 2014	Change 2015 adjusted * - 2014 %
1	Revenue from sales of services, including:	1,896,539	2,053,326	-156,787	-7.6%	1,896,539	2,053,326	-156,787	-7.6%
1.1	*Revenue from railway transport and shipping services*	*1,697,630*	*1,874,532*	*-176,902*	*-9.4%*	*1,697,630*	*1,874,532*	*-176,902*	*-9.4%*
2	Revenue from the sale of goods and materials	17,674	23,655	-5,981	-25.3%	17,674	23,655	-5,981	-25.3%
3	Other operating revenue	148,353	22,847	125,506	549.3%	10,574	22,847	-12,273	-53.7%
4	**Total operating revenue**	**2,062,566**	**2,099,828**	**-37,262**	**-1.8%**	**1,924,787**	**2,099,828**	**-175,041**	**-8.3%**

* The H1 2015 data were adjusted for presentation purposes for the effect of the bargain acquisition of AWT in the amount of PLN 137.8 million

Source: Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2015 prepared according to EU IFRS

In the Group's adjusted operating revenue the biggest item was revenue from sales of services (98.5% in H1 2015, with 97.8% in H1 2014). Revenue from sales of services comprises mainly: transport revenue, revenue from freight forwarding, revenue from siding and traction services, revenue from reclamation activity and revenue from the lease of rolling stock. The remaining part of operating revenue of the PKP CARGO Group comprises revenue from sales of goods and materials, which comprises, among others, sales of steel and cast iron scrap, as well as other operating revenue comprising, among others, sales of fixed assets, change of the balance of receivables impairment losses and interest on receivables, and change of the balance of provisions for liabilities.

The decrease of transport revenue by PLN 176.9 million resulted mainly from the strong price pressure on transportation services (section "PKP CARGO Group's railway transport services").

The decrease of revenue from sales of goods and materials by PLN 6.0 million, i.e. 25.3% yoy was caused mainly by decrease of liquidation of redundant rolling stock and resulting lower revenue from sales of scrap.

Other operating revenue adjusted for the effect of the bargain acquisition of AWT dropped by PLN 12.3 million, i.e. 53.7% yoy. The decrease is mainly attributable to derecognition of the provision for the UOKiK penalty in the amount of PLN 14.4 million in H1 2014.

Operating expenses

Table 23 Operating expenses of the PKP CARGO Group in H1 2015 compared to H1 2014

No.	Item	6 months 2015	6 months 2014	Change 2015 - 2014	Change 2015 - 2014 %	6 months 2015 adjusted *	6 months 2014	Change 2015 adjusted * - 2014	Change 2015 adjusted * - 2014 %
1	Depreciation/amortization and impairment losses	198,308	181,540	16,768	9.2%	198,308	181,540	16,768	9.2%
2	Consumption of materials and energy	312,430	313,806	-1,376	-0.4%	312,430	313,806	-1,376	-0.4%
3	External services	610,859	637,974	-27,115	-4.3%	610,859	637,974	-27,115	-4.3%
4	Taxes and charges	17,608	20,331	-2,723	-13.4%	17,608	20,331	-2,723	-13.4%
5	Employee benefits	718,401	724,799	-6,398	-0.9%	648,222	724,799	-76,577	-10.6%
6	Other expenses by kind	18,630	21,918	-3,288	-15.0%	18,630	21,918	-3,288	-15.0%
7	Value of goods and materials sold	12,395	15,865	-3,470	-21.9%	12,395	15,865	-3,471	-21.9%
8	Other operating expenses	10,849	14,643	-3,794	-25.9%	10,849	14,643	-3,794	-25.9%
9	**Total operating expenses**	**1,899,480**	**1,930,876**	**-31,396**	**-1.6%**	**1,829,301**	**1,930,876**	**-101,575**	**-5.3%**

* The H1 2015 data were adjusted for presentation purposes for costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Board and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million.

Source: Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2015 prepared according to EU IFRS

In H1 2015, the Group's reduced its adjusted operating expenses by PLN 101.6 million, i.e. 5.3%, to PLN 1.8 billion from PLN 1.9 billion in H1 2014. The decrease results primarily from adjusted costs of employee benefits, which were PLN 76.6 million lower, and costs of external services, which were PLN 27.1 million lower. H1 2015 saw a significant decrease of adjusted costs of employee benefits, which reached the level of 648.2 million compared to 724.8 in H1 2015, i.e. dropped by 10.6% yoy. This resulted from implementation of the headcount optimization model in the form of the Voluntary Redundancy Program and termination of employment contracts in connection with obtaining retirement rights. Consequently, the average headcount in H1 2015 decreased by 1,359 FTEs yoy (taking into account the employees of the AWT Group in June 2015). Changes of headcount are presented in section "Information on headcount".

The costs of external services dropped by 4.3% and reached the level of PLN 610.9 million. The decrease results primarily from decrease of the costs of access to rail infrastructure (improvement of route utilization efficiency) and costs of transportation services.

In H1 2015, also a decrease of the cost of consumption of materials and energy by PLN 1.4 million, i.e. 0.4%, yoy, was recorded. This is directly related to decrease in PKP CARGO S.A. of the costs of consumption of traction fuel, which was caused primarily by the decrease of fuel prices.

The increase of the amortization/depreciation costs (together with impairment losses) by PLN 16.8 million, i.e. 9.2% yoy, to PLN 198.3 million in H1 2015 resulted primarily from increase of property, plant and equipment due to the acquisition of AWT B.V. and capital expenditures (especially rolling stock periodic repairs) from July 2014.

In H1 2015 the value of goods and materials sold decreased by PLN 3.5 million, i.e. 21.9% to PLN 12.4 million, following the decrease of revenue from sales of scrap.

Other operating expenses in H1 2015 fell by PLN 3.8 million, i.e. 25.9% yoy to PLN 10.8 million, chiefly on account of the lower expenses to decommission non-current and current assets (decline of PLN 3.6 million yoy) and impairment losses (decline of PLN 1.8 million yoy) while at the same time expenses rose on account of foreign exchange translation losses by PLN 1.9 million.

Profit on operating activities

As a result of the aforementioned changes of operating revenue and expenses, adjusted profit on operating activities in H1 2015 reached PLN 95.5 million.

EBITDA

The adjusted result on operating activities increased by the line item "Amortisation/depreciation and impairment losses" referred to as EBITDA, amounted to PLN 293.8 million in H1 2015.

Financial activities

Table 24 Financial activities of the PKP CARGO Group in H1 2015 compared to H1 2014

No.	Item	6 months 2015	6 months 2014	Change 2015 - 2014	Change 2015 - 2014 %
1	Financial revenue	9,377	11,608	-2,231	-19.2%
2	Financial expenses	16,558	16,477	81	0.5%
3	Share in profits of entities accounted for under the equity method	3,482	-435	3,917	-
4	Result on the sale of shares in entities accounted for under the equity method	1,865	-	1,865	-
5	**Result on financial activities**	**-1,834**	**-5,304**	**3,470**	**-65.4%**

Source: Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2015 prepared according to EU IFRS

In H1 2015, the PKP CARGO Group recorded a loss on financial activities in the amount of PLN 1.8 million and consequently its result on financial activities in relation to H1 2014 was PLN 3.5 million lower. This was primarily caused by the higher profits of companies measured according to the equity method and reversed an impairment loss for the shares in PKP CARGO International a.s. in liquidation in the amount of PLN 1.9 million.

Profit before tax

In H1 2015, adjusted profit before tax decreased by PLN 70 million, i.e. 42.8% yoy, to PLN 93.7 million. This decrease resulted from the decline in adjusted profit on operating activities.

Income tax

In H1 2015, the PKP CARGO Group reported income tax in the amount of PLN 5.2 million, of which current tax was PLN 0.9 million and deferred tax was PLN 4.2 million.

Net profit

In H1 2015, the Group generated net profit of PLN 156.1 million while adjusted net profit was PLN 75.2 million compared to PLN 128.1 million in the same period of the previous year.

5.2.2. Description of the asset and liability structure

ASSETS

Table 25 Horizontal and vertical analysis of assets (thousands of PLN)

	As at 30/06/2015 (unaudited)	As at 31/12/2014 (audited)	Asset structure 30/06/2015	Asset structure 31/12/2014	Change	
ASSETS						
Non-current assets						
Property, plant and equipment	4,898,646	4,011,542	77.8%	71.1%	887,104	22.1%
Intangible assets	72,084	58,268	1.1%	1.0%	13,816	23.7%
Goodwill	2,712	2,712	0.0%	0.0%	0	0.0%
Investment properties	1,336	1,362	0.0%	0.0%	-26	-1.9%
Investments accounted for under the equity method	42,369	35,246	0.7%	0.6%	7,123	20.2%
Other long-term receivables	7,082	-	0.1%	0.0%	7,082	100.0%
Other long-term financial assets	9,788	6,051	0.2%	0.1%	3,738	61.8%
Other long-term non-financial assets	20,917	14,645	0.4%	0.3%	6,272	42.8%
Deferred tax assets	70,953	88,273	1.1%	1.6%	-17,319	-19.6%
Total non-current assets	**5,125,887**	**4,218,099**	**81.4%**	**74.7%**	**907,788**	**21.5%**
Current assets						
Inventories	139,331	115,298	2.2%	2.0%	24,032	20.8%
Trade and other receivables	718,459	526,149	11.4%	9.3%	192,310	36.6%
Income tax receivables	4,300	3,053	0.1%	0.1%	1,246	40.8%
Other short-term financial assets	7,669	306,383	0.1%	5.4%	-298,715	-97.5%
Other short-term non-financial assets	58,691	28,246	0.9%	0.5%	30,445	107.8%
Cash and cash equivalents	220,813	429,178	3.5%	7.6%	-208,365	-48.5%
	1,149,263	**1,408,307**	**18.3%**	**25.0%**	**-259,044**	**-18.4%**
Assets classified as held for sale	18,483	17,560	0.3%	0.3%	923	5.3%
Total current assets	**1,167,746**	**1,425,867**	**18.6%**	**25.3%**	**-258,121**	**-18.1%**
Total assets	**6,293,633**	**5,643,966**	**100.0%**	**100.0%**	**649,667**	**11.5%**

Source: Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2015 prepared according to EU IFRS

The main changes in the composition of the balance sheet are related to the acquisition and consolidation of the AWT Group. The fair value on the date of acquisition to identify AWT's assets is PLN 1,165 million while the fair value on the date of acquisition of AWT's identifiable long-term and current liabilities is PLN 455.2 million. Accordingly, identifiable net assets were recognized at the level of PLN 709.5 million. The consequences of acquisition have been described in note 4 to the Condensed Interim Consolidated Financial Statements.

Non-current assets

The biggest share in the asset structure was held by property, plant and equipment, which, as at the end of H1 2015, amounted to 77.8% of total assets, compared to 71.1% at the end of 2014. Means of transport (PLN 4.0 billion) should be cited as belonging to the most important items shaping the level of property, plant and equipment. The growth in property, plant and equipment in H1 2015 by PLN 887.1 million is related to consolidating the AWT Group and executing capital expenditures (especially periodic repairs and maintenance of rolling stock).

Current assets

Current assets dropped at the end of H1 2015 by nearly PLN 258.1 million, i.e. by 18.1%, in relation to the end of 2014, mainly as a result of lower other short-term financial assets by 97.5% and cash and cash equivalents by 48.5% - this was directly related to the acquisition of an 80% stake in the AWT Group and performance of the obligations following from the Voluntary Redundancy Program. The share of total current assets in total assets dropped from 25.3% as at 31 December 2014 to 18.6% as at 30 June 2015.

The biggest share in the structure of total current assets was held by trade and other receivables (61.5%), cash and cash equivalents (18.9%) and inventories (11.9%). The growth in the level of inventories and receivables in H1 2015 by PLN 24.0 million and PLN 192.3 million, respectively is related to consolidating the AWT Group's assets.

EQUITY AND LIABILITIES

Table 26 Horizontal and vertical analysis of Equity and liabilities (thousands of PLN)

	As at 30/06/2015 (unaudited)	As at 31/12/2014 (audited)	Structure of equity and liabilities 30/06/2015	31/12/2014	Change	
EQUITY AND LIABILITIES						
Equity						
Share capital	2,239,346	2,239,346	35.6%	39.7%	0	0.0%
Supplementary capital	619,407	615,343	9.9%	10.9%	4,064	0.7%
Other items of equity	1,292	-51,687	0.0%	-0.9%	52,979	-
Exchange differences resulting from conversion of financial statements of foreign operations	13,504	-	0.2%	0.0%	13,504	100.0%
Retained earnings	593,015	527,670	9.4%	9.3%	65,345	12.4%
Equity attributable to the shareholders of the parent company	**3,466,564**	**3,330,672**	**55.1%**	**59.0%**	**135,892**	**4.1%**
Non-controlling interests	-	63,500	0.0%	1.1%	-63,500	-100.0%
Total equity	**3,466,564**	**3,394,172**	**55.1%**	**60.1%**	**72,392**	**2.1%**
Non-current liabilities						
Long-term bank loans and credit facilities	581,960	208,077	9.3%	3.7%	373,883	179.7%
Long-term finance lease liabilities and leases with purchase option	222,726	190,836	3.5%	3.4%	31,890	16.7%
Long-term trade and other payables	48,071	67,982	0.8%	1.2%	-19,911	-29.3%
Long-term provisions for employee benefits	543,641	658,217	8.6%	11.7%	-114,575	-17.4%
Other long-term provisions	23,220	8,416	0.4%	0.1%	14,804	175.9%
Other long-term financial liabilities	146,518	-	2.3%	0.0%	146,518	100.0%
Deferred tax provision	116,012	2,328	1.8%	0.0%	113,684	4884.4%
Non-current liabilities, total	**1,682,148**	**1,135,856**	**26.7%**	**20.1%**	**546,292**	**48.1%**
Current liabilities						
Short-term bank loans and credit facilities	142,208	92,123	2.2%	1.6%	50,085	54.4%
Short-term finance lease liabilities and leases with purchase option	86,264	127,742	1.4%	2.3%	-41,479	-32.5%
Short-term trade and other payables	780,608	530,440	12.4%	9.4%	250,168	47.2%
Short-term provisions for employee benefits	107,531	334,844	1.7%	6.0%	-227,313	-67.9%
Other short-term provisions	23,328	24,214	0.4%	0.4%	-886	-3.7%
Other short-term financial liabilities	4,595	3,934	0.1%	0.1%	661	16.8%
Current tax liabilities	387	641	0.0%	0.0%	-254	-39.6%
Current liabilities, total	**1,144,921**	**1,113,938**	**18.2%**	**19.8%**	**30,983**	**2.8%**
Total liabilities	**2,827,069**	**2,249,794**	**44.9%**	**39.9%**	**577,275**	**25.7%**
Total liabilities and equity	**6,293,633**	**5,643,966**	**100.0%**	**100.0%**	**649,667**	**11.5%**

Source: Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2015 prepared according to EU IFRS

Equity

The share of equity in total assets as at 30 June 2015 was 55.1% compared to 60.1% at 31 December 2014. The decline in the percentage held by equity in total assets, despite nominal growth of PLN 72.4 million, is caused by the higher growth in the level of liabilities. On 5 February 2015, the Parent Company purchased from Trade Trans Invest a.s. 44.44% shares of PS Trade Trans Sp. z o.o. for PLN 40 million, and the amount of the difference between the price that was paid for the shares and the carrying value of the non-controlling shares (PLN 23.4 million) was captured in the Group's retained earnings. In H1 2015 retained earnings moved up by PLN 65.3 million with net profit for the period being PLN 156.2 million and the divided paid for 2014 being PLN 110.2 million.

Non-current liabilities

Non-current liabilities in H1 2015 rose by PLN 546.3 million compared to 31 December 2014, i.e. by 48.1%. Long-term loans and credit facilities increased PLN 373.9 million (179.7%) – this is attributable to disbursement of individual tranches of the loan in Bank Gospodarstwa Krajowego ("BGK") and the loan from the European Investment Bank ("EIB") and also the consolidation of the AWT Group. Other long-term financial liabilities rose by PLN 146.5 million as a result of recognition of the liability under the put option for AWT shares that do not give control - this item has been described in note 4 to the Condensed Interim Consolidated Financial Statements. At the same time, a decrease of long-term provisions for employee benefits by PLN 114.6 million was recorded, primarily as a result of actuarial valuation of employee benefits and using the provision for Voluntary Redundancy Program I and the increase of PLN 31.9 million in long-term lease liabilities and leases with a purchase option.

Current liabilities

Current liabilities rose in H1 2015 compared to the end of 2014 by PLN 31.0 million (i.e. 2.8%). The largest movements were recorded in the following line items:

- short-term trade and other payables - growth of PLN 250.2 million. This followed chiefly from the liability for the Voluntary Redundancy Program and consolidating the AWT Group;
- short-term provisions for employee benefits (down by PLN 227.3 million). This was directly related to the disbursement of benefits under the Voluntary Redundancy Program.

5.2.3. Cash flow statement

The table below depicts the main line items in the PKP CARGO Group's cash flow statement in H1 2015 compared to H1 2014.

Table 27 Main line items in the PKP CARGO Group's cash flow statement in H1 2015 compared to H1 2014

Item	6 months 2015	6 months 2014	Change 2015 - 2014	Change 2015/2014
Net cash on operating activities	-1,155	135,190	-136,345	-
Net cash (used) / generated in connection with investing activities	-263,516	184,498	-448,014	-
Net cash used in financing activities	54,548	-244,017	298,565	-
Net increase / (decrease) in cash and cash equivalents	**-210,123**	**75,671**	**-285,795**	**-**
Cash and cash equivalents at the beginning of the reporting period	**429,178**	**263,700**	**165,478**	**62.8%**
Impact exerted by FX rate movements on the cash balance in foreign currencies	1,758	0	1,758	100.0%
Cash and cash equivalents at the end of the reporting period	**220,813**	**339,371**	**-118,558**	**-34.9%**

Source: Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2015 prepared according to EU IFRS

Cash flow on operating activities

In H1 2015 net cash flow from operating activities was PLN -1.2 million compared to PLN 135.2 million in the same period of 2014. Negative cash flow was generated on gross profit of PLN 93.7 million (adjusted by PLN 137.8 million for the bargain purchase of AWT and 2nd Voluntary Redundancy Program in the amount of PLN 70.2 million) and amortization and depreciation of PLN 198.3 million. This is chiefly related to the disbursement of benefits under the Voluntary Redundancy Program for PLN 227.4 million and the decrease in other provisions for employee benefits of PLN 82.9 million. At the same time, the increase in liabilities for the Voluntary Redundancy Programs was PLN 101.8 million.

Cash flow from investing activities

In H1 2015 net cash flow used in connection with investing activities was PLN -263.5 million versus PLN 184.5 million in the same period of the previous year. This decline is related to the AWT acquisition; this transaction's impact after deducting the acquired cash is PLN 326.0 million. Expenditures to acquire property, plant and equipment and intangible assets in H1 2015 were PLN 244.0 million versus PLN 309.9 million in H1 2014.

Cash flow from financing activities

In H1 2015 net cash flow from financing activities was PLN 54.5 million compared to PLN -244.0 million in the same period of 2014. Proceeds of PLN 345.4 million were obtained from loans taken out in H1 2015 while in H1 2014 no loans were taken out. In H1 2015 total cash expenditures for leases and to repay bank credits and loans were PLN 136.8 million versus PLN 113.2 million in H1 2014. The dividend paid out in the amount of PLN 110.2 million in 2015 compared to PLN 137.5 million in 2014 also contributed to lower cash. Moreover, in H1 2015 a 44.44% stake was acquired in PS Trade Trans Sp. z o.o. for PLN 40.0 million.

5.2.4. Selected financial and operating ratios

The table below presents the PKP CARGO Group's key financial and operating ratios in H1 2015 compared to H1 2014.

Table 28 Selected financial and operating ratios in H1 2015 compared to H1 2014

Item	6 months of 2015	6 months of 2014	Change 2015 - 2014	Change 2015/2014	6 months of 2015 *Adjusted	6 months of 2014 *Adjusted	Change 2015 - 2014 *Adjusted	Change 2015/2014 *Adjusted
EBITDA margin[1]	17.5	16.7	0.8	4.8%	15.3	16.7	-1.4	-8.4%
Net profit margin[2]	7.6	6.1	1.5	24.6%	3.9	6.1	-2.2	-36.1%
Net financial debt to EBITDA ratio[3]	2.1	-0.05	2.2	-	1.5	-0.03	1.5	-
ROA[4]	1.4	2.2	-0.8	-36.4%	3.5	5.3	-1.8	-34.0%
ROE[5]	2.6	3.3	-0.7	-21.2%	6.4	8.2	-1.8	-22.0%
Average distance covered by one locomotive (km/day)[6]	248	255	-7	-2.7%	248	255	-7	-2.7%
Average gross train tonnage per operating locomotive (tonnes)[7]	1,517	1,461	56	3.8%	1,517	1,461	56	3.8%
Average running time of train locomotives (hours per day)[8]	15.3	15.2	0.1	0.7%	15.3	15.2	0.1	0.7%
Freight turnover per employee (thousands tkm/employee)[9]	550	520	30	5.8%	550	520	30	5.8%

* Annualized data for 2014 whose presentation has been adjusted by expenses resulting from the Memorandum of Agreement partially ending the collective dispute of 10 June 2013 between the Trade Unions and PKP CARGO S.A. signed by the parties on 22 August 2013 and from the Employee Guarantee Package signed on 2 September 2013 for a total amount of PLN 209.2 million.
The annualized H1 2015 data adjusted for presentation purposes for (1) costs following from the implemented 1st Voluntary Redundancy Program (VRP 1) pursuant to Resolutions adopted by the Management Board and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o.; these liabilities were estimated at PLN 265.3 million, (2) the profit on bargain purchase of AWT in the amount of PLN 137.8 million and (3) costs following from the implemented 2nd Voluntary Redundancy Program (VRP 2) pursuant to Resolutions adopted by the Management Board and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million.
The adjustment concerns only data from the Statement of comprehensive income.

*1. Calculated as the quotient of profit on operating activities plus amortization/depreciation and impairment losses by total operating revenue*100.*
*2.Calculated as the quotient of net profit and total operating revenue*100.*
3.Calculated as the quotient of net financial debt (constituting the sum of (i) long-term bank loans and credit facilities; (ii) short-term bank loans and credit facilities, (iii) long-term finance lease liabilities and leases with purchase option; (iv) short-term finance lease liabilities and leases with purchase option; (v) other short-term financial liabilities and (vi) other long-term financial liabilities, minus (i) cash and cash equivalents; and (ii) other short-term financial assets) and annualized EBITDA for the last 12 months (operating profit plus amortization and impairment charges).
*4.Calculated as the quotient of annualized net profit for the past 12 months and total assets*100.*
*5.Calculated as the quotient of annualized net profit for the past 12 months and equity*100.*
6.Calculated as the quotient of vehicle-kilometers (i.e. distance covered by PKP CARGO Group's vehicles in the given period) / vehicle-days (i.e. product of the number of active vehicles and number of calendar days in the given period)
7.Calculated as the quotient of gross ton-kilometers and train-kilometers in train work in relation to the locomotives driving the train (in dual traction or pushing the train in the given period).
8. Calculated as the quotient of vehicle-hours (i.e. number of hours of work of PKP CARGO Group's vehicles in the given period) and vehicle-days (i.e. the product of the number of active vehicles and number of calendar days in the given period).
9.Calculated as the quotient of the Group's freight turnover by the average headcount (in FTEs) in the group in the given period.
Source: Proprietary material

In H1 2014 the average daily mileage of locomotives was 254.5 km/day. In the corresponding period of 2015, this figure fell by 6.1 km/day, reaching 248.4 km/day. Hence the average daily mileage shrunk by 2.4%. The larger number of closures and operating difficulties in the PKP PLK grid constituted the main cause of this phenomenon.

The gross average train freight turnover per locomotive moved up from 1,461.0 tons (H1 2014) to 1,517.0 tons (H1 2015). Hence an increase of 56.0 tons was recorded (the average freight turnover of driven trains rose by 3.8%). This is the effect of better utilization of locomotives and optimization of the transportation process.

In H1 2014 the average running time of locomotives was 15.2 hours/day. In the corresponding period of 2015, this figure increased by 0.1 hours/day, reaching 15.3 hours/day. Hence the average daily running time of locomotives increased 0.7%. This is an outcome of constantly monitoring how the freight turnover process is run while concurrently optimizing the match between the number of active locomotives and doing the work with changing freight turnover.

5.3. Factors that will exert an influence on the financial results generated in the upcoming quarter

Introduction of the Voluntary Redundancy Program

To optimize the headcount, the PKP CARGO Group introduced the Voluntary Redundancy Program ("VRP"). The application process for the Voluntary Redundancy Program started on 29 December 2014 and lasted till 15 January 2015. As a result of verification of VRP applications, 3,041 employees were given consent to take advantage of the Program. The value of liabilities following from implementation of the Voluntary Redundancy Program in the Group amounted to PLN 265.3 million. This amount, as a provision for future liabilities under the Voluntary Redundancy Program, was reflected in the ledgers and charged to the consolidated result of the PKP CARGO Group for Q4 2014. The people who obtained the employers' consent stopped being employees of PKP CARGO Group as of 1 February 2015. The severance pays under the Voluntary Redundancy Program will be paid out in two tranches: the first tranche of approx. PLN 227 million was paid out together with the salaries for January 2015 and the second tranche of approx. PLN 38 million will be paid out in January 2016.

On 10 May 2015, the Management Board of PKP CARGO S.A. adopted a resolution to continue the optimization of headcount in the Company through the implementation of the Voluntary Redundancy Program. The total value of liabilities following from running the Voluntary Redundancy Program was PLN 63.9 million. As a result of verification of applications for the Voluntary Redundancy Program, 874 employees of the Company were given consent to take advantage of the Program. They stopped being employed by the Company as of 1 July 2015. The severance pays under the Voluntary Redundancy Program will be paid out in two tranches: the first tranche of approx. PLN 54.4 million was paid out together with the salaries for June 2015 and the second tranche of approx. PLN 9.5 million will be paid out in February 2016. Liabilities under the Voluntary Redundancy Program amounting to PLN 63.9 million was debited to the Company's financial result for Q2 2015.

The program was also implemented in PKP CARGOTABOR Sp. z o.o. As a result of verification of applications, 107 employees were given consent to leave as of 1 August 2015. The provision for future liabilities under the implementation of the program amounting to PLN 6.3 million was recognized in the Company's financial result for Q2 2015.

Resolution to increase salary

On 29 July 2015, the Management Board of the Company adopted a resolution to increase salaries for its employees as of 1 July 2015:

- for employees remunerated under the Company Collective Bargaining Agreement, the gross basic salary is to increase by PLN 110,
- for employees remunerated on the ratio basis, the net salary is to increase by PLN 110.

In a resolution adopted on 10 August 2015, the Company's Supervisory Board issued a positive opinion on the resolution adopted by the Management Board of PKP CARGO S.A. on 29 July 2015 providing for the salary increase of the employees working for employers operating in the Company. According to the Company's estimates, the cost of such a raise, including associated payments, is about PLN 50 million per full calendar year.

Situation on the rail transport market

The overall economic conditions and situation in the rail freight market have a direct influence on the transportation services executed by the PKP CARGO Group. Also the throughput of the railway networks, which depends on the commercial speed and the number of track closures resulting from investments carried out in the network, is a factor that has an impact on the rail freight.

The geopolitical situation in the region is not devoid of significance for rail freight transportation in Poland as it affects the intensity and directions of transportation for rail freight.

The key area of the PKP CARGO Group's activity entails the transportation of hard coal and aggregate. PKP CARGO's market share and financial results are therefore closely tied to market conditions in industry and construction.

The level of investments in roads, railways and in civil and hydro engineering has a crucial impact on the transportation of aggregate by the Group. In Q1 2015, despite growth of the whole construction sector, a 23.6% decline in road construction was recorded. This situation directly contributed to the PKP CARGO Group's diminished freight turnover in the aggregate and construction materials market by nearly 13.7% yoy in H1 2015.

Global coal prices exert a major impact on the market for solid fuels, in particular, hard coal. In addition, coal inventories, the level of coal imports from Eastern Europe and the demand for solid fuels in the Chinese economy influence coal market conditions.

The military conflict in the Donbas region is not devoid of significance when it comes to the level of transportation services provided, thereby diminishing the volume of metals transported by the PKP CARGO Group.

An important factor influencing financial performance is the level of prices for freight transport. Change of the price level is attributable to market conditions, structure of transport, transport directions and operational factors. In addition, the prices offered are under the price pressure caused by selected end users of transportation services and internal and inter-industry competition.

Track construction and maintenance market

Through AWT Group companies the Group specializes in the construction and maintenance of rail tracks. On top of maintenance alone, the function of OKD sidings operator necessitates the application of unique technological solutions to maintain the efficiency of OKD's external logistics. One of the examples of activity in this area is the construction of new tracks for new locations to store coal and gangue. Accordingly, the Group has at its disposal a qualified and professional workforce and the required equipment.

Its resources and experience in this field poise the Group to participate in open tenders and form an incentive for the further development of these types of services.

Costs of access to infrastructure

The PKP CARGO Group's activity results largely depend on the amount of rail infrastructure access charges. The cost of access to infrastructure accounts for approx. 16.2% of operating expenses in the PKP CARGO Group. Additionally, the activities of the PKP CARGO Group depend on the condition of the railway infrastructure and the railway network is characterized by low quality. An intensive railway network modernization program, although ultimately it will entail improvement of operating conditions, during the course of the construction work will cause hindrances and necessity to route the railway traffic using detours.

Technical regulations regarding rolling stock

The rolling stock used in rail transport must satisfy appropriate technical standards and requirements, determining the scale of the Group's modernization and repair activity. The investments in this area depend directly on the current technical condition of the rolling stock owned and the resulting mandatory periodic repairs.

Acquisition activities

The outcome of pending acquisition processes in which PKP CARGO S.A. has participated and is currently participating will influence the Group's results.

The finalization of the acquisition of an 80% stake in AWT B.V. in May 2015 was a key element of further development through international expansion. This transaction will enable the Group to harness Poland's strategic location even better, especially Silesia, to develop new connections and render comprehensive logistics and transportation services in the Baltic - Adriatic - North Sea triangle. This transaction will enable the Group to expedite significantly the development of activity in neighboring countries and expand the scope of operations to include new countries where the Group has not been active so far. Additionally, due to the scope of operations of the AWT Group, the transaction gives the Group a prospect of diversification of the service portfolio and achievement of numerous synergies in sales, transport management and rolling stock management.

In addition to the high growth activity outside Poland, the Group is planning further growth in the Polish market. The Group will execute both already started and new, planned strategic efforts aimed at expanding the offering and improving the logistic processes, and will analyze potential acquisition opportunities in Poland.

Currently PKP CARGO S.A. has a preliminary memorandum of agreement with KGHM Polska Miedź S.A. under which it is planning to acquire 49% shares in Pol - Miedź Trans Sp. z o.o.

To further grow the Group in the area of local and international freight forwarding, in February PKP CARGO S.A. finalized the share purchase transaction (44.44%) in PS TRADE TRANS Sp. z o.o. and became its sole owner. These changes will make it possible to optimize the structure of the PKP CARGO Group in the future, including, inter alia, the conduct of freight forwarding and terminal activity.

Put and call option

In parallel with the AWT B.V. acquisition agreement, PKP CARGO S.A. also concluded a shareholder agreement with Minezit SE ("MSE") regarding AWT ("Shareholder Agreement"). The agreement provides for, among others, MSE's right to request the Company to purchase all the AWT shares held by MSE ("Put Option") and the Company's right to request MSE to sell the AWT shares held by MSE to the Company ("Call Option"). Additionally, the Shareholder Agreement awards the Company the pre-emption rights to purchase the AWT shares held by MSE when MSE sells them and provides for MSE's tag along right in case the Company sells its AWT shares.

The Put Option may be exercised by MSE in the period from 1 January 2017 to 31 December 2020 for the market price calculated using the formula provided in the Shareholder Agreement, where the price depends on AWT Group's consolidated EBITDA and its net debt, but will not be less than EUR 27 million.

The Company will be able to exercise the Call Option in the period from 1 January 2017 to 31 December 2021 for the market price calculated using the formula provided in the Shareholder Agreement in reference to AWT Group's EBITDA and its net debt, but no less than the difference between (i) EUR 40 million and (ii) the amount of all dividend and similar payments made by AWT to MSE.

Capital expenditure financing

The Group will finance capital expenditures from investment loans obtained from the European Investment Bank and Bank Gospodarstwa Krajowego, from its own funds and from other sources. Increase of borrowing liabilities will result in increase of (short- and long-term) liabilities and financing costs.

Infrastructural investments

Due to the fact that Poland will be the main beneficiary of the cohesion fund in 2014-2020, a significant growth of the construction industry is expected, driven by numerous road and railway investments.

It is expected that development of the construction industry will have positive impact on the volume of rail transport, as an important provider of services in transport of aggregates and other construction materials.

FX rates

In 2015, the Group is exposed to FX risk resulting from the receivables, payables and cash denominated in foreign currencies. The Group's receivables expressed in foreign currencies are short-term receivables (up to 1 month) and payables expressed in foreign currencies are mostly short- and long-term leasing liabilities.

Balance sheet valuation of the receivables and liabilities expressed in foreign currencies, and settlements in foreign currencies both on the side of receivables and liabilities, lead to revenues (positive FX differences) and costs (negative FX differences). The level of revenues and costs fluctuates during the year, which is caused by changes of the exchange rates.

Due to the long maturities, short- and long-term leasing liabilities denominated in EUR have the biggest share in financial revenue and expenses, and cause volatility in the Group's result on the level of financial expenses and revenues on account of unrealized FX differences. In 2015, due to repayment of liabilities, the risk of volatility of results due to valuation of FX financial liabilities has been successively decreasing.

Cash flows in EUR were paalortly hedged with forward transactions and, in the remaining part, natural hedging was used.

Cash in foreign currencies deposited on bank accounts follow from timing mismatch of receipts and expenditures and the surplus of receipts over expenditures.

In the long run, the valuation risk matches the risk of change of cash flows, therefore the Company's cash flows are partly balanced out by the costs in the same currency.

For the EUR/PLN exchange rate, there is partial natural hedging due to the fact that sales revenues in EUR are partly balanced out by costs in the same currency. In accordance with the Financial Risk Management Policy prevailing in the Group, the remaining part of revenues in EUR is partly hedged until the end of Q2 2016 through application of derivative transactions.

In Q2 2015, cash flows in EUR were received also in connection with the settlement of the AWT purchase transaction.

Traction fuel price level

In H1 2015, a PLN 18.0 million, or 17.6% yoy decrease in the fuel consumption costs was also recorded. This is directly related to decrease in PKP CARGO S.A. of the costs of consumption of traction fuel, which was caused primarily by the decrease of fuel market prices.

5.4. The Management Board's stance with respect to the possibility of realizing previously published result forecasts for the year

The Parent Company has not published financial forecasts pursuant to § 5 Section 1 Item 25 of the Regulation issued by the Finance Minister on 19 February 2009 on the Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent, consolidated version of 27 June 2013 (Journal of Laws of 2014 Item 133) pertaining to the results of the Company and the PKP CARGO Group in H1 2015.

5.5. Information about production assets

5.5.1. Rolling stock

Wagons and traction rolling stock are the main elements of the PKP CARGO Group's production assets. Changes in the Group's rolling stock levels result directly from the actions leading to its decrease, such as liquidation of rolling stock, and efforts aimed at increase of the rolling stock levels through purchases.

The tables below present the structure of the locomotives and wagons used, by type and ownership during the reporting period.

Table 29 Structure of the locomotives used by the PKP CARGO Group by traction type and ownership

Item	30/06/2015*	31/03/2015	31/12/2014	Change YTD	Change in Q2 2015
diesel locomotives	1,454	1,300	1,300	154	154
electric locomotives	1,176	1,162	1,162	14	14
Total	**2,630**	**2,462**	**2,462**	**168**	**168**
owned locomotives (including financial lease)	2,609	2,450	2,451	158	159
locomotives in operational lease or rented	21	12	11	10	9
Total	**2,630**	**2,462**	**2,462**	**168**	**168**

** including AWT Group locomotives (168 units)*

Source: Proprietary material

Table 30 Structure of the wagons used by the PKP CARGO Group, by ownership

Item	30/06/2015*	31/03/2015	31/12/2014	Change YTD	Change in Q2 2015
owned wagons (including financial lease)	65,343	61,996	62,086	3,257	3,347
wagons in operational lease or rented	1,186	0	0	1,186	1,186
Total	**66,529**	**61,996**	**62,086**	**4,443**	**4,533**

** including AWT Group's wagons (4,559 units)*

Source: Proprietary material

On 24 October 2013, PKP CARGO S.A. signed an agreement on co-financing from European Union funds of a project under the name "Purchase and delivery of newly built platform 80' wagons for transport of containers". Under the project, PKP CARGO S.A. will purchase 330 series Sggrss 80`container platforms, under an agreement concluded on 25 September 2013 with the contractor selected in an unlimited tender - European Railway Consortium "Wagon" Sp. z o.o. The net value of the wagon delivery amounts to PLN 94,875,000.00. The maximum value of the project co-financing from the Infrastructure and Environment Operational Program will amount to PLN 28,508,700.00. By 30 June 2015, 280 wagons were delivered under the delivery agreement. The remaining wagons will be delivered by the end of 2015.

5.5.2. Real estate

In the transport process, due to the necessity to guarantee appropriate maintenance and repair support, real estate plays an important role. Most real estate used by the Group is used on the basis of lease and rental agreements. The table below presents change of the balance of real estate owned and used by the PKP CARGO Group in H1 2015.

Table 31 Real estate owned and used by PKP CARGO Group as at 30 June 2015 compared to 31 December 2014.

Item	30/06/2015*	31/12/2014	Change YTD
Land - owned, in perpetual usufruct and leased from other entities [ha]	1,562	1,006	556
Buildings - owned, leased and rented from other entities [sqm]	804,226	684,945	119,281

**including AWT Group's real property*

Source: Proprietary material

The increase of the size of land and buildings owned and in perpetual usufruct by the Group and increase of the size of leased and rented land and buildings is a direct result from PKP CARGO S.A.'s acquisition of shares in AWT B.V.

6. Other key information and events

6.1. Proceedings pending before the court, arbitration bodies or public administration bodies

PKP CARGO S.A. and its subsidiaries are not parties to proceedings pending before courts, arbitration court or public administration body pertaining to liabilities or claims whose value amounts to at least 10% of the Parent Company's equity.

PKP CARGO S.A. and its subsidiaries are not parties to proceedings pertaining to liabilities or claims of the issuer's subsidiary, where the total value of the liabilities or claims constitutes at least 10% of the Parent Company's equity.

6.2. Information on transactions concluded with related entities

No entity from the PKP CARGO Group entered in H1 2015 into any transactions with related parties on non-market terms. Also after the balance sheet date no such transactions were concluded.

6.3. Information on granted guarantees and sureties of loans or credits

PKP CARGO S.A. and its subsidiaries did not extend any sureties for loans or borrowings and did not grant guarantees to a single entity or subsidiary of such entity whose total amount would be the equivalent of at least 10% of PKP CARGO S.A.'s equity.

6.4. Other information which is significant to evaluate state of employment, financial standing, financial result, assets and adequate changes as well as information which is significant to evaluate if the issuer and Group companies are capable of liabilities payment.

In addition to the information presented in this Report, no other information which is significant to evaluate the employment, assets, financial standing, financial result and adequate changes, as well as information which is significant to evaluate if the issuer is capable of liabilities payment.

This Consolidated Semi-Annual Report was authorized by the PKP CARGO S.A. Management Board on 26 August 2015.

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Adam Purwin

President of the Management Board

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Jacek Neska

Management Board Member

....

Łukasz Hadyś

Management Board Member

....

Wojciech Derda

Management Board Member

....

Dariusz Browarek

Management Board Member

R E P R E S E N T A T I O N

of the Management Board related to the semi-annual condensed consolidated financial statement's conformity with the Management Board's report on the operation of the PKP CARGO Capital Group

I, the undersigned, hereby represent that to the best of my knowledge, the Semi-annual Condensed Consolidated Financial Statement the PKP CARGO Capital Group and the comparable data have been drawn up in observance of the applicable accounting standards and that they truly, reliably and clearly represent the asset-related and financial standing of the PKP CARGO Capital Group, as well as its financial result.
I also represent that the Management Board's report on the operation of the PKP Cargo Capital Group in the period ended 30 June 2015 presents a true picture of the growth, achievements and standing of the PKP CARGO Capital Group, as well as a description of the key threats and risks.

Members of the Management Board:

1 Adam Purwin – President of the Board

2 Jacek Neska – Board Member

3 Łukasz Hadyś – Board Member

4 Wojciech Derda – Board Member

5 Dariusz Browarek – Board Member

Warsaw, 26 August 2015

R E P R E S E N T A T I O N

of the Management Board on the choice of the entity authorized to audit financial statements (semi-annual financial statement)

I, the undersigned, hereby represent that the entity authorized to audit consolidated financial statements, auditing the Semi-annual Condensed Consolidated Financial Statement of the PKP CARGO Capital Group, has been appointed in observance of the rule of law, and that the said entity, as well as the certified auditors performing the audit, met the requirements that need to be fulfilled in order to issue an impartial and independent report, in line with the applicable regulations and professional standards.

Members of the Management Board:

1 Adam Purwin – President of the Board

2 Jacek Neska – Board Member

3 Łukasz Hadyś – Board Member

4 Wojciech Derda – Board Member

5 Dariusz Browarek – Board Member

Warsaw, 26 August 2015

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