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CONSOLIDATED SEMI-ANNUAL REPORT OF THE **PKP CARGO** GROUP FOR H1 2016

THE GROUP

where the holding company is

PKP CARGO SA

ul. Grójecka 17, 02-021 Warszawa

Independent Auditor's Review Report on the interim condensed consolidated financial statements for the period from 1 January to 30 June 2016

Independent Auditor's Review Report
on the interim condensed consolidated financial statements
for the period from 1 January to 30 June 2016

for the Shareholders and Supervisory Board of PKP CARGO SA

We have audited the accompanying interim condensed consolidated financial statements of the Group, where the holding company is PKP CARGO SA with its registered office in Warsaw, ul. Grójecka 17, consisting of the consolidated statement of financial position prepared as at 30 June 2016, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows prepared for the period from 1 January to 30 June 2016, as well as notes to the financial statements.

The consistency of these interim condensed consolidated financial statements with International Accounting Standard 34 "Interim Financial Reporting", which has been endorsed by the European Union, as well as with other binding regulations, is the responsibility of the holding company's Management Board.

Our responsibility was to perform a review of these financial statements.

We performed the review in accordance with the provisions of the professional auditing standards issued by the Polish National Council of Certified Auditors. These standards require us to plan and perform the review to obtain moderate assurance that the consolidated financial statements are free of material misstatements.

We conducted the review mainly by analyzing the data presented in the financial statements, examining the consolidation documentation and using information provided by the management and employees in charge of the holding company's finances and accounting.

The scope and methodology of a review of interim condensed consolidated financial statements differ significantly from that of an audit based on which an opinion is issued on the truth and fairness of annual financial statements. Accordingly, we are unable to express such an opinion on the accompanying financial statements.

Based on our review nothing has come to our attention that would prevent us from finding that the interim condensed consolidated financial statements have been prepared, in all material respects, in accordance with the requirements of International Accounting Standard 34 "Interim Financial Reporting", which has been endorsed by the European Union.

Katowice, 27 September 2016

BDO Sp. z o.o.
ul. Postępu 12
02-676 Warszawa
Authorized Audit Company No. 3355

Auditor in charge:	On behalf of BDO Sp. z o.o.:
Leszek Kramarczuk	**Dr. André Helin**
Audit Partner	Managing Partner
Certified Auditor No. 1920	Certified Auditor No. 90004

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INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE **PKP CARGO** GROUP FOR THE PERIOD OF 6 MONTHS ENDEN 30 JUNE 2016 PREPARDE IN ACCORDANCE WITH IFRS AS ENDORSED BY THE EUROPEAN UNION

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INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2016 TO 30 JUNE 2016

	Note	For the 6 months period ended 30/06/2016 (unaudited) PLN thousand	For the 3 months period ended 30/06/2016 (unaudited) PLN thousand	For the 6 months period ended 30/06/2015 (restated*) PLN thousand	For the 3 months period ended 30/06/2015 (unaudited) PLN thousand
Revenue from sales of services and finished goods	5	2 088 853	1 074 810	1 896 539	1 015 982
Revenue from sales of goods and materials		13 605	4 848	17 674	9 510
Other operating revenue	7.1	20 551	8 997	155 960	146 105
Total operating revenue		**2 123 009**	**1 088 655**	**2 070 173**	**1 171 597**
Depreciation/amortisation and impairment losses	6.1	324 138	181 779	210 602	108 206
Consumption of raw materials and energy	6.2	326 553	163 735	306 956	164 945
External services	6.3	774 126	407 558	607 528	337 589
Taxes and charges		18 298	11 272	17 364	10 678
Employee benefits	6.4	752 992	367 644	695 129	375 192
Other expenses by kind	6.5	26 290	14 727	21 531	12 673
Cost of merchandise and raw materials sold		11 916	3 580	12 395	5 893
Other operating expenses	7.2	82 839	70 695	17 833	7 956
Total operating expenses		**2 317 152**	**1 220 990**	**1 889 338**	**1 023 132**
Profit/(loss) on operating activities		**(194 143)**	**(132 335)**	**180 835**	**148 465**
Financial revenue	8.1	774	384	9 377	2 695
Financial expenses	8.2	37 918	23 690	26 362	13 375
Share in the profit / (loss) of entities accounted for under the equity method	12	2 002	638	3 482	4 639
Result on sale of entities accounted for under the equity method		-	-	1 865	-
Profit/(loss) before tax		**(229 285)**	**(155 003)**	**169 197**	**142 424**
Income tax expense	9.1	(34 696)	(26 461)	6 677	1 964
NET PROFIT/(LOSS)		**(194 589)**	**(128 542)**	**162 520**	**140 460**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Consolidated Financial Statements

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2016 TO 30 JUNE 2016 (continued)

	Note	For the 6 months period ended 30/06/2016 (unaudited) PLN thousand	For the 3 months period ended 30/06/2016 (unaudited) PLN thousand	For the 6 months period ended 30/06/2015 (restated*) PLN thousand	For the 3 months period ended 30/06/2015 (unaudited) PLN thousand
NET PROFIT/(LOSS)		**(194 589)**	**(128 542)**	**162 520**	**140 460**
Other comprehensive income					
Other comprehensive income that will be reclassified to profit or loss in subsequent periods:		**24 722**	**23 650**	**14 936**	**12 871**
The effective portion of changes in fair value of cash-flow hedging instruments		(3 616)	(4 222)	1 768	(781)
Income tax on other comprehensive income	9.2	687	802	(336)	148
Foreign exchange differences on translation of subsidiaries' financial statements		27 651	27 070	13 504	13 504
Other comprehensive income that will not be reclassified to profit or loss:		**-**	**-**	**53 764**	**-**
Actuarial gains / (losses) on employee benefits after employment period		-	-	66 375	66 375
Income tax on other comprehensive income	9.2	-	-	(12 611)	(12 611)
Other comprehensive income		**24 722**	**23 650**	**68 700**	**66 635**
TOTAL COMPREHENSIVE INCOME		**(169 867)**	**(104 892)**	**231 220**	**207 095**
Net profit/(loss) attributable to:					
Shareholders of the Parent company		(194 589)	(128 542)	162 663	140 460
Non-controlling interest		-	-	(143)	-
		(194 589)	**(128 542)**	**162 520**	**140 460**
Total comprehensive income / (loss) attributable to:					
Shareholders of the Parent company		(169 867)	(104 892)	231 363	207 095
Non-controlling interest		-	-	(143)	-
		(169 867)	**(104 892)**	**231 220**	**207 095**
Earnings per share (PLN per share)					
Earnings per share on operations (basic):	20.1	**(4,34)**	**(2,87)**	**3,63**	**3,13**
Earnings per share on operations (diluted):	20.2	**(4,34)**	**(2,87)**	**3,63**	**3,13**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Consolidated Financial Statements

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 JUNE 2016

	Note	As at 30/06/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand	As at 30/06/2015 (restated*) PLN thousand
ASSETS				
Non-current assets				
Property, plant and equipment	10	4 727 738	4 719 748	4 940 261
Intangible assets		60 699	66 437	72 084
Goodwill		-	-	2 712
Investment properties		1 284	1 309	1 336
Investments accounted for under the equity method	12	39 855	39 831	42 369
Trade and other receivables	16	2 901	5 074	7 082
Other long-term financial assets	13	10 097	9 849	9 788
Other long-term non-financial assets	14	44 961	32 666	20 917
Deferred tax assets	9.3	120 856	104 587	72 225
Total non-current assets		**5 008 391**	**4 979 501**	**5 168 774**
Current assets				
Inventories	15	120 937	128 513	139 331
Trade and other receivables	16	631 062	664 321	718 459
Income tax receivables		4 621	2 748	4 300
Other short-term financial assets	13	4 203	4 046	7 669
Other short-term non-financial assets	14	38 093	13 281	58 691
Cash and cash equivalents	17	157 361	276 191	220 813
		956 277	**1 089 100**	**1 149 263**
Non-current assets classified as held for sale	18	6 000	44 061	18 483
Total current assets		**962 277**	**1 133 161**	**1 167 746**
Total assets		**5 970 668**	**6 112 662**	**6 336 520**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Consolidated Financial Statements

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 JUNE 2016 (continued)

	Note	As at 30/06/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand	As at 30/06/2015 (restated*) PLN thousand
EQUITY AND LIABILITIES				
Equity				
Share capital	19.1	2 239 346	2 239 346	2 239 346
Share premium		618 531	619 407	619 407
Other items of equity		(5 708)	(2 779)	6 579
Foreign exchange differences on translation of financial statements of foreign subsidiaries		59 151	31 500	13 504
Retained earnings		272 679	466 392	597 501
Equity attributable to the owners of the Parent company		**3 183 999**	**3 353 866**	**3 476 337**
Total equity		**3 183 999**	**3 353 866**	**3 476 337**
Non-current liabilities				
Long-term bank loans and credit facilities	21	663 096	460 577	581 960
Long-term finance lease liabilities and leases with purchase option	23	163 380	193 500	222 726
Long-term trade and other payables	24	8 209	25 953	48 071
Long-term provisions for employee benefits	25	602 623	603 621	571 254
Other long-term provisions	26	28 502	28 886	23 220
Other long-term financial liabilities	22	-	155 198	146 518
Deferred tax provision	9.3	100 788	118 353	116 012
Non-current liabilities		**1 566 598**	**1 586 088**	**1 709 761**
Current liabilities				
Short-term bank loans and credit facilities	21	269 768	253 592	142 208
Short-term finance lease liabilities and leases with purchase option	23	70 409	65 416	86 264
Short-term trade and other payables	24	580 735	729 793	780 608
Short-term provisions for employee benefits	25	116 743	100 383	111 119
Other short-term provisions	26	16 596	17 856	23 328
Other short-term financial liabilities	22	164 985	2 174	4 595
Current tax liabilities		835	3 494	2 300
Total current liabilities		**1 220 071**	**1 172 708**	**1 150 422**
Total liabilities		**2 786 669**	**2 758 796**	**2 860 183**
Total equity and liabilities		**5 970 668**	**6 112 662**	**6 336 520**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Consolidated Financial Statements

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2016

			Other items of equity						
	Share capital	Share premium	Actuarial gains/(losses) on employee benefits after employment period	Changes in fair value of cash-flow hedge	Foreign exchange differences on translation of financial statements of foreign subsidiaries	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 1/01/2015 (audited)	**2 239 346**	**615 343**	**(46 986)**	**(1 631)**	**-**	**525 721**	**3 331 793**	**63 500**	**3 395 293**
Net result for the period	-	-	-	-	-	162 663	162 663	(143)	162 520
Other net comprehensive income for the period	-	-	53 764	1 432	13 504	-	68 700	-	68 700
Total comprehensive income	**-**	**-**	**53 764**	**1 432**	**13 504**	**162 663**	**231 363**	**(143)**	**231 220**
Dividend payments	-	-	-			(110 176)	(110 176)	-	(110 176)
Transactions with non-controlling interests	-	-	-	-	-	23 357	23 357	(63 357)	(40 000)
Other changes in equity	-	4 064	-			(4 064)	-	-	-
Balance as at 30/06/2015 (restated*)	**2 239 346**	**619 407**	**6 778**	**(199)**	**13 504**	**597 501**	**3 476 337**	**-**	**3 476 337**
Balance as at 1/01/2016 (audited)	**2 239 346**	**619 407**	**(3 880)**	**1 101**	**31 500**	**466 392**	**3 353 866**	**-**	**3 353 866**
Net result for the period	-	-	-	-	-	(194 589)	(194 589)	-	(194 589)
Other net comprehensive income for the period	-	-	-	(2 929)	27 651	-	24 722	-	24 722
Total comprehensive income	**-**	**-**	**-**	**(2 929)**	**27 651**	**(194 589)**	**(169 867)**	-	**(169 867)**
Other changes in equity	-	(876)	-	-	-	876	-	-	-
Balance as at 30/06/2016 (unaudited)	**2 239 346**	**618 531**	**(3 880)**	**(1 828)**	**59 151**	**272 679**	**3 183 999**	**-**	**3 183 999**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Consolidated Financial Statements

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 1 JANUARY 2016 TO 30 JUNE 2016 [INDIRECT METHOD]

	Note	For the 6 months period ended 30/06/2016 (unaudited)	For the 6 months period ended 30/06/2015 (restated*)
		PLN thousand	PLN thousand
Cash flows from operating activities			
Profit/(loss) before tax		**(229 285)**	**169 197**
Adjustments:			
Depreciation and amortisation of property, plant and equipment and intangible assets	6.1	288 309	210 259
Impairment loss on non-current fixed assets	6.1	35 829	343
(Gain) / loss on disposal / liquidation of property, plant and equipment and intangible assets and non-current assets classified as held for sale		(287)	726
Foreign exchange (gain) / loss		2 059	(3 136)
(Gains) / losses on interest, dividends		15 673	8 060
Share in the (profit) / loss of entities accounted for under the equity method	12	(2 002)	(3 482)
Result on sales of entities accounted for under the equity method		-	(1 865)
Bargain purchase gain on the acquisition of AWT		-	(137 779)
Other adjustments		2 405	67 442
Changes in working capital:			
(Increase)/decrease in trade and other receivables		34 862	(25 140)
(Increase) / decrease in inventories		8 694	8 054
(Increase)/decrease in other assets		(22 745)	(28 492)
Increase/(decrease) in trade and other payables		(127 811)	126 223
Increase / (decrease) in other financial liabilities		7 613	1 187
Increase/(decrease) in provisions		13 718	(364 932)
Cash flows from operating activities		**27 032**	**26 665**
Interest received/(paid)		(1 265)	1 260
Income taxes received/(paid)		(6 601)	(8 235)
Net cash provided by operating activities		**19 166**	**19 690**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Consolidated Financial Statements

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 1 JANUARY 2016 TO 30 JUNE 2016 [INDIRECT METHOD] (continued)

	Note	For the 6 months period ended 30/06/2016 (unaudited) PLN thousand	For the 6 months period ended 30/06/2015 (restated*) PLN thousand
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(318 268)	(264 855)
Proceeds from sale of property, plant and equipment, intangible assets and non-current assets classified as held for sale		7 174	162
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
Expenses for acquisition of other financial assets		(111)	-
Acquisition of subsidiary, net of cash acquired		-	(325 956)
Interest received		503	5 963
Dividends received		1 130	104
Inflows / (outflows) from bank deposits over 3 months		490	299 834
Net cash provided by investing activities		**(309 082)**	**(284 361)**
Cash flows from financing activities			
Payments of liabilities under finance lease		(34 336)	(82 416)
Payments of interest under lease agreement		(4 591)	(4 419)
Proceeds from credit facilities / loans received		275 325	345 436
Repayments of credit facilities / loans received		(64 951)	(45 150)
Interest on credit facilities / loans received		(8 048)	(4 811)
Grants received		5 407	-
Dividends paid to shareholders of the Parent company		-	(110 176)
Transactions with non-controlling interest		-	(40 000)
Other inflows / (outflows) from financing activities		(2 138)	(3 916)
Net cash provided by financing activities		**166 668**	**54 548**
Net increase / (decrease) in cash and cash equivalents		(123 248)	(210 123)
Opening balance of cash and cash equivalents	17	276 191	429 178
Effects of foreign exchange differences on the balance of cash denominated in foreign currency		4 418	1 758
Closing balance of cash and cash equivalents	17	**157 361**	**220 813**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Consolidated Financial Statements

EXPLANATORY NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS PREPARED AS AT 30 JUNE 2016

1. General information

1.1 Information on the Parent company

PKP CARGO S.A. ("the Parent Company") was formed based on a notarial deed dated 29 June 2001 (Repertory A No. 1287/2001). The Parent Company's registered office is Warsaw, at Grójecka street no. 17. The Parent Company is registered with the National Court Register at the District Court in Katowice, Business Division of the National Court Register, in number KRS 0000027702. At present, due to a subsequent change in the Parent Company's registered office, the Parent Company's records are kept by the Registration Court for the Capital City of Warsaw, XII Business Division of the National Court Register.

The Parent Company has been assigned statistical identification number REGON 277586360, as well as tax identification number NIP 954-23-81-960.

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

At the preparation of these Interim Condensed Consolidated Financial Statements, the Parent Company's management and supervisory organs comprised:

Management Board:

Maciej Libiszewski	-	President of the Management Board
Arkadiusz Olewnik	-	Member of the Management Board in charge of Finances
Jarosław Klasa	-	Member of the Management Board in charge of Operations
Grzegorz Fingas	-	Member of the Management Board in charge of Sales
Zenon Kozendra	-	Member of the Management Board – Employee Representative

Supervisory Board:

Mirosław Pawłowski	-	Chairman of the Supervisory Board
Andrzej Wach	-	Vice-Chairman of the Supervisory Board
Raimondo Eggink	-	Member of the Supervisory Board
Jerzy Kleniewski	-	Member of the Supervisory Board
Czesław Warsewicz	-	Member of the Supervisory Board
Małgorzata Kryszkiewicz	-	Member of the Supervisory Board
Zofia Dzik	-	Member of the Supervisory Board
Marek Podskalny	-	Member of the Supervisory Board
Krzysztof Czarnota	-	Member of the Supervisory Board
Tadeusz Stachaczyński	-	Member of the Supervisory Board

On 19 January 2016 the Parent Company's Supervisory Board appointed Maciej Libiszewski to the position of President of the Management Board. Maciej Libiszewski was nominated to the position of President of the Management Board by the Parent Company's shareholder – PKP S.A., based on a personal entitlement resulting from § 14 par. 4 of the Statute. The appointment was later confirmed by way of a recruitment proceeding for the position of President of the Management Board conducted by the Supervisory Board with the participation of a professional recruitment adviser.

On 24 February 2016 the following Members submitted their resignations from the Parent Company's Management Board effective immediately:
- Mr. Jacek Neska,
- Mr. Łukasz Hadyś,
- Mr. Wojciech Derda.

On 31 March 2016 the Supervisory Board passed a resolution to appoint the following persons to the Parent Company's Management Board effective 1 April 2016:
- Grzegorz Fingas,
- Arkadiusz Olewnik,
- Jarosław Klasa.

The mandates of the following Members of the Supervisory Board of the 5th term expired on 11 May 2016:
- Mr. Mirosław Pawłowski,
- Mr. Kazimierz Jamrozik,
- Mr. Andrzej Wach,
- Mr. Stanisław Knaflewski,
- Ms. Małgorzata Kryszkiewicz,
- Mr. Czesław Warsewicz,
- Mr. Raimondo Eggink,
- Mr. Jerzy Kleniewski.

On 9 May 2016 the Parent Company's shareholder - PKP S.A. informed of the appointment of the following persons to the Supervisory Board effective from 11 May 2016:
- Mr. Mirosław Pawłowski,
- Mr. Andrzej Wach,
- Ms. Małgorzata Kryszkiewicz,
- Mr. Czesław Warsewicz,
- Mr. Jerzy Kleniewski.

The Ordinary General Meeting of 11 May 2016 passed a resolution to appoint the following persons to the Supervisory Board:
- Mr. Raimondo Eggink,
- Ms. Zofia Dzik.

The mandate of Mr. Dariusz Browarek, Member of the Management Board, Employee Representative, expired on 11 May 2016.

On 20 May 2016 the Parent Company's Supervisory Board appointed the following persons as employee representatives on the Supervisory Board:
- Mr. Krzysztof Czarnota,
- Mr. Marek Podskalny,
- Mr. Tadeusz Stachaczyński.

On 14 July 2016 the Supervisory Board passed a resolution to appoint Zenon Kozendra as employee representative on the Parent Company's Management Board effective 14 July 2016.

The Parent Company's shareholders as at 30 June 2016:

Entity	Registered office	Number of shares	% of share capital held	% of voting rights
PKP S.A.[(1)]	Warszawa	14 784 194	33,01%	33,01%
Nationale-Nederlanden OFE [(2)]	Warszawa	5 771 555	12,89%	12,89%
Aviva OFE [(3)]	Warszawa	2 338 371	5,22%	5,22%
Other shareholders		21 892 797	48,88%	48,88%
Total		**44 786 917**	**100,00%**	**100,00%**

[(1)] As per notice sent by shareholder on 24 June 2014.
[(2)] As per notice sent by shareholder on 12 November 2015.
[(3)] As per notice sent by shareholder on 13 August 2014.

On 16 March 2016 the Parent Company's Management Board was notified by Morgan Stanley of a reduction by Morgan Stanley of its holding to below 5% of total votes at the Parent Company's general meeting. The reduction occurred as a result of a sale of the Parent Company's shares, performed on the Warsaw Stock Exchange on 10 March 2016.

The company PKP S.A. is the parent company of PKP CARGO S.A. In accordance with the Parent Company's statute, PKP S.A. holds special personal entitlements, consisting of a right to appoint and dismiss Members of the Supervisory Board at a number equal to half of the Supervisory Board plus one. PKP S.A. holds a personal entitlement to appoint the chair of the Supervisory Board, as well as to set the number of Members of the Supervisory Board. In addition, if the percent of the Parent Company's share capital held by PKP S.A. equals to 50% or less, PKP S.A. holds a personal entitlement to solely designate candidates for the position of President of the Company's Management Board. PKP S.A. holds these personal entitlements whenever it owns at least 25% of the Parent Company's share capital.

1.2 Information about the Group

As at the balance sheet date the PKP CARGO Group (hereinafter referred to as the Group) comprises PKP CARGO S.A. as the holding company and 30 subsidiary companies. In addition, the Group has 6 associated companies and shares in 4 joint ventures.

On 28 May 2015 the Parent Company acquired from Mr. Zdenek Bakala and The Bakala Trust 80% of the shares of Advanced World Transport B.V. with its registered office in Amsterdam (hereinafter referred to as AWT), which is the parent company of the AWT Group.

Due to the moment at which control was acquired, the comparatives for the period of 6 months ended 30 June 2015 presented in the interim consolidated statement of comprehensive income, the interim consolidated statement of changes in equity and the interim consolidated statement of cash flows include the financial data of the AWT Group companies for the period of 1 month ended 30 June 2015.

Detailed information on the acquisition of AWT is presented in Note 6 to the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2015, prepared in accordance with International Financial Reporting Standards endorsed by the European Union ("IFRS EU").

The fair value of the acquired net assets of AWT determined provisionally as at the acquisition date has not changed.

Additional information about the subsidiaries is presented in Note 11 to these Interim Condensed Consolidated Financial Statements.

The Group's main area of activities is the rail transport of freight. In addition to the rail transport of freight, the Group provides the following services:

a) intermodal services,
b) shipping services (domestic and international),
c) terminal services,
d) siding and track line services,
e) rolling stock maintenance and repair services
f) reclamation services.

The duration of the companies comprising the Group is not limited, with the exception of companies in liquidation.

1.3 Functional currency and presentation currency

These Interim Condensed Consolidated Financial Statements have been prepared in Polish zlotys (PLN). The Polish zloty is the Parent Company's functional and presentation currency. The data in the financial statements are presented in thousands
of Polish zlotys, unless presented with more accuracy in specific cases.

For consolidation purposes, the financial data of foreign companies have been translated into the Polish currency in the following manner:

a) assets and liabilities at the exchange rate as at the end of the reporting period,
b) the relevant statement of comprehensive income and statement of cash flows items at the average exchange rate in the given reporting period, calculated as the mathematical average of the foreign exchange rates as at the last day of each month in the given period.

Foreign exchange differences resulting form the above translation are recognized in equity as foreign exchange differences on translation of foreign entity financial statements.

The following exchange rates have been used to value the financial statements of the foreign entities covered by the consolidation:

Currency	Statement of financial position items		Statement of comprehensive income items	
	As at 30/06/2016 (unaudited)	As at 31/12/2015 (audited)	For 6 months period ended 30/06/2016 (unaudited)	For 6 months period ended 30/06/2015 (unaudited)
EUR	4,4255	4,2615	4,3878	4,1675
CZK	0,1636	0,1577	0,1620	0,1524
HUF	0,0140	0,0135	0,0140	0,0134

2. Basis for the application of International Financial Reporting Standards

2.1 Statement of compliance

These Interim Condensed Consolidated Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34 – Interim Financial Reporting ("IAS 34") and in accordance with the accounting standards applicable to interim financial reporting endorsed by the European Union ("IFRS EU'), published and binding during the preparation of these Interim Condensed Consolidated Financial Statements, and in accordance with the Minister's of Finance Decree of 19 February 2009 on the current and periodic information submitted by the issuers of securities and the conditions for recognizing as equally valid the information required by the regulations of a state that is not a member state (2014 Journal of Laws, item 133 with subsequent amendments) ("the Decree").

These Interim Condensed Consolidated Financial Statements should be read in conjunction with the audited Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2015, prepared in accordance with IFRS EU.

These Interim Condensed Consolidated Financial Statements have been prepared on a going concern basis. At the preparation of these Interim Condensed Consolidated Financial Statements no circumstances existed indicating a threat to the Group's ability to continue as a going concern for at least 12 months of the date of the financial statements.

These Interim Condensed Consolidated Financial Statements have been prepared on a historical cost basis, with the exception of derivative financial instruments measured at fair value, liabilities relating to put options for non-controlling interest, non-current assets classified as held for sale and financial assets listed in active markets.

These Interim Condensed Consolidated Financial Statements consist of a 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.

In the years 2015 – 2016 the Group discontinued no operations that would require disclosure in these Interim Condensed Consolidated Financial Statements.

These Interim Condensed Consolidated Financial Statements were approved for publication by the Management Board on 27 September 2016.

2.2 Status of EU endorsement of standards

The following changes to existing standards published by the International Accounting Standards Board and endorsed by the EU became effective in 2016:

- **Amendments to IFRS 11 "Joint Arrangements"** entitled Accounting for Acquisitions of Interests – apply to annual periods beginning on or after 1 January 2016.
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** entitled Agriculture – Bearer Plants – apply to 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 Accepted Methods of Depreciation and Amortization - apply to annual periods beginning on or after 1 January 2016.
- **Amendments to International Financial Reporting Standards 2010-2012** (annual improvements to IFRS 2010-2012 contain 8 amendments to 7 standards, with corresponding changes to the remaining standards and interpretations) – apply to periods beginning on or after 1 February 2015.
- **Amendments to International Financial Reporting Standards 2012-2014** (annual improvements to IFRS 2012-2014 contain 4 amendments to standards, with corresponding changes to the remaining standards and interpretations) – apply to periods beginning on or after 1 January 2016.
- **Amendments to IAS 1 "Presentation of Financial Statements"** entitled Disclosure Initiative – apply to periods beginning on or after 1 January 2016.

The application of the above standards, interpretations and amendments to standards had no material effect on the Group's existing accounting policies.

2.3 Standards and interpretations adopted by IASB, but not yet endorsed by the EU

At present, IFRS endorsed by the EU do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following standards, amendments to standards and interpretations, which had not been adopted for use as at 30 June 2016:

- **IFRS 9 "Financial Instruments"** – applicable to periods beginning on or after 1 January 2018.
- **IFRS 14 "Regulatory Deferral Accounts"** – applicable to annual periods beginning on or after 1 January 2016.
- **IFRS 15 "Revenue from Contracts with Customers"** – applicable to annual periods beginning on or after 1 January 2018.
- **Clarifications to IFRS 15 "Revenue from Contracts with Customers"** – applicable to annual periods beginning on or after 1 January 2018.
- **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 to periods beginning on or after 1 January 2016.
- **IFRS 16 "Leases"** - applicable to annual periods beginning on or after 1 January 2019.
- **Amendments to IAS 7 "Statement of Cash Flows"** entitled Disclosure Initiative – applicable to periods beginning on 1 January 2017.
- **Amendments to IAS 12 "Income Taxes"** entitled Recognition of Deferred Tax Assets for Unrealized Losses – applicable to periods beginning on 1 January 2017.
- **Amendments to IFRS 2 "Share-based Payment"** entitled Classification and Measurement of Share-based Payment Transactions – applicable to periods beginning on 1 January 2018.

The Group is analyzing the effect on its accounting policies of the published IFRS 9 "Financial Instruments", IFRS 15 "Revenue from Contracts with Customers" and IFRS 16 "Leases". The Group has analyzed the potential effect of the other above-listed standards, interpretations and amendments to standards on its accounting policies. In the opinion of the Parent Company's Management Board, they will have no material effect on the Group's existing accounting policies.

3. Applied accounting policies

3.1 Statement on accounting policies

The accounting policies and calculation methods used in the preparation of these Interim Condensed Consolidated Financial Statements are consistent with the policies described in the audited Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2015, prepared in accordance with IFRS EU (see Note 4 to the Consolidated Financial Statements of the PKP CARGO Group for the financial year ended 31 December 2015, prepared in accordance with IFRS EU).

3.2. Information on the seasonal or cyclical nature of the Group's interim operations

The Group's operations show no significant seasonal or cyclical trends.

3.3. Change in estimates

The following changes of significant estimates were made in the period of 6 months ended 30 June 2016:

- deferred income tax – the effect of the recalculation of deferred income tax as at 30 June 2016 is presented in Note 9 to these Interim Condensed Consolidated Financial Statements,

- provisions for employee benefits – the provisions have been estimated as at 30 June 2016, the effect of the recalculation is presented in Note 25 to these Interim Condensed Consolidated Financial Statements,

- valuation of a liability relating to a put option for non-controlling interest – description of the method used to make estimates and the effect of recalculation as at 30 June 2016 is presented in Note 22 to these Interim Condensed Consolidated Financial Statements,

- property, plant and equipment

– determination of residual value is based on the current prices of scrap of a specific class. Owing to the fact that in the 4th quarter of 2015 a significant drop was observed in the prices of scrap, the Group verified the residual value of its rolling stock as at 31 December 2015. A reduction in residual value and an increase in the depreciation base resulted in a rise in depreciation in the first half of 2016 by approximately PLN 31 million,
– as at 30 June 2016 as a result of impairment tests the Group recognized an impairment loss relating to property, plant and equipment in the amount of PLN 35.361 thousand, the effect of recognizing the loss is presented in Note 10.1 to these Interim Condensed Consolidated Financial Statements.

• trade receivables – further to the bankruptcy filing made by the Czech coal consortium OKD a.s. ("OKD"), the Group verified the likelihood of collecting its receivables from OKD. As a result of the verification, as at 30 June 2016 the Group decided to recognize an impairment allowance in the amount of PLN 62.933 thousand. Detailed information is presented in Note 16 to these Interim Condensed Consolidated Financial Statements.

No other changes in estimates or estimate methodology with a significant effect on the current or future periods were made in the period of 6 months ended 30 June 2016.

4. Change in accounting policies and presentation of data

4.1 Capitalization of the costs of periodic rolling stock repairs

In the year 2015 the Group performed a redefinition of components in its accounting policies, as a result of which periodic reviews of P3 rolling stock were found to constitute a repair component under IFRS EU. Periodic reviews of P3 cars and engines are similar in nature to periodic P4 and P5 repairs, which had thus far been classified by the Group as repair components, and their performance is strictly related to the ability to use the vehicles throughout the entire depreciation period of P4 and P5 components. In view of this, starting with the Consolidated Financial Statements for the financial year ended 31 December 2015, the Group changed its approach to the classification and began to settle P3 reviews on a component basis. In prior periods, periodic P3 reviews had been recognized in the financial result at the moment when their costs were incurred, so to ensure comparability of data the Group restated the comparatives for the period of 6 months ended 30 June 2015. The effect of the restatement is presented in Note 4.4 to these Interim Condensed Consolidated Financial Statements.

4.2 Recognition of provisions for death benefits

In 2015 the Group changed its accounting policies with regard to the recognition of provisions for employee benefits. Starting with the Consolidated Financial Statements for the financial year ended 31 December 2015, the Group recognizes a provision for death benefits. The provision is calculated using the actuarial method. In prior periods the Group had only recognized the death benefits that had been paid out in a given reporting period. In view of this, to ensure comparability of data the Group restated the comparatives for the period of 6 months ended 30 June 2015. The effect of the restatement is presented in Note 4.4 to these Interim Condensed Consolidated Financial Statements.

4.3 Presentation changes

Starting with the Consolidated Financial Statements for the financial year ended 31 December 2015, the Group changed its accounting policies with regard to the presentation of:

• the costs of interest on provisions for employee benefits; and
• penalties received and imposed.

Detailed information on the above presentation changes is presented in Note 5.3 to the Consolidated Financial Statements for the financial year ended 31 December 2015.

To ensure comparability of data the Group restated the comparatives for the period of 6 months ended 30 June 2015. The effect of the restatement is presented in Note 4.4 to these Interim Condensed Consolidated Financial Statements.

4.4 Restatement of comparatives

Due to the above changes, the Group has restated its comparatives. The restatement is presented in the below tables. A corresponding restatement was also performed of the information presented in the notes to these Interim Condensed Consolidated Financial Statements.

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

	For 6 months period ended 30/06/2015 (published)	Capitalization of periodic repair costs	Reclassification of penalties and damage compensation	Reclassification of interest costs on discount of provisions for employee benefits	Recognition of provision for death benefits	For 6 months period ended 30/06/2015 (restated)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Other operating revenue	148 353	-	7 607	-	-	155 960
Total operating revenue	**2 062 566**	**-**	**7 607**	**-**	**-**	**2 070 173**
Depreciation/amortisation and impairment losses	198 308	12 294	-	-	-	210 602
Consumption of raw materials and energy	312 430	(5 474)	-	-	-	306 956
External services	610 859	(3 331)	-	-	-	607 528
Taxes and charges	17 608	(244)	-	-	-	17 364
Employee benefits	718 401	(14 074)	-	(9 461)	263	695 129
Other expenses by kind	18 630	2 376	525	-	-	21 531
Cost of merchandise and raw materials sold	10 849	(98)	7 082	-	-	17 833
Total operating expenses	**1 899 480**	**(8 551)**	**7 607**	**(9 461)**	**263**	**1 889 338**
Profit / (loss) on operating activities	**163 086**	**8 551**	**-**	**9 461**	**(263)**	**180 835**
Financial expenses	16 558	-	-	9 461	343	26 362
Profit / (loss) before tax	**161 252**	**8 551**	**-**	**-**	**(606)**	**169 197**
Income tax expense	5 167	1 625	-	-	(115)	6 677
NET PROFIT / (LOSS)	**156 085**	**6 926**	**-**	**-**	**(491)**	**162 520**

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

	For 6 months period ended 30/06/2015 (published) PLN thousand	Capitalization of periodic repair costs PLN thousand	Reclassification of penalties and damage compensation PLN thousand	Reclassification of interest costs on discount of provisions for employee benefits PLN thousand	Recognition of provision for death benefits PLN thousand	For 6 months period ended 30/06/2015 (restated) PLN thousand
NET PROFIT / (LOSS)	**156 085**	**6 926**	**-**	**-**	**(491)**	**162 520**
Other comprehensive income that will not be reclassified to profit or loss:	**51 547**	**-**	**-**	**-**	**2 217**	**53 764**
Actuarial gains / (losses) on employee benefits after employment period	63 638	-	-	-	2 737	66 375
Income tax on other comprehensive income	(12 091)	-	-	-	(520)	(12 611)
Other comprehensive income, net of tax	**66 483**	**-**	**-**	**-**	**2 217**	**68 700**
TOTAL COMPREHENSIVE INCOME	**222 568**	**6 926**	**-**	**-**	**1 726**	**231 220**
Net profit / (loss) attributable to:						
Shareholders of the Parent company	156 228	6 926	-	-	(491)	162 663
Total comprehensive income attributable to:						
Shareholders of the Parent company	222 711	6 926	-	-	1 726	231 363
Earnings per share (PLN per share)						
Earnings per share on operations (basic):	**3,49**	**0,15**	**-**	**-**	**(0,01)**	**3,63**
Earnings per share on operations (diluted):	**3,49**	**0,15**	**-**	**-**	**(0,01)**	**3,63**

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2015

	For 6 months period ended 30/06/2015 (published)	Capitalization of periodic repair costs	Reclassification of penalties and damage compensation	Reclassification of interest costs on discount of provisions for employee benefits	Recognition of provision for death benefits	For 6 months period ended 30/06/2015 (restated)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
ASSETS						
Non-current assets						
Property, plant and equipment	4 898 646	41 615	-	-	-	4 940 261
Deferred income tax assets	70 953	(4 656)	-	-	5 928	72 225
Total non-current assets	**5 125 887**	**36 959**	**-**	**-**	**5 928**	**5 168 774**
Total assets	**6 293 633**	**36 959**	**-**	**-**	**5 928**	**6 336 520**
EQUITY AND LIABILITIES						
Equity						
Other items of equity	1 292	-	-	-	5 287	6 579
Retained earnings	593 015	35 046	-	-	(30 560)	597 501
Total equity	**3 466 564**	**35 046**	**-**	**-**	**(25 273)**	**3 476 337**
Non-current liabilities						
Long-term provisions for employee benefits	543 641	-	-	-	27 613	571 254
Non-current liabilities	**1 682 148**	**-**	**-**	**-**	**27 613**	**1 709 761**
Current liabilities						
Short-term provisions for employee benefits	107 531	-	-	-	3 588	111 119
Current tax liabilities	387	1 913	-	-	-	2 300
Total current liabilities	**1 144 921**	**1 913**	**-**	**-**	**3 588**	**1 150 422**
Total liabilities	**2 827 069**	**1 913**	**-**	**-**	**31 201**	**2 860 183**
Total equity and liabilities	**6 293 633**	**36 959**	**-**	**-**	**5 928**	**6 336 520**

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

	For 6 months period ended 30/06/2015 (published)	Capitalization of periodic repair costs	Reclassification of penalties and damage compensation	Reclassification of interest costs on discount of provisions for employee benefits	Recognition of provision for death benefits	For 6 months period ended 30/06/2015 (restated)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Cash flows from operating activities						
Profit / (loss) before tax	**161 252**	**8 551**	**-**	**-**	**(606)**	**169 197**
Adjustments:						
Depreciation and amortisation of property, plant and equipment and intangible assets	197 965	12 294	-	-	-	210 259
Other adjustments	64 705	-	-	-	2 737	67 442
Changes in working capital:						
Increase / (decrease) in provisions	(362 801)	-	-	-	(2 131)	(364 932)
Net cash provided by operating activities	**(1 155)**	**20 845**	**-**	**-**	**-**	**19 690**
Cash flows from investing activities						
Acquisition of property, plant and equipment and intangible assets	(244 010)	(20 845)	-	-	-	(264 855)
Net cash provided by investing activities	**(263 516)**	**(20 845)**	**-**	**-**	**-**	**(284 361)**

5. Revenue from the sale of services and finished products

5.1 Operating segment products and services

The Group does not distinguish operating segments, as it has only one main product that all of its services are assigned to. The Group conducts operations as part of one main segment – domestic and international transport of freight and the provision of comprehensive logistics services relating to rail transport of freight. The Parent Company's Management analyzes the Group's financial data in the format, in which they are presented in these Interim Condensed Consolidated Financial Statements.
In addition, the Group also provides rolling stock repair and land reclamation services, which are not, however, significant from the perspective of the Group's operations and as such are not treated as separate operating segments.

The Group's revenue from its customers broken down by geographical area is presented in Note 5.2 to these Interim Condensed Consolidated Financial Statements.

5.2 Geographical information

The Group defines a geographical area of operations as the location of the registered office of its customer rather than the country in which the service is performed.

The Group's main geographical area of operations is Poland. The acquisition of shares of AWT significantly increased the Group's share in the Czech market. In the period ended 30 June 2016, total revenue earned from Czech customers amounted to more than 17% of total revenue from the sale of services, compared to nearly 4% in the same period of last year.

Presented below is the Group's revenue from the sale of services and finished products to customers broken down by location:

	For the 6 months period ended 30/06/2016 (unaudited) PLN thousand	For the 3 months period ended 30/06/2016 (unaudited) PLN thousand	For the 6 months period ended 30/06/2015 (unaudited) PLN thousand	For the 3 months period ended 30/06/2015 (unaudited) PLN thousand
Poland	1 433 574	731 914	1 577 831	828 867
Czech Republic	355 657	179 486	101 028	76 910
Germany	85 175	48 067	72 613	35 315
France	34 976	34 976	4 915	2 690
Slovakia	30 592	15 610	34 901	16 358
Italy	30 478	30 478	7 222	3 024
Cyprus	20 826	13 025	25 326	15 154
Other countries	97 575	21 254	72 703	37 664
Total	**2 088 853**	**1 074 810**	**1 896 539**	**1 015 982**

5.3 Structure of revenue from the sale of services and finished products

As part of domestic and international transport of freight and the provision of comprehensive logistics services relating to rail transport of freight, the Group distinguishes groups of services, as shown in these Note. The Parent Company's Management does not, however, take this division into account when assessing the Group's performance or making decisions on the allocation of resources to the groups of services. Accordingly, the groups of services shown below are not to be treated as the Group's operating segments.

	For the 6 months period ended 30/06/2016 (unaudited) PLN thousand	For the 3 months period ended 30/06/2016 (unaudited) PLN thousand	For the 6 months period ended 30/06/2015 (unaudited) PLN thousand	For the 3 months period ended 30/06/2015 (unaudited) PLN thousand
Transport revenue and railway shipping	1 725 659	922 689	1 697 630	894 741
Revenue from other transport activities	85 402	8 879	55 346	33 274
Siding and traction revenue	132 793	66 624	84 004	48 009
Cargo revenue	42 462	19 615	23 016	13 297
Recultivation of land	34 334	21 091	8 284	8 284
Other revenue (1)	68 203	35 912	28 259	18 377
Total	**2 088 853**	**1 074 810**	**1 896 539**	**1 015 982**

(1) The item other revenue for the period of 6 months ended 30 June 2016 consists primarily of revenue from renting assets in the amount of PLN 21.651 thousand, from customs and border services in the amount of PLN 7.334 thousand, from the sale of finished products in the amount of PLN 14.141 thousand, as well as from rolling stock repairs in the amount of PLN 13.449 thousand. In the period of 6 months ended 30 June 2015, the other revenue item consisted primarily of revenue from renting assets in the amount of PLN 7.680 thousand, from customs and border services in the amount of PLN 6.106 thousand and from rolling stock repairs in the amount of PLN 4.940 thousand.

6. Expenses by kind

6.1 Depreciation/amortisation and impairment losses

	For the 6 months period ended 30/06/2016 (unaudited)	For the 3 months period ended 30/06/2016 (unaudited)	For the 6 months period ended 30/06/2015 (restated*)	For the 3 months period ended 30/06/2015 (unaudited)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Depreciation of property, plant and equipment	278 390	141 684	202 189	103 605
Amortization of intangible assets	9 919	4 734	8 070	4 258
Impairment losses recognised / (derecognised):				
Property, plant and equipment [(1)]	35 829	35 361	343	343
Total depreciation/amortisation and impairment losses	**324 138**	**181 779**	**210 602**	**108 206**

[(1)] The item consists primarily of a loss resulting from an impairment test, which has been described in Note 10.1 to these Interim Condensed Consolidated Financial Statements.

(*) restatement of comparatives described in Note 4 to these Interim Condensed Consolidated Financial Statements

6.2 Consumption of raw materials and energy

	For the 6 months period ended 30/06/2016 (unaudited)	For the 3 months period ended 30/06/2016 (unaudited)	For the 6 months period ended 30/06/2015 (restated*)	For the 3 months period ended 30/06/2015 (unaudited)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Fuel consumption	74 358	38 123	83 995	46 021
Consumption of materials	51 938	26 962	28 108	15 860
Electricity, gas and water consumption	200 103	98 423	193 680	102 503
Impairment losses recognised / (derecognised)	(557)	(239)	674	415
Other	711	466	499	146
Total consumption of raw materials and energy	**326 553**	**163 735**	**306 956**	**164 945**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Consolidated Financial Statements

6.3 External services

	For the 6 months period ended 30/06/2016 (unaudited)	For the 3 months period ended 30/06/2016 (unaudited)	For the 6 months period ended 30/06/2015 (restated*)	For the 3 months period ended 30/06/2015 (unaudited)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Access to infrastructure connections	317 595	163 931	307 718	165 912
Repair services	8 097	4 351	4 740	2 038
Rent and lease fees (real estate and railroad fleet)	98 280	45 998	77 644	41 548
Transport services	217 062	120 421	121 202	70 023
Telecommunication services	4 327	2 087	4 608	2 378
Legal, advisory and similar services	10 478	5 925	11 028	7 333
IT services	24 118	11 578	27 326	13 686
Services related to property maintenance and operation of fixed assets	15 087	8 125	11 072	5 417
Cargo services	13 031	6 628	10 645	6 840
Siding services	18 485	9 933	13 481	8 230
Other services [(1)]	47 566	28 581	18 064	14 184
Total external services	**774 126**	**407 558**	**607 528**	**337 589**

[(1)] in the period of 6 months ended 30 June 2016 the other services item consisted of the costs of AWT Group in the amount of PLN 21.127 thousand, relating primarily to the costs of subcontracted land reclamation.

(*) restatement of comparatives described in Note 4 to these Interim Condensed Consolidated Financial Statements

6.4 Employee benefits

	For the 6 months period ended 30/06/2016 (unaudited) PLN thousand	For the 3 months period ended 30/06/2016 (unaudited) PLN thousand	For the 6 months period ended 30/06/2015 (restated*) PLN thousand	For the 3 months period ended 30/06/2015 (unaudited) PLN thousand
Salaries and wages	567 903	281 614	507 678	254 846
Costs of social insurance	123 875	61 330	104 417	52 839
Appropriation to the Company's Social Benefits Fund	13 324	6 669	13 800	7 180
Other employee benefits during employment	17 708	8 066	16 996	9 111
Other post-employment benefits	2 983	1 733	561	251
Voluntary Redundancy Program	-	-	70 179	70179
Changes in provisions for employee benefits	25 263	7 234	(22 307)	(20 644)
Other employee benefit costs	1 936	998	3 805	1 430
Total employee benefits	**752 992**	**367 644**	**695 129**	**375 192**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Consolidated Financial Statements

6.5 Other expenses by kind

	For the 6 months period ended 30/06/2016 (unaudited) PLN thousand	For the 3 months period ended 30/06/2016 (unaudited) PLN thousand	For the 6 months period ended 30/06/2015 (restated*) PLN thousand	For the 3 months period ended 30/06/2015 (unaudited) PLN thousand
Business travel	15 964	8 269	13 318	7 114
Property insurance	6 110	3 077	3 914	1 998
Other	4 216	3 381	4 299	3 561
Total other expenses by kind	**26 290**	**14 727**	**21 531**	**12 673**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Consolidated Financial Statements

7. Other operating revenue and costs

7.1 Other operating revenue

	For the 6 months period ended 30/06/2016 (unaudited) PLN thousand	For the 3 months period ended 30/06/2016 (unaudited) PLN thousand	For the 6 months period ended 30/06/2015 (restated*) PLN thousand	For the 3 months period ended 30/06/2015 (unaudited) PLN thousand
Gains on disposal of assets:				
Gain on sales of non-financial fixed assets	1 806	656	292	133
Derecognised impairment losses:				
Trade receivables	366	145	2 021	1445
Other (including interest on receivables)	70	64	210	17
	436	209	2 231	1462
Other operating revenue:				
Bargain purchase gain on acquisition of AWT	-	-	137 779	137 779
Penalties and damage compensation	8 235	3 830	7 607	5 434
Release of provision for fine from antimonopoly office UOKiK	357	-	-	-
Release of other provisions	3 241	2 000	6 592	542
Interest on trade and other receivables	1 074	840	639	278
Net foreign exchange gain on trade receivables and trade payables	3 939	799	-	-
Grants	215	91	75	62
Other	1 248	572	745	415
Total other operating revenue	**20 551**	**8 997**	**155 960**	**146 105**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Consolidated Financial Statements

7.2 Other operating expenses

	For the 6 months period ended 30/06/2016 (unaudited) PLN thousand	For the 3 months period ended 30/06/2016 (unaudited) PLN thousand	For the 6 months period ended 30/06/2015 (restated*) PLN thousand	For the 3 months period ended 30/06/2015 (unaudited) PLN thousand
Recognised impairment losses:				
Trade receivables (1)	67 751	63 756	2 078	413
Other (including on interest on receivables)	48	23	272	177
	67 799	63 779	2 350	590
Other operating expenses**:**				
Penalties and damage compensation	5 044	2 563	7 082	4 237
Costs of liquidation of non-current and current assets	2 502	1 122	1 174	696
Provision for fines from antimonopoly office UOKiK	2 032	-	-	-
Other provisions	2 304	1 633	2 309	546
Court and collection costs	628	428	373	191
Costs of transport benefits for non-employees	1 372	417	1 459	698
Interest on trade and other payables	1 129	1 061	232	128
Net foreign exchange loss on trade receivables and trade payables	-	-	2 064	159
Other	29	(308)	790	711
Total other operating expenses	**82 839**	**70 695**	**17 833**	**7 956**

(1) The item consists primarily of an impairment allowance for receivables from OKD in the amount of PLN 62.933 thousand, which has been described in Note 16 to these Interim Condensed Consolidated Financial Statements.
(*) restatement of comparatives described in Note 4 to these Interim Condensed Consolidated Financial Statements

8. Financial revenue and expenses

8.1 Financial revenue

	For the 6 months period ended 30/06/2016 (unaudited) PLN thousand	For the 3 months period ended 30/06/2016 (unaudited) PLN thousand	For the 6 months period ended 30/06/2015 (unaudited) PLN thousand	For the 3 months period ended 30/06/2015 (unaudited) PLN thousand
Interest income:				
Bank accounts and deposits	217	36	3 816	862
Bid bonds and collateral	61	31	130	97
Loans grated	286	151	3	3
Other (including interest on state settlements)	28	(15)	167	34
	592	203	4 116	996
Dividend income from shares	162	162	-	-
Total interest income and dividends	**754**	**365**	**4 116**	**996**
Other financial revenue:				
Gains on shares:				
Reversal of impairment losses on shares	-	-	14	14
Gains on the valuation of financial assets and liabilities stated at fair value through profit or loss, of which:				
Valuation of forward contracts	-	-	1 220	(1 825)
Other financial revenue:				
Net foreign exchange gain	-	-	3 995	3 995
Other financial revenue	20	19	32	(485)
	20	19	4 027	3 510
Total financial revenue	**774**	**384**	**9 377**	**2 695**

8.2 Financial expenses

	For the 6 months period ended 30/06/2016 (unaudited) PLN thousand	For the 3 months period ended 30/06/2016 (unaudited) PLN thousand	For the 6 months period ended 30/06/2015 (restated*) PLN thousand	For the 3 months period ended 30/06/2015 (unaudited) PLN thousand
Interest expense:				
Interest on loans and overdraft facilities	8 048	4 076	5 226	3 126
Interest on liabilities under finance lease agreements	4 591	2 259	4 912	2 662
Interest on long-term liabilities	1 624	729	2 915	1 379
Other (including interest on state settlements)	507	211	437	316
Total interest expense	**14 770**	**7 275**	**13 490**	**7 483**
Other financial expense:				
Losses on the valuation of financial assets and liabilities stated at fair value through profit or loss, of which:				
Valuation of put/call options for the acquisition of non-controlling shares	6 415	5 559	2 058	2 058
Valuation of forward contracts	751	1 562	-	-
	7 166	7 121	2 058	2 058
Settlement of discount on provision for employee benefits	10 036	5 018	9 804	5 073
Other financial expenses:				
Net foreign exchange loss	4 783	3 504	-	(1 941)
Other financial expenses	1 163	772	1 010	702
	5 946	4 276	1 010	(1 239)
Total financial expenses	**37 918**	**23 690**	**26 362**	**13 375**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Consolidated Financial Statements

9. Income tax

9.1 Income tax recognized in profit or loss

	For the 6 months period ended 30/06/2016 (unaudited)	For the 3 months period ended 30/06/2016 (unaudited)	For the 6 months period ended 30/06/2015 (restated*)	For the 3 months period ended 30/06/2015 (unaudited)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Current income tax:				
Current tax expense	2 558	1 979	924	(252)
Adjustments recognised in the current period with respect to prior year tax	(62)	(62)	-	-
Deferred income tax:				
Deferred tax that occurred in the reporting period	(37 192)	(28 378)	5 753	2 216
Income tax recognized in profit or loss	**(34 696)**	**(26 461)**	**6 677**	**1 964**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Consolidated Financial Statements

In the period from 1 January 2015 the Group had a tax group, as defined in Article 1a of the Corporate Income Tax Act of 15 February 1992 (2014 Journal of Laws, item 851 with subsequent amendments, hereinafter the CIT Act), named PKP CARGO LOGISTICS – Tax Group. The Tax Group was formed by concluding an agreement in the form of a notarial deed on 29 September 2014. The Tax Group comprised PKP CARGO S.A. as the representing company, PKP CARGO SERVICE Sp. z o.o., PKP CARGOTABOR Sp. z o.o and CARGOTOR Sp. z o.o.

In the financial year ended 31 December 2015 the Tax Group did not achieve the anticipated profitability of 3%, and therefore the Tax Group's second tax year ended on 31 March 2016, and the Tax Group ceased to exist. In accordance with the provisions of the CIT Act, on 1 April 2016 the companies comprising the Tax Group became independent taxpayers and began a new tax year, which will end on 31 December 2016.

9.2 Income tax recognized in other comprehensive income

	For the 6 months period ended 30/06/2016 (unaudited)	For the 3 months period ended 30/06/2016 (unaudited)	For the 6 months period ended 30/06/2015 (restated*)	For the 3 months period ended 30/06/2015 (unaudited)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Deferred income tax				
Fair value measurement of financial instruments designated as cash flow hedges	(687)	(802)	336	(148)
Actuarial gains/(losses) on post-employment benefits	-	-	12 611	12 611
Foreign exchange from translation of deferred tax in foreign subsidiaries recognised in other comprehensive income (1)	4 045	3 949	2 081	2 081
Income tax recognized in other comprehensive income	**3 358**	**3 147**	**15 028**	**14 544**

(1) Item presented in equity as foreign exchange differences on translation of foreign entity financial statements.

(*) restatement of comparatives described in Note 4 to these Interim Condensed Consolidated Financial Statements

9.3 Deferred tax balance

Presented below is the balance of deferred income tax assets and provisions for deferred income tax shown in the consolidated statement of financial position:

	As at 30/06/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Deferred tax assets	120 856	104 587
Deferred tax liabilities	(100 788)	(118 353)
Total	**20 068**	**(13 766)**

9.3.1 Deferred income tax

For the 6 months period ended 30/06/2016	As at 01/01/2016 (audited) PLN thousand	Recognized in profit or loss PLN thousand	Recognized in other comprehensive income PLN thousand	Foreign exchange differences on translation of deferred income tax recognized in other comprehensive income PLN thousand	As at 30/06/2016 (unaudited) PLN thousand
Property, plant and equipment, intangible assets and assets classified as held for sale	(185 146)	13 841	-	(4 344)	(175 649)
Trade payables	4 608	(4 608)	-	-	-
Long-term liabilities	(543)	311	-	-	(232)
Inventories	466	401	-	9	876
Receivables - impairment allowances	6 856	870	-	17	7 743
Accrued interest on assets	(157)	(56)	-	-	(213)
Accrued interest on liabilities	(6)	(5)	-	-	(11)
Provisions for employee benefits	133 800	2 421	-	99	136 320
Other provisions	4 652	(114)	-	104	4 642
Accrued expenses	7 265	253	-	-	7 518
Deferred income	(4 731)	(2 139)	-	-	(6 870)
Unpaid employee benefits	7 188	(345)	-	11	6 854
Foreign exchange losses	1 569	130	677	-	2 376
Foreign exchange gains	13	(13)	-	-	-
Valuation of derivative instruments	450	91	10	(19)	532
Other	858	(2 130)	-	-	(1 272)
	(22 858)	**8 908**	**687**	**(4 123)**	**(17 386)**
Unused tax losses					
Tax losses [(1)]	9 092	28 284	-	78	37 454
Total deferred tax assets (provisions)	**(13 766)**	**37 192**	**687**	**(4 045)**	**20 068**

[(1)] The deferred income tax asset recognized as at 30 June 2016 on tax losses to be used in future periods represents the Parent Company's loss in the amount of PLN 93.180 thousand, and the losses of the subsidiaries in the amount of PLN 103.946 thousand.

9.3.1 Deferred income tax movements (continued)

For the 6 months period ended 30/06/2015	As at 01/01/2015 (audited)	Acquisition of AWT	Recognized in profit or loss	Recognized in other comprehensive income	Foreign exchange differences on translation of deferred income tax recognized in other comprehensive income	As at 30/06/2015 (restated*)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Property, plant and equipment, intangible assets and assets classified as held for sale	(139 061)	(120 410)	23 776	-	(2 217)	(237 912)
Investments in associates – impairment	3 364	-	(3 364)	-	-	-
Long-term liabilities	(1 575)	-	633	-	-	(942)
Inventories	(1 177)	219	104	-	5	(849)
Receivables - impairment allowance	6 249	651	274	-	14	7 188
Accrued interest on assets	(608)	-	477	-	-	(131)
Provisions for employee benefits	194 428	2 737	(46 883)	(12 611)	36	137 707
Other provisions	2 465	3 468	(194)	-	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
Foreign exchange losses	6 974	-	(4 038)	-	-	2 936
Foreign exchange gains	6	-	(6)	-	-	-
Valuation of derivative instruments	2 670	383	(227)	(336)	6	2 496
Other	-	-	(1 390)	-	-	(1 390)
	82 507	(112 863)	(32 270)	(12 947)	(2 093)	(77 666)
Unused tax losses						
Tax losses [1]	6 740	610	26 517	-	12	33 879
Total deferred tax assets (provisions)	**89 247**	**(112 253)**	**(5 753)**	**(12 947)**	**(2 081)**	**(43 787)**

[1] The deferred income tax asset recognized as at 30 June 2015 on tax losses to be used in future periods represented the loss of the companies comprising the Tax Group in the amount of PLN 146.900 thousand and the losses of the other subsidiaries in the amount of PLN 31.402 thousand.

(*) restatement of comparatives described in Note 4 to these Interim Condensed Consolidated Financial Statements

9.4 Tax losses unrecognised in deferred tax asset

	As at 30/06/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
The following deferred income tax assets have not been recognized as at the balance sheet date:		
- Unused tax losses [1]	93 501	75 562

[1] Tax losses not included in the calculation of a deferred income tax asset as at 30 June 2016 represent the losses incurred by the companies of the AWT Group in the amount of PLN 80.589 thousand (AWT B.V. in the amount of PLN 66.437 thousand, AWT Rail HU Zrt. In the amount of PLN 14.152 thousand), the loss of CARGOSPED Terminal Braniewo Sp. z o.o. in the amount of PLN 4.170 thousand and the loss of PKP CARGOTABOR Usługi Sp. z o.o. in the amount of PLN 8.742 thousand. Whereas as at 31 December 2015 the tax losses not included in the calculation of a deferred income tax represented the losses of the companies of the AWT Group in the amount of PLN 73.122 thousand (AWT B.V. in the amount of PLN 61.252 thousand, AWT Rail HU Zrt. In the amount of PLN 11.870 thousand) and the loss of CARGOSPED Terminal Braniewo Sp. z o.o. in the amount of PLN 2.440 thousand. Most of the tax losses of the AWT Group were incurred before the acquisition of control.

10. Property, plant and equipment

Carrying amount:	**As at 30/06/2016 (unaudited) PLN thousand**	**As at 31/12/2015 (audited) PLN thousand**
Land	157 974	152 572
Buildings, premises, civil and water engineering structures	585 480	597 070
Technical equipment and machinery	136 135	146 749
Means of transport	3 801 703	3 784 969
Other fixed assets	9 021	10 558
Fixed assets under construction	37 425	27 830
	4 727 738	**4 719 748**

of which under finance leases:	**As at 30/06/2016 (unaudited) PLN thousand**	**As at 31/12/2015 (audited) PLN thousand**
Technical equipment and machinery	10 140	12 427
Means of transport	331 529	346 493
	341 669	**358 920**

Fixed assets under construction	**As at 30/06/2016 (unaudited) PLN thousand**	**As at 30/06/2015 (restated*) PLN thousand**
Gross value		
Opening balance	**30 332**	**20 024**
Additions	263 558	236 866
Acquisition of AWT	-	3 229
Grants to property, plant and equipment	(5 407)	-
Disposals – transfer to fixed assets	(248 696)	(231 606)
Disposals – discontinuation	(120)	(79)
Foreign exchange differences on translation of foreign entity financial statements	260	62
Closing balance	**39 927**	**28 496**
Accumulated impairment		
Opening balance	**2 502**	**1 800**
Closing balance	**2 502**	**1 800**
Net value		
Opening balance	**27 830**	**18 224**
Closing balance	**37 425**	**26 696**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Consolidated Financial Statements

10. Property, plant and equipment (continued)

For the 6 months period ended 30 June 2016 (unaudited)	Land PLN thousand	Premises, civil and water engineering structures PLN thousand	Technical equipment and machinery PLN thousand	Means of transport PLN thousand	Other fixed assets PLN thousand	Total PLN thousand
Gross value						
Balance as at 1 January 2016 (audited)	**153 323**	**735 423**	**362 904**	**5 441 611**	**39 283**	**6 732 544**
Additions:						
Acquisition	-	1 431	5 428	238 440	417	**245 716**
Finance lease	-	-	-	2 980	-	**2 980**
Reclassification from assets held for sale	6 489	-	-	94 689	-	**101 178**
Foreign exchange differences on translation of foreign entity financial statements	542	3 620	1 380	28 000	56	**33 598**
Disposals:						
Sales	-	-	(192)	(1 786)	(83)	**(2 061)**
Liquidation	-	-	(1 131)	(53 885)	(346)	**(55 362)**
Other	-	-	-	(38)	-	**(38)**
Balance as at 30 June 2016 (unaudited)	**160 354**	**740 474**	**368 389**	**5 750 011**	**39 327**	**7 058 555**
Accumulated depreciation						
Balance as at 1 January 2016 (audited)	**-**	**129 544**	**215 838**	**1 508 843**	**28 717**	**1 882 942**
Additions:						
Depreciation costs	-	16 087	17 011	243 295	1 997	**278 390**
Reclassification from assets held for sale	-	-	-	41 234	-	**41 234**
Foreign exchange differences on translation of foreign entity financial statements	-	217	255	2 314	7	**2 793**
Disposals:						
Sales	-	-	(135)	(1 216)	(78)	**(1 429)**
Liquidation	-	-	(1 032)	(51 337)	(345)	**(52 714)**
Other	-	-	-	(6)	-	**(6)**
Balance as at 30 June 2016 (unaudited)	-	**145 848**	**231 937**	**1 743 127**	**30 298**	**2 151 210**
Accumulated impairment						
Balance as at 1 January 2016 (audited)	**751**	**8 809**	**317**	**147 799**	**8**	**157 684**
Additions:						
Recognition of impairment	133	335	-	35 361	-	**35 829**
Reclassification from assets held for sale	1 495	-	-	22 451	-	**23 946**
Disposals:						**-**
Use of impairment loss	-	-	-	(430)	-	**(430)**
Foreign exchange differences on translation of foreign entity financial statements	1	2	-	-	-	**3**
Balance as at 30 June 2016 (unaudited)	**2 380**	**9 146**	**317**	**205 181**	**8**	**217 032**
Net value						
Balance as at 1 January 2016 (audited)	**152 572**	**597 070**	**146 749**	**3 784 969**	**10 558**	**4 691 918**
Balance as at 30 June 2016 (unaudited)	**157 974**	**585 480**	**136 135**	**3 801 703**	**9 021**	**4 690 313**

10. Property, plant and equipment (continued)

For the 6 months period ended 30 June 2015 (unaudited)	Land PLN thousand	Premises, civil and water engineering structures PLN thousand	Technical equipment and machinery PLN thousand	Means of transport PLN thousand	Other fixed assets PLN thousand	Total PLN thousand
Gross value						
Balance as at 1 January 2015 (audited)	**140 567**	**610 590**	**309 442**	**4 565 408**	**32 904**	**5 658 911**
Additions:						
Acquisition	76	4 340	7 572	217 430	418	**229 836**
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 foreign entity financial statements	287	1 734	613	13 146	26	**15 806**
Other	-	-	-	50	-	**50**
Disposals:						
Sales	-	-	(25)	(214)	(4)	**(243)**
Liquidation	-	(31)	(1 370)	(75 401)	(317)	**(77 119)**
Other	-	-	(6)	(37)	-	**(43)**
Balance as at 30 June 2015 (restated*)	**155 793**	**716 697**	**348 331**	**5 418 015**	**34 500**	**6 673 336**
Accumulated depreciation						
Balance as at 1 January 2015 (audited)	**-**	**102 894**	**188 591**	**1 312 149**	**25 139**	**1 628 773**
Additions:						
Depreciation costs	-	12 312	14 249	173 714	1 914	**202 189**
Disposals:						
Sales	-	-	(25)	(215)	(3)	**(243)**
Liquidation	-	(8)	(1 362)	(73 419)	(221)	**(75 010)**
Other	-	-	-	(37)	-	**(37)**
Balance as at 30 June 2015 (restated*)	**-**	**115 198**	**201 453**	**1 412 192**	**26 829**	**1 755 672**
Accumulated impairment						
Balance as at 1 January 2015 (audited)	**691**	**3 031**	**26**	**-**	**8**	**3 756**
Addition:						
Recognition of impairment	-	-	343	-	-	343
Balance as at 30 June 2015 (restated*)	**691**	**3 031**	**369**	**-**	**8**	**4 099**
Net value						
Net value						
Balance as at 1 January 2015 (audited)	**139 876**	**504 665**	**120 825**	**3 253 259**	**7 757**	**4 026 382**
Balance as at 30 June 2015 (restated*)	**155 102**	**598 468**	**146 509**	**4 005 823**	**7 663**	**4 913 565**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Consolidated Financial Statements

10.1 Impairment tests

In accordance with IAS 36, at the end of each reporting period the Group assesses whether there are any indications that its fixed assets may be impaired. The following indications of potential impairment of the Group's selected assets were identified as at 30 June 2016:
– market value of the Group's net assets continues to be lower than their carrying amount,
– bankruptcy filing made by a significant Czech market customer, resulting in a high risk of a decrease in cash flows generated in the future.

Due to the above the Group has decided to perform impairment tests on the assets of:
– PKP CARGO S.A.
– AWT Group

Impairment tests have been performed on cash generating units by determining their recoverable amount at the level of their value in use.

PKP CARGO S.A.

The recoverable amount of the analyzed assets has been determined by estimating their value in use using the discounted net cash flows method based on financial projections prepared for the years 2016-2025. It is the Parent Company's Management view that the adoption of financial projections for more than five years is justified due to the fact that the property, plant and equipment used by the Parent Company have significantly longer economic useful lives.
Presented below are the key assumptions affecting the estimate of the value in use of the tested cash generating units:

a) throughout the entire period of the detailed projection the compound annual growth rate (CAGR) of freight weight will amount to 0,6%,
b) weighted average cost of capital (WACC) in the projection period assumed at 5,83% in real terms,
c) after the projection period, growth of future cash flows assumed at 0,3% in real terms.

Because the recoverable amount determined as a result of the tests exceeded the carrying amount of the tested fixed assets as at 30 June 2016, the Group recognized no impairment losses of the assets of PKP CARGO S.A.

AWT Group

The recoverable amount of the analyzed assets has been determined by estimating their value in use using the discounted net cash flows method based on financial projections prepared for the years 2016-2026. It is the Group's view that the adoption of financial projections for more than five years is justified due to the fact that the property, plant and equipment used by the Group have significantly longer economic useful lives, and to better reflect the effect on the AWT Group's results of the anticipated changes on the Czech coal market.

Presented below are the key assumptions affecting the estimate of the value in use of the tested cash generating units:

a) adopted as the cash generating unit were the non-current assets belonging to the AWT Group – they are used to the greatest degree to service clients on the Czech rail market,
b) the volume of freight transported for the significant client was assumed at the level of the planned extraction of coal, no related volumes were assumed in the residual period,
c) the weighted average cost of capital (WACC) in the projection period was assumed at 7,33% in nominal terms (with specific risk premium included),
d) after the projection period, growth of future cash flows was assumed at 2% in nominal terms (with inflation assumed at 2%),
e) rise in wages in the residual period at 2,15%.

As a result of the test the recoverable amount was by PLN 35.361 thousand lower than the carrying amount of the tested assets as at 30 June 2016, causing the Group to recognize an impairment loss of the fixed assets belonging to the AWT Group.

The key assumptions used in the impairment test model included WACC and the rate of growth of future cash flows after the projection period. Presented below the amount of impairment loss when changing the following key assumptions:

	PKP CARGO		AWT Group	
	-0,3 p.p.	+0,3 p.p.	-0,3 p.p.	+0,3 p.p.
WACC	no impairment loss	18 422	no impairment loss	79 954
growth after detailed projection period	no impairment loss	no impairment loss	61 054	7 018

11. Subsidiary companies

Detailed information on subsidiary companies consolidated by acquisition accounting as at 30 June 2016 and 31 December 2015:

No.	Name of subsidiary	Core business	Place of registration and operations	% of interests held by the Parent company	
				As at 30/06/2016	As at 31/12/2015
1	PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	Services in support of land transport, reloading of cargo and wholesale and retail of waste and scrap	Małaszewicze	100,0%	100,0%
2	PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o.	Reloading of cargo at other reloading centers	Żurawica	100,0%	100,0%
3	PKP CARGO SERVICE Sp. z o.o.	Comprehensive siding services	Warsaw	100,0%	100,0%
4	PKP CARGO CONNECT Sp. z o.o.	Shipping services	Warsaw	100,0%	100,0%
5	PKP CARGOTABOR Sp. z o.o.	Maintenance and repair of rolling stock	Warsaw	100,0%	100,0%
6	PKP CARGOTABOR USŁUGI Sp. z o.o.	Collection, processing and neutralization of waste and recovery of raw materials	Warsaw	100,0%	100,0%
7	CARGOTOR Sp. z o.o.	Management of logistics and service infrastructure in the form of railway sidings and railroad tracks. Provision of such infrastructure to rail carriers.	Warsaw	100,0%	100,0%
8	CARGOSPED Terminal Braniewo Sp. z o.o.	Reloading of cargo, customs warehouse	Braniewo	100,0%	100,0%
9	Advanced World Transport B.V.	Holding and financial activities	Amsterdam	80,0%	80,0%
10	Advanced World Transport a.s.	Provision of comprehensive services: rail transport, rail shipping, siding services, rolling stock repairs	Ostrava	80,0%	80,0%
11	AWT ROSCO a.s.	Rolling stock management and rentals	Ostrava	80,0%	80,0%
12	AWT Čechofracht a.s.	Rail shipping and customs services	Prague	80,0%	80,0%
13	AWT Rekultivace a.s.	Provision of comprehensive services: land reclamation, construction services, waste management, landscape planning	Havirov-Prostredni Sucha	80,0%	80,0%
14	AWT Rail HU Zrt.	Provision of comprehensive services: rail transport, rail shipping, siding services	Budapest	80,0%	80,0%
15	AWT Coal Logistics s.r.o.	Rail shipping	Prague	80,0%	80,0%

Detailed information on other subsidiaries comprising the Group as at 30 June 2016 and as at 31 December 2015:

	Name of subsidiary	Core business	Place of registration and operations	% of interests held by the Parent company	
				As at 30/06/2016	As at 31/12/2015
16	ONECARGO Sp. z o.o.	Rail transport of freight	Warsaw	100,0%	100,0%
17	ONECARGO CONNECT Sp. z o.o.	Services in support of land transport	Warsaw	100,0%	100,0%
18	Trade Trans Karya Sp. z o.o.	Reloading of cargo, customs warehouse	Lublin	100,0%	100,0%
19	Transgaz S.A.	Transport agency	Zalesie k. Małaszewicz	64,0%	64,0%
20	Trade Trans Finance Sp. z o.o.	Financial and accounting services	Warsaw	100,0%	100,0%
21	PPHU "Ukpol" Sp. z o.o.	Reloading, sales services	Werchrata	100,0%	100,0%
22	PKP CARGO CONNECT GmbH (1)	Customs and shipping services	Hamburg	100,0%	0,0%
23	AWT Rail SK a. s.	Rail transport, rail shipping	Bratislava	80,0%	80,0%
24	AWT Rail PL Sp.z o.o. in liquidation (2)	Rail shipping	Rybnik	80,0%	80,0%
25	AWT DLT s.r.o.	Siding services	Kladno	80,0%	80,0%
26	G.I.B. s.r.o. in liquidation	Rail shipping	Prague	80,0%	80,0%
27	AWT Trading s.r.o.	Sale of military products	Petrvald	80,0%	80,0%
28	AWT Rekultivace PL Sp. z o.o.	Provision of comprehensive services: land reclamation, construction services, waste management, landscape planning	Cieszyn	80,0%	80,0%
29	Spedrapid Sp. z o.o.	Rail shipping	Gdynia	52,8%	52,8%
30	RND s.r.o.	Rail shipping, transport monitoring	Olomouc	40,8%	40,8%

(1) The Extraordinary Shareholders Meeting of PKP CARGO CONNECT Sp. z o.o. of 25 April 2016 passed a resolution, in which it gave its consent for PKP CARGO CONNECT Sp. z o.o. to take up 100% of shares, numbering 25.000, with a nominal value of 1 euro per share, with a total nominal value of 25.000 euro, of the newly formed subsidiary PKP CARGO CONNECT GmbH.

(2) The Extraordinary Shareholders Meeting of AWT Rail PL Sp. z o.o. of 7 August 2015 passed a resolution to dissolve the company and open a liquidation proceeding. This change was entered in the relevant court register on 15 March 2016.

12. Investments accounted for under the equity method

	For the 6 months period ended 30/06/2016 (unaudited)	For the 6 months period ended 30/06/2015 (unaudited)
	PLN thousand	PLN thousand
Opening balance	**39 831**	**35 246**
Purchase of shares	-	1 613
Sales of shares	-	(135)
Share in profit / (loss) of investments accounted for under the equity method [1]	2 002	3 482
Changes in equity arising from dividend payment	(2 157)	(2 185)
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	179	56
Closing balance	**39 855**	**42 369**

[1] For the period of 6 months ended 30 June 2015 the item contained PLN 1.911 thousand in a reversed impairment loss on investments accounted for under the equity method.

12.1 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 asset	
	As at 30/06/2016 (unaudited)	As at 31/12/2015 (audited)	As at 30/06/2016 (unaudited)	As at 31/12/2015 (audited)
	%	%	PLN thousand	PLN thousand
COSCO POLAND Sp. z o.o.	20,0	20,0	1 129	1 108
Pol – Rail S.r.l	50,0	50,0	6 212	6 889
Terminale Przeładunkowe Sławków – Medyka Sp. z o.o.	50,0	50,0	19 616	19 537
Trade Trans Karya Sp. z o.o.	100,0	100,0	-	-
Transgaz S.A.	64,0	64,0	4 426	4 741
Trade Trans Finance Sp. z o.o.	100,0	100,0	451	302
PPHU ''Ukpol'' Sp. z o.o.	100,0	100,0	-	-
Rentrans Cargo Sp. z o.o.	29,3	29,3	3 063	2 632
Gdański Terminal Kontenerowy S.A.	41,9	41,9	51	106
AWT Rail SK a. s.	80,0	80,0	4 907	4 516
Total			**39 855**	**39 831**

13. Other financial assets

	As at 30/06/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Derivatives		
Currency forwards and spots	516	123
Investments in shares		
Shares of Polish entities [1]	7 392	7 351
Shares of foreign entities [1]	2 133	1 949
	9 525	9 300
Loans and receivables stated at amortized cost		
Loans granted to related parties	666	639
Loans granted to other parties	2 192	2 000
Bank deposits for more than 3 months	829	1 282
	3 687	3 921
Investment fund units	572	549
Other financial assets	-	2
Total	**14 300**	**13 895**
Non-current assets	10 097	9 849
Current assets	4 203	4 046
Total	**14 300**	**13 895**

[1] As at 30 June 2016 and 31 December 2015 the value of impairment losses on investments in shares amounted to PLN 11.833 thousand.

14. Other non-financial assets

	As at 30/06/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Advances for the purchase of fixed assets [(1)]	28 139	13 385
Prepayments [(2)]	54 239	31 017
Other	676	1 545
Total	**83 054**	**45 947**
Non-current assets	44 961	32 666
Current assets	38 093	13 281
Total	**83 054**	**45 947**

[(1)] As at 30 June 2016 and 31 December 2015 the item consisted primarily of advances paid as part of a contract concluded by the Parent Company for the supply of 15 multi-system engines at PLN 27.080 thousand and PLN 12.326 thousand, respectively. In accordance with the agreed timetable, the engines will be delivered from February 2016 to June 2017. Detailed information on the said contract is provided in Note 29 to these Interim Condensed Consolidated Financial Statements.

[(2)] As at 30 June 2016 the greatest prepaid expenses were: the costs of the Company Social Benefits Fund to be settled in future periods in the amount of PLN 15.253 thousand, costs of purchasing transport benefits for eligible persons in the amount of PLN 7.604 thousand, costs of prepaid insurance in the amount of PLN 10.753 thousand, rental fees in the amount of PLN 14.759 thousand. Whereas as at 31 December 2015 the greatest prepaid costs items consisted of prepaid rental fees in the amount of PLN 17.071 thousand and insurance in the amount of PLN 7.540 thousand.

15. Inventories

	As at 30/06/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Raw materials	123 699	127 936
Semi-finished products	3 745	7 334
Goods for resale	1 721	3 058
Impairment write downs (-)	(8 228)	(9 815)
Net inventory	**120 937**	**128 513**

16. Trade and other receivables

	As at 30/06/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Trade receivables	770 718	723 386
Impairment allowance for receivables [(1)]	(148 826)	(87 252)
Total	**621 892**	**636 134**
Receivables from the sale of non-financial fixed assets	401	2 197
Settlements under public law (excluding CIT)	3 646	5 006
Bonds, security deposits and guarantees	2 381	3 385
Dividend settlements	1 189	-
VAT settlements	-	19 249
Other	4 454	3 424
Total	**633 963**	**669 395**
Non-current assets	2 901	5 074
Current assets	631 062	664 321
Total	**633 963**	**669 395**

Pledges in the amount of PLN 46.595 thousand have been established on the Group's trade receivables as at 30 June 2016.

[(1)] On 3 May 2016 the Czech coal consortium OKD petitioned the court to declare it bankrupt. On 11 August 2016, at a hearing of the District Court in Ostrava, OKD's creditors made a decision to start a restructuring proceeding. This means that OKD will continue to operate under a restructuring plan, which will include, among others, the closing of unprofitable mines. The receivables of AWT from OKD submitted during this process, amounting to CZK 462.764 thousand, i.e. the equivalent of PLN 75.709 thousand, have been fully recognized. As part of the receivables submitted in the restructuring proceeding, fully recoverable based on Czech tax regulations is the portion of receivables that corresponds to VAT in the amount of CZK 78.090 thousand, which is the equivalent of PLN 12.766 thousand. Due to the contractor's difficult financial position, the remainder of the receivables from OKD has been included in an impairment allowance in the amount of PLN 62.933 thousand.
AWT continues to provide services to OKD. To avoid late payments, a procedure has been implemented whereby OKD pays in advance for the services provided by AWT.

17. Cash and cash equivalents

For the purposes of preparing the interim consolidated statement of cash flows, cash and cash equivalents consist of cash in hand and at bank, including deposits for up to 3 months. Cash and cash equivalents listed as at the end of the period in the consolidated statement of cash flows may be reconciled with the balance sheet as follows:

	As at 30/06/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Cash in hand and at bank	143 992	226 624
Bank deposits for up to 3 months	13 369	49 567
Total	**157 361**	**276 191**
of which:		
Restricted cash	15 551	20 644

As at 30 June 2016 and as at 31 December 2015, restricted cash consisted primarily of bank accounts for bonds and security deposits.

18. Non-current assets classified as held for sale

Non-current assets classified as held for sale as at 30 June 2016 and 31 December 2015:

Non-current assets classified as held for sale	As at 30/06/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Land held for sale	6 000	10 994
Means of transport	-	33 067
Total	**6 000**	**44 061**

As at 30 June 2016 the Parent Company changed the presentation of rolling stock components thus far classified as held for sale. As scrap prices have remained low since the 4th quarter of 2015, there has been little interest on the part of buyers in purchasing these items at prices that would satisfy the Parent Company. In the period of 6 months ended 30 June 2016 the Parent Company sold 31 engines, earning a profit of PLN 588 thousand. The remaining rolling stock items did not find a buyer, which is why the Parent Company is looking for alternative uses for the rolling stock items as part of its operations. Due to the high probability of significant changes in the existing sales plan, the criteria for classifying the said items as held for sale are no longer fulfilled. In view of this, the Parent Company has reclassified them to property, plant and equipment. As the items had been revalued to their current residual values, the change in the presentation of these items had no effect on the Group's results in the period.

In addition, the Parent Company is analyzing an alternative way for the use of properties in the area of Ostaszewo, until now classified as held for sale. The work involves talks with entities potentially interested in the use of these properties. In view of this, the Parent Company has reclassified these properties to property, plant and equipment. The change in presentation had no effect on the Group's results in the period.

Changes in non-current assets classified as held for sale in the period of 6 months ended 30 June 2016:

6 months ended 30 June 2016	Real properties PLN thousand	Vehicles PLN thousand	Total PLN thousand
As at 1 January 2016 (audited)	**10 994**	**33 067**	**44 061**
Sale	-	(2 063)	(2 063)
Reclassification to property, plant and equipment	(4 994)	(31 004)	(35 998)
As at 30 June 2016 (unaudited)	**6 000**	**-**	**6 000**

Changes in non-current assets classified as held for sale in the same period of the previous year:

6 months ended 30 June 2015	Real properties PLN thousand	Vehicles PLN thousand	Total PLN thousand
As at 1 January 2015 (audited)	**4 994**	**12 566**	**17 560**
Acquisition of AWT	911	-	911
Foreign exchange differences on translation of foreign entity financial statements	12	-	12
As at 30 June 2015 (unaudited)	**5 917**	**12 566**	**18 483**

19. Equity

19.1 Share capital

	As at 30/06/2016 (unaudited) PLN thousand	As at 31/12/2015 (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 2016 and 31 December 2015 the share capital consisted of ordinary shares with a nominal value of PLN 50 per share. Each fully paid up ordinary share, with a nominal value of PLN 50, is equal to a single vote at a general meeting and entitled to a dividend.

No changes were made in the Parent Company's share capital in the period of 6 months ended 30 June 2016, or in the period of 6 months ended 30 June 2015.

19.2 Share premium

The changes made in the Group's share premium in the period of 6 months ended 30 June 2016 were the result of a resolution passed by the Ordinary Shareholders Meeting of CARGOSPED Terminal Braniewo Sp. z o.o. of 27 June 2016, on covering from the share premium the net profit for the year 2015 in the amount of PLN 876 thousand.

19.3 Retained earnings

The Parent Company's Ordinary General Meeting of 11 May 2016 passed a resolution to approve the Separate and Consolidated Financial Statements for the year 2015 and to cover the Parent Company's loss for the year 2015, amounting to PLN 114.125 thousand, from its future profits and by not paying a dividend for the year 2015.

20. Earnings per share

Profit/(loss) used to calculate basic and diluted earnings per share:

	For the 6 months period ended 30/06/2016 (unaudited)	For the 3 months period ended 30/06/2016 (unaudited)	For the 6 months period ended 30/06/2015 (restated*)	For the 3 months period ended 30/06/2015 (unaudited)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Profit/(loss) attributable to Parent Company shareholders	**(194 589)**	**(128 542)**	**162 663**	**140 460**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Consolidated Financial Statements

20.1 Basic earnings per share

	For the 6 months period ended 30/06/2016 (unaudited)	For the 3 months period ended 30/06/2016 (unaudited)	For the 6 months period ended 30/06/2015 (restated*)	For the 3 months period ended 30/06/2015 (unaudited)
Weighted average number of ordinary shares	44 786 917	44 786 917	44 786 917	44 786 917
Basic earnings per share (PLN per share)	**(4,34)**	**(2,87)**	**3,63**	**3,13**

The net earnings per share for each period is calculated as the quotient of the net profit/(loss) for the given period divided by the weighted average number of shares in the period.

(*) restatement of comparatives described in Note 4 to these Interim Condensed Consolidated Financial Statements

20.2 Diluted earnings per share

	For the 6 months period ended 30/06/2016 (unaudited)	For the 3 months period ended 30/06/2016 (unaudited)	For the 6 months period ended 30/06/2015 (restated*)	For the 3 months period ended 30/06/2015 (unaudited)
Weighted average number of ordinary shares	44 786 917	44 786 917	44 786 917	44 786 917
Diluted earnings per share (PLN per share)	**(4,34)**	**(2,87)**	**3,63**	**3,13**

The diluted number of shares was calculated as the weighted average number of ordinary shares adjusted as if they had been converted into shares of all potential ordinary shares resulting in dilution.

(*) restatement of comparatives described in Note 4 to these Interim Condensed Consolidated Financial Statements

21. Credits and loans

	As at 30/06/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Credit facilities and loans received measured at amortized cost		
Bank loans – pledged on assets	121 513	119 579
Bank loans – other	806 533	589 817
Borrowings from related parties	3 541	3 407
Borrowings from other entities	1 277	1 366
Total	**932 864**	**714 169**
Non-current liabilities	663 096	460 577
Current liabilities	269 768	253 592
Total	**932 864**	**714 169**

21.1 Summary of loan and borrowings agreements

Credit agreements were concluded primarily to finance an investment plan, acquisitions and current operations. Credit agreements were taken out in PLN, EUR and CZK.

The Parent Company as at 30 June 2016 (unaudited)

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Amount in currency	Amount in PLN thousand	Liability in PLN thousand
Investment credit	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Bank enforcement title	39 000	39 000	8 448
Investment credit	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2017	Bank enforcement	49 200	49 200	14 760
Investment credit	Bank Gospodarstwa Krajowego	PLN	WIBOR 1M + margin	31.03.2021	Bank enforcement title	515 200	515 200	428 265
Investment credit	European Investment Bank	PLN	WIBOR 3M + margin	29.05.2020	None	240 000	240 000	68 000
Investment credit	Bank Gospodarstwa Krajowego (1)	EUR	EURIBOR 3M + margin	20.12.2026	Notary certified declaration of submission to execution	15 000	66 383	66 383
Investment credit	Bank Gospodarstwa Krajowego (1)	EUR	EURIBOR 3M + margin	20.12.2026	Notary certified declaration of submission to execution	85 000	376 168	63 282
Investment credit	Bank Pekao S.A. (2)	PLN	WIBOR 3M + margin	31.12.2026	Notary certified declaration of submission to execution	700 000	700 000	114 648
Investment credit	European Bank for Reconstruction and Development (3)	EUR / PLN	EURIBOR 6M / WIBOR 6M + margin	25.09.2027	None	100 000	442 550	42 450
							Total	**806 236**

(1) On 16 November 2015 the Parent Company concluded with Bank Gospodarstwa Krajowego two investment credit agreements up to the maximum amount of EUR 100.00 thousand. The credits are to be used to finance the purchase of multi-system engines and planned acquisitions. As at 30 June 2016 the Parent Company had used EUR 29.299 thousand, whilst as at 31 December 2015 EUR 2.901 thousand.

(2) On 16 November 2015 the Parent Company concluded a credit agreement with Bank Pekao S.A., based on which it received an investment credit up to the maximum amount of PLN 700.000 thousand, to finance planned acquisitions and investments. As at 30 June 2016 the Parent Company had used PLN 114.648 thousand. The credit had not been used as at 31 December 2015.

(3) On 23 December 2015 the Parent Company concluded a credit agreement with European Bank for Reconstruction and Development, based on which it received an investment credit up to the maximum amount of EUR 100.000 thousand, to refinance the purchase of the company AWT B.V. As at 30 June 2016 the Parent Company had used PLN 42.450 thousand. The credit had not been used as at 31 December 2015.

Subsidiary companies as at 30 June 2016 (unaudited)

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Amount in currency (thousand)	Amount in PLN thousand	Liability in PLN thousand
Investment credit	mBank S.A.	PLN	WIBOR 1M + margin	30.09.2016	Guarantee granted by PKP CARGO S.A. up to PLN 1.048 thousand	911	911	82
Investment credit	mBank S.A.	PLN	WIBOR 1M + margin	31.10.2016	Guarantee granted by PKP CARGO S.A. up to PLN 1.380 thousand	1 200	1 200	45
Investment credit	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Guarantee granted by PKP CARGO S.A. up to PLN 1.028 thousand	894	894	170
Loan	WFOŚIGW Łódź	PLN	fixed (1)	31.03.2024	1) Blank promissory note 2) Irrevocable authorization to bank account 3) Guarantee granted by PKP CARGO S.A.	1 686	1 686	1 277
Investment credit	ING Bank N.V. UniCredit Bank Czech Republic, a.s.	CZK	PRIBOR 3M + margin	30.09.2016	1) Pledge on shares of AWT a.s. 2) Pledge on property, plant and equipment	1 560 000	255 216	101 408
Investment credit	ING Bank N.V. UniCredit Bank Czech Republic, a.s.	EUR	EURIBOR 3M + margin	30.09.2016	1) Pledge on shares of AWT a.s. 2) Pledge on property, plant and equipment	11 400	50 451	20 105
Loan	AWT Rail SK a.s.	EUR	fixed (1)	31.12.2016	None	800	3 540	3 541
							Total	**126 628**

(1) Interest rates on bank credits and loans with a fixed interest rate fall within the range of 2,5% to 6,5%.

Parent Company as at 31 December 2015 (audited)

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Amount in currency	Amount in PLN thousand	Liability in PLN thousand
Investment credit	mBank S.A.	PLN	WIBOR 1M + margin	21.03.2016	Bank enforcement title	36 400	36 400	1 630
Investment credit	mBank S.A.	PLN	WIBOR 1M + margin	31.03.2016	Bank enforcement title	36 600	36 600	2 233
Investment credit	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Bank enforcement title	39 000	39 000	12 690
Investment credit	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2017	Bank enforcement title	49 200	49 200	19 680
Investment credit	Bank Gospodarstwa Krajowego	PLN	WIBOR 1M + margin	31.03.2021	Bank enforcement title	515 200	515 200	464 123
Investment credit	European Investment Bank	PLN	WIBOR 3M + margin	29.05.2020	None	240 000	240 000	76 500
Investment credit	Bank Gospodarstwa Krajowego	EUR	EURIBOR 3M + margin	20.12.2026	Notary certified declaration of submission to execution	15 000	63 923	12 363
							Total	**589 219**

Subsidiary companies as at 31 December 2015 (audited)

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Amount in currency (thousand)	Amount in PLN thousand	Liability in PLN thousand
Overdraft	PKO BP S.A.	PLN	WIBOR 1M + margin	15.04.2016	Capped mortgage up to PLN 700 thousand, pledge on inventory up to PLN 600 thousand	1 300	1 300	495
Investment credit	mBank S.A.	PLN	WIBOR 1M + margin	30.09.2016	Guarantee granted by PKP CARGO S.A. up to PLN 1.048 thousand	911	911	136
Investment credit	mBank S.A.	PLN	WIBOR 1M + margin	31.10.2016	Guarantee granted by PKP CARGO S.A. up to PLN 1.380 thousand	1 200	1 200	206
Investment credit	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Guarantee granted by PKP CARGO S.A. up to PLN 1.028 thousand	894	894	256
Loan	WFOŚIGW Łódź	PLN	fixed	31.03.2024	1) Blank promissory note 2) Irrevocable authorization to bank account 3) Guarantee granted by PKP CARGO S.A.	1 686	1 686	1 366
Investment credit	ING Bank N.V. UniCredit Bank Czech Republic, a.s.	CZK	PRIBOR 3M + margin	30.09.2016	1) Pledge on shares of AWT a.s. 2) Pledge on property, plant and equipment	1 560 000	246 012	97 667
Investment credit	ING Bank N.V. UniCredit Bank Czech Republic, a.s.	EUR	EURIBOR 3M + margin	30.09.2016	1) Pledge on shares of AWT a.s. 2) Pledge on property, plant and equipment	11 400	48 581	19 288
Investment credit	Raiffeisenbank a.s.	EUR	fixed	30.06.2016	1) Registered pledge on property, plant and equipment and receivables 2) Promissory notes 3) Assignment of insurance	8 000	34 092	2 129
Loan	AWT Rail SK a.s.	EUR	fixed	31.12.2016	None	800	3 409	3 407
							Total	**124 950**

21.2 Not utilized credit and overdraft facilities

Type of loan	Name of bank	Currency	As at 30/06/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Investment credit	Bank Gospodarstwa Krajowego	PLN	-	5 627
Investment credit	European Investment Bank [1]	PLN	155 000	-
Investment credit	Bank Gospodarstwa Krajowego	EUR	312 885	51 560
Investment credit	Bank Pekao S.A.	PLN	585 352	100 000
Investment credit	European Bank for Reconstruction and Development	EUR	398 295	426 150
Overdraft facility	mBank S.A.	PLN	100 000	100 000
Overdraft facility	ING BANK N.V. UniCredit Bank Czech Republic a.s.	CZK	28 921	27 708
Overdraft facility	ING BANK Śląski S.A.	PLN	-	19 000
Overdraft facility	PKO BP S.A.	PLN	1 300	805
Total unused credit lines			**1 581 753**	**730 850**

[1] On 18 March 2016 an annex was concluded to the credit agreement with European Investment Bank, based on which the Parent Company received a credit of PLN 155.000 thousand.

21.3 Breaches of credit agreements

No breaches of credit agreements had taken place in the period covered by these Interim Condensed Consolidated Financial Statements.

22. Other financial liabilities

	As at 30/06/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Financial instruments measured at fair value through profit or loss		
Interest rate swap (IRS)	1 974	2 164
Currency forwards and spots	1 398	10
Liability relating to put options for non-controlling interest [1]	161 613	155 198
Total	**164 985**	**157 372**
Non-current liabilities	-	155 198
Current liabilities	164 985	2 174
Total	**164 985**	**157 372**

[1] Based on a Shareholders Agreement the Parent Company concluded an agreement with a non-controlling shareholder of AWT B.V. relating to call and put options for a minority packet of shares of AWT B.V. Based on the agreement the Parent Company is both the buyer of call options and the issuer of put options, i.e. has the right to both buy the other shares of AWT B.V. through the call option, as well as an obligation to buy the shares of AWT B.V. if the minority shareholder performs the put option.

In accordance with the accounting policies adopted by the Parent Company:

- the call option has not been recognized in the consolidated statement of financial position, because it does not meet the definition of derivative instrument in IAS 39;
- the put option has been recognized in accordance with the anticipated acquisition method.

In accordance with IFRS 3, the liability relating to put options, recognized using the anticipated acquisition method, constituted a component of contingent payment and affected the amount of gain from a bargain purchase of AWT. The liability relating to put options is classified as a financial liability stated at fair value through profit or loss.

The fair value of the put options is based on discounted cash flows using the interest rate applicable to such liabilities. The fair value of put options depends on the results of the AWT Group and is calculated as the product of EBITDA and the multiplier specified in the Agreement, adjusted by the amount of net debt. The primary factors considered in the valuation are:

- forecasted EBITDA and net debt,
- the EUR/PLN exchange rate,
- the interest rate applicable to such liabilities.

Forecasted EBITDA and net debt are updated for the valuation at the end of each financial year.

The period for the performance of the put options has been set for 1 January 2017 to 31 December 2020.

23. Finance lease and lease with option to purchase liabilities

23.1 General terms of lease

Based on lease agreements the Group uses primarily rolling stock components, technical facilities equipment, cars and computer hardware. Agreements are concluded for 3 to 11 years in PLN, EUR and CZK.

23.2 Finance lease liabilities

	Minimum lease payments	
	As at 30/06/2016 (unaudited)	As at 31/12/2015 (audited)
	PLN thousand	PLN thousand
Up to one year	77 158	73 086
Over one year, up to five years	129 687	155 335
Over five years	47 787	54 967
	254 632	**283 388**
Less future lease charges	(20 843)	(24 472)
Present value of minimum lease payments	**233 789**	**258 916**

	Present value of minimum lease payments	
	As at 30/06/2016 (unaudited)	As at 31/12/2015 (audited)
	PLN thousand	PLN thousand
Up to one year	70 409	65 416
Over one year, up to five years	117 053	140 841
Over five years	46 327	52 659
Present value of minimum lease payments	**233 789**	**258 916**

	As at 30/06/2016 (unaudited)	As at 31/12/2015 (audited)
	PLN thousand	PLN thousand
Included in the financial statements as:		
Long-term finance lease liabilities and leases with purchase option	163 380	193 500
Short-term finance lease liabilities and leases with purchase option	70 409	65 416
Total	**233 789**	**258 916**

24. Trade and other payables

	As at 30/06/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Trade payables	256 045	321 303
Accruals	60 527	62 486
Liabilities due to purchase of non-financial non-current assets	64 302	113 728
Liabilities related to securities (deposits, bid bonds)	19 748	23 472
State settlements	94 803	98 686
Liabilities due to Voluntary Redundancy Program	-	48 249
Other settlements with employees	78 445	78 097
Other liabilities [1]	9 880	6 616
VAT liabilities	5 194	3 109
Total	**588 944**	**755 746**

Non-current liabilities [2]	8 209	25 953
Current liabilities	580 735	729 793
Total	**588 944**	**755 746**

[1] As at 30 June 2016, other liabilities consist primarily of statutory contributions to the Company Social Benefits Fund.

[2] Long-term liabilities consist of installment payments for a liability arising out of rolling stock modernization. Payments are made as stated in the relevant timetable.

25. Employee benefits

The valuation of provisions for employee benefits as at 30 June 2016 is based on the assumptions used in the valuation as at 31 December 2015.

The amount recognized in the interim consolidated statement of financial position, arising out of the Group's liabilities relating to employee benefit programs:

	As at 30/06/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Defined post-employment benefit plans		
– retirement compensation	151 975	154 828
– contributions to Company Social Benefits Fund for retirees	124 436	124 118
– death benefits	32 402	31 660
– transport benefits	33 908	33 654
Other employee benefits		
– jubilee bonuses	319 106	318 239
– other employee benefits (unused annual leave/bonuses)	57 539	41 505
	719 366	**704 004**
of which:		
Long-term provisions for employee benefits	602 623	603 621
Short-term provisions for employee benefits	116 743	100 383
Total	**719 366**	**704 004**

26. Other provisions

	As at 30/06/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Provision for fines from antimonopoly office UOKiK	16 455	16 209
Warranty provisions	5 070	5 356
Provision for onerous contracts	10 102	9 737
Other provisions	13 471	15 440
Total	**45 098**	**46 742**
Long-term provisions	28 502	28 886
Short-term provisions	16 596	17 856
Total	**45 098**	**46 742**

Provision for fines from antimonopoly office UOKiK

As at 30 June 2016 the provision represents the Parent Company's Management Board's estimate in connection with the likelihood of payment of two fines imposed on the Parent Company by the Office of Competition and Consumer Protection (UOKiK).

The first fine was imposed further to an earlier antimonopoly proceeding in the matter of the Parent Company's abuse of its dominant position on the domestic market of rail freight transport (proceeding concluded with Decision No. DOK-3/2009). On 22 August 2014 the Parent Company was notified by the President of UOKiK that the proceeding is being continued. After the renewed proceeding, by virtue of Decision No. DOK-5/2015 of 31 December 2015, the President of UOKiK found that the Parent Company had abused its dominant position on the domestic market of rail freight transport, by preventing the creation of conditions necessary for the formation or development of competition, by way of implementing effective 1 May 2006 changes in Sales Terms, which allowed the Parent Company to sign special agreements with businesses considered to be its competitors. The President of UOKiK found that the above practice was discontinued effective 1 July 2007, and imposed on the Parent Company a fine in the amount of PLN 14.224 thousand. As at 31 December 2015, following the Management Board's assessment of the risk, a provision was recognized in the amount of PLN 12.192 thousand. On 4 February 2016 an appeal was filed against Decision No. DOK-5/2015 with the Competition and Consumer Protection Court. As at 31 March 2016, following a reassessment of facts and circumstances, the Management Board decided to increase the previously recognized provision by the amount of PLN 2.032 thousand, thereby providing for the entire amount of the fine. No change was made in the Management Board's of the Parent company estimate as at 30 June 2016.

The second fine, in the amount of PLN 16.576 thousand, was imposed on the Parent Company by virtue of Decision No. RWR 44/2012 issued by the President of UOKiK on 31 December 2012, finding that the Parent Company made it difficult for its business partner to compete with shipping companies belonging to the PKP CARGO Group. In 2013, following a recalculation of the risk, the Parent Company reduced the provision by the amount of PLN 9.946 thousand, finding that a provision of PLN 6.630 thousand is the best estimate of the amount that it will likely have to pay. On 23 November 2015, the District Court in Warsaw ruled on the Parent Company's appeal against Decision No. RWR 44/2012 of 31 December 2012. The court of first instance changed the appealed decision and significantly lowered the initial fine from PLN 16.576 thousand to PLN 2.231 thousand. As at 31 December 2015, following a reassessment of facts and circumstances, the Management Board decided to release the previously recognized provisions in the amount of PLN 4.399 thousand. On 19 January 2016 the Parent Company filed an appeal against part of the ruling of 23 November 2015. No circumstances occurred in the period of 6 months ended 30 June 2016 with an effect on the Parent Company's estimate.

On 20 April 2016 the Parent Company paid a fine of PLN 1.429 thousand imposed based on Decision No. DOK-4/2012 issued by the President of UOKiK on 26 July 2012, and changed in a ruling issued by the Appellate Court on 5 April 2016. As at 31 December 2015 the said fine had been covered by a provision in the amount of 1.786 thousand. The surplus of the provision over the actually paid fine, amounting to PLN 357 thousand, has been recognized in the Group's financial result under other operating revenue.

Future events may lead to changes in the Parent Company's Management Board's estimates in the subsequent reporting periods.

Warranty provision

The provision has been recognized to cover the costs of future expenses associated with the land reclamation requirement. The estimate is equal to the present value of the anticipated future expenses.

Provision for onerous contracts

The Group has recognized a provision for losses on a concluded property lease agreement, where the anticipated revenue will not cover the lease costs incurred by the Group.

Other provisions

This item includes mainly provisions for disputed claims and litigation. According to the Parent Company's Management Board, the amount of other provisions as at 30 June 2016 and as at 31 December 2015, constitutes the best estimate of the amount that will likely have to be paid. In the event of other fines being imposed, their amount would depend on future events the result of which is uncertain. In consequence, the amount of the provisions may change in the subsequent periods.

27. Financial instruments

27.1 Categories and classes of financial instruments

Financial assets by categories and classes	As at 30/06/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Hedging financial instruments	**516**	**123**
Derivative instruments	516	123
Financial assets available for sale	**10 097**	**9 849**
Shares of unlisted companies	9 525	9 300
Units of investment funds	572	549
Loans and receivables	**783 341**	**918 443**
Trade receivables	621 892	636 134
Receivables from the sale of non-current assets	401	2 197
Loans	2 858	2 639
Bank deposits	829	1 282
Cash and cash equivalents	157 361	276 191
Total financial assets	**793 954**	**928 415**

Financial liabilities by categories and classes	As at 30/06/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Financial liabilities stated at fair value through profit or loss:	**161 613**	**155 208**
Held for sale		
Derivative instruments	-	10
Liabilities at fair value on initial recognition		
Liabilities relating to "put" and “call” options for non-controlling shares	161 613	155 198
Hedging financial instruments (1)	**133 037**	**2 164**
Derivative instruments	3 372	2 164
Credits and loans	129 665	-
Financial liabilities stated at amortized cost	**1 184 073**	**1 211 686**
Credits and loans	803 199	714 169
Trade payables	316 572	383 789
Liabilities relating to purchase of non-current assets	64 302	113 728
Financial liabilities excluded from the scope of IAS 39	**233 789**	**258 916**
Total financial liabilities	**1 712 512**	**1 627 974**

Impairment losses on shares of unlisted companies and trade receivables are described in Notes 13 and 16, respectively, to these Interim Condensed Consolidated Financial Statements.

(1) In the period from 1 January 2016 to 30 June 2016 the Parent Company implemented cash flow hedge accounting. The objective of the hedging activities is to limit the effect of currency risk arising out of the EUR/PLN exchange rates on future cash flows. The hedged item consists of the probable future cash flows expressed in EUR. The following hedging instruments have been established:
- starting from 1 January 2016 investment credits expressed in EUR. The Parent Company expects the realization of the hedged cash flows starting from March 2017. As at 30 June 2016 the nominal value of the hedging instrument is EUR 29.299 thousand, which is the equivalent of PLN 129.665 thousand.
- starting from 1 June 2016 currency forward contracts. The Parent Company expects the realization of the hedged cash flows starting from July 2016. As at 30 June 2016 the value of the hedging instrument is PLN 1.398 thousand.

The item also includes a subsidiary's valuation of hedging instruments in the form of:
- interest rate swaps (IRS) to hedge cash flows relating to the future payment of lease payables at variable rates, the value of which is PLN 1.974 thousand as at 30 June 2016,
- currency forwards on the EUR/PLN and USD/PLN currency pairs, to hedge future cash flows, the value of which is PLN 516 thousand as at 30 June 2016.

The effect of hedge accounting valuation for the period of 6 months ended 30 June 2016 on the statement of comprehensive income is presented in Note 27.3 to these Interim Condensed Consolidated Financial Statements.

27.2 Fair value hierarchy

As at 30 June 2016 and 31 December 2015, financial instruments measured at fair value consisted of derivative financial instruments, investment fund units and the liability relating to put options for non-controlling interest of AWT. The maturity dates of these instruments fall after the end of the reporting period. With regard to the valuation procedures, they qualify as level 1, 2 and 3 of the fair value hierarchy

Financial assets and liabilities stated at fair value	As at 30/06/2016 (unaudited)			As at 31/12/2015 (audited)		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Assets	**572**	**516**	**-**	**549**	**123**	**-**
Derivative instruments – forwards and IRS	**-**	516	**-**	**-**	123	-
Investment fund units	572	-	-	549	-	-
Liabilities	**-**	**3 372**	**161 613**	**-**	**2 174**	**155 198**
Derivative instruments – forwards and IRS	-	3 372	-	-	2 174	-
Put option for non-controlling interest of AWT	-	-	161 613	-	-	155 198

The fair value of units of investment funds is based on their actual market listings.
The fair value of currency forward contracts is determined based on the discounted future cash flows from concluded transactions, calculated based on the difference between the forward and the transaction price. The forward price is calculated based on an NBP fixing rate and the interest rate curve implicated by fxswap transactions. This is level 2 of the fair value hierarchy.
The fair value of interest rate swaps (IRS) is determined based on discounted cash flows relating to the concluded transactions, calculated based on the difference between the swap and the transaction price.
Disclosures on the valuation method and measurement of the fair value of financial instruments classified at level 3 of the fair value hierarchy are described in Note 22 to these Interim Condensed Consolidated Financial Statements.
The Group does not disclose the fair value for the category of financial instruments listed in Note 27.1 to these Interim Condensed Consolidated Financial Statements other than unlisted shares, which are not measured at fair value as at the balance sheet date. This is because the fair value of these financial instruments as at 30 June 2016 and as at 31 December 2015 did not differ significantly from their values presented in the statement of financial position.
The Group also does not disclose the fair value of shares not listed in active markets classified as financial assets available for sale. The Group is unable to reliably determine the fair value of its shares of companies not listed in active markets. As at the balance sheet date they are measured at acquisition cost less impairment losses.

27.3 Revenue, costs, profits and losses contained in the consolidated statement of comprehensive income by category of financial instruments

For the 6 months period ended 30/06/2016 (unaudited)	Hedging financial instruments	Financial assets available for sale	Loans and receivables	Financial liabilities stated at fair value through profit or loss	Financial liabilities stated at amortized cost	Financial liabilities excluded from the scope of IAS 39	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Dividends and shares in profits	-	162	-	-	-	-	**162**
Interest income/(costs)	-	-	1 577	-	(10 801)	(4 591)	**(13 815)**
Foreign exchange differences	(10)	-	2 195	-	740	(3 769)	**(844)**
Impairment/revaluation	(751)	-	(67 363)	(6 415)	-	-	**(74 529)**
Commissions on credits and debt securities	-	-	-	-	(514)	-	**(514)**
Gross profit/(loss)	**(761)**	**162**	**(63 591)**	**(6 415)**	**(10 575)**	**(8 360)**	**(89 540)**
Change in valuation	(3 616)	-	-	-	-	-	(3 616)
Other comprehensive income	**(3 616)**	**-**	**-**	**-**	**-**	**-**	**(3 616)**

27.3 Revenue, costs, profits and losses contained in the consolidated statement of comprehensive income by category of financial instruments (continued)

For the 6 months period ended 30/06/2015 (unaudited)	Financial assets stated at fair value through profit or loss	Hedging financial instruments	Financial assets available for sale	Loans and receivables	Financial liabilities stated at fair value through profit or loss	Financial liabilities stated at amortized cost	Financial liabilities excluded from the scope of IAS 39	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Dividends and shares in profits	-	-	-	-	-	-	-	**-**
Interest income/(costs)	-	-	-	4 458	-	(8 373)	(4 912)	**(8 827)**
Foreign exchange differences	-	-	-	7 209	-	(75)	(5 204)	**1 930**
Impairment/revaluation	1 220	-	14	(119)	(2 058)	-	-	**(943)**
Commissions on credits and debt securities	-	-	-	-	-	(507)	-	**(507)**
Gross profit/(loss)	**1 220**	**-**	**14**	**11 548**	**(2 058)**	**(8 955)**	**(10 116)**	**(8 347)**
Change in valuation	-	1 768	-	-	-	-	-	1 768
Other comprehensive income	**-**	**1 768**	**-**	**-**	**-**	**-**	**-**	**1 768**

28. Transactions with related parties

28.1 Transactions with the State Treasury

In the period of 6 months ended 30 June 2016 and the period of 6 months ended 30 June 2015, the State Treasury was the Group's ultimate holding company. In view of this, all of the companies belonging (directly or indirectly) to the State Treasury are the Group's related parties and are presented broken down into entities related to the PKP Group and other entities related to the State Treasury. In these Interim Condensed Consolidated Financial Statements the Management Board of the Parent Company has disclosed transactions with significant related parties, identified as related parties to the best of the Management's knowledge.

28.1.1 Transactions with related parties from PKP Group

In the period covered by these Interim Condensed Consolidated Financial Statements the Group concluded the following transactions with related parties from the PKP Group:

	For the 6 months period ended 30/06/2016 (unaudited)		For the 6 months period ended 30/06/2015 (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.)	235	36 325	487	39 581
Subsidiaries/co-subsidiaries – not consolidated	7 893	10 312	4 216	5 250
Associates	850	263	400	442
Other related parties from PKP S.A. group (1)	19 355	309 694	23 888	574 810

	As at 30/06/2016 (unaudited)		As at 31/12/2015 (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.)	200	7 147	1 233	4 980
Subsidiaries/co-subsidiaries – not consolidated	3 007	3 504	3 619	2 959
Associates	610	9	2 566	54
Other related parties from PKP S.A. group (1)	5 052	70 672	6 445	98 794

(1) The value of purchases made from other related parties from the PKP S.A. Group was lower in the period of 6 months ended 30 June 2016 than in the same period of the previous year due primarily to the fact that on 25 September 2015 the holding company PKP S.A. sold 100% of its shares of PKP Energetyka S.A., and thus in the 6 month period ended 30 June 2016 transactions with PKP Energetyka S.A. were no longer treated as transactions with related parties from the PKP S.A. Group.

Purchase transactions with the holding company (PKP S.A.) consist primarily of leases and rentals of real estate, the supply of utilities and occupational medicine services.

Sales transactions concluded with other related parties from the PKP S.A. Group consisted of such services as track line services, rental of manned engines, financial settlements with foreign rail companies, rolling stock maintenance, sub-lease of real estate. Purchase transactions consisted mainly of access to rail infrastructure, lease of real estate, supply of utilities, maintenance of rail traffic control equipment, purchases of electrical energy, network maintenance services, IT services, purchase of transport benefits for employees and retirees.

28.1.2 Transactions with other related parties of the State Treasury

No individual transactions concluded between the Group and the State Treasury and the State Treasury's related parties were identified in the period of 6 months ended 30 June 2016 and in the period of 6 months ended 30 June 2015, which would be significant due to their unusual scope or amount. Transactions concluded by the Group with other entities controlled by the State Treasury in the period from 1 January to 30 June 2016 and in the period from 1 January to 30 June 2015 related to the Group's current operating activities.

In the period of 6 months ended 30 June 2016 and in the period of 6 months ended 30 June 2015 the Group's most significant customers that are companies controlled by the State Treasury were Jastrzębska Spółka Węglowa S.A. and Węglokoks S.A. Whereas in the periods covered by these Interim Condensed Consolidated Financial Statements no significant purchases were recorded from companies controlled by the State Treasury.

All transactions with related parties were performed on market terms.

28.2 Loans granted to/received from related parties

	As at 30/06/2016 (unaudited)	As at 31/12/2015 (audited)
	PLN thousand	PLN thousand
Loans granted to related parties	666	639
Loans received from related parties	3 541	3 407

28.3 Remuneration of key management personnel

Remuneration of Members of the Parent Company's Management Board:	For the 6 months period ended 30/06/2016 (unaudited)	For the 6 months period ended 30/06/2015 (unaudited)
	PLN thousand	PLN thousand
Short-term benefits	1 780	2 509
Post-employment benefits	355	69
Severance benefits	459	-
Total	**2 594**	**2 578**

Remuneration of Members of the Parent Company's Supervisory Board:	For the 6 months period ended 30/06/2016 (unaudited)	For the 6 months period ended 30/06/2015 (unaudited)
	PLN thousand	PLN thousand
Short-term benefits	525	645
Total	**525**	**645**

Remuneration of the Parent Company's other key personnel (Representatives-Managing Directors):	For the 6 months period ended 30/06/2016 (unaudited)	For the 6 months period ended 30/06/2015 (unaudited)
	PLN thousand	PLN thousand
Short-term benefits	752	1 145
Post-employment benefits	325	23
Severance benefits	28	84
Total	**1 105**	**1 252**

Remuneration of Members of the Management Boards of subsidiary companies:	For the 6 months period ended 30/06/2016 (unaudited)	For the 6 months period ended 30/06/2015 (unaudited)
	PLN thousand	PLN thousand
Short-term benefits	3 222	2 696
Post-employment benefits	805	443
Severance benefits	278	-
Total	**4 305**	**3 139**

Remuneration of Members of the Supervisory Boards of subsidiary companies:	For the 6 months period ended 30/06/2016 (unaudited)	For the 6 months period ended 30/06/2015 (unaudited)
	PLN thousand	PLN thousand
Short-term benefits	630	479
Total	**630**	**479**

Remuneration of other key personnel (Representatives-Managing Directors) of subsidiary companies:	For the 6 months period ended 30/06/2016 (unaudited)	For the 6 months period ended 30/06/2015 (unaudited)
	PLN thousand	PLN thousand
Short-term benefits	2 605	1 941
Post-employment benefits	-	15
Severance benefits	145	135
Total	**2 750**	**2 091**

No loan or guarantee transactions were concluded with the Group in the period of 6 months ended 30 June 2016 and 6 months ended 30 June 2015 by key management employees of the Parent Company or the subsidiary companies of the PKP CARGO Group.

29. Commitments to incur expenses for non-financial fixed assets

As at 30 June 2016 the Group has future contractual investment obligations associated primarily with an agreement concluded by the Parent Company for the supply and maintenance of multi-system engines. The primary order consists of the supply of 15 multi-system engines along with equipment and computer software, spare parts and full maintenance for 8 years. The agreement also calls for the performance of first periodic service repairs after 8 years of use, with the Parent Company being able to waive using the supplier's service in this area. Until 30 June 2016 the Parent Company took delivery of 6 engines, with other being delivered gradually. According to the timetable, all of the engines should be delivered by the end of June 2017. As at 30 June 2016 the total value of the future liability relating to the primary order is EUR 45.505 thousand, which is the equivalent of PLN 201.382 thousand. The agreement provides for widening the order by another 5 multi-system engines along with additional services. The value of the additional option of the agreement is EUR 26.038 thousand, which is the equivalent of PLN 115.233 thousand.

In addition, the Parent Company is in the process of performing an agreement for the supply of computer hardware. In accordance with the timetable, the agreement should be completed by 31 December 2016. As at 30 June 2016 the value of the future liability arising out of the said agreement is PLN 4.633 thousand.

Other companies from the PKP CARGO Group have no significant commitments to incur expenses for non-financial fixed assets.

30. Contingent liabilities

	As at 30/06/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Guarantees issued by banks at the request of the Group (i)	77 049	77 181
Other contingent liabilities (ii)	94 015	98 397
Total	**171 064**	**175 578**

(i) Guarantees issued by banks at the request of the Group

As at 30 June 2016 and 31 December 2015 the Group recognizes as contingent liabilities the guarantees issued by banks at the request of the entities comprising the PKP CARGO Group. The item consists mainly primarily of performance bonds and bid bonds.

(ii) Other contingent liabilities

The item includes court claims filed against the Parent Company, where the probability of the outflow of funds is low, or with regard to which it is not possible to reliably estimate the amount to be paid by the Parent Company in the future. The amounts presented in the present Note correspond to the full values of the claims filed against the Parent Company. The estimates may change in the subsequent periods as a result of future events.

In addition, other contingent liabilities include primarily the guarantee agreements concluded with an insurance company by the subsidiary PKP CARGO CONNECT Sp. z o.o. As at 30 June 2016, the insurance agreements concluded by PKP CARGO CONNECT Sp. z o.o. amounted to PLN 29.200 thousand, and as at 31 December 2015 to PLN 27.600 thousand.

On 30 January 2015 the Parent Company was notified of an administrative proceeding started by the President of the Office of Rail Transport (UTK) in the matter of imposing a fine on the Parent Company for conducting operations without proper authorization, i.e. managing rail infrastructure without security authorization. As part of the proceeding the Parent Company exercised its right to express its views on the evidence and materials collected and on the demands submitted prior to the issue of a decision. The proceeding is scheduled to be completed on 31 October 2016.

As at 30 June 2016 the amount of the potential contingent liability arising out of the proceeding and the probability of its payment are not known.

31. Subsequent events

On 19 July 2016 an agreement was concluded with the European Investment Bank in Luxembourg, based on which the Parent Company will receive an investment credit up to the amount of EUR 40.000 thousand, to finance and/or refinance the purchase of multi-system engines. The credit will be available for 48 months of the agreement conclusion date and may be used in EUR or PLN. Full repayment is to occur no later than by 19 July 2035. The agreement provides for early repayment without additional fees. The credit agreement does not call for pledging the Parent Company's assets as collateral.

On 18 August 2016 the Parent Company's Management Board was notified by MetLife PTE S.A. that the MetLife Open Pension Fund (managed by MetLife PTE S.A.) has increased to more than 5% the total number of its votes at the Parent Company's general meeting. MetLife Open Pension Fund increased its holding of the Parent Company's shares to 5,57% as a result of a purchase transaction performed on the Warsaw Stock Exchange on 10 August 2016.

32. Approval of financial statements

These Interim Condensed Consolidated Financial Statements were approved for publication by the Parent Company's Management Board on 27 September 2016.

The Parent Company's Management Board

Maciej Libiszewski	President of the Management Board
Grzegorz Fingas	Member of the Management Board
Arkadiusz Olewnik	Member of the Management Board
Jarosław Klasa	Member of the Management Board
Zenon Kozendra	Member of the Management Board

Warsaw, 27 September 2016

PKP CARGO Spółka Akcyjna

ul. Grójecka 17, 02-021 Warszawa

Independent Auditor's Review Report on the interim condensed separate financial statements for the period from 1 January to 30 June 2016

Independent Auditor's Review Report
on the interim condensed separate financial statements
for the period from 1 January to 30 June 2016

for the Shareholders and Supervisory Board of PKP CARGO SA

We have reviewed the accompanying interim condensed separate financial statements of PKP CARGO SA with its registered office in Warsaw, ul. Grójecka 17, consisting of the statement of financial position prepared as at 30 June 2016, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period from 1 January to 30 June 2016, as well as notes to the financial statements.

The consistency of these interim condensed financial statements with International Accounting Standard 34 "Interim Financial Reporting", which has been endorsed by the European Union, as well as with other binding regulations, is the responsibility of the Company's Management Board.

Our responsibility was to perform a review of these financial statements.

We performed the review in accordance with the provisions of the professional auditing standards issued by the Polish National Council of Certified Auditors. These standards require us to plan and perform the review to obtain moderate assurance that the financial statements are free of material misstatements.

We conducted the review mainly by analyzing the data presented in the financial statements, examining the books of account and using information provided by the management and employees in charge of the Company's finances and accounting.

The scope and methodology of a review of interim condensed financial statements differ significantly from that of an audit based on which an opinion is issued on the truth and fairness of annual financial statements. Accordingly, we are unable to express such an opinion on the accompanying financial statements.

Based on our review nothing has come to our attention that would prevent us from finding that the interim condensed financial statements have been prepared, in all material respects, in accordance with the requirements of International Accounting Standard 34 "Interim Financial Reporting", which has been endorsed by the European Union.

Katowice, 27 September 2016

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Authorized Audit Company No. 3355

Auditor in charge:

Leszek Kramarczuk
Audit Partner
Certified Auditor No. 1920

On behalf of BDO Sp. z o.o.:

Dr. André Helin
Managing Partner
Certified Auditor No. 90004

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INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS OF THE **PKP CARGO S.A.** FOR THE PERIOD OF 6 MONTHS ENDEN 30 JUNE 2016 PREPARDE IN ACCORDANCE WITH IFRS AS ENDORSED BY THE EUROPEAN UNION

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INTERIM SEPARATE STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2016 TO 30 JUNE 2016

	Note	for the 6 months period ended 30/06/2016 (unaudited)	for the 3 months period ended 30/06/2016 (unaudited)	for the 6 months period ended 30/06/2015 (restated*)	for the 3 months period ended 30/06/2015 (unaudited)
		PLN thousand	PLN thousand	PLN thousand	PLN thousand
Revenue from the sale of services	5	1 517 410	773 766	1 670 345	867 487
Revenue from sales of goods and materials		5 544	1 275	5 253	2 718
Other operating revenue	7.1	13 884	4 504	15 848	6 678
Total operating revenue		**1 536 838**	**779 545**	**1 691 446**	**876 883**
Depreciation/amortisation and impairment losses	6.1	232 932	116 466	189 147	95 559
Consumption of raw materials and energy	6.2	255 199	127 721	286 227	150 038
External services	6.3	507 909	259 848	517 004	273 003
Taxes and charges		14 425	9 419	14 626	8 961
Employee benefits	6.4	572 476	279 117	610 916	324 185
Other expenses by kind	6.5	20 519	10 847	20 749	11 737
Cost of merchandise and raw materials sold		4 965	1 142	2 895	1 480
Other operating expenses	7.2	14 728	5 146	16 848	8 375
Total operating expenses		**1 623 153**	**809 706**	**1 658 412**	**873 339**
Profit/(loss) on operating activities		**(86 315)**	**(30 161)**	**33 034**	**3 544**
Financial revenue	8.1	19 567	18 120	43 134	37 375
Financial expenses	8.2	29 131	17 638	44 374	31 663
Profit/(loss) before tax		**(95 879)**	**(29 679)**	**31 794**	**9 256**
Income tax expense	9.1	(11 885)	(3 935)	750	(3 787)
NET PROFIT/(LOSS)		**(83 994)**	**(25 744)**	**31 044**	**13 043**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Separate Financial Statements

INTERIM SEPARATE STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2016 TO 30 JUNE 2016 (cont'd)

	Note	for the 6 months period ended 30/06/2016 (unaudited)	for the 3 months period ended 30/06/2016 (unaudited)	for the 6 months period ended 30/06/2015 (restated*)	for the 3 months period ended 30/06/2015 (unaudited)
		PLN thousand	PLN thousand	PLN thousand	PLN thousand
NET PROFIT/(LOSS)		**(83 994)**	**(25 744)**	**31 044**	**13 043**
Other comprehensive income that will be reclassified to profit or loss:		**(3 401)**	**(3 420)**	**-**	**-**
Effective portion of gain/(loss) on a cash flow hedging instrument		(4 199)	(4 222)	-	-
Income tax on other comprehensive income	9.2	798	802	-	-
Other comprehensive income that will not be reclassified to profit or loss::		**-**	**-**	**52 022**	**52 022**
Actuarial gains / (losses) on employee benefits after employment period		-	-	64 225	64 225
Income tax on other comprehensive income	9.2	-	-	(12 203)	(12 203)
Other comprehensive income, net of tax		**(3 401)**	**(3 420)**	**52 022**	**52 022**
TOTAL COMPREHENSIVE INCOME		**(87 395)**	**(29 164)**	**83 066**	**65 065**
Earnings per share (PLN per share)					
Earnings per share on operations (basic):	22.1	**(1,88)**	**(0,57)**	**0,69**	**0,29**
Earnings per share on operations (diluted):	22.2	**(1,88)**	**(0,57)**	**0,69**	**0,29**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Separate Financial Statements

INTERIM SEPARATE STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 JUNE 2016

	Note	As at 30/06/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand	As at 30/06/2015 (restated*) PLN thousand
ASSETS				
Non-current assets				
Property, plant and equipment	10	3 595 381	3 562 716	3 778 650
Intangible assets		55 748	59 236	63 810
Investments in subsidiaries, associates and joint ventures	14	737 974	734 643	733 670
Other long-term financial assets	15	6 021	6 021	6 021
Other long-term non-financial assets	16	33 151	18 927	6 907
Deferred tax assets	9.3	89 600	76 602	48 048
Total non-current assets		**4 517 875**	**4 458 145**	**4 637 106**
Current assets				
Inventories	17	59 363	60 743	70 043
Trade and other receivables	18	416 401	384 228	469 801
Income tax receivables		1 083	-	-
Other short-term financial assets	15	-	25 057	587
Other short-term non-financial assets	16	26 765	4 985	44 049
Cash and cash equivalents	19	15 178	84 097	124 095
		518 790	**559 110**	**708 575**
Non-current assets classified as held for sale	20	6 000	44 061	17 560
Total current assets		**524 790**	**603 171**	**726 135**
Total assets		**5 042 665**	**5 061 316**	**5 363 241**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Separate Financial Statements

INTERIM SEPARATE STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 JUNE 2016 (continued)

	Note	As at 30/06/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand	As at 30/06/2015 (restated*) PLN thousand
EQUITY AND LIABILITIES				
Equity				
Share capital	21.1	2 239 346	2 239 346	2 239 346
Share premium		589 202	589 202	589 202
Other items of equity		325	3 726	15 450
Retained earnings		156 048	240 042	385 211
Total equity		**2 984 921**	**3 072 316**	**3 229 209**
Non-current liabilities				
Long-term bank loans and credit facilities	23	661 997	459 305	466 225
Long-term finance lease liabilities and leases with purchase option	25	50 496	75 333	92 721
Long-term trade and other payables	26	6 810	22 389	44 447
Long-term provisions for employee benefits	27	550 664	549 280	517 068
Other long-term provisions	28	16 455	16 209	8 416
Other long-term financial liabilities	24	-	27 696	25 507
Non-current liabilities		**1 286 422**	**1 150 212**	**1 154 384**
Current liabilities				
Short-term bank loans and credit facilities	23	144 239	129 914	131 440
Short-term finance lease liabilities and leases with purchase option	25	53 847	48 914	70 331
Short-term trade and other payables	26	425 350	568 085	643 977
Short-term provisions for employee benefits	27	91 345	81 581	87 145
Other short-term provisions	28	6 681	8 256	13 371
Other short-term financial liabilities	24	49 860	10	31 360
Current tax liabilities		-	2 028	2 024
Total current liabilities		**771 322**	**838 788**	**979 648**
Total liabilities		**2 057 744**	**1 989 000**	**2 134 032**
Total equity and liabilities		**5 042 665**	**5 061 316**	**5 363 241**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Separate Financial Statements

INTERIM SEPARATE STATEMENT OF CHANGES IN EQUITY FOR THE FINANCIAL PERIOD ENDED 30 JUNE 2016

			Other equity			
	Share capital	Share premium	Actuarial gains/(losses) on employee benefits after employment period	Gains/(losses) on a cash flow hedging instrument	Retained earnings	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Balance as at 1/01/2015 (audited)	**2 239 346**	**584 513**	**(36 572)**	**-**	**469 032**	**3 256 319**
Net profit/(loss) for the period	-	-	-	-	31 044	31 044
Other net comprehensive income for the period	-	-	52 022	-	-	52 022
Total comprehensive income	**-**	**-**	**52 022**	**-**	**31 044**	**83 066**
Transactions with non-controlling interests	-	-	-	-	-	-
Dividend payments	-	-	-	-	(110 176)	(110 176)
Other changes in equity	-	4 689	-	-	(4 689)	-
Balance as at 30/06/2015 (restated*)	**2 239 346**	**589 202**	**15 450**	**-**	**385 211**	**3 229 209**
Balance as at 1/01/2016 (audited)	**2 239 346**	**589 202**	**3 726**	**-**	**240 042**	**3 072 316**
Net profit/(loss) for the period	-	-	-	-	(83 994)	(83 994)
Other net comprehensive income for the period	-	-	-	(3 401)	-	(3 401)
Total comprehensive income	**-**	**-**	**-**	**(3 401)**	**(83 994)**	**(87 395)**
Balance as at 30/06/2016 (unaudited)	**2 239 346**	**589 202**	**3 726**	**(3 401)**	**156 048**	**2 984 921**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Separate Financial Statements

INTERIM SEPARATE STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 1 JANUARY 2016 TO 30 JUNE 2016 [INDIRECT METHOD]

	Note	for the 6 months period ended 30/06/2016 (unaudited)	for the 6 months period ended 30/06/2015 (restated*)
		PLN thousand	PLN thousand
Cash flows from operating activities			
Profit/(loss) before tax		**(95 879)**	**31 794**
Adjustments:			
Depreciation and amortisation of property, plant and equipment, intangible assets	6.1	232 597	189 147
Impairment loss on non-current fixed assets	6.1	335	-
(Gain) / loss on disposal / liquidation of property, plant and equipment, intangible assets and non-current assets classified as held for sale		(523)	230
(Profit)/loss on investing activities		-	(1 911)
Foreign exchange (gain)/loss		1 835	(3 073)
(Gains)/losses on interest, dividends		(6 835)	(26 004)
Other adjustments		(637)	64 224
Changes in working capital:			
(Increase)/decrease in trade and other receivables		(32 531)	(38 371)
(Increase)/decrease in inventories		2 499	7 181
(Increase)/decrease in other assets		(21 250)	(24 743)
Increase/(decrease) in trade and other payables		(141 471)	177 509
Increase/(decrease) in financial liabilities		4 156	24 874
Increase/(decrease) in provisions		9 819	(356 212)
Cash flows from operating activities		**(47 885)**	**44 645**
Interest received/(paid)		(1 215)	574
Income taxes received/(paid)		(3 123)	(779)
Net cash provided by operating activities		**(52 223)**	**44 440**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Separate Financial Statements

INTERIM SEPARATE STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 1 JANUARY 2016 TO 30 JUNE 2016 [INDIRECT METHOD] (cont'd)

	Note	for the 6 months period ended 30/06/2016 (unaudited)	for the 6 months period ended 30/06/2015 (restated*)
		PLN thousand	PLN thousand
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(264 867)	(248 354)
Proceeds from sale of property, plant and equipment, intangible assets and non-current assets classified as held for sale		4 077	115
Acquisition of subsidiaries, associates and joint venture		-	(460 635)
Interest received		39	5 321
Dividends received		18 608	23 965
Repayments of loans granted		-	433
Inflows / (outflows) from bank deposits over 3 months		-	300 000
Net cash provided by investing activities		**(242 143)**	**(379 155)**
Cash flows from financing activities			
Payments of liabilities under finance lease		(25 619)	(77 424)
Payments of interest under lease agreement	8.2	(1 677)	(2 592)
Proceeds from credit facilities / loans received		275 340	345 453
Repayments of credit facilities / loans received		(61 894)	(41 873)
Interest on credit facilities / loans received		(7 112)	(4 631)
Grants received		5 407	-
Dividends paid to shareholders of the Company		-	(110 176)
Cash pool inflows / (outflows)		43 140	(27 452)
Other inflows / (outflows) from financing activities		(2 138)	(3 915)
Net cash provided by financing activities		**225 447**	**77 390**
Net increase/(decrease) in cash and cash equivalents		(68 919)	(257 325)
Opening balance of cash and cash equivalents	19	84 097	381 420
Closing balance of cash and cash equivalents	19	**15 178**	**124 095**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Separate Financial Statements

EXPLANATORY NOTES TO INTERIM CONDENSED SEPARATE FINANCIAL STATEMENTS PREPARED AS AT 30 JUNE 2016

1. General information

1.1 Information on the Company

PKP CARGO S.A. ("the Company") was formed based on a notarial deed dated 29 June 2001 (Repertory A No. 1287/2001). The Company's registered office is Warsaw, at Grójecka street no.17. The Company is registered with the National Court Register at the District Court in Katowice, Business Division of the National Court Register, in number KRS 0000027702. At present, due to a subsequent change in the Company's registered office, the Company's records are kept by the Registration Court for the Capital City of Warsaw, XII Business Division of the National Court Register.

The Company has been assigned statistical identification number REGON 277586360, as well as tax identification number NIP 954-23-81-960.

The Company's financial year is the calendar year.

The Company's main area of activities is the rail transport of freight. In addition to the rail transport of freight, the Company provides the following services:

a) intermodal services,
b) shipping services (domestic and international),
c) terminal services,
d) siding and track line services,
e) rolling stock maintenance and repair services.

At the preparation of these Interim Condensed Separate Financial Statements, the Company's management and supervisory organs comprised:

Management Board:

Maciej Libiszewski	-	President of the Management Board
Arkadiusz Olewnik	-	Member of the Management Board in charge of Finances
Jarosław Klasa	-	Member of the Management Board in charge of Operations
Grzegorz Fingas	-	Member of the Management Board in charge of Sales
Zenon Kozendra	-	Member of the Management Board – Employee Representative

Supervisory Board:

Mirosław Pawłowski	-	Chairman of the Supervisory Board
Andrzej Wach	-	Vice-Chairman of the Supervisory Board
Raimondo Eggink	-	Member of the Supervisory Board
Jerzy Kleniewski	-	Member of the Supervisory Board
Czesław Warsewicz	-	Member of the Supervisory Board
Małgorzata Kryszkiewicz	-	Member of the Supervisory Board
Zofia Dzik	-	Member of the Supervisory Board
Marek Podskalny	-	Member of the Supervisory Board
Krzysztof Czarnota	-	Member of the Supervisory Board
Tadeusz Stachaczyński	-	Member of the Supervisory Board

On 19 January 2016 the Company's Supervisory Board appointed Maciej Libiszewski to the position of President of the Management Board. Maciej Libiszewski was nominated to the position of President of the Management Board by the Company's shareholder – PKP S.A., based on a personal entitlement resulting from § 14 par. 4 of the Statute. The appointment was later confirmed by way of a recruitment proceeding for the position of President of the Management Board conducted by the Supervisory Board with the participation of a professional recruitment adviser.

On 24 February 2016 the following Members submitted their resignations from the Company's Management Board effective immediately:
- Mr. Jacek Neska,
- Mr. Łukasz Hadyś,
- Mr. Wojciech Derda.

On 31 March 2016 the Supervisory Board passed a resolution to appoint the following persons to the Company's Management Board effective 1 April 2016:
- Grzegorz Fingas,
- Arkadiusz Olewnik,
- Jarosław Klasa.

The mandates of the following Members of the Supervisory Board of the 5th term expired on 11 May 2016:
- Mr. Mirosław Pawłowski,
- Mr. Kazimierz Jamrozik,
- Mr. Andrzej Wach,
- Mr. Stanisław Knaflewski,
- Ms. Małgorzata Kryszkiewicz,
- Mr. Czesław Warsewicz,
- Mr. Raimondo Eggink,
- Mr. Jerzy Kleniewski.

On 9 May 2016 the Company's shareholder - PKP S.A. informed of the appointment of the following persons to the Supervisory Board effective 11 May 2016:
- Mr. Mirosław Pawłowski,
- Mr. Andrzej Wach,
- Ms. Małgorzata Kryszkiewicz,
- Mr. Czesław Warsewicz,
- Mr. Jerzy Kleniewski.

The Ordinary General Meeting of 11 May 2016 passed a resolution to appoint the following persons to the Supervisory Board:
- Mr. Raimondo Eggink,
- Ms. Zofia Dzik.

The mandate of Mr. Dariusz Browarek, Member of the Management Board, Employee Representative, expired on 11 May 2016.

On 20 May 2016 the Company's Supervisory Board appointed the following persons as employee representatives on the Supervisory Board:
- Mr. Krzysztof Czarnota,
- Mr. Marek Podskalny,
- Mr. Tadeusz Stachaczyński.

On 14 July 2016 the Supervisory Board passed a resolution to appoint Zenon Kozendra as employee representative on the Company's Management Board effective 14 July 2016.

The Company's shareholder's structure as at 30 June 2016 is as follows:

Entity	Registered office	Number of shares	% of share capital held	% of voting rights
PKP S.A. [(1)]	Warszawa	14 784 194	33,01%	33,01%
Nationale-Nederlanden OFE [(2)]	Warszawa	5 771 555	12,89%	12,89%
Aviva OFE [(3)]	Warszawa	2 338 371	5,22%	5,22%
Other shareholders		21 892 797	48,88%	48,88%
Total		**44 786 917**	**100,00%**	**100,00%**

(1) As per notice sent by shareholder on 24 June 2014.
(2) As per notice sent by shareholder on 12 November 2015.
(3) As per notice sent by shareholder on 13 August 2014.

On 16 March 2016 the Company's Management Board was notified by Morgan Stanley of a reduction by Morgan Stanley of its holding to below 5% of total votes at the Company's general meeting. The reduction occurred as a result of a sale of the Company's shares, performed on the Warsaw Stock Exchange on 10 March 2016.

The company PKP S.A. is the parent company of PKP CARGO S.A. In accordance with the Company's statute, PKP S.A. holds special personal entitlements, consisting of a right to appoint and dismiss Members of the Supervisory Board at a number equal to half of the Supervisory Board plus one. PKP S.A. holds a personal entitlement to appoint the chair of the Supervisory Board, as well as to set the number of Members of the Supervisory Board. In addition, if the percent of the Company's share capital held by PKP S.A. equals to 50% or less, PKP S.A. holds a personal entitlement to solely designate candidates for the position of President of the Company's Management Board. PKP S.A. holds these personal entitlements whenever it owns at least 25% of the Company's share capital.

1.2 Information on the Group

As at the balance sheet date the PKP CARGO Group (hereinafter referred to as the Group) comprises PKP CARGO S.A. as the parent company and 30 subsidiary companies. In addition, the Group has 6 associated companies and shares in 4 joint ventures. The Group has prepared Interim Condensed Consolidated Financial Statements for the period of 6 months ended 30 June 2016.

Additional information about the subsidiaries, associates and joint ventures is presented in Notes 11, 12, 13 and 14.

The duration of the companies comprising the Group is not limited, with the exception of companies in liquidation.

1.3 Functional currency and presentation currency

These Interim Condensed Separate Financial Statements have been prepared in Polish zlotys (PLN). The Polish zloty is the Company's functional and presentation currency. The data in the financial statements are presented in thousands of Polish zlotys, unless presented with more accuracy in specific cases.

2. International Financial Reporting Standards applied

2.1 Basis of preparation of Interim Condensed Separate Financial Statements

These Interim Condensed Separate Financial Statements have been prepared in accordance with International Accounting Standard (IAS) 34 – Interim Financial Reporting ("IAS 34") and in accordance with the accounting standards applicable to interim financial reporting endorsed by the European Union ("IFRS EU'), published and binding during the preparation of these Interim Condensed Separate Financial Statements, and in accordance with the Minister's of Finance Decree of 19 February 2009 on the current and periodic information submitted by the issuers of securities and the conditions for recognizing as equally valid the information required by the regulations of a state that is not a member state (2014 Journal of Laws, item 133 with subsequent amendments) ("the Decree").

These Interim Condensed Separate Financial Statements should be read in conjunction with the audited Separate Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2015, prepared in accordance with IFRS EU.

These Interim Condensed Separate Financial Statements have been prepared on a going concern basis. At the preparation of these Interim Condensed Separate Financial Statements no circumstances existed indicating a threat to the Company's ability to continue as a going concern for at least 12 months of the date of the financial statements.

These Interim Condensed Separate Financial Statements have been prepared on a historical cost basis, with the exception of derivative financial instruments measured at fair value and non-current assets classified as held for sale.

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

In the years 2015 – 2016 the Company discontinued no operations that would require disclosure in these Interim Condensed Separate Financial Statements.

These Interim Condensed Separate Financial Statements were approved for publication by the Management Board on 27 September 2016.

2.2 Status of EU endorsement of standards

The following changes to existing standards published by the International Accounting Standards Board and endorsed by the EU became effective in 2016:

- **Amendments to IFRS 11 "Joint Arrangements"** entitled Accounting for Acquisitions of Interests – apply to annual periods beginning on or after 1 January 2016.
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** entitled Agriculture – Bearer Plants – apply to 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 Accepted Methods of Depreciation and Amortization - apply to annual periods beginning on or after 1 January 2016.
- **Amendments to IAS 27 "Separate Financial Statements"** entitled Equity Method in Separate Financial Statements - apply to annual periods beginning on or after 1 January 2016.
- **Amendments to International Financial Reporting Standards 2010-2012** (annual improvements to IFRS 2010-2012 contain 8 amendments to 7 standards, with corresponding changes to the remaining standards and interpretations) – apply to periods beginning on or after 1 February 2015.
- **Amendments to International Financial Reporting Standards 2012-2014** (annual improvements to IFRS 2012-2014 contain 4 amendments to standards, with corresponding changes to the remaining standards and interpretations) – apply to periods beginning on or after 1 January 2016.
- **Amendments to IAS 1 "Presentation of Financial Statements"** entitled Disclosure Initiative – apply to periods beginning on or after 1 January 2016.

The application of the above standards, interpretations and amendments to standards had no material effect on the Company's existing accounting policies.

2.3 Standards and interpretations adopted by IASB, but not yet endorsed by the EU

At present, IFRS endorsed by the EU do not differ significantly from the regulations adopted by the International Accounting Standards Board (IASB), with the exception of the following standards, amendments to standards and interpretations, which had not been adopted for use as at 30 June 2016:

- **IFRS 9 "Financial Instruments"** – applicable to periods beginning on or after 1 January 2018.
- **IFRS 15 "Revenue from Contracts with Customers"** – applicable to annual periods beginning on or after 1 January 2018.
- **Clarifications to IFRS 15 "Revenue from Contracts with Customers"** – applicable to annual periods beginning on or after 1 January 2018.
- **IFRS 16 "Leases"** - applicable to annual periods beginning on or after 1 January 2019.
- **Amendments to IAS 7 "Statement of Cash Flows"** entitled Disclosure Initiative – applicable to periods beginning on 1 January 2017.
- **Amendments to IAS 12 "Income Taxes"** entitled Recognition of Deferred Tax Assets for Unrealized Losses – applicable to periods beginning on 1 January 2017.
- **Amendments to IFRS 2 "Share-based Payment"** entitled Classification and Measurement of Share-based Payment Transactions – applicable to periods beginning on 1 January 2018.

The Company is analyzing the effect on its accounting policies of the published IFRS 9 “Financial Instruments”, IFRS 15 “Revenue from Contracts with Customers” and IFRS 16 “Leases”. The Company has analyzed the potential effect of the other above-listed standards, interpretations and amendments to standards on its accounting policies. In the opinion of the Company’s Management Board, they will have no material effect on the Company’s existing accounting policies.

3. Applied accounting policies

3.1 Statement on accounting policies

The accounting policies and calculation methods used in the preparation of these Interim Condensed Separate Financial Statements are consistent with the policies described in the audited Separate Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2015, prepared in accordance with IFRS EU (see Note 4 to the Separate Financial Statements of PKP CARGO S.A. for the financial year ended 31 December 2015, prepared in accordance with IFRS EU).

3.2. Information on the seasonal or cyclical nature of the Company's interim operations

The Company's operations show no significant seasonal or cyclical trends.

3.3. Change in estimates

The following changes of significant estimates were made in the period of 6 months ended 30 June 2016:

- deferred income tax – the effect of the recalculation of deferred income tax as at 30 June 2016 is presented in Note 9 to these Interim Condensed Separate Financial Statements,

- provisions for employee benefits – the provisions have been estimated as at 30 June 2016, the effect of the recalculation is presented in Note 27 to these Interim Condensed Separate Financial Statements,

- valuation of net liabilities relating to an option to buy shares of AWT B.V. (call) and an option to sell shares of AWT B.V. (put) – description of the method used to make estimates and the effect of recalculation as at 30 June 2016 is presented in Note 24 to these Interim Condensed Separate Financial Statements,

- property, plant and equipment – determination of residual value is based on the current prices of scrap of a specific class. Owing to the fact that in the 4th quarter of 2015 a significant drop was observed in the prices of scrap, the Company verified the residual value of its rolling stock as at 31 December 2015. A reduction in residual value and an increase in the depreciation base resulted in a rise in depreciation in the first half of 2016 by approximately PLN 29 million.

No other changes in estimates or estimate methodology with a significant effect on the current or future periods were made in the period of 6 months ended 30 June 2016.

4. Change in accounting policies and presentation of data

4.1 Capitalization of the costs of periodic rolling stock repairs

In the year 2015 the Company performed a redefinition of components in its accounting policies, as a result of which periodic reviews of P3 rolling stock were found to constitute a repair component under IFRS EU. Periodic reviews of P3 cars and engines are similar in nature to periodic P4 and P5 repairs, which had thus far been classified by the Company as repair components, and their performance is strictly related to the ability to use the vehicles throughout the entire depreciation period of P4 and P5 components. In view of this, starting with the Separate Financial Statements for the financial year ended 31 December 2015, the Company changed its approach to the classification and began to settle P3 reviews on a component basis. In prior periods, periodic P3 reviews had been recognized in the financial result at the moment when their costs were incurred, so to ensure comparability of data the Company restated the comparatives for the period of 6 months ended 30 June 2015. The effect of the restatement is presented in Note 4.4 to these Interim Condensed Separate Financial Statements.

4.2 Recognition of provisions for death benefits

In 2015 the Company changed its accounting policies with regard to the recognition of provisions for employee benefits. Starting with the Separate Financial Statements for the financial year ended 31 December 2015, the Company recognizes a provision for death benefits. The provision is calculated using the actuarial method. In prior periods the Company had only recognized the death benefits that had been paid out in a given reporting period. In view of this, to ensure comparability of data the Company restated the comparatives for the period of 6 months ended 30 June 2015. The effect of the restatement is presented in Note 4.4 to these Interim Condensed Separate Financial Statements.

4.3 Presentation changes

Starting with the Separate Financial Statements for the financial year ended 31 December 2015, the Company changed its accounting policies with regard to the presentation of:

• the costs of interest on provisions for employee benefits; and
• penalties received and imposed.

Detailed information on the above presentation changes is presented in Note 5.3 to the Separate Financial Statements for the financial year ended 31 December 2015.

To ensure comparability of data the Company restated the comparatives for the period of 6 months ended 30 June 2015. The effect of the restatement is presented in Note 4.4 to these Interim Condensed Separate Financial Statements.

4.4 Restatement of comparatives

Due to the above changes, the Company has restated its comparatives. The restatement is presented in the below tables. A corresponding restatement was also performed of the information presented in the notes to these Interim Condensed Separate Financial Statements.

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

	for the 6 months period ended 30/06/2015 (published) PLN thousand	Capitalization of periodic repair costs PLN thousand	Reclassification of penalties and damage compensation PLN thousand	Reclassification of interest costs on discount of provisions for employee benefits PLN thousand	Recognition of provision for death benefits PLN thousand	For the 6 months period ended 30/06/2015 (restated) PLN thousand
Other operating revenue	8 301	-	7 547	-	-	15 848
Total operating revenue	**1 683 899**	**-**	**7 547**	**-**	**-**	**1 691 446**
Depreciation/amortisation and impairment losses	176 853	12 294	-	-	-	189 147
Consumption of raw materials and energy	289 332	(3 105)	-	-	-	286 227
External services	530 430	(13 426)	-	-	-	517 004
Employee benefits	622 423	(4 314)	-	(7 456)	263	610 916
Other expenses by kind	21 512	-	(763)	-	-	20 749
Other operating expenses	8 538	-	8 310	-	-	16 848
Total operating costs	**1 666 609**	**(8 551)**	**7 547**	**(7 456)**	**263**	**1 658 412**
Profit on operating activities	**17 290**	**8 551**	**-**	**7 456**	**(263)**	**33 034**
Financial expenses	36 575	-	-	7 456	343	44 374
Profit before tax	**23 849**	**8 551**	**-**	**-**	**(606)**	**31 794**
Income tax expense	(760)	1 625	-	-	(115)	750
NET PROFIT	**24 609**	**6 926**	**-**	**-**	**(491)**	**31 044**

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

	for the 6 months period ended 30/06/2015 (published) PLN thousand	Capitalization of periodic repair costs PLN thousand	Reclassification of penalties and damage compensation PLN thousand	Reclassification of interest costs on discount of provisions for employee benefits PLN thousand	Recognition of provision for death benefits PLN thousand	For the 6 months period ended 30/06/2015 (restated) PLN thousand
NET PROFIT	**24 609**	**6 926**	**-**	**-**	**(491)**	**31 044**
Other comprehensive income that will not to be reclassified to profit or loss:	**49 805**	**-**	**-**	**-**	**2 217**	**52 022**
Actuarial gains / (losses) on employee benefits after employment period	**61 488**	-	-	-	2 737	**64 225**
Income tax on other comprehensive income	**(11 683)**	-	-	-	(520)	**(12 203)**
Other comprehensive income, net of tax	**49 805**				**2 217**	**52 022**
TOTAL COMPREHENSIVE INCOME	**74 414**	**6 926**	**-**	**-**	**1 726**	**83 066**
Earnings per share (PLN per share):						
Earnings per share on operations (basic):	**0,55**	**0,15**	**-**	**-**	**(0,01)**	**0,69**
Earnings per share on operations (diluted):	**0,55**	**0,15**	**-**	**-**	**(0,01)**	**0,69**

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

	As at 30/06/2015 (published) PLN thousand	Capitalization of periodic repair costs PLN thousand	Reclassification of penalties and damage compensation PLN thousand	Reclassification of interest costs on discount of provisions for employee benefits PLN thousand	Recognition of provision for death benefits PLN thousand	As at 30/06/2015 (restated) PLN thousand
ASSETS						
Non-current assets						
Property, plant and equipment	3 737 035	41 615	-	-	-	3 778 650
Deferred tax assets	47 456	(4 656)	-	-	5 248	48 048
Total non-current assets	**4 594 899**	**36 959**	**-**	**-**	**5 248**	**4 637 106**
Total assets	**5 321 034**	**36 959**	**-**	**-**	**5 248**	**5 363 241**
EQUITY AND LIABILITIES						
Equity						
Other items of equity	10 163	-	-	-	5 287	15 450
Retained earnings	377 825	35 046	-	-	(27 660)	385 211
Total equity	**3 216 536**	**35 046**	**-**	**-**	**(22 373)**	**3 229 209**
Non-current liabilities						
Long-term provisions for employee benefits	492 648	-	-	-	24 420	517 068
Total non-current liabilities	**1 129 964**	**-**	**-**	**-**	**24 420**	**1 154 384**
Current liabilities						
Short-term provisions for employee benefits	83 944	-	-	-	3 201	87 145
Current tax liabilities	111	1 913	-	-	-	2 024
Total current liabilities	**974 534**	**1 913**	**-**	**-**	**3 201**	**979 648**
Total liabilities	**2 104 498**	**1 913**	**-**	**-**	**27 621**	**2 134 032**
Total equity and liabilities	**5 321 034**	**36 959**	**-**	**-**	**5 248**	**5 363 241**

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

	for the 6 months period ended 30/06/2015 (published)	Capitalization of periodic repair costs	Reclassification of penalties and damage compensation	Reclassification of interest costs on discount of provisions for employee benefits	Recognition of provision for death benefits	for the 6 months period ended 30/06/2015 (restated)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Cash flows from operating activities						
Profit before tax	**23 849**	**8 551**	**-**	**-**	**(606)**	**31 794**
Adjustments:						
Depreciation and amortisation of property, plant and equipment, intangible assets	176 853	12 294	-	-	-	189 147
Other adjustments	61 487	-	-	-	2 737	64 224
Changes in working capital:						
Increase/(decrease) in provisions	(354 081)	-	-	-	(2 131)	(356 212)
Net cash provided by operating activities	23 595	20 845	-	**-**	**-**	44 440
Cash flows from investing activities						
Acquisition of property, plant and equipment and intangible assets	(227 509)	(20 845)	-	-	-	(248 354)
Net cash provided by investing activities	(358 310)	**(20 845)**	**-**	**-**	**-**	**(379 155)**

5. Revenue from the sale of services

5.1 Operating segment products and services

The Company does not distinguish operating segments, as it has only one main product that all of its services are assigned to. The Company conducts operations as part of one main segment – domestic and international transport of freight and the provision of comprehensive logistics services relating to rail transport of freight. The Company's Management analyzes the Company's financial data in the format, in which they are presented in these Interim Condensed Separate Financial Statements.

The Company's revenue from its customers broken down by geographical area is presented in Note 5.2.

5.2 Geographical information

The Company defines a geographical area of operations as the location of the registered office of its customer rather than the country in which the service is performed. This analysis has led to the following conclusions:

The Company operates in one main geographical area – Poland, the country of its registered office. The Company's total revenue from all geographical areas outside of Poland for the period of 6 months ended 30 June 2016, as well as 6 months ended 30 June 2015 did not exceed 12% of its total revenue. None of the geographical areas (aside from Poland) individually exceeds 5% of the Company's revenue from the sale of services.

Presented below is the Company's revenue from the sale of services to customers broken down by location:

	for the 6 months perod ended 30/06/2016 (unaudited) PLN thousand	for the 3 months period ended 30/06/2016 (unaudited) PLN thousand	for the 6 months period ended 30/06/2015 (unaudited) PLN thousand	for the 3 months period ended 30/06/2015 (unaudited) PLN thousand
Poland	1 342 980	678 546	1 484 841	775 969
Czech Republic	66 282	35 140	50 177	28 472
Germany	46 918	25 944	50 835	22 739
Slovakia	16 975	8 239	29 475	12 581
Cyprus	18 474	12 023	24 413	14 784
Other countries	25 781	13 874	30 604	12 942
Total	**1 517 410**	**773 766**	**1 670 345**	**867 487**

5.3 Structure of revenue from the sale of services

As part of domestic and international transport of freight and the provision of comprehensive logistics services relating to rail transport of freight, the Company distinguishes groups of services, as shown in the present Note. The Company's Management does not, however, take this division into account when assessing the Company's performance or making decisions on the allocation of resources to the groups of services. Accordingly, the groups of services shown below are not to be treated as the Company's operating segments.

	for the 6 months period ended 30/06/2016 (unaudited) PLN thousand	for the 3 months period ended 30/06/2016 (unaudited) PLN thousand	for the 6 months period ended 30/06/2015 (unaudited) PLN thousand	for the 3 months period ended 30/06/2015 (unaudited) PLN thou-sand
Transport revenue and railway shipping	1 464 105	748 285	1 614 466	839 844
Siding and traction revenue	28 123	13 233	33 746	14 992
Other revenue (1)	25 182	12 248	22 133	12 651
Total	**1 517 410**	**773 766**	**1 670 345**	**867 487**

(1) The item other revenue for the period of 6 months ended 30 June 2016 consists primarily of revenue from renting assets in the amount of PLN 15.971 thousand, from administrative support services in the amount of PLN 2.884 thousand, rolling stock repairs in the amount of PLN 2.877 thousand. In the period of 6 months ended 30 June 2015, the other revenue item consisted primarily of revenue from renting assets in the amount of PLN 12.624 thousand, rolling stock repair services in the amount of PLN 2.326 thousand.

6. Expenses by kind

6.1 Depreciation/amortisation and impairment losses

	for the 6 months period ended 30/06/2016 (unaudited)	for the 3 months period ended 30/06/2016 (unaudited)	for the 6 months period ended 30/06/2015 (restated*)	for the 3 months period ended 30/06/2015 (unaudited)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Depreciation of property, plant and equipment	225 426	113 000	181 978	91 951
Amortization of intangible assets	7 171	3 466	7 169	3 608
Recognized/(derecognized) impairment losses:				
Property, plant and equipment	335	-	-	-
Total depreciation/amortisation and impairment losses	**232 932**	**116 466**	**189 147**	**95 559**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Separate Financial Statements

6.2 Consumption of raw materials and energy

	for the 6 months period ended 30/06/2016 (unaudited)	for the 3 months period ended 30/06/2016 (unaudited)	for the 6 months period ended 30/06/2015 (restated*)	for the 3 months period ended 30/06/2015 (unaudited)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Fuel consumption	47 456	24 279	75 246	39 485
Consumption of materials	23 075	11 410	20 662	10 591
Electricity, gas and water consumption	184 129	91 725	189 489	99 744
Impairment losses recognised / (derecognised)	(172)	(160)	331	72
Other	711	467	499	146
Total consumption of materials and energy	**255 199**	**127 721**	**286 227**	**150 038**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Separate Financial Statements

6.3 External services

	for the 6 months period ended 30/06/2016 (unaudited)	for the 3 months period ended 30/06/2016 (unaudited)	for the 6 months period ended 30/06/2015 (restated*)	for the 3 months period ended 30/06/2015 (unaudited)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Access to infrastructure connections	312 667	162 130	320 791	171 072
Repair services	22 924	13 014	22 410	12 449
Rent and lease fees (real estate and railroad fleet)	59 770	26 978	64 950	32 266
Transport services	45 988	22 142	37 406	19 294
Telecommunication services	3 145	1 496	3 997	2 016
Legal, advisory and similar services	6 002	3 436	9 714	6 503
IT services	22 195	10 738	26 090	13 034
Services related to property maintenance and operation of fixed assets	12 669	6 939	12 273	5 961
Cargo services	11 908	6 666	12 850	6 225
Other services	10 641	6 309	6 523	4 183
Total external services	**507 909**	**259 848**	**517 004**	**273 003**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Separate Financial Statements

6.4 Employee benefits

	for the 6 months period ended 30/06/2016 (unaudited)	for the 3 months period ended 30/06/2016 (unaudited)	for the 6 months period ended 30/06/2015 (restated*)	for the 3 months period ended 30/06/2015 (unaudited)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Salaries and wages	433 977	213 919	444 650	218 861
Costs of social insurance	87 297	42 935	90 756	44 408
Appropriation to the Company's Social Benefits Fund	11 189	5 595	11 899	5 950
Other employee benefits during employment	14 515	7 242	15 695	7 886
Other post-employment benefits	2 848	1 598	560	250
Voluntary Redundancy Program	-	-	63 862	63 862
Changes in provisions for employee benefits	20 989	7 066	(20 247)	(18 231)
Other employee benefit costs	1 661	762	3 741	1 199
Total employee benefits	**572 476**	**279 117**	**610 916**	**324 185**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Separate Financial Statements

6.5 Other expenses by kind

	for the 6 months period ended 30/06/2016 (unaudited)	for the 3 months period ended 30/06/2016 (unaudited)	for the 6 months period ended 30/06/2015 (restated*)	for the 3 months period ended 30/06/2015 (unaudited)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Business travel	13 256	6 819	12 590	6 742
Property insurance	3 877	1 880	3 494	1 720
Other	3 386	2 148	4 665	3 275
Total other expenses by kind	**20 519**	**10 847**	**20 749**	**11 737**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Separate Financial Statements

7. Other operating revenue and expenses

7.1 Other operating revenue

	for the 6 months period ended 30/06/2016 (unaudited) PLN thousand	for the 3 months period ended 30/06/2016 (unaudited) PLN thousand	for the 6 months period ended 30/06/2015 (restated*) PLN thousand	for the 3 months period ended 30/06/2015 (unaudited) PLN thousand
Gains on disposal of assets:				
Gain on sales of non-financial fixed assets	1 617	413	246	132
Derecognised impairment losses:				
Trade receivables	137	60	1 169	714
Other (including interest on receivables)	67	64	211	18
	204	124	1 380	732
Other operating revenue:				
Penalties and damage compensation	5 800	2 097	7 547	5477
Release of provision for fine from anti-monopoly office UOKiK	357	-	-	-
Release of provisions for other fines	1 643	984	5 957	-
Interest on trade and other receivables	657	419	588	261
Net foreign exchange gain on trade receivables and trade payables	2 704	(299)	-	-
Other	902	766	130	76
Total other operating revenue	**13 884**	**4 504**	**15 848**	**6 678**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Separate Financial Statements

7.2 Other operating expenses

	for the 6 months period ended 30/06/2016 (unaudited) PLN thousand	for the 3 months period ended 30/06/2016 (unaudited) PLN thousand	for the 6 months period ended 30/06/2015 (restated*) PLN thousand	for the 3 months period ended 30/06/2015 (unaudited) PLN thousand
Recognised impairment losses:				
Trade receivables	3 436	406	2 035	429
Other (including interest on receivables)	48	23	273	117
	3 484	429	2 308	546
Other operating expenses:				
Penalties and damage compensation	4 032	2 093	8 310	5 649
Costs of liquidation non- current and current assets	2 259	909	814	431
Provision for fines from antimonopoly office UOKiK	2 032	-	-	-
Other provisions	67	11	1 914	479
Court and collection costs	175	131	312	150
Costs of transport benefits for non-employees	1 301	431	1 347	658
Interest on trade and other payables	1 071	1 010	88	66
Forex losses on trade receivables and payables	-	-	1 420	243
Other	307	132	335	153
Total other operating expenses	**14 728**	**5 146**	**16 848**	**8 375**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Separate Financial Statements

8. Financial revenue and expenses

8.1 Financial revenue

	for the 6 months period ended 30/06/2016 (unaudited)	for the 3 months period ended 30/06/2016 (unaudited)	for the 6 months period ended 30/06/2015 (restated*)	for the 3 months period ended 30/06/2015 (unaudited)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Interest income:				
Bank deposits and accounts	39	12	3 173	555
Bid bonds and collateral	59	31	125	91
Loans granted (including cash pool)	265	116	2	-
Other (including interest on state settlements)	54	35	84	24
	417	194	3 384	670
Dividends from capital investments	19 150	19 150	33 022	33 022
Total interest income and dividends	**19 567**	**19 344**	**36 406**	**33 692**
Gains on shares:				
Reversal of impairment losses on shares	-	-	1 911	1 911
Gains on the valuation of financial assets and liabilities stated at fair value through profit or loss, of which:				
Valuation of forward contracts	-	(811)	1 220	(1 825)
Valuation of put/call options for the acquisition of shares of AWT B.V.	-	(413)	-	-
	-	(1 224)	1 220	(1 825)
Other financial revenue:				
Net foreign exchange gain	-	-	3 597	3 597
Total financial revenue	**19 567**	**18 120**	**43 134**	**37 375**

8.2 Financial expenses

	for the 6 months period ended 30/06/2016 (unaudited)	for the 3 months period ended 30/06/2016 (unaudited)	for the 6 months period ended 30/06/2015 (restated*)	for the 3 months period ended 30/06/2015 (unaudited)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Interest expenses:				
Interest on loans and overdraft facilities (including cash pool)	7 293	3 860	4 631	2 575
Interest on liabilities under finance lease agreements	1 677	820	2 592	1 204
Interest on long-term liabilities	1 624	729	2 915	1 379
Other (including bonds and security deposits)	481	126	390	273
Total interest expenses	**11 075**	**5 535**	**10 528**	**5 431**
Losses on shares:				
Recognized impairment losses on shares	-	-	-	(1 603)
Losses on the valuation of financial assets and liabilities stated at fair value through profit or loss, of which:				
Valuation of forward contracts	751	751	-	-
Valuation of put/call options for the acquisition of shares of AWT B.V.	2 768	2 768	25 507	25 507
	3 519	3 519	25 507	25 507
Settlement of discount on provision for employee benefits	9 412	4 706	7 799	3 397
Other financial expenses:				
Net foreign exchange loss	4 591	3 417	-	(1 589)
Other financial expenses	534	461	540	520
	5 125	3 878	540	(1 069)
Total financial expenses	**29 131**	**17 638**	**44 374**	**31 663**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Separate Financial Statements

9. Income tax

9.1 Income tax recognized in profit or loss

	for the 6 months period ended 30/06/2016 (unaudited) PLN thousand	for the 3 months period ended 30/06/2016 (unaudited) PLN thousand	for the 6 months period ended 30/06/2015 (restated*) PLN thousand	for the 3 months period ended 30/06/2015 (unaudited) PLN thousand
Current income tax:				
Current tax expense	376	328	20	8
Adjustments recognized in the current period with respect to prior year tax	(61)	(61)	-	-
Deferred income tax:				
Deferred tax that occurred in the reporting period	(12 200)	(4 202)	730	(3 795)
Total tax expense recognised in profit or loss	**(11 885)**	**(3 935)**	**750**	**(3 787)**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Separate Financial Statements

In the period from 1 January 2015 the Company was part of a Tax Group. In the financial year ended 31 December 2015 the Tax Group did not achieve the anticipated profitability of 3%, and therefore the Tax Group's second tax year ended on 31 March 2016, and the Tax Group ceased to exist. The new tax year started on 1 April 2016, will consist of the next 9 months and will end on 31 December 2016.

9.2 Income tax recognized in other comprehensive income

	for the 6 months period ended 30/06/2016 (unaudited) PLN thousand	for the 3 months period ended 30/06/2016 (unaudited) PLN thousand	for the 6 months period ended 30/06/2015 (restated*) PLN thousand	for the 3 months period ended 30/06/2015 (unaudited) PLN thousand
Deferred tax				
Remeasurement of fair value of financial instruments designated as cash flow hedges	(798)	(802)	-	-
Actuarial gains / (losses) on post-employment benefit plans	-		12 203	12 203
Income tax recognized in other comprehensive income	**(798)**	**(802)**	**12 203**	**12 203**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Separate Financial Statements

9.3 Deferred income tax

For the 6 months period ended 30/06/2016	As at 01/01/2016 (audited)	Recognized in profit or loss	Recognized in other comprehensive income	As at 30/06/2016 (unaudited)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Property, plant and equipment	(66 075)	4 821	-	(61 254)
Trade payables	3 788	(3 788)	-	-
Long-term liabilities	(587)	309	-	(278)
Inventory	(68)	510	-	442
Receivables – impairment allowances	3 447	661	-	4 108
Accured interest on assets	(82)	(49)	-	(131)
Provisions for employee benefits	119 862	2 118	-	121 980
Other provisions	1 098	(73)	-	1 025
Accrued expenses	6 220	39	-	6 259
Deferred income	(4 742)	(2 455)	-	(7 197)
Unpaid employee benefits	5 988	(412)	-	5 576
Foreign exchange losses	1 568	129	677	2 374
Valuation of derivatives	5 264	(5 120)	121	265
Other	921	(2 194)	-	(1 273)
	76 602	**(5 504)**	**798**	**71 896**
Unused tax losses				
Tax losses	-	17 704	-	17 704
Total deferred tax assets (provisions)	**76 602**	**12 200**	**798**	**89 600**

9.3.1 Deferred income tax (continued)

For the 6 months period ended 30/06/2015	As at 01/01/2015 (audited)	Recognized in profit or loss	Recognized in other comprehensive income	As at 30/06/2015 (restated*)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Property, plant and equipment	(140 505)	21 754	-	(118 751)
Long-term liabilities	(1 574)	554	-	(1 020)
Inventory	(1 212)	43	-	(1 169)
Receivables – impairment allowances	3 853	139	-	3 992
Accured Interest on assets	(528)	466	-	(62)
Provisions for employee benefits	181 712	(45 808)	(12 203)	123 701
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
Foreign exchange losses	6 956	(4 021)	-	2 935
Valuation of derivatives	120	4 615	-	4 735
Other	-	(1 361)	-	(1 361)
	56 048	**(24 454)**	**(12 203)**	**19 391**
Unused tax losses				
Tax losses	4 933	23 724	-	28 657
Total deferred tax assets (provisions)	**60 981**	**(730)**	**(12 203)**	**48 048**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Separate Financial Statements

10. Property, plant and equipment

Carrying amounts:	**As at 30/06/2016 (unaudited)**	**As at 31/12/2015 (audited)**
	PLN thousand	**PLN thousand**
Land	128 570	123 576
Buildings, premises, civil and water engineering structures	379 895	388 628
Technical equipment and machinery	60 926	69 535
Means of transport	3 006 070	2 960 348
Other fixed assets	5 350	6 557
Fixed assets under construction	14 570	14 072
	3 595 381	**3 562 716**

including finance lease:	**As at 30/06/2016 (unaudited)**	**As at 31/12/2015 (audited)**
	PLN thousand	**PLN thousand**
Technical equipment and machinery	5 115	6 950
Means of transport	173 922	186 768
	179 037	**193 718**

Fixed assets under construction	**As at 30/06/2016 (unaudited)**	**As at 30/06/2015 (restated*)**
	PLN thousand	**PLN thousand**
Gross value		
Opening balance	**16 574**	**12 654**
Additions	233 727	220 205
Subsidies to property, plant and equipment	(5 407)	-
Disposals – transfer to fixed assets	(227 702)	(215 603)
Disposals – discontinuation	(120)	-
Closing balance	**17 072**	**17 256**
Accumulated impairment		
Opening balance	**2 502**	**1 800**
Closing balance	**2 502**	**1 800**
Net value		
Opening balance	**14 072**	**10 854**
Closing balance	**14 570**	**15 456**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Separate Financial Statements

10. Property, plant and equipment (continued)

For the 6 months period ended 30 June 2016	Land PLN thousand	Buildings, premises, civil and water engineering structures PLN thousand	Technical equipment and machinery PLN thousand	Means of transport PLN thousand	Other fixed assets PLN thousand	Total PLN thousand
Gross value						
Balance as at 1 January 2016 (audited)	**123 576**	**465 446**	**196 392**	**4 522 864**	**23 255**	**5 331 533**
Additions:						
Acquisition	-	531	3 148	221 955	123	**225 757**
Finance lease	-	-	-	1 945	-	**1 945**
Reclassification from assets held for sale	6 489	-	-	94 689	-	**101 178**
Disposals:						**-**
Sale	-	-	(48)	(601)	-	**(649)**
Contribution in kind	-	-	(6 546)	-	-	**(6 546)**
Liquidation	-	-	(263)	(53 065)	(18)	**(53 346)**
Other	-	-	-	(38)	-	**(38)**
Balance as at 30 June 2016 (unaudited)	**130 065**	**465 977**	**192 683**	**4 787 749**	**23 360**	**5 599 834**
Accumulated depreciation						
Balance as at 1 January 2016 (audited)	**-**	**68 796**	**126 857**	**1 414 717**	**16 698**	**1 627 068**
Additions:						
Depreciation charges	-	8 929	8 418	206 749	1 330	**225 426**
Reclassification from assets held for sale	-	-	-	41 234	-	**41 234**
Disposals:						
Sale	-	-	(40)	(176)	-	**(216)**
Contribution in kind	-	-	(3 215)	-	-	**(3 215)**
Liquidation	-	-	(263)	(50 659)	(18)	**(50 940)**
Other	-	-	-	(6)	-	**(6)**
Balance as at 30 June 2016 (unaudited)	-	**77 725**	**131 757**	**1 611 859**	**18 010**	**1 839 351**
Accumulated impairment						
Balance as at 1 January 2016 (audited)	**-**	**8 022**	**-**	**147 799**	**-**	**155 821**
Additions:						
Recognition of impairment	-	335	-	-	-	**335**
Reclassification from assets held for sale	1 495	-	-	22 451	-	**23 946**
Disposals:						
Use of impairment	-	-	-	(430)	-	**(430)**
Balance as at 30 June 2016 (unaudited)	**1 495**	**8 357**	**-**	**169 820**	**-**	**179 672**
Net value						
Balance as at 1 January 2016 (audited)	**123 576**	**388 628**	**69 535**	**2 960 348**	**6 557**	**3 548 644**
Balance as at 30 June 2016 (unaudited)	**128 570**	**379 895**	**60 926**	**3 006 070**	**5 350**	**3 580 811**

10. Property, plant and equipment (continued)

For the 6 months period ended 30 June 2015	**Land** **PLN thousand**	**Buildings, premises, civil and water engineering structures** **PLN thousand**	**Technical equipment and machinery** **PLN thousand**	**Means of transport** **PLN thousand**	**Other fixed assets** **PLN thousand**	**Total** **PLN thousand**
Gross value						
Balance as at 1 January 2015 (audited)	**125 393**	**451 872**	**184 887**	**4 395 143**	**19 061**	**5 176 356**
Additions:						
Acquisition	-	1 489	3 321	209 886	167	**214 863**
Finance lease	-	-	-	740	-	**740**
Other	-	-	-	50	-	**50**
Disposals:						
Sale	-	-	(7)	(213)	(3)	**(223)**
Liquidation	-	-	(24)	(73 969)	(222)	**(74 215)**
Balance as at 30 June 2015 (restated*)	**125 393**	**453 361**	**188 177**	**4 531 637**	**19 003**	**5 317 571**
Accumulated depreciation						
Balance as at 1 January 2015 (audited)	**-**	**52 412**	**112 128**	**1 263 602**	**14 193**	**1 442 335**
Additions:						
Depreciation costs	-	8 335	9 209	163 246	1 188	**181 978**
Disposals:						
Sale	-	-	(7)	(213)	(3)	**(223)**
Liquidation	-	-	(18)	(72 258)	(127)	**(72 403)**
Balance as at 30 June 2015 (restated*)	**-**	**60 747**	**121 312**	**1 354 377**	**15 251**	**1 551 687**
Accumulated impairment						
Balance as at 1 January 2015 (audited)	**-**	**2 690**	**-**	**-**	**-**	**2 690**
Balance as at 30 June 2015 (restated*)	**-**	**2 690**	**-**	**-**	**-**	**2 690**
Net value						
Balance as at 1 January 2015 (audited)	**125 393**	**396 770**	**72 759**	**3 131 541**	**4 868**	**3 731 331**
Balance as at 30 June 2015 (restated*)	**125 393**	**389 924**	**66 865**	**3 177 260**	**3 752**	**3 763 194**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Separate Financial Statements

10.1 Impairment tests

In accordance with IAS 36, at the end of each reporting period the Company assesses whether there are any indications that its fixed assets may be impaired. Because the market value of the Company's net assets has continued to be lower than their carrying amount, the Company has decided to test its assets for impairment as at 30 June 2016.

Impairment tests have been performed on cash generating units by determining their recoverable amount at the level of their value in use.

The recoverable amount of the analyzed assets has been determined by estimating their value in use using the discounted net cash flows method based on financial projections prepared for the years 2016-2025. It is the Company's view that the adoption of financial projections for more than five years is justified due to the fact that the property, plant and equipment used by the Company have significantly longer economic useful lives.
Presented below are the key assumptions affecting the estimate of the value in use of the tested cash generating units:

a) throughout the entire period of the detailed projection the compound annual growth rate (CAGR) of freight weight will amount to 0,6%,
b) weighted average cost of capital (WACC) in the projection period assumed at 5,83% in real terms,
c) after the projection period, growth of future cash flows assumed at 0,3% in real terms.

Because the recoverable amount determined as a result of the tests exceeded the carrying amount of the tested fixed assets as at 30 June 2016, the Company recognized no impairment losses of the assets.

The key assumptions used in the impairment test model included WACC and the rate of growth of future cash flows after the projection period. Presented below the amount of impairment loss when changing the following key assumptions:

	PKP CARGO	
	-0,3 p.p.	+0,3 p.p.
WACC	no impairment loss	18 422
growth after detailed projection period	no impairment loss	no impairment loss

11. Subsidiary companies

Detailed information about the Company's direct subsidiaries as at 30 June 2016 and as at 31 December 2015:

No.	Name of subsidiary	Core business	Place of registration and operation	% of interests held by the Company	
				As at 30/06/2016	As at 31/12/2015
1	PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	Services in support of land transport, reloading of cargo and wholesale and retail of waste and scrap	Małaszewicze	100,0%	100,0%
2	PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o.	Reloading of cargo at other reloading centers	Żurawica	100,0%	100,0%
3	PKP CARGO SERVICE Sp. z o.o.	Comprehensive siding services	Warsaw	100,0%	100,0%
4	PKP CARGO CONNECT Sp. z o.o.	Shipping services	Warsaw	100,0%	100,0%
5	PKP CARGOTABOR Sp. z o.o.	Maintenance and repair of rolling stock	Warsaw	100,0%	100,0%
6	PKP CARGOTABOR USŁUGI Sp. z o.o.	Collection, processing and neutralization of waste and recovery of raw materials	Warsaw	100,0%	100,0%
7	CARGOTOR Sp. z o.o.	Management of logistics and service infrastructure in the form of railway sidings and railroad tracks. Provision of such infrastructure to rail carriers.	Warsaw	100,0%	100,0%
8	ONECARGO Sp. z o.o.	Rail transport of freight	Warsaw	100,0%	100,0%
9	ONECARGO CONNECT Sp. z o.o.	Services in support of land transport	Warsaw	100,0%	100,0%
10	Advanced World Transport B.V.	Holding and financial activities	Amsterdam	80,0%	80,0%

Information about the Company's indirect subsidiaries (belonging to **PKP CARGO CONNECT Sp. z o.o.**):

	Name of subsidiary	Core business	Place of registration and operations	% of interests held by the subsidiary (nominal value)	
				As at 30/06/2016	As at 31/12/2015
11	Trade Trans Karya Sp. z o.o.	Reloading of cargo, customs warehouse	Lublin	100,0%	100,0%
12	Transgaz S.A.	Shipping agency	Zalesie k. Małaszewicz	64,0%	64,0%
13	Trade Trans Finance Sp. z o.o.	Financial and accounting services	Warsaw	100,0%	100,0%
14	PPHU "Ukpol" Sp. z o.o.	Reloading, commercial services	Werchrata	100,0%	100,0%
15	Cargosped Terminal Braniewo Sp. z o.o.	Reloading of cargo, customs warehouse	Braniewo	100,0%	100,0%
16	PKP CARGO CONNECT GmbH (1)	Customs and shipping services	Hamburg	100,0%	0,0%

(1) The Extraordinary Shareholders Meeting of PKP CARGO CONNECT Sp. z o.o. of 25 April 2016 passed a resolution, in which it gave its consent for PKP CARGO CONNECT Sp. z o.o. to take up 100% of shares, numbering 25.000, with a nominal value of 1 euro per share, with a total nominal value of 25.000 euro, of the newly formed subsidiary PKP CARGO CONNECT GmbH.

Information about the Company's indirect subsidiaries (belonging to **AWT Group**):

	Name of subsidiary	Core business	Place of registration and operations	% of interests held by the subsidiary (nominal value)	
				As at 30/06/2016	As at 31/12/2015
17	Advanced World Transport a.s.	Provision of comprehensive services: rail transport, rail shipping, siding services, rolling stock repairs	Ostrava	100,0%	100,0%
18	AWT ROSCO a.s.	Rolling stock management and rentals	Ostrava	100,0%	100,0%
19	AWT Čechofracht a.s.	Rail shipping and customs services	Prague	100,0%	100,0%
20	AWT Rekultivace a.s.	Provision of comprehensive services: land reclamation, construction services, waste management, landscape planning	Havirov-Prostredni Sucha	100,0%	100,0%
21	AWT Rail HU Zrt.	Provision of comprehensive services: rail transport, rail shipping, siding services	Budapest	100,0%	100,0%
22	AWT Coal Logistics s.r.o.	Rail shipping	Prague	100,0%	100,0%
23	AWT Rail SK, a. s	Rail transport, rail shipping	Bratislava	100,0%	100,0%
24	AWT Rail PL Sp.z o.o. in liquidation(1)	Rail shipping	Rybnik	100,0%	100,0%
25	AWT DLT s.r.o.	Siding services	Kladno	100,0%	100,0%
26	G.I.B., s.r.o. in liquidation	Rail shipping	Prague	100,0%	100,0%
27	AWT Trading s.r.o.	Sale of military products	Petrvald	100,0%	100,0%
28	AWT Rekultivace PL Sp. z o.o.	Provision of comprehensive services: land reclamation, construction services, waste management, landscape planning	Cieszyn	100,0%	100,0%
29	Spedrapid Sp. z o.o.	Rail shipping	Gdynia	66,0%	66,0%
30	RND s.r.o.	Rail shipping, transport monitoring	Olomouc	51,0%	51,0%

(1) The Extraordinary Shareholders Meeting of AWT Rail PL Sp. z o.o. of 7 August 2015 passed a resolution to dissolve the company and open a liquidation proceeding. This change was entered in the relevant court register on 15 March 2016.

12. Investments in associates

Detailed information about the Company's associated entities as at 30 June 2016 and as at 31 December 2015:

	Name of associate	Core business	Place of registration and operations	% of interests held by the Company (nominal value)	
				As at 30/06/2016	As at 31/12/2015
1	COSCO POLAND Sp. z o.o.	Sea-land servicing of cargo containers	Gdynia	20,0%	20,0%
2	Międzynarodowa Spedycja MIRTRANS Sp. z o.o. in liquidation	Shipping services	Gdynia	44,0%	44,0%

Information about indirect associates (belonging to **PKP CARGO CONNECT Sp. z o.o.**):

	Name of associate	Core business	Place of registration and operations	% of interests held by the Company (nominal value)	
				As at 30/06/2016	As at 31/12/2015
3	Rentrans Cargo Sp. z o.o.	Rail transport	Szczecin	29,3%	29,3%
4	Gdański Terminal Kontenerowy S.A.	Reloading, storage, transport and shipping	Gdańsk	41,9%	41,9%

Information about indirect associates (belonging to **AWT Group**):

	Name of associate	Core business	Place of registration and operations	% of interests held by the Company (nominal value)	
				As at 30/06/2016	As at 31/12/2015
5	CD Logistics, a.s.	Rail shipping	Prague	22,0%	22,0%
6	DEPOS Horni Sucha, a.s.	Landfill management	Horni Sucha	20,6%	20,6%

13. Joint ventures

The Company has the following interests in joint ventures, held directly and indirectly through its subsidiaries **PKP CARGO CONNECT Sp. z o.o.** and **AWT B.V.**:

	Name of joint venture (jointly controlled entity)	Core business	Place of registration and operations	% of interests held by the Company (nominal value)	
				As at 30/06/2016	As at 31/12/2015
1	Terminale Przeładunkowe Sławków - Medyka Sp. z o.o.	Terminal services in intermodal transport, reloading of cargo, securing palletized cargo and mass shipments of metallurgical products	Sławków	50,0%	50,0%
2	POL – RAIL S.r.l.	International rail transport	Rome	50,0%	50,0%
3	Cargosped Składy Celne Sp. z o.o. in liquidation	Storage of goods at customs warehouse, storage of goods at domestic warehouse and servicing of stored goods	Gdańsk	50,0%	50,0%
4	LEX Logistics Express, s.r.o.	Shipping, transport and real estate rentals	Prague	50,0%	50,0%

14. Investments in subsidiaries, associates and joint ventures

	As at 30/06/2016 (unaudited)	As at 31/12/2015 (audited)
	PLN thousand	PLN thousand
Advanced World Transport B.V.	427 300	427 300
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	5
ONECARGO CONNECT Sp. z o.o.	5	5
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.	10 703	10 703
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
PKP CARGO CONNECT Sp. z o.o.	123 194	119 863
Total	**737 974**	**734 643**

14.1 Change in the value of investments in subsidiaries, associates and joint ventures

	As at 30/06/2016 (unaudited)	As at 30/06/2015 (unaudited)
	PLN thousand	PLN thousand
Investments in subsidiaries		
Opening balance	**731 673**	**259 876**
including impairment allowance	*(2 696)*	*(7 561)*
Additions	**3 331**	**470 824**
Acquisition [(1)]	3 331	468 913
Reversal of impairment allowance	-	1 911
Closing balance	**735 004**	**730 700**
including impairment allowance	*(2 696)*	*(5 650)*
Investments in associates and joint ventures		
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 accordance with a resolution passed by the Extraordinary Shareholders Meeting of PKP CARGO CONNECT Sp. z o.o. of 25 February 2016, the share capital of PKP CARGO CONNECT Sp. z o.o. was raised by issuing new shares with a total value of PLN 4.700 thousand, covered with a contribution in kind. The value of the shares is equal to the value of the non-current assets contributed in kind.

As at 30 June 2016 the subsidiary AWT B.V. tested its assets for impairment. The main indication for the test was the bankruptcy filing made by the company OKD a.s., which is a significant contractor of the AWT Group.
Presented below are the key assumptions made in the test:
a) adopted as the cash generating unit were the non-current assets belonging to the AWT Group – they are used to the greatest degree to service clients on the Czech rail market,
b) the volume of freight transported for the significant client was assumed at the level of the planned extraction of coal, no related volumes were assumed in the residual period,
c) the weighted average cost of capital (WACC) in the projection period was assumed at 7,33% in nominal terms (with specific risk premium included),
d) after the projection period, growth of future cash flows was assumed at 2% in nominal terms (with inflation assumed at 2%),
e) rise in wages in the residual period at 2,15%.

The results of the test showed no need to recognize an impairment loss of the shares of AWT B.V.

The key assumptions used in the impairment test model included WACC and the rate of growth of future cash flows after the projection period. Changes in WACC and in the rate of future cash flows after the projection period by +/- 0,3 of a percentage point do not give rise to the need to recognize an impairment loss of the shares of AWT B.V.

15. Other financial assets

	As at 30/06/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Investments in shares		
Shares of Polish entities [1]	6 021	6 021
Other financial assets		
Cash pool	-	25 057
Total	**6 021**	**31 078**
Non-current assets	6 021	6 021
Current assets	-	25 057
Total	**6 021**	**31 078**

[1] As at 30 June 2016 and 31 December 2015 the value of impairment losses on investments in shares amounted to PLN 11.833 thousand.

16. Other non-financial assets

	As at 30/06/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Advances for the purchase of fixed assets [(1)]	28 139	13 385
Prepayments [(2)]	31 188	9 839
Other	589	688
Total	**59 916**	**23 912**
Non-current assets	33 151	18 927
Current assets	26 765	4 985
Total	**59 916**	**23 912**

[(1)] As at 30 June 2016 and 31 December 2015 the item consisted primarily of advances paid as part of a contract for the supply of 15 multi-system engines at PLN 27.080 thousand and PLN 12.326 thousand, respectively. In accordance with the agreed timetable, the engines will be delivered from February 2016 to June 2017. Detailed information on the said contract is provided in Note 31 to these Interim Condensed Separate Financial Statements.

[(2)] As at 30 June 2016 the greatest prepaid expenses were: the costs of the Company Social Benefits Fund to be settled in future periods in the amount of PLN 13.389 thousand, costs of purchasing transport benefits for eligible persons in the amount of PLN 6.807 thousand, costs of prepaid insurance in the amount of PLN 9.121 thousand and the costs of IT services in the amount of PLN 1.160 thousand. Whereas as at 31 December 2015 the greatest prepaid costs items consisted of rental fees in the amount of PLN 1.188 thousand, insurance in the amount of PLN 6.793 thousand and IT services in the amount of PLN 1.070 thousand.

17. Inventories

	As at 30/06/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Raw materials, gross	66 341	70 124
Impairment write downs (-)	(6 978)	(9 381)
Raw materials, net	**59 363**	**60 743**

18. Trade and other receivables

	As at 30/06/2016 (unaudited)	As at 31/12/2015 (audited)
	PLN thousand	PLN thousand
Trade receivables	468 116	435 341
Impairment allowance for receivables	(57 314)	(58 008)
Total	**410 802**	**377 333**
Receivables from the sale of non-financial fixed assets	-	4
Settlements under public law (excluding CIT)	3 382	3 948
Dividend settlements	542	-
VAT settlements	-	648
Other settlements	1 675	2 295
Total	**416 401**	**384 228**
Current assets	416 401	384 228
Total	**416 401**	**384 228**

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19. Cash and cash equivalents

For the purposes of preparing the interim separate statement of cash flows, cash and cash equivalents consist of cash in hand and at bank, including deposits for up to 3 months. Cash and cash equivalents listed in the statement of cash flows may be reconciled with the balance sheet as follows:

	As at 30/06/2016 (unaudited)	As at 31/12/2015 (audited)
	PLN thousand	PLN thousand
Cash in hand and at bank	13 720	79 467
Bank deposits up to 3 months	1 458	4 630
Total	**15 178**	**84 097**
of which:		
Restricted cash	7 914	9 478

As at 30 June 2016 and as at 31 December 2015, restricted cash consisted primarily of bank accounts for bonds and security deposits.

20. Non-current assets classified as held for sale

Non-current assets classified as held for sale as at 30 June 2016 and 31 December 2015:

Non-current assets classified as held for sale	As at 30/06/2016 (unaudited)	As at 31/12/2015 (audited)
	PLN thousand	PLN thousand
Land held for sale	6 000	10 994
Means of transport	-	33 067
Total	**6 000**	**44 061**

As at 30 June 2016 the Company changed the presentation of rolling stock components thus far classified as held for sale. As scrap prices have remained low since the 4th quarter of 2015, there has been little interest on the part of buyers in purchasing these items at prices that would satisfy the Company. In the period of 6 months ended 30 June 2016 the Company sold 31 engines, earning a profit of PLN 588 thousand. The remaining rolling stock items did not find a buyer, which is why the Company is looking for alternative uses for the rolling stock items as part of its operations. Due to the high probability of significant changes in the existing sales plan, the criteria for classifying the said items as held for sale are no longer fulfilled. In view of this, the Company has reclassified them to property, plant and equipment. As the items had been revalued to their current residual values, the change in the presentation of these items had no effect on the Company's results in the period.

In addition, the Company is analyzing an alternative way for the use of properties in the area of Ostaszewo, until now classified as held for sale. The Company is in talks with entities potentially interested in the use of these properties. In view of this, the Company has reclassified these properties to property, plant and equipment. The change in presentation had no effect on the Company's results in the period.

Changes in non-current assets classified as held for sale in the period of 6 months ended 30 June 2016:

For the 6 months period ended 30 June 2016	Real properties	Vehicles	Total
	PLN thousand	PLN thousand	PLN thousand
Balance as at 1 January 2016 (audited)	**10 994**	**33 067**	**44 061**
Sale	-	(2 063)	(2 063)
Reclassification to property, plant and equipment	(4 994)	(31 004)	(35 998)
Balance as at 30 June 2016 (unaudited)	**6 000**	**-**	**6 000**

No changes had taken place in non-current assets classified as held for sale in the same period of last year.

21. Equity

21.1 Share capital

	As at 30/06/2016 (unaudited)	As at 31/12/2015 (audited)
	PLN thousand	PLN thousand
Share capital consists of:		
Ordinary shares – fully paid up and registered	2 239 346	2 239 346
Total share capital	**2 239 346**	**2 239 346**

As at 30 June 2016 and 31 December 2015 the Company's share capital consisted of ordinary shares with a nominal value of PLN 50 per share. Each fully paid up ordinary share, with a nominal value of PLN 50, is equal to a single vote at a general meeting and entitled to a dividend.

No changes were made in the Company's share capital in the period of 6 months ended 30 June 2016 and in the period of 6 months ended 30 June 2015.

21.2 Share premium

No changes were made in the Company's share premium in the period of 6 months ended 30 June 2016.

21.3 Retained earnings

The Ordinary General Meeting of 11 May 2016 passed a resolution to approve the Company's Separate Financial Statements for the year 2015, to cover the loss for the year 2015, amounting to PLN 114.125 thousand, from its future profits, and to not pay a dividend for the year 2015.

22. Earnings per share

Profit/(loss) used to calculate basic and diluted earnings per share:

	for the 6 months period ended 30/06/2016 (unaudited)	for the 3 months period ended 30/06/2016 (unaudited)	for the 6 months period ended 30/06/2015 (restated*)	for the 3 months period ended 30/06/2015 (unaudited)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Profit/(loss) used to calculate basic and diluted earnings per share	**(83 994)**	**(25 744)**	**31 044**	**13 043**

(*) restatement of comparatives described in Note 4 to these Interim Condensed Separate Financial Statements

22.1 Basic earnings per share

	for the 6 months period ended 30/06/2016 (unaudited)	for the 3 months period ended 30/06/2016 (unaudited)	for the 6 months period ended 30/06/2015 (restated*)	for the 3 months period ended 30/06/2015 (unaudited)
Weighted average number of ordinary shares (units)	44 786 917	44 786 917	44 786 917	44 786 917
Basic earnings per share (PLN per share)	**(1,88)**	**(0,57)**	**0,69**	**0,29**

The net earnings per share for each period is calculated as the quotient of the net profit/(loss) for the given period divided by the weighted average number of shares in the period.

(*) restatement of comparatives described in Note 4 to these Interim Condensed Separate Financial Statements

22.2 Diluted earnings per share

	for the 6 months period ended 30/06/2016 (unaudited)	for the 3 months period ended 30/06/2016 (unaudited)	For the 6 months period ended 30/06/2015 (restated*)	For the 3 months period ended 30/06/2015 (unaudited)
Weighted average number of ordinary shares (units)	44 786 917	44 786 917	44 786 917	44 786 917
Diluted earnings per share (PLN per share)	**(1,88)**	**(0,57)**	**0,69**	**0,29**

The diluted number of shares was calculated as the weighted average number of ordinary shares adjusted as if they had been converted into shares of all potential ordinary shares resulting in dilution.

(*) restatement of comparatives described in Note 4 to these Interim Condensed Separate Financial Statements

23. Credits facilities and loans received

	As at 30/06/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Credit facilities and loans received measured at amortized cost		
Bank credits	806 236	589 219
Total	**806 236**	**589 219**
Non-current liabilities	661 997	459 305
Current liabilities	144 239	129 914
Total	**806 236**	**589 219**

23.1 Summary of loan and borrowings agreements

Investment credit agreements were concluded to finance an investment plan and acquisitions. The reference rate for credit agreements is WIBOR 1M, 3M and 6M plus margin, as well as EURIBOR 3M, 6M plus margin. Agreements are concluded for 5 years. Repayments are made in PLN and EUR. The details of bank credits are presented below:

As at 30 June 2016 (unaudited)

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Amount in currency	Contractual amount in PLN thousand	Liability in PLN thousand
Investment credit	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Bank enforcement title	39 000	39 000	8 448
Investment credit	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2017	Bank enforcement title	49 200	49 200	14 760
Investment credit	Bank Gospodarstwa Krajowego	PLN	WIBOR 1M + margin	31.03.2021	Bank enforcement title	515 200	515 200	428 265
Investment credit	European Investment Bank	PLN	WIBOR 3M + margin	29.05.2020	None	240 000	240 000	68 000
Investment credit	Bank Gospodarstwa Krajowego (1)	EUR	EURIBOR 3M + margin	20.12.2026	Notary certified declaration of submission to execution	15 000	66 383	66 383
Investment credit	Bank Gospodarstwa Krajowego (1)	EUR	EURIBOR 3M + margin	20.12.2026	Notary certified declaration of submission to execution	85 000	376 167	63 282
Investment credit	Bank Pekao S.A. (2)	PLN	WIBOR 3M + margin	31.12.2026	Notary certified declaration of submission to execution	700 000	700 000	114 648
Investment credit	European Bank for Reconstruction and Development (3)	EUR / PLN	EURIBOR 6M / WIBOR 6M + margin	25.09.2027	None	100 000	442 550	42 450
							Total	**806 236**

(1) On 16 November 2015 the Company concluded with Bank Gospodarstwa Krajowego two investment credit agreements up to the maximum amount of EUR 100.00 thousand. The credits are to be used to finance the purchase of multi-system engines and planned acquisitions. As at 30 June 2016 the Company had used EUR 29.299 thousand, whilst as at 31 December 2015 EUR 2.901 thousand.

(2) On 16 November 2015 the Company concluded a credit agreement with Bank Pekao S.A., based on which it received an investment credit up to the maximum amount of PLN 700.000 thousand, to finance planned acquisitions and investments. As at 30 June 2016 the Company had used PLN 114.648 thousand. The credit had not been used as at 31 December 2015.

(3) On 23 December 2015 the Company concluded a credit agreement with European Bank for Reconstruction and Development, based on which it received an investment credit up to the maximum amount of EUR 100.000 thousand, to refinance the purchase of the company AWT B.V. As at 30 June 2016 the Company had used PLN 42.450 thousand. The credit had not been used as at 31 December 2015.

As at 31 December 2015 (audited)

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Amount in currency	Contractual amount in PLN thousand	Liability in PLN thousand
Investment credit	mBank S.A.	PLN	WIBOR 1M + margin	21.03.2016	Bank enforcement title	36 400	36 400	1 630
Investment credit	mBank S.A.	PLN	WIBOR 1M + margin	31.03.2016	Bank enforcement title	36 600	36 600	2 233
Investment credit	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Bank enforcement title	39 000	39 000	12 690
Investment credit	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2017	Bank enforcement title	49 200	49 200	19 680
Investment credit	Bank Gospodarstwa Krajowego	PLN	WIBOR 1M + margin	31.03.2021	Bank enforcement title	515 200	515 200	464 123
Investment credit	Europejski Bank Inwestycyjny	PLN	WIBOR 3M + margin	29.05.2020	None	240 000	240 000	76 500
Investment credit	Bank Gospodarstwa Krajowego	EUR	EURIBOR 3M + margin	20.12.2026	Notary certified declaration of submission to execution	15 000	63 923	12 363
							Total	**589 219**

23.2 Not utilized credit and overdraft facilities

Type of loan	Name of bank	Currency	As at 30/06/2015 (unaudited)	As at 31/12/2015 (audited)
			PLN thousand	PLN thousand
Investment credit	Bank Gospodarstwa Krajowego	PLN	-	5 627
Investment credit	Bank Gospodarstwa Krajowego	EUR	312 885	51 560
Investment credit	Bank Pekao S.A.	PLN	585 352	100 000
Investment credit	European Bank for Reconstruction and Development	EUR	398 295	426 150
Investment credit	European Investment Bank[(1)]	PLN	155 000	-
Overdraft facility	mBank S.A.	PLN	100 000	100 000
Overdraft facility	ING Bank Śląski S.A.	PLN	-	19 000
Total unused credit lines			**1 551 532**	**702 337**

[(1)] On 18 March 2016 an annex was concluded to the credit agreement with European Investment Bank, based on which the Company received a credit of PLN 155.000 thousand.

23.3 Breaches of credit agreements

No breaches of credit agreements had taken place in the period covered by these Interim Condensed Separate Financial Statements.

24. Other financial liabilities

	As at 30/06/2016 (unaudited)	As at 31/12/2015 (audited)
	PLN thousand	PLN thousand
Financial instruments		
Interest rate swap (IRS)	-	10
Currency forwards and spots	1 398	-
Net liability due to put and call option for minority shares in AWT B.V. (1)	30 464	27 696
Other financial liabilities		
Cash pooling	17 998	-
Total	**49 860**	**27 706**
Non-current liabilities	-	27 696
Current liabilities	49 860	10
Total	**49 860**	**27 706**

(1) Based on a Shareholders Agreement the Company concluded an agreement with a non-controlling shareholder of AWT B.V. relating to call and put options for a minority packet of shares of AWT B.V. Based on the agreement the Company is both the buyer of call options and the issuer of put options, i.e. has the right to both buy the other shares of AWT B.V. through the call option, as well as an obligation to buy the shares of AWT B.V. if the non-controlling shareholder performs the put option.

The period for the execution of the put option was set for from 1 January 2017 to 31 December 2020. The period for the execution of the call option was set for from 1 January 2017 to 31 December 2021. The net liability arising out of the call and put options to shares of AWT B.V. from the minority shareholder was initially recognized at fair value as at the date of acquiring control over AWT B.V. After its initial recognition, the net liability relating to the call and put options is measured at fair value through profit or loss in accordance with IAS 39. The fair value is estimated as the best current estimate of a discounted future result of settling the options. All changes in the net liability relating to the call and put options are recognized in financial revenue/financial costs.

Owing to the fact that the issued put option and the acquired call option were concluded at the same time and between the same parties, and the execution of one of the options excludes the ability to execute the other, the valuation of the two options is presented after offset as an asset or liability. As at 30 June 2016 the value of the two options was presented under other financial liabilities. The main assumptions used to value the options are: EBITDA, net debt, discount rate and the EUR/PLN exchange rate.

25. Finance lease liabilities and leases with purchase option

25.1 General terms of lease

Based on lease agreements the Company uses primarily rolling stock components, technical facilities equipment, cars and computer hardware. Agreements are concluded for 3 to 7 years. The reference rate for agreements denominated in EUR is EURIBOR 3M and 6M, and for the agreements concluded in PLN - WIBOR 1M and 3M.

25.2 Finance lease liabilities

	Minimum lease payments	
	As at 30/06/2016 (unaudited)	**As at 31/12/2015 (audited)**
	PLN thousand	**PLN thousand**
Up to one year	56 209	52 016
Over one year, up to five years	51 503	77 302
	107 712	**129 318**
Less future lease charges	(3 369)	(5 071)
Present value of minimum lease payments	**104 343**	**124 247**

	Present value of minimum lease payments	
	As at 30/06/2016 (unaudited)	**As at 31/12/2015 (audited)**
	PLN thousand	**PLN thousand**
Up to one year	53 847	48 914
Over one year, up to five years	50 496	75 333
Present value of minimum lease payments	**104 343**	**124 247**

	As at 30/06/2016 (unaudited)	**As at 31/12/2015 (audited)**
	PLN thousand	**PLN thousand**
Included in the financial statements as:		
Long-term finance lease liabilities and leases with purchase option	50 496	75 333
Short-term finance lease liabilities and leases with purchase option	53 847	48 914
Total	**104 343**	**124 247**

26. Trade and other payables

	As at 30/06/2016 (unaudited)	As at 31/12/2015 (audited)
	PLN thousand	PLN thousand
Trade payables	147 606	252 337
Accrued	25 821	23 779
Liabilities due to purchase of non-financial non-current assets	82 728	103 179
Liabilities related to securities (deposits, bid bonds)	15 283	17 652
State settlements	73 700	79 610
Liabilities due to Voluntary Redundancy Program [1]	-	47 352
Other settlements with employees	60 408	61 372
Other settlements [1]	8 497	5 193
VAT liabilities	18 117	
Total	**432 160**	**590 474**
Non-current liabilities [2]	6 810	22 389
Current liabilities	425 350	568 085
Total	**432 160**	**590 474**

[(1)] As at 30 June 2016, other settlements consist primarily of statutory contributions to the Company Social Benefits Fund and other settlements with related parties.

[(2)] Non-current liabilities consist of installment payments for a liability arising out of rolling stock modernization. Payments are made as stated in the relevant timetable.

27. Employee benefits

The valuation of provisions for employee benefits as at 30 June 2016 is based on the assumptions used in the valuation as at 31 December 2015.

The amount recognized in the interim separate statement of financial position, arising out of the Company's liabilities relating to employee benefit programs:

	As at 30/06/2016 (unaudited)	As at 31/12/2015 (audited)
	PLN thousand	PLN thousand
Defined post-employment benefit plans		
– retirement benefits	139 026	141 608
– appropriations to the Social Benefit Fund for pensioners	119 811	119 598
– death benefits	28 909	28 702
– transport benefits	33 601	33 350
Other employee benefits		
– jubilee bonuses	284 926	283 972
– other employee benefits (unused annual leave/bonuses)	35 736	23 631
	642 009	**630 861**
of which:		
Long-term provisions for employee benefits	550 664	549 280
Short-term provisions for employee benefits	91 345	81 581
Total	**642 009**	**630 861**

28. Other provisions

	As at 30/06/2016 (unaudited)	As at 31/12/2015 (audited)
	PLN thousand	PLN thousand
Provision for fines from antimonopoly office UOKiK	16 455	16 209
Other provisions	6 681	8 256
Total	**23 136**	**24 465**
Long-term provisions	16 455	16 209
Short-term provisions	6 681	8 256
Total	**23 136**	**24 465**

Provision for fines from antimonopoly office UOKiK

As at 30 June 2016 the provision represents the Management Board's estimate in connection with the likelihood of payment of two fines imposed on the Company by the Office of Competition and Consumer Protection (UOKiK).
The first fine was imposed further to an earlier antimonopoly proceeding in the matter of the Company's abuse of its dominant position on the domestic market of rail freight transport (proceeding concluded with Decision No. DOK-3/2009). On 22 August 2014 the Company was notified by the President of UOKiK that the proceeding is being continued. After the renewed proceeding, by virtue of Decision No. DOK-5/2015 of 31 December 2015, the President of UOKiK found that the Company had abused its dominant position on the domestic market of rail freight transport, by preventing the creation of conditions necessary for the formation or development of competition, by way of implementing effective 1 May 2006 changes in Sales Terms, which allowed the Company to sign special agreements with businesses considered to be its competitors. The President of UOKiK found that the above practice was discontinued effective 1 July 2007, and imposed on the Company a fine in the amount of PLN 14.224 thousand. As at 31 December 2015, following the Management Board's assessment of the risk, a provision was recognized in the amount of PLN 12.192 thousand. On 4 February 2016 an appeal was filed against Decision No. DOK-5/2015 with the Competition and Consumer Protection Court. As at 31 March 2016, following a reassessment of facts and circumstances, the Management Board of the Company decided to increase the previously recognized provision by the amount of PLN 2.032 thousand, thereby providing for the entire amount of the fine. No change was made in the Management Board's estimate as at 30 June 2016.
The second fine, in the amount of PLN 16.576 thousand, was imposed on the Company by virtue of Decision No. RWR 44/2012 issued by the President of UOKiK on 31 December 2012, finding that the Company made it difficult for its business partner to compete with shipping companies belonging to the PKP CARGO Group. In 2013, following a recalculation of the risk, the Company reduced the provision by the amount of PLN 9.946 thousand, finding that a provision of PLN 6.630 thousand is the best estimate of the amount that it will likely have to pay. On 23 November 2015, the District Court in Warsaw ruled on the Company's appeal against Decision No. RWR 44/2012 of 31 December 2012. The court of first instance changed the appealed decision and significantly lowered the initial fine from PLN 16.576 thousand to PLN 2.231 thousand. As at 31 December 2015, following a reassessment of facts and circumstances, the Management Board decided to release the previously recognized provisions in the amount of PLN 4.399 thousand. On 19 January 2016 the Company filed an appeal against part of the ruling of 23 November 2015. No circumstances occurred in the period of 6 months ended 30 June 2016 with an effect on the Company's estimate.
On 20 April 2016 the Company paid a fine of PLN 1.429 thousand imposed based on Decision No. DOK-4/2012 issued by the President of UOKiK on 26 July 2012, and changed in a ruling issued by the Appellate Court on 5 April 2016. As at 31 December 2015 the said fine had been covered by a provision in the amount of 1.786 thousand. The surplus of the provision over the actually paid fine, amounting to PLN 357 thousand, has been recognized in the Company's financial result under other operating revenue.
Future events may lead to changes in the Management Board's estimates in the subsequent reporting periods.

Other provisions

This item includes mainly provisions for disputed claims and litigation. According to the Company's Management Board, the amount of other provisions as at 30 June 2016 and as at 31 December 2015, constitutes the best estimate of the amount that will likely have to be paid. In the event of other fines being imposed, their amount would depend on future events the result of which is uncertain. In consequence, the amount of the provisions may change in the subsequent periods.

29. Financial instruments

29.1 Categories and classes of financial instruments

Financial assets by categories and classes	As at 30/06/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Financial assets available for sale	**6 021**	**6 021**
Shares of unlisted companies	6 021	6 021
Loans and receivables	**425 980**	**486 491**
Trade receivables	410 802	377 333
Receivables from the sale of non-current assets	-	4
Cash pool	-	25 057
Cash and cash equivalents	15 178	84 097
Total financial assets	**432 001**	**492 512**

Financial liabilities by categories and classes	As at 30/06/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Financial liabilities stated at fair value through profit or loss:	**30 464**	**27 706**
Held for sale		
Derivative instruments	-	10
Liabilities at fair value on initial recognition		
Net liabilities relating to "put" and "call" options for non-controlling shares	30 464	27 696
Financial hedging instruments [1]	**131 063**	**-**
Derivative instruments	1 398	**-**
Credits and loans	129 665	**-**
Financial liabilities stated at amortized cost	**950 724**	**968 514**
Credits and loans	676 571	589 219
Trade payables	173 427	276 116
Liabilities relating to purchase of non-current assets	82 728	103 179
Cash pool	17 998	-
Other		
Financial liabilities excluded from the scope of IAS 39	**104 343**	**124 247**
Total financial liabilities	**1 216 594**	**1 120 467**

Impairment losses on shares of unlisted companies and trade receivables are described in Notes 15 and 18, respectively, to these Interim Condensed Separate Financial Statements.

[1] In the period from 1 January 2016 to 30 June 2016 the Company implemented cash flow hedge accounting. The objective of the hedging activities is to limit the effect of currency risk arising out of the EUR/PLN exchange rates on future cash flows. The hedged item consists of highly probable future cash flows expressed in EUR.

The following hedging instruments have been established:

- investment credits expressed in EUR starting from 1 January 2016. The Company expects the realization of the hedged cash flows starting from March 2017. As at 30 June 2016 the nominal value of the hedging instrument is EUR 29.299 thousand, which is the equivalent of PLN 129.665 thousand.

- currency forward contracts starting from 1 June 2016. The Company expects the realization of the hedged cash flows starting from July 2016. As at 30 June 2016 the value of the hedging instrument is PLN 1.398 thousand.

The effect of hedge accounting valuation for the period of 6 months ended 30 June 2016 on the statement of comprehensive income is presented in Note 29.3 to these Interim Condensed Separate Financial Statements.

29.2 Fair value hierarchy

As at 30 June 2016 and 31 December 2015 the only financial instruments measured at fair value were derivative financial instruments. The maturity date of these instruments falls after the end of the reporting period. With regard to the valuation procedures, they qualify as level 2 and level 3 of the fair value hierarchy.

Financial assets and liabilities measured at fair value	As at 30/06/2016 (unaudited)		As at 31/12/2015 (audited)	
	Level 2	Level 3	Level 2	Level 3
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Liabilities	**1 398**	**30 464**	**10**	**27 696**
Derivative instruments – currency forward contracts	1 398	-	10	-
Derivative instruments – put and call options for non-controlling shares	-	30 464	-	27 696

The fair value of currency forward contracts is determined based on the discounted future cash flows from concluded transactions, calculated based on the difference between the forward and the transaction price. The forward price is calculated based on an NBP fixing rate and the interest rate curve implicated by fxswap transactions. This is level 2 of the fair value hierarchy.

Disclosures on the valuation method and measurement of the fair value of financial instruments classified at level 3 of the fair value hierarchy are described in Note 24 to these Interim Condensed Separate Financial Statements.

The Company does not disclose the fair value for the category of financial instruments listed in Note 29.1 to these Interim Condensed Separate Financial Statements other than unlisted shares, which are not measured at fair value as at the balance sheet date. This is because the fair value of these financial instruments as at 30 June 2016 and as at 31 December 2015 did not differ significantly from their values presented in the statement of financial position.

The Company also does not disclose the fair value of shares not listed in active markets classified as financial assets available for sale. The Company is unable to reliably determine the fair value of its shares of companies not listed in active markets. As at the balance sheet date they are stated at acquisition cost less impairment losses.

In accordance with the Company’s accounting policies, its shares of subsidiary and associated entities are also stated at acquisition cost less impairment losses.

29.3 Revenue, costs, profits and losses contained in the separate statement of comprehensive income by category of financial instruments

for 6 monthsperiod ended 30/06/2016 (unaudited)	Financial assets stated at fair value through profit or loss	Financial hedging instruments	Financial assets available for sale	Loans and receivables	Financial liabilities stated at fair value through profit or loss	Financial liabilities stated at amortized cost	Financial liabilities excluded from the scope of IAS 39	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Interest income/(costs)	-	-	-	961	-	(9 988)	(1 677)	(10 704)
Foreign exchange differences	-	(10)	-	793	-	1 099	(3 769)	(1 887)
Impairment/revaluation	-	(751)	-	(3 280)	(2 768)	-	-	(6 799)
Commissions on credits and debt securities	-	-	-	-	-	(514)	-	(514)
Gross profit/(loss)	**-**	**(761)**	**-**	**(1 526)**	**(2 768)**	**(9 403)**	**(5 446)**	**(19 904)**
Change in valuation	-	(4 199)	-	-	-	-	-	(4 199)
Other comprehensive income	**-**	**(4 199)**	**-**	**-**	**-**	**-**	**-**	**(4 199)**

For 6 months period ended 30/06/2015 (unaudited)	Financial assets stated at fair value through profit or loss	Financial hedging instruments	Financial assets available for sale	Loans and receivables	Financial liabilities stated at fair value through profit or loss	Financial liabilities stated at amortized cost	Financial liabilities excluded from the scope of IAS 39	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Interest income/(costs)	-	-	-	2 947	-	(3 613)	(1 388)	(2 054)
Foreign exchange differences	-	-	-	7 209	-	171	(5 204)	2 176
Impairment/revaluation	-	-	-	(1 114)	-	-	-	(1 114)
Commissions on credits and debt securities	-	-	-	-	-	(507)	-	(507)
Gross profit/(loss)	**-**	**-**	**-**	**9 042**	**-**	**(3 949)**	**(6 592)**	**(1 499)**
Change in valuation	-	-	-	-	-	-	-	-
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

30. Transactions with related parties

30.1 Transactions with the State Treasury

In the period of 6 months ended 30 June 2016 and the period of 6 months ended 30 June 2015, the State Treasury was the Company's ultimate parent company. In view of this, all of the companies belonging (directly or indirectly) to the State Treasury are the Company's related parties and are presented broken down into entities related to the PKP Group and other entities related to the State Treasury. In these Interim Condensed Separate Financial Statements the Management Board has disclosed transactions with significant related parties, identified as related parties to the best of the Management's knowledge.

30.1.1 Transactions with related parties from PKP Group

In the period covered by these Interim Condensed Separate Financial Statements the Company concluded the following transactions with related parties from the PKP Group:

	for 6 months period ended 30/06/2016 (unaudited)		for the 6 months period ended 30/06/2015 (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.)	214	29 622	470	32 774
Subsidiaries/co-subsidiaries of PKP CARGO S.A.	250 142	157 823	227 783	176 384
Associates of PKP CARGO S.A.	10	-	-	-
Other related parties from PKP S.A. group [(1)]	12 208	298 242	23 021	554 946

	As at 30/06/2016 (unaudited)		As at 31/12/2015 (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.)	59	5 155	1 085	4 072
Subsidiaries/co-subsidiaries of PKP CARGO S.A.	66 972	51 163	67 481	72 292
Associates of PKP CARGO S.A.	-	-	1	-
Other related parties from PKP S.A. group	2 079	69 659	2 044	96 438

[(1)] The value of purchases made from other related parties from the PKP Group was lower in the period of 6 months ended 30 June 2016 than in the same period of the previous year due primarily to the fact that on 25 September 2015 the parent company PKP S.A. sold 100% of its shares of PKP Energetyka S.A., and thus in the 6 month period ended 30 June 2016 transactions with PKP Energetyka S.A. were no longer treated as transactions with related parties from the PKP S.A. Group.

Purchase transactions with the parent company (PKP S.A.) consist primarily of leases and rentals of real estate, the supply of utilities and occupational medicine services.

Sales transactions within the PKP CARGO Group consisted of such services as the transport of cargo, lease of equipment, sublease of real estate. Purchase transactions included maintenance and repair of rolling stock, shipping services, reloading services and intermodal transport.

Sales transactions concluded with other related parties from the PKP S.A. Group consisted of such services as track line services, rental of manned engines, financial settlements with foreign rail companies, rolling stock maintenance, sub-lease of real estate. Purchase transactions consisted mainly of access to rail infrastructure, lease of real estate, supply of utilities, maintenance of rail traffic control equipment, purchases of electrical energy, network maintenance services, IT services, purchase of transport benefits for employees and retirees.

30.1.2 Transactions with other related parties of the State Treasury

No transactions concluded between the Company and the State Treasury and the State Treasury's related parties were identified in the period of 6 months ended 30 June 2016 and in the period of 6 months ended 30 June 2015, which would be significant due to their unusual scope or amount. Transactions concluded by the Company with other entities controlled by the State Treasury
in the period from 1 January to 30 June 2016 and in the period from 1 January to 30 June 2015 related to the Company's current operating activities.

In the period of 6 months ended 30 June 2016 and in the period of 6 months ended 30 June 2015 the Company's most significant customers that are companies controlled by the State Treasury were Jastrzębska Spółka Węglowa S.A. and Węglokoks S.A. Whereas in the periods covered by these Interim Condensed Separate Financial Statements no significant purchases were recorded from companies controlled by the State Treasury.

All transactions with related parties were performed on market terms.

30.2 Loans granted to/received from related parties

The Company did not grant and did not take out any loans from its related parties in the period ended 30 June 2016. In addition, as at 30 June 2016 and as at 31 December 2015 the Company had cash pool settlements presented in Notes 15 and 24 to these Interim Condensed Separate Financial Statements.

In addition, the Company has granted loan guarantees to its related parties, which has been described in Note 32 to these Interim Condensed Separate Financial Statements.

30.3 Remuneration of key management personnel

Remuneration of Members of the Company's Management Board:	**For the 6 months period ended 30/06/2016 (unaudited)**	**for the 6 months period ended 30/06/2015 (unaudited)**
	PLN thousand	**PLN thousand**
Short-term benefits	1 780	2 509
Post-employment benefits	355	69
Severance benefits	459	-
Total	**2 594**	**2 578**

Remuneration of Members of the Company's Supervisory Board:	**for the 6 months period ended 30/06/2016 (unaudited)**	**for the 6 months period ended 30/06/2015 (unaudited)**
	PLN thousand	**PLN thousand**
Short-term benefits	529	645
Total	**529**	**645**

Remuneration of the Company's other key personnel (Representatives-Managing Directors):	**for the 6 months period ended 30/06/2016 (unaudited)**	**for the 6 months period ended 30/06/2015 (unaudited)**
	PLN thousand	**PLN thousand**
Short-term benefits	752	1 145
Post-employment benefits	325	23
Severance benefits	28	84
Total	**1 105**	**1 252**

No loan or guarantee transactions were concluded with the Company in the period of 6 months ended 30 June 2016 and 6 months ended 30 June 2015 by the Company's key management personnel.

31. Commitments to incur expenses for non-financial fixed assets

As at 30 June 2016 the Company has future contractual investment obligations associated primarily with an agreement for the supply and maintenance of multi-system engines. The primary order consists of the supply of 15 multi-system engines along with equipment and computer software, spare parts and full maintenance for 8 years. The agreement also calls for the performance of first periodic service repairs after 8 years of use, with the Company being able to waive using the supplier's service in this area. Until 30 June 2016 the Company took delivery of 6 engines, with other being delivered gradually. According to the timetable, all of the engines should be delivered by the end of June 2017. As at 30 June 2016 the total value of the future liability relating to the primary order is EUR 45.505 thousand, which is the equivalent of PLN 201.382 thousand. The agreement provides for widening the order by another 5 multi-system engines along with additional services. The value of the additional option of the agreement is EUR 26.038 thousand, which is the equivalent of PLN 115.233 thousand.

In addition, the Company has future contractual obligations arising out of agreements concluded with a subsidiary for periodic checkups and repairs of railway cars and engines. As at 30 June 2016 the total value of the future liabilities arising out of such agreements is PLN 94.825 thousand. According to the timetable, all of the work should be performed by 31 December 2016.

Furthermore, the Company is in the process of performing an agreement for the supply of computer hardware. In accordance with the timetable, the agreement should be completed by 31 December 2016. As at 30 June 2016 the value of the future liability arising out of the said agreement is PLN 4.633 thousand.

32. Contingent liabilities

	As at 30/06/2016 (unaudited)	As at 31/12/2015 (audited)
	PLN thousand	PLN thousand
Guarantees for subsidiaries (i)	24 451	24 451
Guarantees issued by banks at the request of PKP CARGO S.A. (ii)	22 308	23 811
Other contingent liabilities (iii)	62 615	68 100
Total	**109 374**	**116 362**

(i) Guarantees granted to subsidiaries

In effect as at 30 June 2016 and as at 31 December 2015 were the guarantees granted by the Company to PKP CARGO SERVICE Sp. z o.o. (guarantee of an agreement for a multi-currency credit line), PKP CARGOTABOR Sp. z o.o. (guarantee for an operating lease agreement, three credit agreements and a loan agreement).

(ii) Guarantees granted by banks at the request of PKP CARGO S.A.

In effect as at 30 June 2016 were guarantees issued by banks at the Company's request for its trade vendors. The guarantees included bid bonds (with a value of PLN 500 thousand), performance bonds (with a value of PLN 19.345 thousand) and rental guarantee bonds (with a value of PLN 2.463 thousand).

In effect as at 30 June 2015 were guarantees issued by banks at the Company's request for its trade vendors. The guarantees included bid bonds (with a value of PLN 1.730 thousand), performance bonds (with a value of PLN 19.709 thousand) and rental guarantee bonds (with a value of PLN 2.372 thousand).

(iii) Other contingent liabilities

The item includes court claims filed against the Company, where the probability of the outflow of funds is low, or with regard to which it is not possible to reliably estimate the amount to be paid by the Company in the future. The amounts presented in the present Note correspond to the full values of the claims filed against the Company.

The estimates may change in the subsequent periods as a result of future events.

On 30 January 2015 the Company was notified of an administrative proceeding started by the President of the Office of Rail Transport (UTK) in the matter of imposing a fine on the Company for conducting operations without proper authorization, i.e. managing rail infrastructure without security authorization. As part of the proceeding the Company exercised its right to express its views on the evidence and materials collected and on the demands submitted prior to the issue of a decision. The proceeding is scheduled to be completed on 31 October 2016.

As at 30 June 2016 the amount of the potential contingent liability arising out of the proceeding and the probability of its payment are not known.

33. Subsequent events

On 19 July 2016 an agreement was concluded with the European Investment Bank in Luxembourg, based on which the Company will receive an investment credit up to the amount of EUR 40.000 thousand, to finance and/or refinance the purchase of multi-system engines. The credit will be available for 48 months of the agreement conclusion date and may be used in EUR or PLN. Full repayment is to occur no later than by 19 July 2035. The agreement provides for early repayment without additional fees. The credit agreement does not call for pledging the Company's assets as collateral.

On 18 August 2016 the Company's Management Board was notified by MetLife PTE S.A. that the MetLife Open Pension Fund (managed by MetLife PTE S.A.) has increased to more than 5% the total number of its votes at the Company's general meeting. MetLife Open Pension Fund increased its holding of the Company's shares to 5,57% as a result of a purchase transaction performed on the Warsaw Stock Exchange on 10 August 2016.

34. Approval of financial statements

These Interim Condensed Separate Financial Statements were approved for publication by the Management Board on 27 September 2016.

The Company's Management Board

Maciej Libiszewski	President of the Management Board
Grzegorz Fingas	Member of the Management Board
Arkadiusz Olewnik	Member of the Management Board
Jarosław Klasa	Member of the Management Board
Zenon Kozendra	Member of the Management Board

Warsaw, 27 September 2016

pkpcargo.com

MANAGEMENT BOARD REPORT ON THE ACTIVITY OF THE **PKP CARGO** GROUP FOR H1 2016

MANAGEMENT BOARD REPORT ON THE ACTIVITY OF THE GROUP FOR H1 2016

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Table 1 Financial highlights of the PKP CARGO Group

PKP CARGO Group	PLN 000s		EUR 000s	
	6 months of 2016	6 months of 2015 restated*	6 months of 2016	6 months of 2015 restated*
Operating revenues	2,123,009	2,070,173	483,844	500,755
Result on operating activities	-194,143	180,835	-44,246	43,742
Result before tax	-229,285	169,197	-52,255	40,927
Net result	-194,589	162,520	-44,348	39,312
Total comprehensive income attributable to the owners of the parent company	-169,867	231,363	-38,713	55,965
*Adjusted result on operating activities***	-95,849	113,235	-21,844	27,390
*Adjusted result before tax**	-130,991	101,597	-29,853	24,575
*Adjusted net result***	-114,971	81,586	-26,202	19,735
*Adjusted total comprehensive income attributable to the owners of the parent company***	-90,249	150,429	-20,568	36,387
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares used to calculate diluted profit	44,786,917	44,786,917	44,786,917	44,786,917
Result per share (PLN/EUR)	-4.34	3.63	-0.99	0.88
Diluted result per share (PLN/EUR)	-4.34	3.63	-0.99	0.88
Net cash flow from operating activities***	19,166	19,690	4,368	4,763
Net cash flow from investing activities	-309,082	-284,361	-70,441	-68,784
Net cash flow from financing activities	166,668	54,548	37,984	13,195
Movement in cash and cash equivalents	-123,248	-210,123	-28,089	-50,827
	30/06/2016	31/12/2015	30/06/2016	31/12/2015
Non-current assets	5,008,391	4,979,501	1,131,712	1,168,486
Current assets	956,277	1,089,100	216,083	255,567
Non-current assets classified as held for sale	6,000	44,061	1,356	10,339
Share capital	2,239,346	2,239,346	506,010	525,483
Equity attributable to the owners of the parent company	3,183,999	3,353,866	719,467	787,015
Non-current liabilities	1,566,598	1,586,088	353,993	372,190
Current liabilities	1,220,071	1,172,708	275,691	275,187

Source: Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2016 prepared according to EU IFRS

** translation of comparable data is described in detail in Note[1] 4 to the Condensed Interim Consolidated Financial Statements*
*** the data for H1 2016 were adjusted for presentation purposes for an impairment loss on receivables from OKD in the amount of PLN 62.9 million (described in Note 16) and an impairment loss of the fixed assets arising from a test for impairment of the AWT Group value in the amount of PLN 35.4 million, as described in Note 10.1; moreover, the adjusted net profit and adjusted total comprehensive income attributable to the owners of the Parent Company includes deferred tax on the above adjustments*
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 the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million; additionally the adjusted net profit and adjusted comprehensive income attributable to the owners of the parent company includes deferred tax on account of VRP 2 in the amount of PLN 13.3 million, (bargain purchase of AWT was not income tax).
**** including the payment of liabilities stemming from the implemented 1st and 2nd Voluntary Redundancy Program in the amount of PLN 48.2 million*

[1]Any reference to a Note in these Statements should be construed as a Note to the Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2016 prepared according to EU IFRS.

Table 2 Financial highlights of PKP CARGO S.A.

PKP CARGO S.A.	PLN 000s		EUR 000s	
	6 months of 2016	6 months of 2015 restated	6 months of 2016	6 months of 2015 restated
Operating revenues	1,536,838	1,691,446	350,253	409,145
Result on operating activities	-86,315	33,034	-19,672	7,991
Result before tax	-95,879	31,794	-21,851	7,691
Net result from continuing operations	-83,994	31,044	-19,143	7,509
Comprehensive income	-87,395	83,066	-19,918	20,093
*Adjusted result on operating activities**	-86,315	96,896	-19,672	23,438
*Adjusted result before tax**	-95,879	95,656	-21,851	23,138
*Adjusted net result**	-83,994	82,772	-19,143	20,022
*Adjusted comprehensive income**	-87,395	134,794	-19,918	32,605
Weighted average number of shares	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares used to calculate diluted profit	44,786,917	44,786,917	44,786,917	44,786,917
Earnings result per share (PLN/EUR)	-1.88	0.69	-0.43	0.17
Diluted result per share (PLN/EUR)	-1.88	0.69	-0.43	0.17
Net cash flow from operating activities**	-52,223	44,440	-11,902	10,750
Net cash flow from investing activities	-242,143	-379,155	-55,186	-91,714
Net cash flow from financing activities	225,447	77,390	51,380	18,720
Movement in cash and cash equivalents	-68,919	-257,325	-15,707	-62,245
	30/06/2016	31/12/2015	30/06/2016	31/12/2015
Non-current assets	4,517,875	4,458,145	1,020,873	1,046,145
Current assets	518,790	559,110	117,227	131,200
Non-current assets classified as held for sale	6,000	44,061	1,356	10,339
Share capital	2,239,346	2,239,346	506,010	525,483
Equity	2,984,921	3,072,316	674,482	720,947
Non-current liabilities	1,286,422	1,150,212	290,684	269,908
Current liabilities	771,322	838,788	174,290	196,829

Source: Interim Financial Information of PKP CARGO S.A. for the period of 6 months ended 30 June 2016 prepared in accordance with IFRS EU

** the data for H1 2015 were adjusted for presentation purposes for the 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; additionally the adjusted net profit and adjusted comprehensive income attributable to the owners of the parent company include deferred tax on account of VRP 2 in the amount of PLN 12.1 million*
*** including the payment of liabilities stemming from the implemented 1st and 2nd Voluntary Redundancy Program in the amount of PLN 47.4 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 in effect on the last day of the reporting period: 30 June 2016 - 4.4255 PLN/EUR, 31 December 2015 - 4.2615 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: 1 January - 30 June 2016 - 4.3878 PLN/EUR, 1 January - 30 June 2015 - 4.1341 PLN/EUR.

Table 3 Reconciliation of the differences between reported and adjusted result on operating activities

PKP CARGO Group	PLN 000s		EUR 000s	
	H1 2016	H1 2015 restated data*	H1 2016	H1 2015 restated data*
Result on operating activities	**-194,143**	**180,835**	**-44,246**	**43,742**
Corrections:				
Operating revenues				
Bargain purchase of AWT		137,779		33,327
Operating expenses				
VRP II		70,179		16,976
Impairment losses on receivables of OKD	62,933		14,343	
Impairment loss of fixed assets of the AWT Group	35,361		8,059	
Adjusted result on operating activities **	**-95,849**	**113,235**	**-21,844**	**27,390**

Source: Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2016 prepared according to EU IFRS

** translation of comparable data is described in detail in Note 4*

*** the data for H1 2016 were adjusted for presentation purposes for an impairment loss on receivables from OKD in the amount of PLN 62.9 million (described in Note 16) and an impairment loss of the fixed assets arising from a test for impairment of the AWT Group value in the amount of PLN 35.4 million, as described in Note 10.1; moreover, the adjusted net profit and adjusted total comprehensive income attributable to the owners of the Parent Company includes deferred tax on the above adjustments*

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 the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million; additionally the adjusted net profit and adjusted comprehensive income attributable to the owners of the parent company includes deferred tax on account of VRP 2 in the amount of PLN 13.3 million (bargain purchase of AWT was not income tax).

2. Organization of the PKP CARGO Group

2.1. Highlights on the Company and the PKP CARGO Group[2]

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[3]) and it is the second largest operator on the Czech market (according to SZDC[4]). Notwithstanding the areas mentioned above, the Group conducts operations that it is constantly developing in Czech Republic, Slovakia, Germany, Austria, 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;
- 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 2016 encompass PKP CARGO S.A. and 15 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 Terminal Braniewo Sp. z o.o.
7. CARGOTOR Sp. z o.o.
8. PKP CARGO CONNECT Sp. z o.o.
9. Advanced World Transport B.V. ("AWT B.V.", "AWT")
10. Advanced World Transport a.s. ("AWT a.s.")
11. AWT ROSCO a.s.
12. AWT Čechofracht a.s.
13. AWT Rekultivace a.s.
14. AWT Coal Logistics s.r.o.
15. AWT Rail HU Zrt.

In addition, the following companies are measured using the equity method as at 30 June 2016 in the PKP CARGO Group's Condensed Interim Consolidated Financial Statements:

- COSCO POLAND Sp. z o.o.

[2] 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.

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

- Pol – Rail S.r.l.
- 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.
- 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, 8th 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 has been specified as Warsaw, ul. Grójecka 17, the registration files are kept by the District Court for the capital city of Warsaw, 12th 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 services activity, "execution areas" are created to handle rail sidings.

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 wheel sets 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 under the name of 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.

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 transshipment, 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 transshipment of bulk and unit commodities, including containers.

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. It has been conducting business since 1 February 2011. The company's line of business is to provide comprehensive cargo handling through transshipment, 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 transshipment of oversized consignments necessitating the usage of specialized transshipment equipment.

PKP CARGO CONNECT Sp. z o.o.

PKP CARGO CONNECT Sp. z o.o. was established on 8 March 1990 under the business name Przedsiębiorstwo Spedycyjne TRADE TRANS Sp. z o.o. (PS TRADE TRANS Sp. z o.o.). On 17 August 2015, the Extraordinary Shareholder Meeting of the company was held and adopted a resolution to change the company's business name, from PS TRADE TRANS Sp. z o.o. to PKP CARGO CONNECT Sp. z o.o. The change was registered on 30 October 2015.

On 29 September 2015, the Management Boards of the companies: PS TRADE TRANS Sp. z o.o. (as the Acquiring Company) and CARGOSPED Sp. z o.o. (as the Acquired Company) signed the "Merger Plan for equity companies: Przedsiębiorstwo Spedycyjne TRADE TRANS Sp. z o.o. and CARGOSPED Sp. z o.o.". The merger of the companies was registered on 31 December 2015 following the procedure set forth in Article 492 § 1 item 1) of the Commercial Company Code, by transferring all the assets of CARGOSPED Sp. z o.o. to PS TRADE TRANS Sp. z o.o. in exchange for the shares that PKP CARGO CONNECT Sp. z o.o. issued to PKP CARGO S.A. as the sole shareholder of CARGOSPED Sp. z o.o.

The company's core business involves 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, transshipment, 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 transshipment of 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 rail infrastructure manager security authorization, which makes it possible to make the rail 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 north of the Czech Republic 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 and is specialized in civil engineering construction activity. The company's core offering consists of managing and revitalizing post-industrial areas (including mining areas), work to raze objects, managing facilities allocated to utilize waste, eliminate underground mining pits, de-contaminate 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.

Since 1 May 2010, the company has been operating within the group under the business name of AWT VADS a.s. 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 involve 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

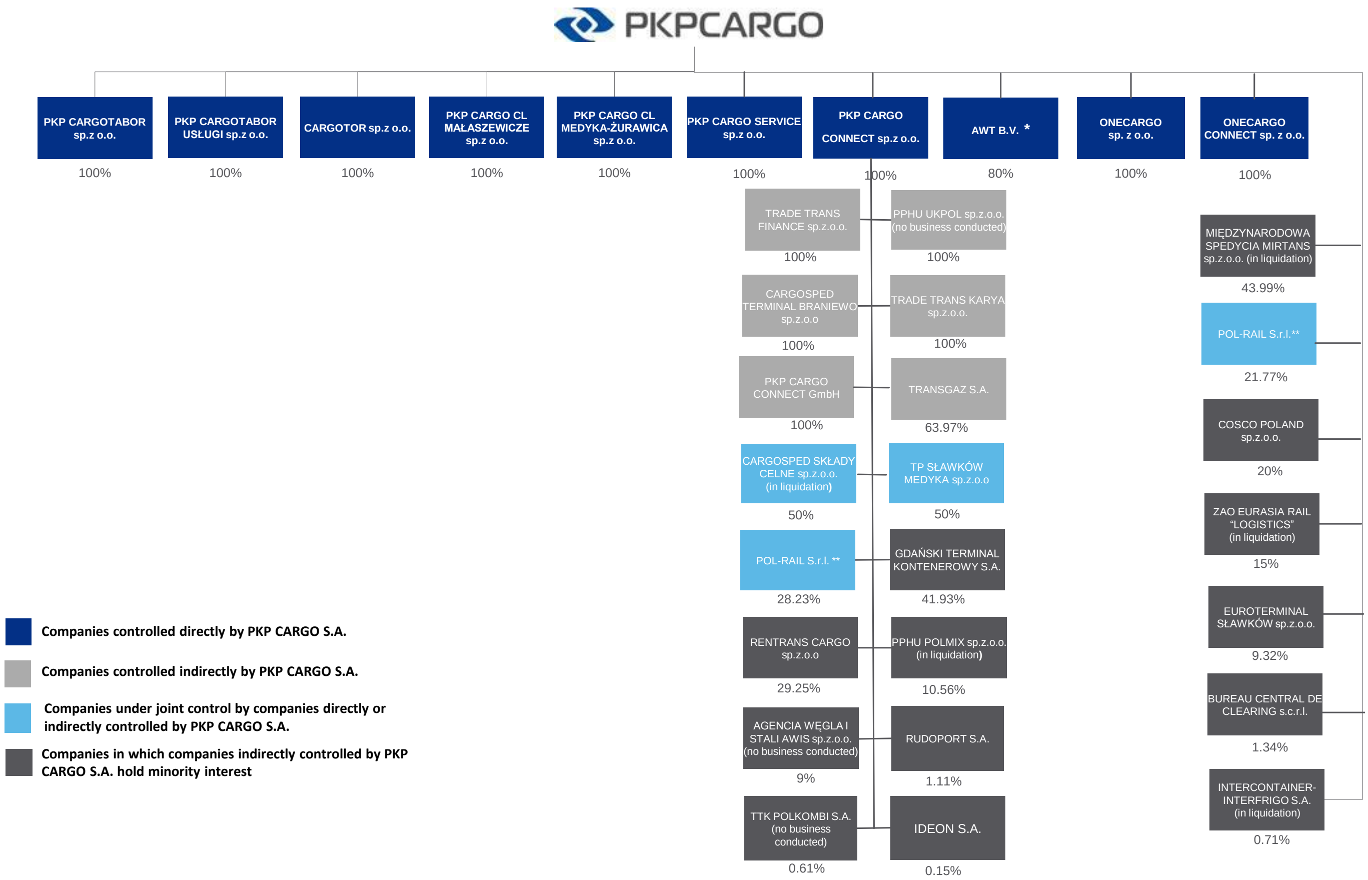
As of 30 June 2016, the PKP CARGO Group included, besides PKP CARGO S.A., 30 subsidiaries controlled directly or indirectly (by entities controlled by PKP CARGO S.A.), including:

- 10 subsidiaries controlled directly by PKP CARGO S.A.,
- 14 subsidiaries controlled directly by companies directly controlled by PKP CARGO S.A. (and indirectly controlled by PKP CARGO S.A.), including 6 companies directly controlled by PKP CARGO CONNECT Sp. z o.o. and 8 companies directly controlled by AWT B.V.,
- 6 AWT Group companies controlled directly by companies indirectly controlled by PKP CARGO S.A. (indirectly controlled by PKP CARGO S.A.);

In addition the Group had 6 associated entities and shares in 4 joint ventures.

The figure below presents the equity links between PKP CARGO S.A. and other entities as at 30 June 2016:

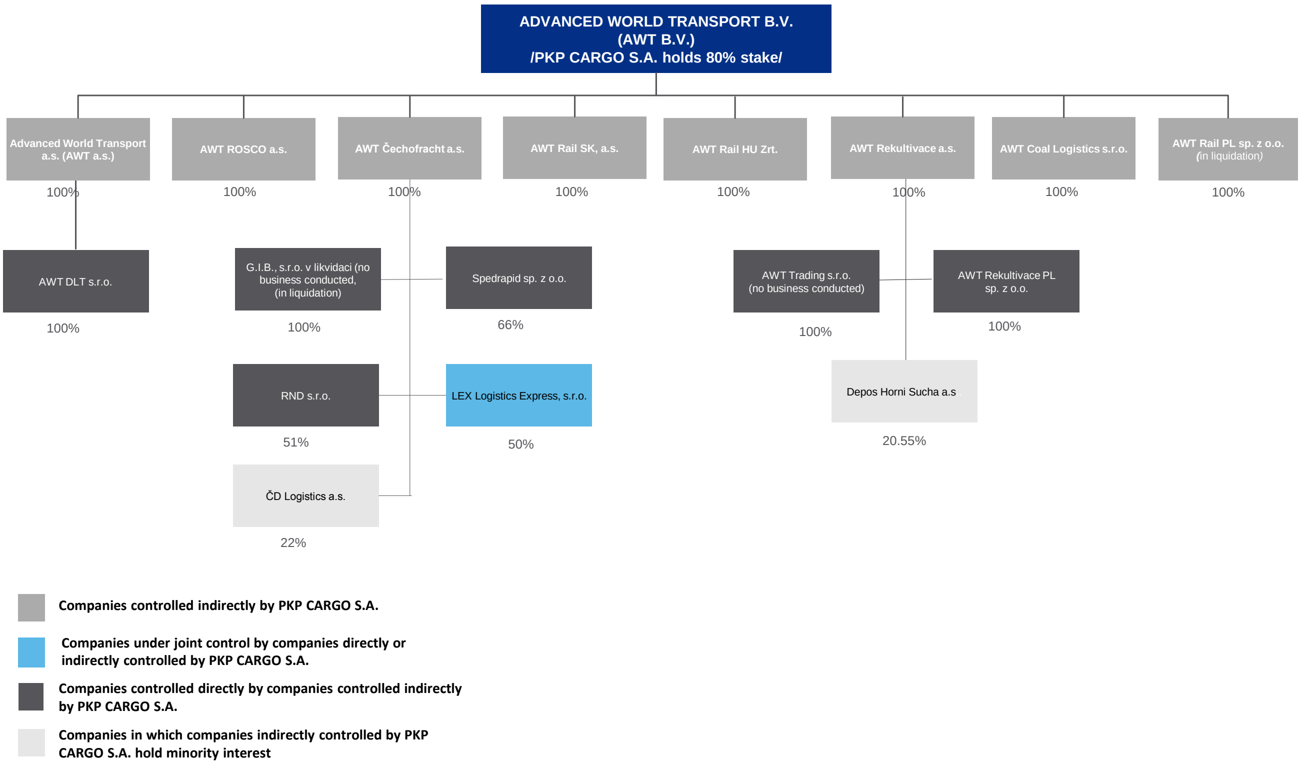
Figure 1 Structure of equity links of PKP CARGO S.A. as at 30 June 2016



Source: Proprietary material

** Figure 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. - PKP CARGO CONNECT 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 equity links of AWT as at 30 June 2016



Source: Proprietary material

2.4. Consequences of changes to the structure of the Company and the Group

The Company had in place a management system based on hierarchic subordination of the individual levels of management in functional divisions ("division-based management") including structures of the Head Office and Company's plants. On 8 June 2016, the Management Board of PKP CARGO S.A. approved new Organizational Bylaws and introduced them for application as of 1 August 2016. Under the new bylaws, the management model in the Company was changed by restoring the previous model with a more important role of Directors managing the Company's plants, who exercise substantive oversight over the plant's units. As a result of this change, the plants (which become more autonomous) may implement the Company's policy on their own in the specified area.

On 7 August 2015, the Extraordinary Shareholder Meeting of AWT RAIL PL sp. z o.o. was held and adopted a resolution to dissolve and launch liquidation proceedings of AWT RAIL PL sp. z o.o. The change was registered in the court register on 15 March 2016. The launch of the liquidation was caused by lack of a business case for further existence of the company. However putting the company in liquidation has no effect on the Group's operating activity.

In June 2016, PKP CARGO CONNECT GmbH, a German freight forwarding company based in Hamburg, launched its operating activity. Its main goal is to provide freight forwarding services focused on intermodal, marine and road transport in Germany and Western Europe. Establishment of this company will allow the Group to acquire new customers and develop its operations on additional Western European markets.

On 24 June 2016, PKP CARGO S.A. and its subsidiary PKP CARGOTABOR USŁUGI Sp. z o.o. decided to exercise their right to withdraw from the conditional binding purchase agreement for 40,796 representing approx. 99.85% of the share capital of Orlen KolTrans sp. z o.o. entered into with PKN Orlen S.A. and PKP CARGO S.A. exercised its right to withdraw from the conditional binding agreement to purchase an organized part of the enterprise of Euronaft Trzebinia sp. z o.o. Withdrawal from the purchase agreements does not provide for any financial consequences for PKP CARGO S.A. or PKP CARGOTABOR USŁUGI Sp. z o.o. arising from their termination.

3. Information about the parent company

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

MANAGEMENT BOARD

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

1) Act of 15 September 2000 entitled the Commercial Companies Code (Journal of Laws No. 94 Item 1037, as amended);
2) Act of 8 September 2000 on the Commercialization, Restructuring and Privatization of the State-Owned Enterprise “Polskie Koleje Państwowe” (Journal of Laws No. 84 Item 948, as amended)
3) Articles of Association of PKP CARGO S.A. (consolidated text adopted by Resolution No. 1529/V/2016 of the PKP CARGO S.A. Supervisory Board dated 30 March 2016)
4) Bylaws of the PKP CARGO S.A. Management Board adopted by Resolution No. 252/2016 of the PKP CARGO S.A. Management Board dated 29 July 2016
5) other internal regulations.

Powers of the Management Board

The Management Board manages the Company’s day-to-day business, manages its assets and represents the Company in relations with third parties. The responsibilities of the Management Board include any activities that are not reserved for the Shareholder Meeting or the Supervisory Board. Management Board resolutions are adopted by an absolute majority of votes present at the meeting, provided that at least half of the Management Board members are in attendance. 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 Bylaws of the Management Board. 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 present at the meeting, provided that at least half of the Management Board members are in attendance and may only be adopted if all the Management Board members have been notified of the date and hour of the Management Board meeting. Pursuant to the Bylaws, in the event of an equal number of votes ‘for’ and the total number of votes ‘against’ and ‘abstaining’, 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 Bylaws of the Management Board, in case of a conflict of interest or potential conflict of interest 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 interest 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 4 Composition of the PKP CARGO S.A. Management Board from 1 January 2016 to the delivery date of this report

Name	Position	Period in office from	to
Maciej Libiszewski	acting President of the Management Board	18 December 2015	19 January 2016
	President of the Management Board	19 January 2016	to date
Arkadiusz Olewnik	Management Board Member in charge of Finance	1 April 2016	to date
Grzegorz Fingas	Management Board Member in charge of Commerce	1 April 2016	to date
Jarosław Klasa	Management Board Member in charge of Operations	1 April 2016	to date
Zenon Kozendra	Management Board Member – Employee Representative in the Management Board	14 July 2016	to date
Dariusz Browarek	Management Board Member – Employee Representative in the Management Board	24 April 2014	11 May 2016
Wojciech Derda	Management Board Member in charge of Operations	24 April 2014	24 February 2016 (resignation)
Jacek Neska	Management Board Member in charge of Commerce	24 April 2014	24 February 2016 (resignation)
Łukasz Hadyś	Management Board Member in charge of Finance	12 May 2014	24 February 2016 (resignation)

Source: Proprietary material

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

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

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

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

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

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

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

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

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

On 11 May 2016, the mandate of Dariusz Browarek, the Management Board Member in charge of Employees, expired.

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

The internal allocation of tasks and functions discharged by Management Board members is as follows:

1) President of the Management Board – the scope of the President's duties includes directing the activities of the Management Board and the Company's ongoing operations and overseeing the management of specific areas of the Company's business, 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 in charge of Finance – the scope of duties of the Management Board Member in charge of Finance covers responsibility for rational management of the Company's resources and overseeing the management of specific areas of the Company's business, in particular:

   - finance management,
   - purchase and sale of assets.

   Special powers of the Management Board Member in charge of Finance include the performance, on behalf of PKP CARGO S.A., of obligations arising from accounting, tax and insurance regulations.

3) Management Board Member in charge of Commerce – the scope of duties of the Management Board Member in charge of Commerce covers responsibility for adequate sales levels and customer relations and overseeing the management of specific areas of the Company's business, in particular:

   - commercial policy,
   - sales of transportation services.

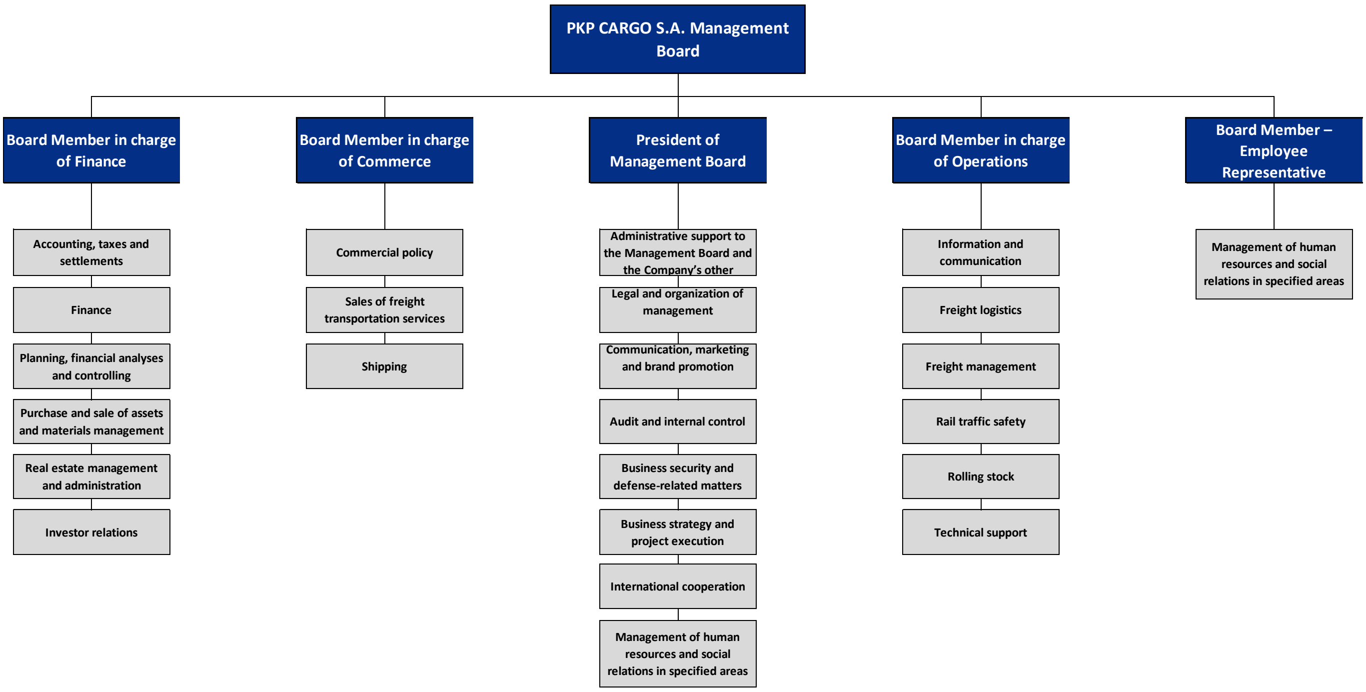
4) Management Board Member in charge of Operations – the scope of activity of the Management Board Member in charge of Operations includes caring for the effective execution of the Company's business and technological processes and overseeing the management of specific areas of the Company's activity, in accordance with the powers established by a separate Management Board resolution, particularly in the following area:

   - execution of transports,
   - maintenance of rolling stock.

5) Management Board Member - Employee Representative in the Management Board - the scope of activity of the Management Board Member - Employee Representative includes overseeing the management of specific areas of the Company's activity, in accordance with the powers established by a separate Management Board resolution, particularly in the following area:

   - management of human resources,
   - social relations in specified areas.

Figure 3 Duties and responsibilities of the Parent Company's Management Board Members



Source: Proprietary material

Commercial proxies established and revoked:

As of 1 March 2016, following the procedure prescribed in Article 371 § 5 of the Commercial Companies Code, the commercial proxy powers granted to Mr. Arkadiusz Pokropski were revoked.

On 18 July 2016, following the procedure prescribed by Article 371 § 5 of the Commercial Companies Code, the commercial proxy powers vested in Mr. Ireneusz Wasilewski were revoked.

SUPERVISORY BOARD

In accordance with the consolidated text of the Articles of Association of PKP CARGO S.A. (Resolution no. 1529/V/2016 adopted by the PKP CARGO S.A. Supervisory Board on 30 March 2016), 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 the provisions of § 19 Sections 2 and 3 of the Articles of Association of PKP CARGO S.A.

Powers of the Supervisory Board

The Supervisory Board exercises permanent supervision over the Company's operations in all areas of its activity. Moreover, its powers, in addition to matters reserved by the Commercial Companies Code or other statutes, include: selecting and changing the entity authorized to audit the Company's financial statements and to review the Company's accounting records, granting consent for the payment of an interim dividend by the Management Board towards the anticipated end-of-the-year dividend, appointing and dismissing the President and Members of the Management Board, setting the number of Management Board Members, granting consent for the establishment or liquidation of the Company's branch, granting consent for the Company's accession to business organizations, issuing opinions on proposals submitted by the Management Board to the Shareholder Meeting.

Operation of the Supervisory Board

The procedure of the Supervisory Board's operation is described in detail in the Bylaws of the Company's Supervisory Board. The Bylaws are adopted by the Company's Supervisory Board. In accordance with the provisions of the Bylaws of the

Supervisory Board, the Supervisory Board makes decisions in the form of resolutions. For Supervisory Board resolutions adopted at the meeting to be valid, all Supervisory Board members are required to be invited and at least half of them need to be present, including the Supervisory Board Chairman. Resolutions of the Supervisory Board are adopted by an absolute majority of votes. If an equal number of votes is cast “for” and “against” together with abstentions, the Supervisory Board Chairman shall have the casting vote. Supervisory Board resolutions in the matter of suspension of Management Board members or Management Board shall require the consent of the Supervisory Board Chairman. Supervisory Board resolutions may be also adopted without holding a meeting, using written ballot or using means of remote direct communication, excluding resolutions pertaining to election of the Supervisory Board Chairman and Deputy Chairman, appointment of a Management Board member and dismissal and suspension of these persons in their duties. Supervisory Board meetings are convened by the Supervisory Board Chairman as needed, but at last once every month.

In accordance with the Bylaws of the Supervisory Board, in the event of conflicting interests of the Company and personal interests of a Supervisory Board member, his/her spouse, relatives or relatives and second degree next of kin, the Supervisory Board member should refrain from participating in the discussion and voting on the resolution of such matters and request that this fact be recorded in the minutes from the Supervisory Board meeting.

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

Table 5 Composition of the PKP CARGO S.A. Supervisory Board from 1 January 2016 to the delivery date of this report

Full name	Position	Period in office	
		from	to
Stanisław Knaflewski	Supervisory Board member	17 December 2013	11 May 2016
Raimondo Eggink	Supervisory Board Member	13 April 2015*	to date
Mirosław Pawłowski	Supervisory Board Member Supervisory Board Chairman	17 December 2015* 18 December 2015* 20 May 2016 (6th term of office)	11 May 2016 to date
Jerzy Kleniewski	Supervisory Board Member	17 December 2015*	to date
Andrzej Wach	Supervisory Board Member Supervisory Board Deputy Chairman	17 December 2015* 27 April 2016 20 May 2016 (6th term of office)	11 May 2016 to date
Maciej Libiszewski	Supervisory Board Member	17 December 2015 (from 18 December 2015 delegated as acting President of the Management Board)	19 January 2016 (resignation)
Czesław Warsewicz	Supervisory Board Member	17 December 2015*	to date
Małgorzata Kryszkiewicz	Supervisory Board Member	17 December 2015*	to date
Kazimierz Jamrozik	Supervisory Board member	24 May 2012	11 May 2016
Zofia Dzik	Supervisory Board Member	11 May 2016	to date
Marek Podskalny	Supervisory Board Member	20 May 2016	to date
Krzysztof Czarnota	Supervisory Board Member	20 May 2016	to date
Tadeusz Stachaczyński	Supervisory Board Member	20 May 2016	to date

Source: Proprietary material

** the 6th term of office of the PKP CARGO S.A. Supervisory Board began on 11 May 2016, the date of holding the Annual Shareholder Meeting of PKP CARGO S.A.*

SUPERVISORY BOARD AUDIT COMMITTEE

The PKP CARGO S.A. Audit Committee is appointed by the PKP CARGO S.A. Supervisory Board. It consists of at least three Supervisory Board members, including two Members 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 6 Composition of the Audit Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2016 to the delivery date of this report

Full name	Position	Period in office from	Period in office to
Stanisław Knaflewski	Committee Member	6 February 2014	11 May 2016*
Raimondo Eggink	Committee Member Committee Chairman Committee Member Committee Chairman	30 April 2015 18 December 2015 20 May 2016 31 May 2016	11 May 2016* 11 May 2016* to date to date
Małgorzata Kryszkiewicz	Committee Member	18 December 2015 20 May 2016	11 May 2016* to date
Zofia Dzik	Committee Member	20 May 2016	to date

Source: Proprietary material

** expiration date of the 5th term of office of the PKP CARGO S.A. Supervisory Board*

NOMINATION COMMITTEE

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

Table 7 Composition of the Nomination Committee of the PKP CARGO S.A. Supervisory Board from 1 January 2016 to the delivery date of this report

Full name	Position	Period in office from	Period in office to
Stanisław Knaflewski	Committee Chairman	17 December 2013	11 May 2016
Mirosław Pawłowski	Committee Member	18 December 2015 20 May 2016	11 May 2016* to date
Andrzej Wach	Committee Member	18 December 2015 20 May 2016	11 May 2016* to date
Zofia Dzik	Committee Chairman	20 May 2016	to date

Source: Proprietary material

** expiration date of the 5th term of office of the PKP CARGO S.A. Supervisory Board*

STRATEGIC COMMITTEE

The Strategic Committee is appointed by the PKP CARGO S.A. Supervisory Board. It consists of at least three Supervisory Board members, of whom at least one Supervisory Board Member must satisfy the independence criteria and be appointed in the manner provided for in § 20 and 21 of the Company's Articles of Association. Committee members are appointed for a term corresponding to the Supervisory Board's term of office. The Strategic Committee supports the Supervisory in the oversight over the definition of the strategy as well as the appropriate implementation of the strategy and annual and long-term activity plans for the Company and its Group. The Strategic Committee was established by Resolution of the Supervisory Board of 23 June 2016.

Table 8 Composition of the Strategic Committee of the PKP CARGO S.A. Supervisory Board from establishment (on 23 June 2016) to the delivery date of this report

Full name	Position	Period in office	
		from	to
Czesław Warsewicz	Committee Chairman	23 June 2016	to date
Raimondo Eggink	Committee Member	23 June 2016	to date
Andrzej Wach	Committee Member	23 June 2016	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 9 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

As at the delivery date of this report, the total number of the Company's outstanding shares is 44,786,917. According to notices received by the Company, the structure of shareholders holding directly or indirectly significant blocks of shares in the Company was as follows:

Table 10 Shareholder structure of PKP CARGO S.A. as at 1 January 2016

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)	5,771,555	12.89%	5,771,555	12.89%
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	19,512,789	43.57%	19,512,789	43.57%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

Source: Proprietary material

(1) According to a notice sent by the shareholder on 24 June 2014.

(2) According to a notice sent by the shareholder on 12 November 2015; on 20 July 2015, the name ING OFE was changed to Nationale-Nederlanden OFE

(3) According to a notice sent by the shareholder on 18 June 2014.

(4) According to a notice sent by the shareholder on 13 August 2014.

On 16 March 2016 the Company's Management Board received a notification from Morgan Stanley (Institutional Securities Group and Global Wealth Management) concerning a reduction of the stake held by Morgan Stanley (Institutional Securities Group and Global Wealth Management) below 5% of the overall number of votes at the Shareholder Meeting ("SM").

This threshold was crossed by selling the Company's shares on the Warsaw Stock Exchange on 10 March 2016 ("Transaction").

Before the Transaction, Morgan Stanley (Institutional Securities Group and Global Wealth Management) held 2,380,008 shares of the Company representing 5.31% of the Company's share capital and 2,380,008 votes at the SM, which is 5.31% of all the votes. After the Transaction, Morgan Stanley (Institutional Securities Group and Global Wealth Management) held 2,225,827 shares of the Company representing 4.97% of the Company's share capital and 2,225,827 votes at the SM, which is 4.97% of all the votes.

Table 11 Shareholder structure of PKP CARGO S.A. as at 30 June 2016

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)]	5,771,555	12.89%	5,771,555	12.89%
AVIVA OFE [(3)]	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	21,892,797	48.88%	21,892,797	48.88%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

Source: Proprietary material

(1) According to a notice sent by the shareholder on 24 June 2014.
(2) According to a notice sent by the shareholder on 12 November 2015; on 20 July 2015, the name ING OFE was changed to Nationale-Nederlanden OFE
(3) According to a notice sent by the shareholder on 13 August 2014.

On 18 August 2016 the Management Board of PKP CARGO S.A. received a notification from MetLife PTE S.A. that the MetLife Open-end Pension Fund it manages ("OPF") has increased its exposure to above 5% of the total number of votes in PKP CARGO S.A.

Its exposure exceeded 5% as a result of the purchase of shares in PKP CARGO S.A. on 10 August 2016. Directly before the change in its shareholding OPF held 2,162,347 shares, representing 4.83% of the share capital of PKP CARGO S.A. giving it the right to 2,162,347 votes at the shareholder meeting, representing 4.83% of the total number of votes at the shareholder meeting of PKP CARGO S.A.

At present, OPF holds 2,494,938 shares, representing 5.57% of the share capital of PKP CARGO S.A. giving it the right to 2,494,938 votes at the shareholder meeting, representing 5.57% of the total number of votes at the shareholder meeting of PKP CARGO S.A.

Table 12 Shareholder structure of PKP CARGO S.A. 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)]	5,771,555	12.89%	5,771,555	12.89%
MetLife OFE [(3)]	2,494,938	5.57%	2,494,938	5.57%
AVIVA OFE [(4)]	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	19,397,859	43.31%	19,397,859	43.31%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

Source: Proprietary material

(1) According to a notice sent by the shareholder on 24 June 2014.
(2) According to a notice sent by the shareholder on 12 November 2015; on 20 July 2015, the name ING OFE was changed to Nationale-Nederlanden OFE
(3) According to a notice sent by the shareholder on 18 August 2016.
(4) According to a notice sent by the shareholder on 13 August 2014.

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 16 May 2016, i.e. the delivery date of the Q1 2016 report to the delivery date of this report, was as follows:

Table 13 PKP CARGO S.A. shares held by Management Board members

Name	Number of PKP CARGO S.A. shares held by Management Board members
as at the delivery date of this report	
Maciej Libiszewski	0
Arkadiusz Olewnik	0
Grzegorz Fingas	0
Jarosław Klasa	46
Zenon Kozendra	46
as at 16 May 2016	
Maciej Libiszewski	0
Arkadiusz Olewnik	0
Grzegorz Fingas	0
Jarosław Klasa	46

Source: Proprietary material

The holdings of Company's shares or rights to such shares by members of the Company's Supervisory Board from 16 May 2016, i.e. the delivery date of the Q1 2016 report to the delivery date of this report, was as follows:

Table 14 PKP CARGO S.A. shares held by Supervisory Board members

Name	Number of PKP CARGO S.A. shares held by Supervisory Board members
as at the delivery date of this report	
Mirosław Pawłowski	0
Jerzy Kleniewski	0
Andrzej Wach	0
Czesław Warsewicz	0
Małgorzata Kryszkiewicz	0
Raimondo Eggink	0
Zofia Dzik	0
Marek Podskalny	70
Krzysztof Czarnota	70
Tadeusz Stachaczyński	0
as at 16 May 2016	
Mirosław Pawłowski	0
Jerzy Kleniewski	0
Andrzej Wach	0
Czesław Warsewicz	0
Małgorzata Kryszkiewicz	0
Raimondo Eggink	0
Zofia Dzik	0

Source: Proprietary material

4. Key areas of operation of the PKP CARGO Group

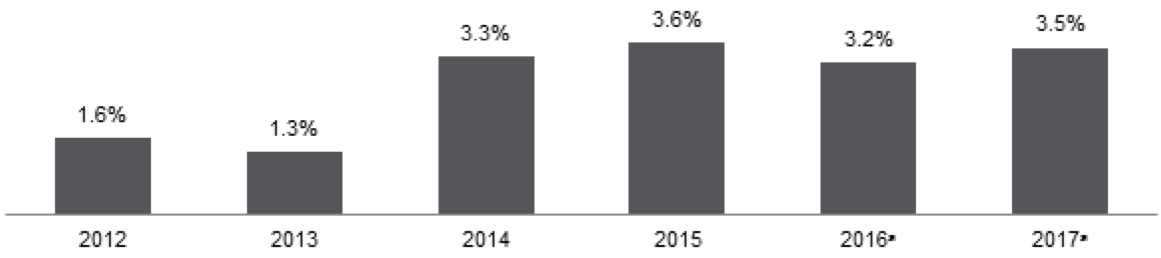
4.1. Macroeconomic environment

Polish economy

According to information provided by the Central Statistical Office of Poland, the Polish GDP growth rate was 3.6% yoy in 2015[5].Growth forecasts for 2016 and 2017 were reduced by the National Bank of Poland and are slightly lower than those stated in 2015. The 2016 GDP growth projections from March were reduced from 3.8% yoy to 3.2% yoy and the growth forecast for 2017 was reduced from 3.8% yoy to 3.5% yoy[6]. The reduction of the estimated growth rate was driven mainly by the lower than expected economic growth figure in Q1 2016, which was 3.0% yoy, but also increased uncertainty related to Brexit, which is displayed by worse sentiments on international financial markets and depreciation of currencies of developing countries, including Polish zloty. The less optimistic assessment of the economic situation by analysts is however not confirmed by the industrial production sold ratio, which rose by 4.4% yoy in H1 2016. On the other hand, the PMI (*Purchasing Managers Index*) fell from 54.3 in June 2015 to 52.1 in December 2015 to 51.8 in June 2016.

In spite of the reduced forecasts for Poland's economic growth, it is still higher than the average growth in all EU economies; in 2016, the forecast growth is 1.8% yoy and in 2017 – 1.9% yoy.[7] The ministry of development has also reduced its projections for increases in gross expenditure on fixed assets in 2016, from the earlier 4.7% yoy forecast to 1.5% yoy[8].

Figure 4 GDP growth in Poland in 2012-2015 per annum and 2016 and 2017 forecast



Source: Main Statistical Office (note: in 2014, the Main Statistical Office 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

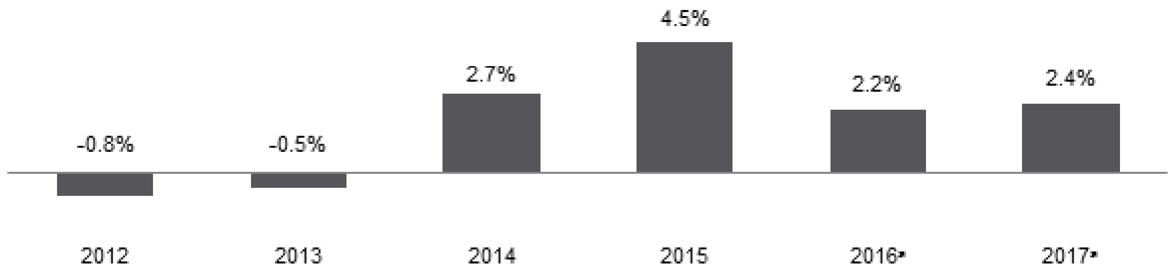
[a] *NBP forecast (July 2016)*

Czech economy

According to the Finance Ministry of the Czech Republic, in 2015 the Czech economy recorded dynamic growth of 4.5% yoy, driven by an exceptional activity in the public investments sector. According to the European Commission, after that period the growth should slow down to 2.5% yoy in 2016, driven by the decline in public investments and household consumption being maintained at a level similar to previous year's. This is more than the 2.2% yoy forecast published by the Czech Finance Ministry in July 2016. In 2017, the European Commission anticipates growth at 2.6% yoy, as it is expected that in that period, all the domestic demand components will have a positive effect on economic growth.[9] According to the Finance Ministry, the growth rate in 2017 will be lower at 2.4% yoy[10]. According to the opinions expressed by the EC, the slowdown of GDP growth should be sought in a noticeably lower absorption of EU funds in 2016, as compared to 2015. Additionally, the EC notes the favorable impact of the strong increase in corporate taxes and production taxes. A drop in global oil prices also affected the situation for a short period. The short period of impact is associated with the lack of stability in the liquid fuels market caused primarily by tensions between oil producers (Saudi Arabia and Russia). The lower forecast was also affected by the slowing-down growth rate in Q4 2015.

[5] GUS
[6] National Bank of Poland forecast (July 2016)
[7] EC forecasts, European Economic Forecast Spring 2016
[8] Ministry of Development
[9] Czech Republic's Finance Ministry, Macroeconomic Forecast April 2016
[10] www.mfcr.cz

Figure 5 Real GDP growth in the Czech Republic in 2012-2015 per annum and 2016 and 2017 forecast



Source: Macroeconomic Forecast, June 2016

[a] *forecast of the Czech Finance Ministry*

According to Czech Finance Ministry's projections, the following should occur in the Czech economy:

- GDP in 2016 is expected at 2.2% yoy, and in 2017 the growth rate should reach 2.4% yoy. Domestic demand will be the main driver of economic growth. In 2016 the demand of households is expected to increase by 3.1% yoy. On the other hand, public consumption should be higher than it was in 2015 (by 2.0% yoy) and amount to 2.2% yoy. In 2015, in addition to domestic demand, growth was also driven by public investments, which slowed down significantly in 2016.
- increasing inflation rate: to 0.5% yoy in 2016 and to 1.2% yoy in 2017, driven by the declining prices of imported goods (mainly mineral fuels) and generally low inflation globally;
- improvement on the labor market as a result of a noticeable economic revival. The unemployment rate should drop from 5.1% yoy in 2015 to 4.1% yoy in 2016 and 4.0% yoy in 2017. Employment growth is also expected equal to 1.6% yoy in 2016 and 0.1% yoy in 2017. The 2016 forecast was revised and growth increased from 0.5% yoy due to the better than expected yoy and qoq figures in Q1 2016. A study from April 2016 anticipated slower growth than in 2015 (+1.2% yoy), which was to be associated with a declining percentage of people in productive age;
- trade surplus at 5.1% of GDP in 2016, which would represent an increase of 0.4 percentage points yoy.[11]

The diminishing economic growth in China may adversely affect the economic situation of the Czech Republic and macroeconomic forecasts. The slow-down of the Chinese economy may have a significant influence on global, also Czech, trade. Another negative factor is the geopolitical risk associated with conflicts in the Middle East and in North Africa, which intensified economic migration to the European Union.

One additional threat to the Czech economy may the continuing pressure on the appreciation of the Czech koruna below 27 CZK/EUR caused by the further easement of the monetary policy by the European Central Bank.

European economy

According to European Commission's predictions, European Union's recovery is expected to remain on the existing level. It is also expected that the unstable situation in the global economy will not have any material impact on the EU economy. The real GDP growth rate in EU member states is expected to grow 1.8% yoy and 1.9% yoy in 2016 and 2017, respectively.[12]The factors that have positive impact on the growth of the economy include: relaxed monetary policy of the European Central Bank involving purchase of financial assets to stimulate the credit sector, low oil prices in global markets, and improvement of the labor market visible since the beginning of 2015.[13] It is also expected that inflation in 2016 will be very low, at 0.2% yoy, i.e. similar to the 2015 level. The factors slowing down the increase of inflation include, among others, decreasing energy prices recored last year. Increase of total inflation is announced for 2017, when it is to reach 1.3% yoy, attributable mainly to the positive impact of an inflation component – increase of energy prices. This will result from decreasing significance of earlier declines of energy fuel prices and decreasing impact of consumer inflation on the growth rate. Decrease of unused production capacity of power plants in 2018 should have positive impact on the inflation rates, which are to increase to 1.6% yoy.

The economic recovery will be invariably affected by the level of internal demand. It is to be supported primarily by historically low interest rates and purchase of assets (treasury bonds and corporate eurobonds from outside the banking sector) from the

[11] European Commission, Directorate-General for Economic and Financial Affairs, European Economic Forecast, May 2016
[12] EC forecasts, European Economic Forecast Spring 2016
[13]Macroeconomic Projections of the Experts of Eurosystem for the Eurozone - June 2016

market by ECB[14]. Private consumption of goods and services is expected to record strong, positive growth, in particular in 2016. This results from improved labor market (simultaneous increase of the employment growth rate and decrease of the unemployment rate) and more relaxed household spending of previously saved money. The forecast recovery of the European economy will also contribute to gradual increase of public investments, primarily through acceleration in the period of trend fluctuations (accelerator principle).

It is expected that the European Union will maintain the public debt at a level comparable to that in 2015 (86.8% of GDP[15]). The debt value is estimated at 86.4% of GDP in 2016 and 85.5% of GDP in 2017. The forecast will not be affected by an increase of Greece's debt to approx. 176.9% of GDP in 2015 and 182.8% of GDP in 2016. According to the European Commission, following the reduction of the EU budget deficit to 2.4% of GDP in 2015, it is expected to decrease further to 2.1% of GDP in 2016 and then to 1.8% of GDP in 2017.[16]

Another important index, industry PMI, after Q2 2016 recorded the level of 52.8 and this figure is slightly higher than the one recored in June 2015, when it amounted to 52.5[17], which points to a slight improvement of the moods of entrepreneurs in the eurozone manufacturing sector.

Industry in Poland

Rail cargo transport is invariably affected by the economic situation in the main branches of industry in Poland, i.e. primarily mining, metallurgy and construction. Industries with a slightly smaller impact on rail cargo transport include the petrochemical, metal, chemical, timber and automotive sectors.

In H1 2016, total industrial production sold increased 4.4% yoy. Smaller or comparable to last year's industrial production sold was recorded in the case of 7 out of 34 industries. These are mostly such industries as: hard coal and brown coal mining (-7.0% yoy), coke production and crude oil refining products (-5.4% yoy) and metal production (-0.4% yoy). Industries which recorded higher industrial production sold in January-June 2016 than in the corresponding period of 2015 included, among others: production of furniture (+13.4% yoy), products from metals (+10.0% yoy), motor vehicles, trailers and semi-trailers (+9.7% yoy), other transport equipment (+9.6% yoy), manufacture of products from other mineral non-metallic raw materials (+6.4% yoy) and production of wooden, cork, straw and wicker products (+3.9% yoy). Overall, in the processing industry, a 5.6% yoy increase was observed, including 2.7% yoy in water supply, sewerage, waste management and reclamation. The decreases in sold industrial output was recorded by companies generating and supplying electricity, gas, steam and hot water (-2.4% yoy) and mining companies (-6.8% yoy).[18]

Polish industry is affected not only by the internal situation (for example: mine restructuring process,change of regulations on certificates for the use of "green energy", delay infrastructure projects from a new perspective of the EU, in particular road and rail projects, but also the economic situation of the countries which are partners for Polish producers. The World Bank forecasts a slowdown of the global economy, caused by low raw material prices and limited demand. In 2016, decreases of energy fuel prices are expected (including: oil, gas and coal), on average by 19.3% yoy. According to the projections of other raw material prices (among others metals, aggregates, agricultural raw materials, fertilizers) are to drop on average by 5.1% yoy[19]. In many of the above cases lower prices result from unfavorable economic growth prospects for emerging markets.

Mining industry

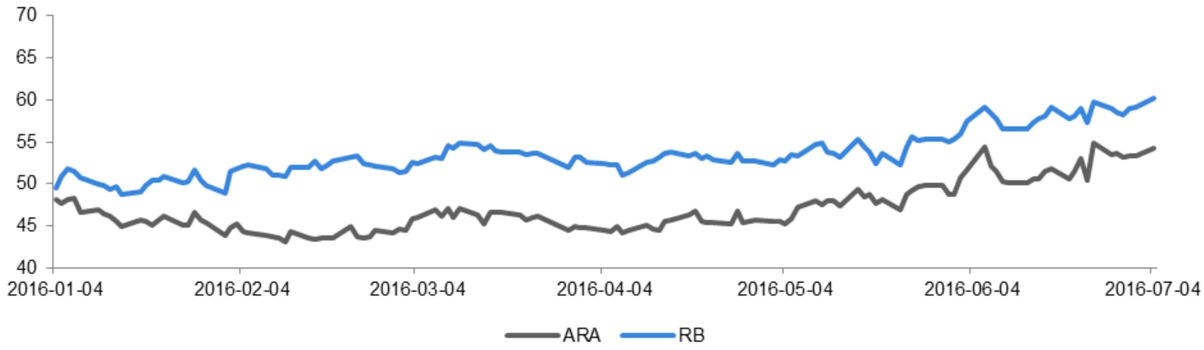
In H1 2016, the Polish mining industry recorded hard coal production in the range of 34.4 million tons. In January-June 2015, 34.5 million tons were mined, down by 0.4% yoy. Despite lower production and nearly PLN 1 billion loss on coal sales (in January-May 2016), Polish mining industry recorded a relatively small net loss of PLN 10.3 million. This result is better by PLN 1.1 billion yoy. Losses from the sector's core business, i.e. coal sales, amounted to PLN 979 million in the first 5 months of 2016 – the loss was approx. PLN 250 million lower than in the corresponding period of last year. The net loss level, which was much lower than the loss on hard coal sales, resulted from the transformations in the mining industry, affecting the accounting and financial areas[20]. Further actions aimed at continuation of recovery of the situation of the Polish mining industry are announced. The Ministry of Energy stated that some of the operating mines are permanently unprofitable and are likely to be closed down. The unprofitability was caused mainly by difficult geological conditions, safety hazards and small size or low

[14] Wyborcza.biz
[15] EC forecasts, European Economic Forecast Spring 2016
[16] EC forecasts, European Economic Forecast Spring 2016
[17] Stooq.pl
[18] GUS
[19] The World Bank
[20] M.Nettg.pl Portal Górniczy

quality of the deposits. In particular this pertains to Polska Grupa Górnicza, which has to plan further changes as the European Union, despite subsidizing the mines with PLN 1.8 billion, has not approved the recovery plan[21].

Also coal prices in seaports have key impact on the mining sector in Poland. In H1 2016, average monthly ARA prices increased by 3.9 USD/t from 47.8 USD/t in December 2015 to 51.7 USD/t in June this year. The price pressure was still visible from the beginning of the year to the end of February. In February the average monthly ARA price reached the historical minimum of 44.0 USD/t. From April to June 2016, an increasing trend can be seen in ARA prices.[22] Unfortunately, according to analysts from the Mineral Raw Materials and Energy Management Institute at Polish Academy of Sciences, one cannot yet speak about a sustainable trend because to maintain the trend, coal supply in the markets should visibly decrease, which is not confirmed by the existing statistics[23].

Figure 6 Coal prices on ARA vs. RB markets*



Source: Virtual New Industry

**ARA – Amsterdam, Rotterdam and Antwerp; RB – Richards Bay (RSA)*

Steel industry

From the data of the World Steel Association it appears that global steel production in H1 2016 was 794.8 million tons, down by 1.8% yoy (from 809.6 million tons). Production in the European Union reached 82.7 million and accounted for 10.4% of global production. Nonetheless, after H1 2015, this figure was higher and amounted to 88.1 million tons, and at the same time the share in global production was higher by 0.5 p.p. yoy. The biggest decreases were recorded among leading steel producers in Europe, i.e. United Kingdom (from 6.2 million tons in H1 2015 to 3.9 million tons in H1 2016, down by 36.4% yoy), Germany (from 22.2 million tons to 21.9 million tons, down by 1.2% yoy), France (from 8.2 million tons to 7.2 million tons, down by 11.5% yoy), Spain (from 7.9 million tons to 7.3 million tons, down by 7.3% yoy). Also Poland recorded decreases. According to World Steel Association data, in January-June 2016, Poland produced 4.4 million tons of steel. It is 11.3% less than in the corresponding period of last year, when production reached 4.9 million tons. This is caused primarily by an overhaul of the furnace carried out by Poland's biggest producer of steel and steel products. Outside the European Union, a decrease was recorded in Belarus, which produced 1.1 million tons, down by 22.7% yoy. An increase of production was recorded by Ukraine, which in H1 2016 produced 10.3% more than last year (increase from 11.3 million tons in the first 6 months of 2015 to 12.4 million tons in the first 6 months of 2016)[24].

According to World Steel Association analyses, the global steel market will be still affected by the economic slowdown in China. This will translate into low steel prices, instability of financial markets, slowdown of trade exchange and low prices of other raw materials[25]. The Association's forecasts show a decrease of production by -0.8% yoy to 1.5 billion tons. An increase of demand for steel in European Union countries in 2016 and 2017 is expected to be 1.4% yoy and 1.7% yoy, respectively. This means that the demand will reach 155 million tons and 158 million tons in 2016 and 2017, respectively. As opposed to Europe, demand in Asia and Oceanic region (in particular China) is expected to decrease: to 968 million tons in 2016 and to 959 million tons in 2017. This means that the decreases will be 1.7% yoy in 2016 and 1.0% yoy in 2017.

[21] Bankier.pl
[22] Virtual New Industry
[23] M.Nettg.pl Portal Górniczy
[24] World Steel Association
[25] Virtual New Industry

The overall trend in Poland is reflected also by the price levels. In the period January-June 2016, both the prices of industrial production sold in metals fell by 3.7% yoy, and the prices of metal products by 0.9% yoy[26]. This is the impact of the price pressures on the raw materials required for steel production which was caused by the economic slowdown in China. In H1 2016, industrial production sold in the metal industry also decreased 0.4% yoy. The only positive indicator was industrial production sold in metal products, which recorded a 10.0% increased yoy[27].

Prices in global iron ore trade after a period of increases (12'15-04'16) recorded further decreases (04'16-06'16) and dropped from 59.6 USD/t in April 2016 to 51.4 USD/t in June this year.[28] Compared to June last year, the price was 10.9 USD/t lower (in 06'15 the price was 62.3 USD/t), down by 17.5% yoy. The highest prices of almost 190 USD/t and 155 USD/t were recorded in 2011 and 2013, respectively.[29]

Construction industry

Construction and installation production in businesses with more than 9 employees in H1 2016 was lower than in the corresponding period of last year by 11.9% yoy, compared to the 1.0% yoy increase in 6m'15. The decreases result from a smaller number of public procurement orders. This is closely associated with changes in the management boards in State Treasury companies and authorities responsible for construction of roads, rail infrastructure and new power units. The changes result in delays in tenders, reaching in some cases more than six months.[30]

The biggest decreases in the growth rates in construction and installation production were recorded in land and water engineering (-17.0% yoy in H1 2016, and up by 2.2% yoy in January-June 2015), and in renovation construction works (down by 12.4% yoy, vs. 5.7% yoy in H1 2015). The lowest growth rate in production was also recorded in investment construction works (down by 11.6% yoy, vs. a 1.4% decrease yoy in January-June 2015), specialized construction work (down by 11.2% yoy, vs. a 1.3% yoy growth in H1 2015) and building construction (down by 7.7% yoy, compared to a 0.3% drop yoy in H1 2015)[31].

The general indicator of the sentiment in construction in June 2016 was -1.4 and was more pessimistic than in May, when it amounted to -1.1. However, compared to June 2015, when the indicator of sentiment regarding the market trends was -2, the situation has improved. Entrepreneurs, which assessed the sentiments in this industry, pointed out that since May 2016, the following aspects have improved: order portfolio, construction and installation production, and financial situation. It should be noted, however, that the forecasts regarding the order portfolio and construction and installation production in June this year turned out less optimistic than those in May, and the predictions regarding the financial situation have not changed. As opposed to April and May this year, in June 2016 entrepreneurs declared reduction of employment. In earlier months they did not anticipate any major changes in the employment. The prices of construction and installation works, in accordance with the expectations, are to drop slightly.

Both the planned employment and the sentiments of construction entrepreneurs are associated with the barriers in conduct of business activity. 4.7% of the respondents stated that there were no barriers in conduct of business activity; this figure is higher than last year, when 4.1% entrepreneurs declared there were no barriers. The main barriers in conduct of activity mentioned by the respondents in June 2016 were: high costs of employment (important for 60.1% of businesses, vs. 61.9% in June 2015), high amounts due to the State Treasury (41.4% vs. 40.5% in June 2015) and unclear and inconsistent legal regulations (30.8% vs. 29.9% in June 2015)[32].

The prospects described by PMR analysts in the report entitled "*Construction sector in Poland - H1 2016. Market analyses and development forecasts for 2016–2021*" are optimistic. Analysts note that despite unfavorable first months of this year, the remaining months of 2016 have still a high growth potential, primarily due to the recovery in the industrial-and-warehousing and housing market. Additionally, the recovery can be further stimulated thanks to construction of planned power units and motorways and express roads. The record-breaking construction production from 2011 can be improved no earlier than in 2017[33].

Industry in the Czech Republic

Industrial production in fixed prices in Q2 2016 grew by 5.5% yoy, and taking into account the number of working days and seasonal adjustment, it increased by 2.1% yoy. The growth rate of production in June improved mainly thanks to production of passenger cars, trailers and semi-trailers (3.1 p.p. increase of the share in industrial production, up by 16.3% yoy), production of

[26] Central Statistical Office of Poland
[27] Central Statistical Office of Poland
[28] Indexmundi.com
[29] http://www.indexmundi.com
[30] Business Insider Polska
[31] GUS Statistical Bulletin (comprising data of enterprises employing more than 9 people)
[32] Central Statistical Office of Poland
[33] izolacje.com.pl

finished metal products (+0.5 p.p., up by 5.0% yoy) and machine and equipment repair and installation sector (+0.4 p.p., up by 12.9% yoy). Negative contributors to the growth rate included: production of chemicals and chemical products (-0.4 p.p., down by 13.4% yoy), production of other transport equipment (-0.3 p.p., down by 2.8% yoy) and mining and extraction of raw materials (-0.3 p.p., down by 10.9% yoy)[34].

Revenues from industrial activity at current prices in Q2 2016 rose by 2.1% yoy. Direct export revenues of industrial companies at current prices increased by 4.4% yoy. Revenues from domestic sales, which comprises indirect exports through non-industrial companies, decreased 1.1% yoy[35].

The value of new orders in the period April-June 2016 in selected sectors increased by 9.7% yoy. The number of new orders from abroad increased by 12.8% yoy, while the number of new domestic orders increased by 3.8% yoy.

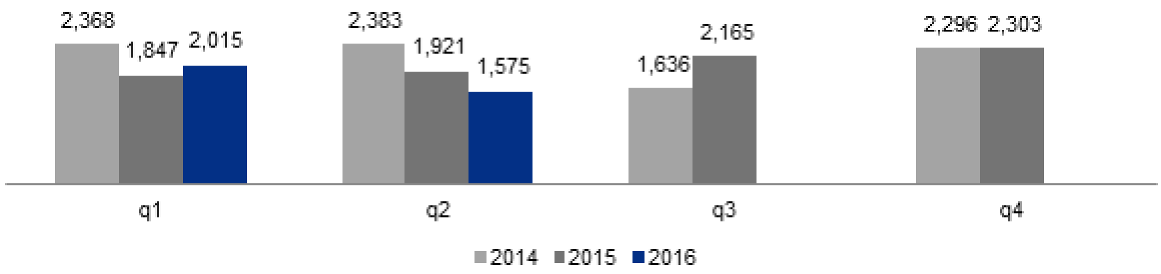
The average number of registered employees in industrial companies employing 50 or more staff in Q2 2016 increased 3.0% yoy. In the same period, the average monthly nominal gross salary of such employees increased by 3.8% yoy and amounted to CZK 29,543[36] (approx. PLN 4,668).

Mining industry

The hard coal production in Q2 2016 was 1,575 thousand tons. However one should point to the difficult situation of the Czech hard coal mining which is bound to impact the results also in the quarters to come. The only Czech company mining this raw material, OKD, is currently in bankruptcy[37]. Since keeping the operations of OKD is an important condition for maintaining social stability in the region (OKD employs 12.5 thousand workers), the Czech government has decided to grant a loan in the amount of CZK 700 million (approx. PLN 113.2 million) to save the financial liquidity of the insolvent company from the New World Resources group.

The figure below presents quarterly hard coal production (coking and steam coal, without coke and coal deposit) in 2014-2016.

Figure 7 Quarterly extraction of hard coal in the Czech Republic in 2014-2016 (thousand tons)

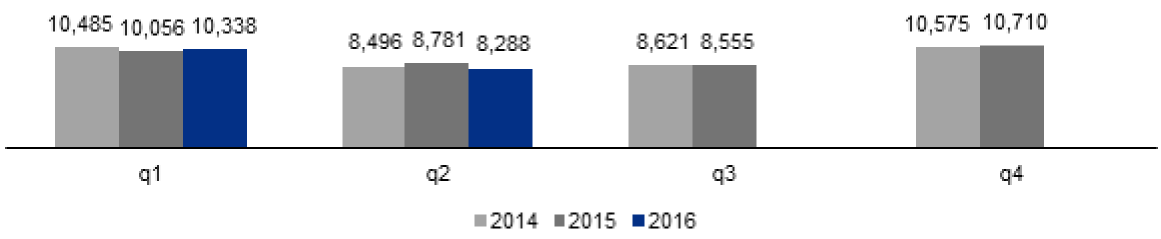


Source: Czech Ministry of Industry and Trade

The situation in brown coal production is more stable than in hard coal. In Q2 2016 the production of this raw material was close to Q2 2014 and 2015 and reached 8,288 thousand tons. The biggest producers of brown coal in the Czech Republic are: Severeročeské doly a.s., Sokolovská uhelná a.s., Vršanská uhelná a.s. and Severní energetická a.s. The total brown coal production in H1 2016 was 18.6 million tons, down by 211 thousand tons yoy (1.1% yoy) from 18.8 million tons in H1 2015.

[34]Czech Statistical Office
[35]Czech Statistical Office
[36]Czech Statistical Office
[37] Reuters

Figure 8 Quarterly extraction of brown coal in the Czech Republic in 2014-2016 (thousand tons)



Source: Czech Ministry of Industry and Trade

Steel industry

The metallurgical industry in the Czech Republic consists of: metal processing (ferrous and non-ferrous metals) and metal foundry industry. The main driver for the sector's development is primarily robust demand from the automotive, construction and mechanical engineering industries. In turn, the biggest barrier to development of this sector in the Czech Republic is the high cost of international transport. Marine transport and inland navigation are financially the most attractive for this sector, however due to Czech Republic's geographical location, this solution is practically unavailable. Land transport is the most common, but it is decisively more expensive than water transport[38].

According to the data from Steel Federation a.s., the yoy production growth rate in H1 2016 in the case of pig iron is positive, up by 0.2% yoy. Similarly, yoy growth was shown by hot-rolled materials, where the growth rate was 4.5% yoy. The negative growth rate of production in H1 2016 was recorded for raw steel production, which amounted to -2.7% yoy[39].

Construction industry

In Q2 2016, a 10.2% yoy decrease in construction and installation production was recorded. The figure adjusted for seasonality due to the number of working days dropped by 12.0% yoy. Building production, in turn, decreased by 8.0% yoy (decrease of the share of construction production in total by 5.2 p.p.) and engineering construction production dropped by 14.5% yoy (-5.0 p.p.)[40].

The average number of registered employees [41] in companies employing 50 or more staff in construction industry in April-June 2016 decreased 2.5%. The average monthly nominal gross salary of such employees increased by 5.4% yoy and amounted to CZK 32,920 (approx. PLN 5,201).

In the period April-June 2016 the number of granted building permits amounted to 23,193, up by 7.6% yoy. The approximate total value of the buildings for which building permits were issued amounted to CZK 85.3 billion and increased 25.6% yoy.

The number of apartments started in Q2 2016 decreased by 7.0% yoy and amounted to 7,324. The number of apartments in single-family houses increased 17.9% yoy and in multi-family buildings decreased by 47.1% yoy. The number of apartments completed in Q2 2016 increased by 9.5% yoy and amounted to 6,077. The number of completed apartments in single-family houses increased 9.0% yoy and in multi-family buildings increased by 21.1% yoy.

Automotive Industry

One of the most important sectors of the Czech industry is automotive industry. Long-term tradition of car production and a significant position of this industry of the Czech economy in Europe make it one of the most important stimuli of development of the Czech economy. Additionally, creation of still increasing numbers of jobs in the automotive industry and regular increase of production during the year is an important factor. Since 2010, over one million cars per annum are regularly produced[42].

The most important car passenger manufacturers in the Czech Republic include: Škoda Auto, Hyundai Motor Manufacturing Czech (HMMC) and Toyota Peugeot Citroën Automotive (TPCA). Delivery vans and buses are manufactured by: SOR Libchavy, Iveco Bus and TATRA.

[38] http://www.budoucnostprofesi.cz/sectoral-studies/industries-development/14_manufacture-of-basic-metals-and-fabricated-metal-products.html
[39] Steel Federation a.s.
[40] Czech Statistical Office
[41] The breakdown does not comprises persons working on the basis of different employment contracts, business owners and cooperating household members who do not have employment contracts
[42] AutoSAP

According to the information provided by Automotive Industry Association, 737,587 road vehicles were manufactured in the Czech Republic in H1 2016, up 11.7% yoy. In the period January-June 2016 the Czech industry manufactured 719,495 passenger cars, up by 11.9% yoy. In addition, in total 2,212 buses (0.7% increase yoy) and 1,081 motorcycles (up by 16.0% yoy) were manufactured. The biggest increase was recorded in production of trucks – in H1 2016, 529 trucks were manufactured, up 30.3% yoy.

4.2. Freight transportation activity

The rail freight market is presented was described taking into account the transport of cargo in the domestic and international markets. The report also presents statistics about the Czech rail transport market following the consolidation of the AWT Group by the full method with the PKP CARGO Group as of 28 May 2015. The Polish and Czech markets in 2015 and H1 2016 were the most important for the PKP CARGO Group (PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and AWT Group).

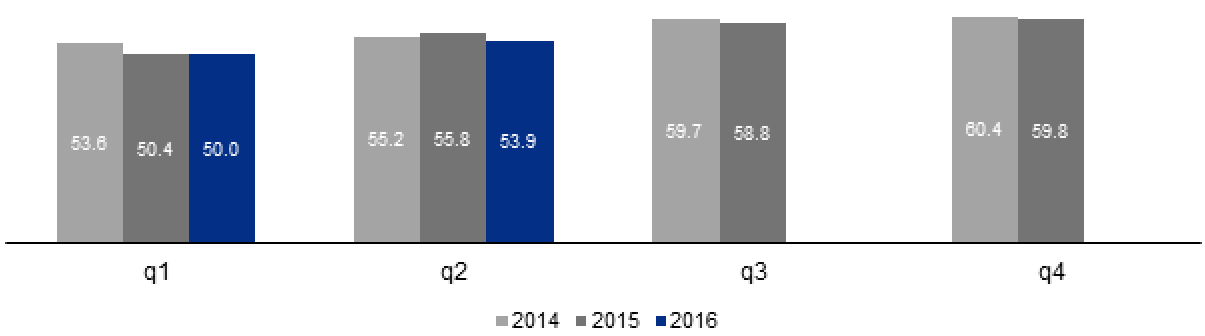
4.2.1. Rail transport market in Poland

In H1 2016, rail freight services were provided by 62 licensed operators, including PKP CARGO S.A. and PKP CARGO SERVICE Sp. z o.o. Between January and June 2016, 103.8 million tons of cargo was transported by rail. In the corresponding period of 2015 in total 106.2 million tons of cargo was transported, down by 2.3% yoy. Freight turnover in rail transport, in turn, was 0.1% yoy lower, reaching 23.9 billion tkm. The average haul in January-June 2016 increased by 5.0 km yoy (+2.2% yoy) to 230.3 km.

Lower freight volume in H1 2016 was associated primarily with delays in resolution of tenders and commencement of construction works in infrastructural investments. The delays had direct impact on the lower level of transport of aggregates in Poland. In addition, in the period January-June 2016, transport of hard coal was lower than in the corresponding period last year. This was caused mainly by smaller demand for this raw material and its low prices in ARA ports. Another reason was the high level of coal inventories held by energy generators. Also transport of ores was lower in H1 2016, which had direct impact on the decrease of metal production and, consequently, lower volumes of transported semi-finished products and finished products from this market segment.

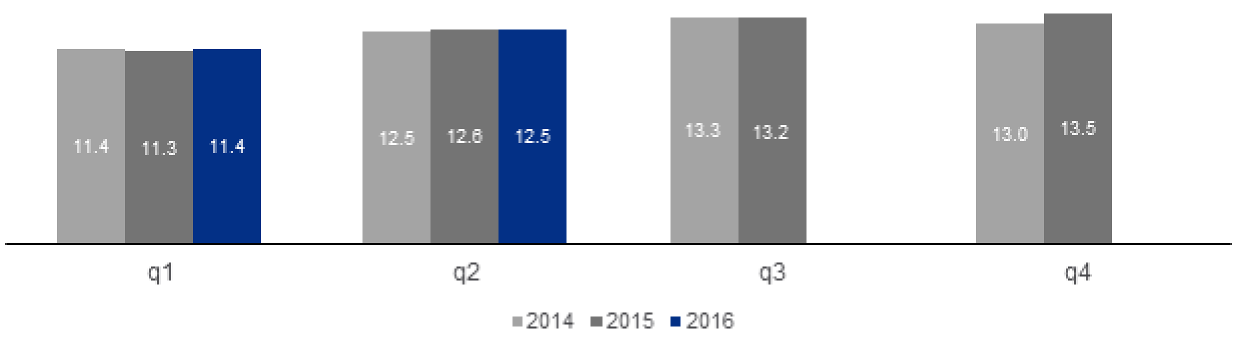
In the period January-June 2016 transport of oil and petrochemical products and intermodal transport increased. Increase of oil transport resulted, among other things, from increased imports of this raw material from Belarus. Higher intermodal transport was associated mainly with development of rail connections from China to Poland and higher transport to seaports.

Figure 9 Rail freight volumes in Poland (in million tons) in individual quarters of 2014-2016



Source: Office of Rail Transport

Figure 10 Rail freight turnover in Poland (in billions tkm) in individual quarters of 2014-2016

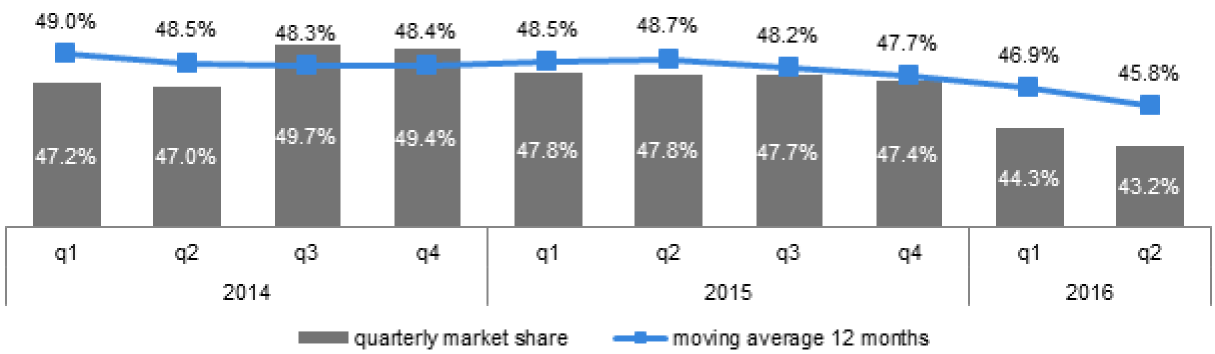


Source: Office of Rail Transport

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

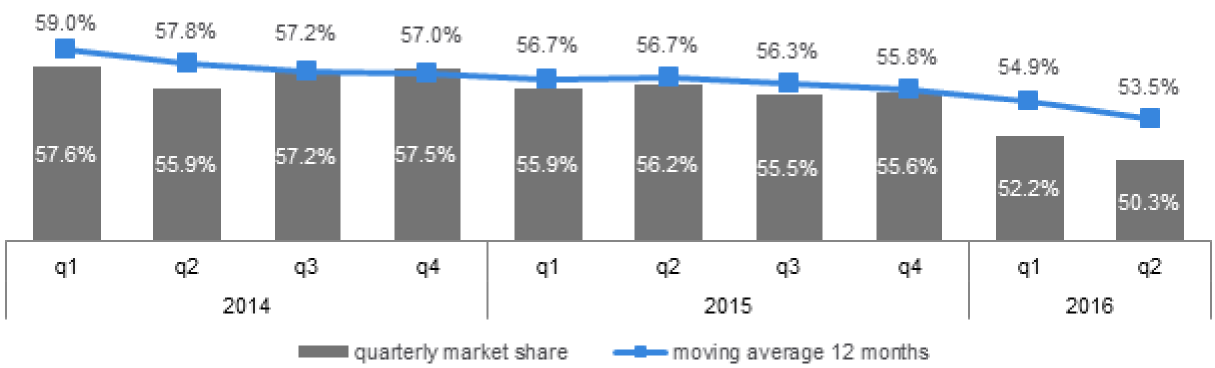
In H1 2016 the PKP CARGO Group continued its operations as the leader in the Polish rail freight market. The Group had a 43.8% market share (-4.1 p.p. yoy) in terms of freight volume and a 51.2% market share in terms of freight turnover (-4.8 p.p. yoy).

Figure 11 Share of the PKP CARGO Group in freight volume in 2014-2016 in Poland



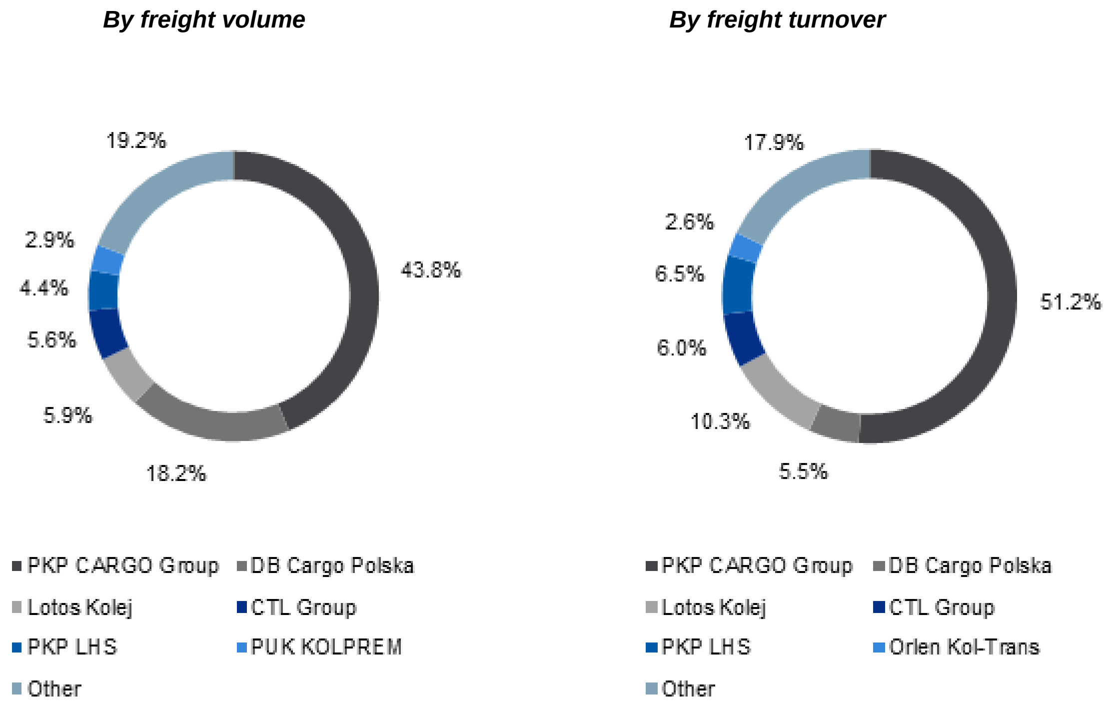
Source: Proprietary material based on Office of Rail Transport's data

Figure 12 Share of the PKP CARGO Group in freight turnover in 2014-2016 in Poland



Source: Proprietary material based on Office of Rail Transport's data

Figure13 Market shares of the biggest rail operators in Poland in H1 2016, by freight volume and freight turnover



Source: Proprietary material based on Office of Rail Transport's data

The most active operators in the Polish freight rail transport market include, in addition to the PKP CARGO Group: DB Cargo Polska, Lotos Kolej, CTL Group, PKP LHS, PUK KOLPREM and Orlen Kol-Trans.

In H1 2016, the biggest competitive operators for the PKP CARGO Group in terms of freight volume were: DB Cargo Polska, Lotos Kolej and CTL Group, recording market shares of: 18.2%, 5.9% and 5.6% respectively. In terms of freight turnover, the main competitors were: Lotos Kolej, PKP LHS and CTL Group. The recorded 10.3%, 6.5% and 6.0%, respectively.

In the period January-June 2016, compared to the first six months of 2015, the biggest increases in freight turnover were recorded among the following competitive rail operators: Lotos Kolej (+137.0 million tkm, which resulted in a 0.6 p.p. increase), PUK Kolprem (+98.3 million tkm, up 0.4 p.p.) and DB Cargo Polska (+43.9 million tkm, which resulted in a 0.2 p.p. increase). Increase of the volume of transported cargo in H1 2016 compared to the corresponding period of last year was recorded by the following operators competitive to PKP CARGO Group: PUK Kolprem (+466.6 thousand tons, which resulted in a 0.5 p.p. increase), DB Cargo Polska (+218.3 thousand tons, up 0.6 p.p.) and Lotos Kolej (+201.3 thousand tons, up 0.3 p.p.).

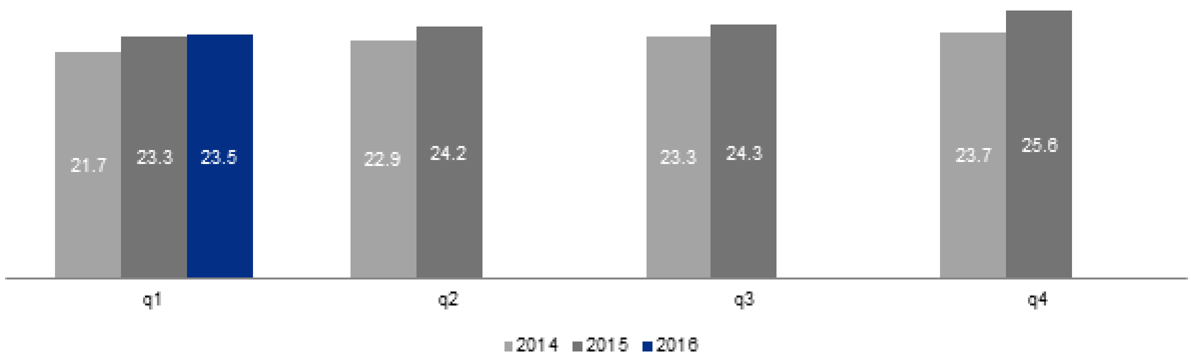
4.2.3. Rail freight market in the Czech Republic

Total freight transport in the Czech Republic in Q1 2016 was 102.5 million tons in freight volume and 15.5 billion tkm in freight turnover. From this amount, 23.5 million tons was transported using rail, i.e. 22.9% of total freight volume). The rail freight turnover was 3.7 billion tkm, i.e. 23.5% of total freight transport[43]. Road transport had, by far, the biggest share, both in terms of freight volume and freight turnover, with 76.6% and 75.4%, respectively. Air transport and inland navigation had marginal shares in the transport in the Czech market, reaching the total share of less than 0.5% in freight volume and approx. 1.0% in freight turnover.

In Q1 2016, 23.5 million tons of cargo was transported by rail. This is 229.6 thousand tons (1.0% yoy) more than in Q1 2015, but 2.2 million tons less than in Q4 2015 (-8.4% qoq). In terms of freight turnover the result recorded in Q1 2016 of 3.7 billion tkm is lower than in Q1 2015 by 45.2 million tkm, down by 1.2% yoy. Compared to Q4 2015, when freight turnover was 4.0 billion tkm, this is a decrease by 391.9 million tkm, down by 9.7% yoy. Freight turnover recorded in the entire 2015 was 15.3 billion tkm and was 0.7 billion tkm, i.e. 4.7% yoy, higher than in 2014.

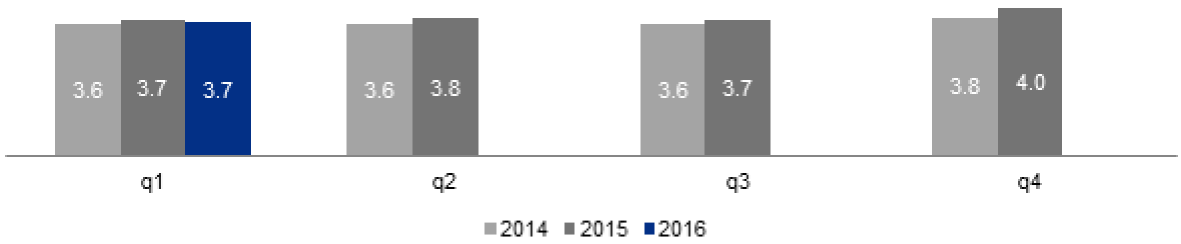
[43]Ministry of Transport of the Czech Republic

Figure 14Rail freight transport by freight volume in Czech Republic in individual quarters of 2014-2016 (million tons)



Source: Czech Statistical Office

Figure 15 Rail freight transport by freight turnover in the Czech Republic in individual quarters of 2014-2016 (in billions of tkm)



Source: Czech Statistical Office

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

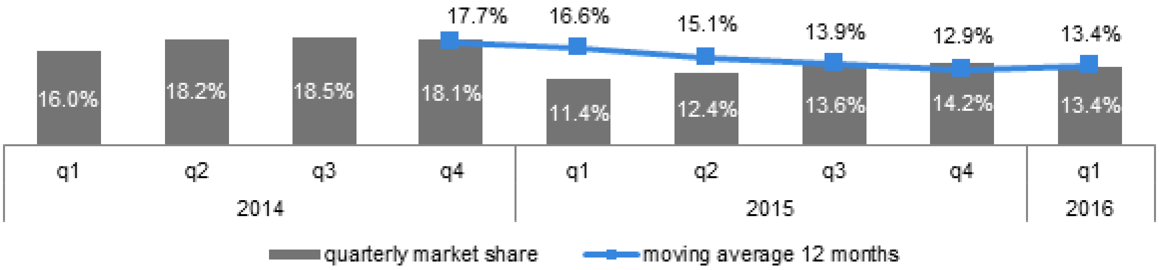
According to the data presented by the Czech infrastructure manager (SŽDC), in January-May 2016 there were 94 carriers in the Czech Republic holding licenses to provide rail freight services, including PKP CARGO S.A. and Advanced World Transport a.s.[44]

In Q1 2016, AWT still had a bigger share in terms of freight volume than in Q4 2014 and Q1 2015, but this share is lower than in Q4 2015. The share in Q1 2016 amounted to 13.4%, up by 2.0 p.p. yoy (in Q1 2015 the share was 11.4%) and down by 0.8 p.p. qoq (in Q4 2015 the share was 14.2%). Lower volumes transported by AWT in Q1 2016 qoq resulted from lower hard coal freight volume due to the situation in OKD and lower volumes transported in the aggregates sector due to seasonality in the transport of this cargo category.

AWT a.s.'s market shares in freight turnover in Q1 2016 dropped qoq by 0.2 p.p. (from 9.6% in Q4 2015 to 9.4%) and increased yoy by 1.2 p.p. (8.2% in Q1 2015).

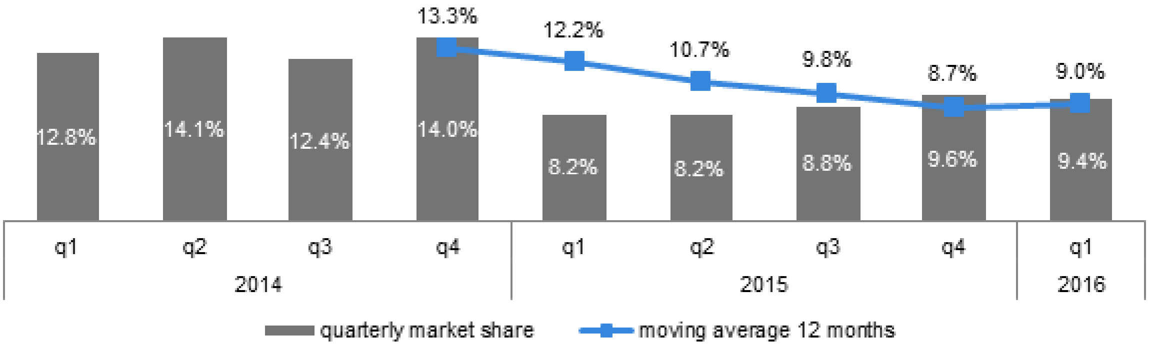
Figure16 AWT a.s.'s market shares in terms of freight volume in the Czech Republic quarterly in 2014-2016.

[44] Správa železniční dopravní cesty (SŽDC)



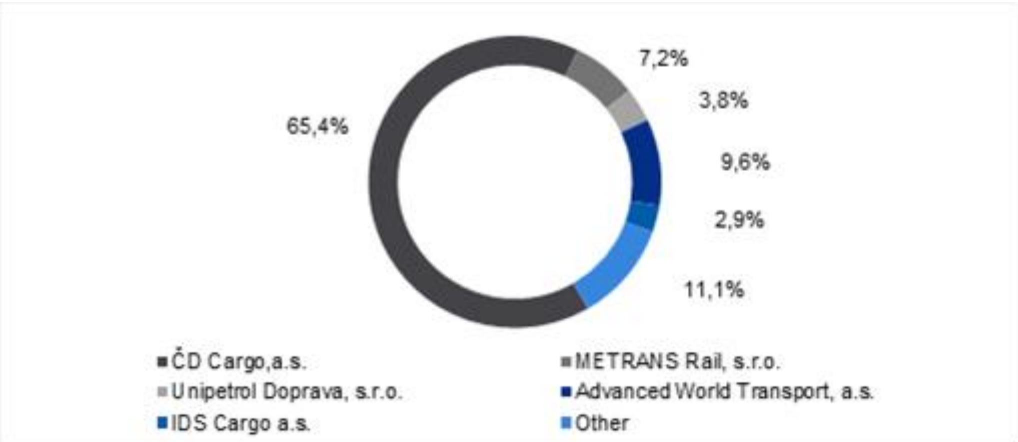
Source: Proprietary material

Figure17 AWT a.s.'s market shares in terms of freight turnover in the Czech Republic quarterly in 2014-2016.



Source: Proprietary material

Figure 18 Market shares of the biggest rail operators by operational freight turnover in the Czech Republic in H1 2016 (btkm)



Source: SŽDC

In the period January-June 2016, the leader of the Czech rail freight market was again ČD Cargo a.s. with a share of 65.4% in terms of gross freight turnover. The company recorded a decline of the share by 1.6 p.p. yoy (in the first 6 months of 2015 the operator held 67.0% of the market). The majority of this market share was taken over by AWT a.s., which increased its market share by 0.9 p.p. yoy from 8.7% between January-June 2015 to 9.6% in the corresponding period of 2016[45], and the third operator in the Czech market – METRANS Rail s.r.o., which in the same period increased its market share by 1.1 p.p. yoy, from 6.1% in H1 2015 to 7.2% in January-June 2016.

[45] SZDC

The main rail operators in the Czech Republic with market shares above 5% in terms of gross freight turnover in January-June 2016 were: state-owned ČD Cargo a.s., Advanced World Transport a.s. and METRANS Rail s.r.o. Other carriers in the rail transport market with less than 5% but more than 1% share included: Unipetrol Doprava, s.r.o., IDS Cargo a.s., SD – Kolejova doprava, Rail Cargo Carrier - Czech Republic and LTE Logistika Transport Czechia s.r.o.

4.2.5. PKP CARGO Group's rail transport

The data on the transport activity conducted by the PKP CARGO Group in H1 2016 and H1 2015 comprise consolidated data for PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and the AWT Group companies, however the data on the AWT Group pertain only to the period from its acquisition by PKP CARGO S.A. (it has been consolidated by the full method since 28 May 2015). In H1 2016, the acquired AWT Group companies recorded freight turnover of 808 million tkm and carried freight volume of 6,841 thousand tons[46].

The transport activity in H1 2016 was conducted by 5 entities from the Group. Following the acquisition (80% of shares) of 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 works with the largest Polish and global capital groups, including, among others, ArcelorMittal, PKN Orlen, PGNiG Terminka, Lafarge Group, Azoty Group, Węglokoks, Jastrzębska Spółka Węglowa, Tauron Group, Enea Group, PGE Group and International Paper. The contracts with the aforementioned business partners are systematically renewed which confirms the high quality of the transportation services provided by the PKP CARGO Group.

The PKP CARGO Group provides rail freight services in the territory of Poland and seven other European Union states, i.e.: Germany, Czech Republic, Slovakia, Austria, 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 Adriatic Sea (Koper, Triest, Rijeka).

Regardless of foreign ports, the PKP CARGO 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 cooperation aimed at developing a whole-train rail link between China and Europe and developing strategic cooperation in the field of transshipment activity in Małaszewicze. The primary objective of the project is to increase the volumes of overland intermodal transport between China and Western Europe through Małaszewicze and back to Asia. Development of trade cooperation between Poland and People's Republic of China is expected to be facilitated thanks to execution of trade agreements and bilateral treaties on the government and enterprise level during the visit of China's president Xi Jinping in Poland.

In H1 2016, the PKP CARGO Group carried 52.2 million tons of cargo (similarly to the corresponding period of last year) and achieved freight turnover of 13.5 billion tkm (-2% yoy). The Group's transport performance in H1 2016 was materially affected by the increase in transports outside of Poland, which reached 9.0 million tons (+208% yoy) while freight turnover of 1.2 billion tkm (+225% yoy) was achieved.

H1 2016 was characterized by market activities including, among other things, PKP CARGO Group's competitors entering tenders in a consortium and diversification of carriers by buyers of transport services. 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 55% of transported volumes and 45% of realized freight turnover by the PKP CARGO Group in H1 2016. In the same period, transportation of solid fuels was higher by 5% yoy in terms of freight turnover and lower by 1% yoy in terms of freight volume. The freight turnover realized in the solid fuels segment was also affected by: decrease of the average haul of hard coal in H1 2016 (-6% yoy) resulting from a decrease of transit transport through Poland, which is characterized by long distances, and the short distance transport (under 100 km) realized by the AWT Group companies. In H1 2016, freight volume in hard coal transport increased by 3% yoy and the freight turnover decreased by 3% yoy, driven, on the one hand, by a significant growth in international freight in terms of freight volume (+204% yoy) and freight turnover (+138 yoy) and on the other hand decrease of transport of this raw material in Poland. The increase of foreign transport of hard coal was attributable to the purchase of the shares in AWT (freights from the Czech Republic to Germany bypassing Poland) increase of freight from the Czech Republic to Slovakia. In hard coal transport in Poland, a 9% yoy decrease of freight was recorded, both in terms of freight volume and freight turnover, which results from the difficult situation of the Polish coal concerns and decreased demand for hard coal. Oversupply of this commodity and inventories kept in the yards result in smaller volumes available to be transported in the market. Additionally,

[46] This applies to the AWT Group companies consolidated by the full method.

buyers from the power sector diversify carriers. Historically low coal prices in international markets have changed the directions of supply for foreign buyers. Polish hard coal was pushed out by better quality coal from Australia or Africa, leading to a decrease of freight volume in exports by PKP CARGO S.A. in H1 2016 by 15% yoy, with imports increasing 12% yoy. Favorable impact on the transport of solid fuels in H1 2016 was exerted by the transport of coke, whose volume was 29% higher yoy, and freight turnover was 24% higher yoy mainly due to winning new contracts for transport to Germany and in transit from the Czech Republic via Polish seaports.

Aggregates and construction materials were the second largest group of products carried by the PKP CARGO Group in H1 2016, with a 13% share in total freight turnover (17% in the corresponding period of 2015). In transport of aggregates and construction materials in H1 2016, an 18% yoy decrease was recorded in terms of freight volume and a 24% decrease in terms of freight turnover. The decrease of transport in this segment results from postponing road investment projects ("design and build" tenders), decrease of expenditures on rail investments in connection with low progress of the projects, decrease of hydrotechnical investments and decrease of demand for limestone due to lower total production of metallurgical products.

Products associated with the metallurgical industry, i.e. metals and ores, are another important market area serviced by the PKP CARGO Group. Their share in the Group's freight turnover in H1 2016 was 13% (i.e. the same as in H1 2015). This segment recorded a decrease of transported freight volume by 13% yoy in connection with the lower demand for metal ores resulting from the situation in the metallurgical industry in global markets (economic slowdown in China causes decreased demand for steel) and periodic suspension of deliveries of this raw material to one of the key customers of the Group as a result of overhaul of a furnace). A significant impact on the level of transport of metals and ores (both raw materials and semi-finished products) in H1 2016 was also exerted by overhauls of the COS (continuous steel casting) line at two of the Group's most important customers and the resulting decrease of steel production (in H1 2016, Poland produced 4.4 million tons of steel, 11.3 % yoy less). In H1 2016, in connection with the changes in the structure of the freight routes in this segment, average haul increased by 7% yoy, which contributed to decreasing the freight turnover in this segment by 7% yoy.

In transport of liquid fuels in H1 2016, freight volume rose by 13% yoy and freight turnover by 59% yoy, which is attributable mainly to an increase of the average haul by 41% yoy. A significant increase of the freight in this product category results from commencement of cooperation with customers for whom, among others, liquid fuels were transported – imports and transit from Belarus.

In H1 2016, a 5% yoy decrease in freight turnover and a 6% yoy decrease of freight volume was recorded in timber and agricultural produce, which was driven by lower volume of domestic transport of timber, partly compensated by increased imports and transit of timber from Belarus. Lower transport of timber and agricultural produce resulted also from lower demand for export transport of rapeseed middlings and molasses.

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 2016, the transport of intermodal units increased in terms of container freight volume by 30% yoy, while freight turnover increased by 25% yoy. The increase in intermodal transport carried out by the Group is driven by the acquisition of new clients and freight routes, as well as the size of transports executed by AWT.

Table 15 Freight turnover of the PKP CARGO Group in H1 and Q2 2015 and 2016*

Item	6 months of 2016	6 months of 2015	Change	% change	6 months of 2016	6 months of 2015	Q2 2016	Q2 2015	% change
	(million tkm)			*%*	*percentage of total (%)*		*(million tkm)*		*%*
Solid fuels[1]	6,098	6,152	-54	-1%	45%	45%	2,998	3,204	-6%
of which hard coal	5,400	5,592	-191	-3%	40%	41%	2,577	2,934	-12%
Aggregates and construction materials[2]	1,784	2,359	-576	-24%	13%	17%	1,154	1,412	-18%
Metals and ores[3]	1,719	1,847	-128	-7%	13%	13%	815	946	-14%
Chemicals[4]	1,044	1,029	14	1%	8%	7%	539	530	2%
Liquid fuels[5]	550	346	203	59%	4%	3%	277	217	28%
Timber and agricultural produce[6]	750	791	-41	-5%	6%	6%	335	412	-19%
Intermodal transport	1,146	913	233	25%	9%	7%	604	450	34%
Other[7]	384	349	36	10%	3%	3%	213	193	11%
Total	**13,474**	**13,787**	**-312**	**-2%**	**100%**	**100%**	**6,935**	**7,363**	**-6%**

Source: Proprietary material

** In connection with the acquisition of AWT, foreign transports started to be presented under PKP CARGO S.A.'s own licenses and the presentation of data concerning freight turnover performed in Poland were unified with the data delivered to the Office of Rail Transport (freight turnover achieved in the area of infrastructure managers other than PKP PLK S.A. was taken into account), hence data for 2015 have been updated.*

Table 16 PKP CARGO Group's freight volume in H1 and Q2 2015 and 2016

Item	6 months of 2016	6 months of 2015	Change	% change	6 months of 2016	6 months of 2015	Q2 2016	Q2 2015	% change
	(000s tons)			%	percentage of total (%)		(000s tons)		%
Solid fuels[1]	28,874	27,482	1,392	5%	55%	53%	14,224	14,372	-1%
of which hard coal	25,852	25,132	720	3%	49%	48%	12,648	13,129	-4%
Aggregates and construction materials[2]	7,001	8,576	-1,576	-18%	13%	16%	4,444	5,220	-15%
Metals and ores[3]	5,440	6,234	-794	-13%	10%	12%	2,599	3,184	-18%
Chemicals[4]	3,218	2,998	221	7%	6%	6%	1,622	1,498	8%
Liquid fuels[5]	1,435	1,274	161	13%	3%	2%	756	792	-5%
Timber and agricultural produce[6]	2,189	2,336	-146	-6%	4%	4%	994	1,199	-17%
Intermodal transport	3,031	2,335	696	30%	6%	4%	1,589	1,161	37%
Other[7]	1,049	935	114	12%	2%	2%	571	520	10%
Total	**52,237**	**52,169**	**68**	**0%**	**100%**	**100%**	**26,800**	**27,946**	**-4%**

Source: Proprietary material

Table 17 Average haul of the PKP CARGO Group in H1 and Q2 2015 and 2016*

Item	6 months of 2016	6 months of 2015	Change	% change	Q2 2016	Q2 2015	% change
	km			%	km		%
Solid fuels[1]	211	224	-13	-6%	211	223	-5%
of which hard coal	209	222	-14	-6%	204	223	-9%
Aggregates and construction materials[2]	255	275	-20	-7%	260	270	-4%
Metals and ores[3]	316	296	20	7%	314	297	6%
Chemicals[4]	324	343	-19	-6%	332	354	-6%
Liquid fuels[5]	383	272	111	41%	366	273	34%
Timber and agricultural produce[6]	343	339	4	1%	337	344	-2%
Intermodal transport	378	391	-13	-3%	380	387	-2%
Other[7]	367	373	-7	-2%	374	371	1%
Total	**258**	**264**	**-6**	**-2%**	**259**	**263**	**-2%**

Source: Proprietary material

* *In connection with the acquisition of AWT, foreign transports started to be presented under PKP CARGO S.A.'s own licenses and the presentation of data concerning freight turnover (having direct impact on the average haul) performed in Poland were unified with the data delivered to the Office of Rail Transport (freight turnover achieved in the area of infrastructure managers other than PKP PLK S.A. was taken into account), hence data for 2015 have been updated.*

[1] *Includes hard coal, coke and lignite.*
[2] *Includes all kinds of stone, sand, bricks and cement.*
[3] *Includes ores and pyrites, as well as metals and metal products.*
[4] *Includes fertilizers and other chemicals.*
[5] *Includes crude oil and petrochemical products.*
[6] *Includes grain, potatoes, sugar beets, other produce, wood and wooden products.*
[7] *Includes ferry transportation and other freight.*

From the point of view of the directions in which the PKP CARGO Group's transportation services were provided, transportation within Poland was dominant, constituting 91% of the realized freight turnover in H1 2016. Compared to H1 2015, the share of freight turnover outside the territory of Poland increased by 6 p.p., which points to dynamic development of freight outside of Poland.

4.3. Other services

The Group's core business is rail freight transport. In addition to rail freight transport services, the Group also provides additional services:

- 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 PKP CARGO CONNECT Sp. z o.o. and AWT Čechofracht a.s.;

- 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 and Hungary;

- transshipment services – the PKP CARGO Group has been developing its transshipment activity on the basis of 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. Within the Group, PKP CARGO CONNECT 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;

- rolling stock repairs – maintenance of the Group's rolling stock is provided 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 does not distinguish operating segments of its activity, since it has one main product, which incorporates all the material services provided by the Group. The Group conducts its business within one main segment – domestic and international cargo freight and provision of comprehensive logistics services related to rail freight. The Management Board of the parent company analyzes financial data in the layout in which they were presented in the Condensed Interim Consolidated Financial Statements of the Group. The Group additionally provides services related to rolling stock repairs and land reclamation services, but they are not material for the Group's business and therefore are not treated as separate operating segments.

4.4. Headcount

Information on changes in the headcount in the PKP CARGO Group in 6M 2016 and 2015 is provided below.

Table 18 Headcount in H1 2016 in the PKP CARGO Group (taking into account only active employees)

Item	Headcount as at:			Change YTD	Change in Q2 2016
	30/06/2016*	31/03/2016**	31/12/2015***		
Company	17,715	17,802	17,979	-264	-87
Subsidiaries	5,764	5,823	5,826	-62	-59
Total	**23,479**	**23,625**	**23,805**	**-326**	**-146**

Source: Proprietary material

** including AWT Group's employees (2,094 persons)*
*** including AWT Group's employees (2,156 persons)*
**** including AWT Group's employees (2,149 persons)*

Table 19 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**

Source: Proprietary material
** including AWT Group's employees (2,107 persons)*

Table 20 Average headcount in H1 2016 and 2015 in the PKP CARGO Group (taking into account only active employees)

Item	Average headcount in FTEs		Change	Average headcount in persons		Change
	6 months* 2016	6 months* 2015		6 months* 2016	6 months* 2015	
Company	17,829	19,053	-1,224	17,834	19,055	-1,221
Subsidiaries	5,790	5,975	-185	5,815	6,001	-186
Total	**23,619**	**25,028**	**-1,409**	**23,649**	**25,056**	**-1,407**

Source: Proprietary material

** including AWT Group's employees (2,129 FTEs / 2,135 persons)*
*** including AWT Group's employees (2,103 FTEs / 2,107 persons)*

Table 21 Change in the headcount structure in H1 2016 in the PKP CARGO Group (taking into account only active employees)

Item	Headcount as at:			Change YTD	Change in Q2 2016
	30/06/2016*	31/03/2016**	31/12/2015***		
White-collar positions	5,297	5,328	5,324	-27	-31
Blue-collar positions	18,182	18,297	18,481	-299	-115
Total	**23,479**	**23,625**	**23,805**	**-326**	**-146**

Source: Proprietary material

** including AWT Group's employees (2,094 persons)*
*** including AWT Group's employees (2,156 persons)*
**** including AWT Group's employees (2,149 persons)*

Table 22 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**

Source: Proprietary material

** including AWT Group's employees (2,107 persons)*

Comparing the period of the 6 months of 2016 to the corresponding period of 2015, we can observe a decrease of the average headcount in the PKP CARGO Group by 1,409 FTEs – it results directly from the execution of the Voluntary Redundancy Programs in 2015.

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

4.5. PKP CARGO Group's investments

In H1 2016, the Group incurred capital expenditures for purchase of property, plant and equipment and intangible assets in the form of purchases, modernizations and the so-called overhaul component (periodic repairs and overhauls of the rolling stock) in the amount of PLN 267.5 million, which accounted for 106% of the actuals for H1 2015.

Most part of the capital expenditures in H1 2016 in the Group was allocated for execution of investment tasks associated with the rolling stock, mainly for purchase of multi-system locomotives (6), periodic repairs and overhauls of the rolling stock and modernization of locomotives (3) - in total PLN 247.2 million (i.e. 92% of capital expenditures). In addition, expenditures were incurred on computerization, i.e. purchases of computer hardware and intangible assets (software) in the amount of PLN 9.0 million, investment construction activity in the amount of PLN 6.3 million and purchases of other machinery and other equipment for PLN 5.0 million.

A detailed schedule of capital expenditures H1 2016 and a comparison with the actuals from H1 2015 is presented in the table below.

Table 23 Capital expenditures on property, plant and equipment and intangible assets in the PKP CARGO Group in H1 2016 as compared to H1 2015 (thousands of PLN)

Item	6 months2016	6 months2015	Change	% change
Investment construction activity	6,312	4,153	2,159	52%
Purchase of traction vehicles	101,513	0	101513	-
Modernization of locomotives	14,525	51,439	-36,914	-72%
Purchase of wagons	0	11,457	-11,457	-
Machinery and equipment	2,578	4,259	-1,681	-39%
ITC development	8,951	19,633	-10,682	-54%
Other	2,460	2,026	434	21%
Components in overhaul*:	131,125	159,102	-27,977	-18%
Periodic repairs of locomotives	46,967	77,762	-30,795	*-40%*
Periodic repairs of wagons	84,158	81,340	2,818	*3%*
Total	**267,464**	**252,069**	**15,395**	**6%**

Source: Proprietary material

** according to the Company's Accounting Policy, the line item "Components in overhaul" in 2015 and 2016 includes periodic inspections of locomotives and wagons (P3).*

4.6. Key information and events

Table 24 Key information and events which occurred in H1 2016 and after the balance sheet date

Period	Event
January	• The Company's Management Board received a decision of the President of the Competition and Consumer Protection Office ("President of UOKiK") No. DOK-5/2015 of 31 December 2015 pursuant to which the President of UOKiK: i. concluded that the Company abused the dominant position in the domestic rail freight market by preventing the development of conditions required for the emergence or development of competition through the introduction, as of 1 May 2006, of changes to the "Rules of sale of freight services by PKP CARGO S.A.", in particular § 5 sec. 6-10 contained in chapter I of these rules which authorized the Company to refuse to sign special agreements with commercial undertakings considered to be the Company's competitors; ii. concluded that the aforementioned practice was abandoned as of 1 July 2007; and iii. imposed on the Company a fine in the amount of PLN 14,224,272.18. In the opinion of the Company's Management Board, the decision of the President of the UOKiK of 31 December 2015 is groundless. PKP CARGO S.A. filed an appeal to UOKiK against the Decision. • PKP CARGOTABOR USŁUGI Sp. z o.o. ("PKP CU") was notified by PKN ORLEN S.A. of the fulfillment of the first condition precedent specified in the conditional binding purchase agreement for a 99.85% stake in the share capital of Orlen KolTrans Sp. z o.o. ("KolTrans") entered into by and between PKP CU as the buyer, PKP CARGO S.A. as the guarantor and PKN Orlen as the seller, as none of KolTrans' minority shareholders exercised its priority right to purchase KolTrans' shares they had pursuant to the KolTrans articles of association within the deadline prescribed therein. • The PKP CARGO S.A. Supervisory Board, following a recruitment procedure, on 19 January 2016 appointed Maciej Libiszewski to the position of President of the PKP CARGO Management Board. On the same day, Maciej Libiszewski resigned from the position of member of the Company's Supervisory Board. • Commencement of performance of the agreement with a consortium of Siemens Group companies for delivery of multi-system locomotives - the first 3 out of a total of 15 locomotives to be operated by PKP CARGO S.A. on international routes were delivered.
February	• Resignations from the PKP CARGO S.A. Management Board submitted by Łukasz Hadyś, Management Board Member in charge of Finance, Jacek Neska, Management Board Member in charge of Commerce, and Wojciech Derda, Management Board Member in charge of Operations. These resignations entered into force with immediate effect. • Satisfied was the other condition precedent provided for in the conditional binding agreement for the purchase of shares in Orlen KolTrans sp. z o.o., consisting of registration, by the competent court of registration, of amendments to KolTrans's articles of association agreed upon in the Purchase Agreement concerning, among others, the termination of PKN ORLEN's rights to appoint and dismiss members of KolTrans's corporate authorities upon sale by PKN ORLEN of all shares held in KolTrans's share capital. • On 16 November 2015, PKP CARGO S.A. made the first withdrawal under the loan from Bank Polska Kasa Opieki S.A.
March	• Following a material decline in the market prices of scrap metal in Q4 2015, the Company's Management Board, having analyzed the impact of this change on the 2015 standalone and consolidated financial statements, decided to recognize impairment losses based on the prices of appropriate scrap metal classes as at the end of 2015, on the following assets: 1) property, plant and equipment – rolling stock, in the amount of PLN 147,799 thousand, 2) inventories, in the amount of PLN 5,288 thousand; 3) non-current assets classified as held for sale, in the amount of PLN 24,029 thousand. The total amount of the impairment losses in the 2015 standalone and consolidated financial statements is PLN 143,464 thousand, which includes the effect of tax. The impairment losses are non-cash items and have no effect on PKP CARGO S.A.'s liquidity and do not affect its compliance with financial covenants under the existing loan agreements. • On 15 March 2016, a memorandum of agreement was executed between the parties to the Company Collective Bargaining Agreement for Employees Hired by the Establishments of PKP CARGO S.A. ("CCBA Memorandum of Agreement"), in particular with respect to the collective dispute commenced on 2 July 2015. Under the memorandum of agreement dated 15 March 2016, the trade unions dissolved the Protest and Strike Committee and company-level committees, and cancelled all protest and strike activities as regards the structural and organizational changes in the Company. At the same time, the Company withdrew the claims of 2 November 2015 to rule non-existence of collective disputes in the Company's individual plants and on the level of the entire Company. Moreover, the parties to the CCBA Memorandum of Agreement undertook to enter into a memorandum of agreement pertaining to the collective dispute commenced on 2 July 2015 by 30 June 2016 to implement, in particular, the post-inspection report of the District Labor Inspector in Warsaw of 15 October 2015 on making changes to the terms and conditions of salary in the form of additional protocols to the Company Collective Bargaining Agreement.

- On 16 March 2016 the Company's Management Board received a notification from Morgan Stanley (Institutional Securities Group and Global Wealth Management) concerning a reduction of the stake held by Morgan Stanley (Institutional Securities Group and Global Wealth Management) below 5% of the overall number of votes at the Company's Extraordinary Shareholder Meeting ("SM").This threshold was crossed by selling the Company's shares on the Warsaw Stock Exchange on 10 March 2016 ("Transaction"). Before the Transaction, Morgan Stanley (Institutional Securities Group and Global Wealth Management) held 2,380,008 shares of the Company representing 5.31% of the Company's share capital and 2,380,008 votes at the SM, which is 5.31% of all the votes. After the Transaction, Morgan Stanley (Institutional Securities Group and Global Wealth Management) holds 2,225,827 shares of the Company representing 4.97% of the Company's share capital and 2,225,827 votes at the SM, which is 4.97% of all the votes.
- On 18 March 2016, the Management Board adopted a resolution on submitting a motion to the Company's Shareholder Meeting to adopt a resolution to cover the net loss incurred in the amount of PLN 114,125,438.44 stemming from the Standalone Statement of Comprehensive Income for the period from 1 January 2015 to 31 December 2015 from future earnings and to recommend to the Company's Shareholder Meeting that no dividend be paid for the financial year starting on 1 January 2015.
- Execution of an annex to the Investment Loan Agreement with European Investment Bank, extending the loan availability period until 3 December 2016.
- Satisfaction of the first of the conditions precedent defined in the conditional preliminary purchase agreement (*warunkowa zobowiązująca umowa sprzedaży*) signed by PKP CARGO S.A. and Euronaft Trzebinia sp. z o.o. ("Euronaft") by the fact that both Orlen KolTrans sp. z o.o. ("KolTrans") and Euronaft obtained consistent individual tax interpretations from the relevant tax authorities, i.e. in both cases confirming classification of ZCP Kolej as an organized part of an enterprise, as defined by the relevant provisions of law.
- Withdrawal of statements of claim for the ascertainment of non-existence of collective disputes in the Company's individual plants and on the level of the entire Company.
- Adoption of the consolidated text of the Company's Articles of Association by the Company's Supervisory Board
- Adoption of resolutions by the Supervisory Board to appoint the following persons to the PKP CARGO S.A. Management Board as of 1 April 2016:
  1) Grzegorz Fingas for the position of Management Board Member in charge of Commerce,
  2) Arkadiusz Olewnik for the position of Management Board Member in charge of Finance,
  3) Jarosław Klasa, for the position of Management Board Member in charge of Operations.
- Supervisory Board adopting a resolutions on initiating the recruitment procedure for the position of Management Board Member – Representative of the Employees of PKP CARGO S.A.
- Positive opinion of the Supervisory Board on the PKP CARGO S.A. Management Board's motion to the Company's Shareholder Meeting on covering the Company's net loss for 2015 and not paying a dividend for the financial year from 1 January 2015 to 31 December 2015.
- In the year ended 31 December 2015, the Tax Group failed to reach the assumed profitability at the level of 3% – accordingly, PGK's second financial year ended on 31 March 2016 and thus the Tax Group ceased to exist.

April

- PKP CARGO S.A. started to transport 15 new rail vehicles Flirt 3 from the Stadler factory in Siedlce to Hungary. The biggest Polish rail operator will deliver them to the Slovak-Hungarian border. From there, a Hungarian carrier will take them over.
- A memorandum of agreement was signed to launch the operations of a Polish Mining Group (PGG). It will be established in place of Kompania Węglowa.
- DB Schenker Rail Polska changed its name to DB Cargo Polska. The change of the name and brand is dictated by structural transformations and new naming approach introduced on the Deutsche Bahn group level. Last year the rail, passenger and freight activity was merged into one organizational area, in which freight services are performed under the DB Cargo name. The DB Schenker brand will be still used by the DB Schenker Logistics business unit.

May

- The Czech coal consortium OKD filed for bankruptcy. The AWT Group will continue to provide services to OKD; nevertheless, in order to preclude the risk of improper and untimely payment for freight, the principle has been implemented for prepayments to be made for the amounts due for the services provided.
- PKP CARGO S.A.'s Shareholder Meeting adopted a resolution to cover the Company's net loss for 2015 and refrain from paying a dividend for the financial year from 1 January 2015 to 31 December 2015.
- On 11 May 2016, the mandate of Dariusz Browarek, the Management Board Member in charge of Employees, expired.
  With effect from 11 May 2016, the Ordinary Shareholder Meeting adopted a resolution on the appointment of Raimondo Eggink and Zofia Dzik to the Supervisory Board, both of the new Supervisory Board members satisfying the independence criteria defined in § 20 and 21 of the Company's Articles of Association.
  With effect from 11 May 2016, PKP S.A. appointed the following persons to the PKP CARGO S.A. Supervisory Board of the sixth term of office: Mirosław Pawłowski, Andrzej Wach, Małgorzata Kryszkiewicz, Czesław Warsewicz and Jerzy Kleniewski.
- PKP CARGO S.A. won a tender for the transportation of coal to the Enea Group from the Bogdanka mine in Lublin to

the Kozienice power plant. Under the new contract, the Company will transport more than 5 million tons of coal over a period of 15 months.

- The Company's Supervisory Board adopted a resolution on appointing, with effect from 20 May 2016, the following elected candidates for employee representatives to the Supervisory Board of PKP CARGO S.A. of the 6th term of office:
  – Krzysztof Czarnota,
  – Marek Podskalny,
  – Tadeusz Stachaczyński.

June

- PKP CARGO S.A. won a tender for the transportation of coal to the Enea Group from Silesian mines to the Kozienice power plant. Under the new contract, PKP CARGO S.A. will transport more than 1.25 million tons of coal over a period of 12 months.
- Commencement of operations by a freight forwarding company in Germany – PKP CARGO CONNECT GmbH with its registered office in Hamburg. Its main goal is to provide freight forwarding services focused on intermodal, marine and road transport in Germany and Western Europe.
- Execution of a memorandum of agreement between the parties to the Company Collective Bargaining Agreement for Employees Hired by the Establishments of PKP CARGO S.A. ("CCBA Memorandum of Agreement"). Under the CCBA Memorandum of Agreement, the Parties resolved to postpone the time limit for the execution of a memorandum of agreement constituting the implementation of the post-inspection report of the District Labor Inspector in Warsaw of 15 October 2015 to 31 December 2016 and to execute, by this new time limit, a memorandum of agreement ending the collective dispute commenced in the Company on 2 July 2015.
- Establishment of the Strategy Committee of the PKP CARGO S.A. Supervisory Board.
- PKP CARGO S.A. and the Azoty Group signed a two-year contract for the transportation of more than 4 million tons of fertilizer and chemical products and raw materials for the Azoty Group companies. The estimated total value of the contract is nearly PLN 200 million.
- PKP CARGO S.A. and its subsidiary PKP CARGOTABOR USŁUGI Sp. z o.o decided to exercise their right to withdraw from the conditional binding purchase agreement for 40,796 shares, representing approx. 99.85% of the share capital of Orlen KolTrans sp. z o.o. entered into with PKN Orlen S.A. and PKP CARGO S.A. exercised its right to withdraw from the conditional binding agreement to purchase an organized part of the enterprise of Euronaft Trzebinia sp. z o.o. Withdrawal from the Purchase Agreements does not provide for any financial consequences for PKP CARGO S.A. or PKP CARGOTABOR USŁUGI Sp. z o.o. arising from their termination.
- The Supervisory Board of PKP CARGO S.A. selected the audit firm BDO Sp. z o.o. as the entity authorized to audit the standalone and consolidated financial statements of PKP CARGO S.A. for 2016-2018 and to review the interim condensed standalone and consolidated financial statements of PKP CARGO S.A. in 2016-2018 prepared in accordance with IFRS.
- The President of the PKP CARGO S.A. Management Board and representatives of the Office of the Marshal of Wielkopolskie Voivodship, Wolsztyn County and the Town of Wolsztyn signed an agreement on the establishment of a cultural institution on the basis of the Wolsztyn Roundhouse.

July

- PKP CARGO S.A. commissioned the preparation of an expert opinion regarding methodological correctness of the valuation of AWT B.V. prepared for the needs of acquisition of an 80% stake in the company by PKP CARGO S.A. The expert opinion showed deviations from the methodology of estimation of the enterprise value and mistakes in the assumptions for the valuation and in the valuation technique, which could have led to overstatement of the recommended value of the enterprise, which could have made the transaction value exceed the level acceptable to a typical reasonable investor.
- Appointment, by the PKP CARGO S.A. Supervisory Board, with effect from 14 July 2016, of Zenon Kozendra, the candidate nominated to be the employee representative in the PKP CARGO S.A. Management Board.
- Execution of a credit facility agreement with the European Investment Bank on whose basis an investment loan will be made available to the Company up to a maximum value of EUR 40 million, earmarked to finance and/or refinance the purchase of multi-system locomotives.
- The President of the Office of Rail Transport approved the unit rates of the basic fee for access to rail infrastructure, the unit rates of the basic fee for access to train handling devices and the unit rates of extra fees for access to railway infrastructure with a track gauge of 1435 mm managed by PKP PLK which will apply from 11 December 2016. PKP PLK's approved price list will bring a slight decrease in the rates of the basic fee and increases in most rates of additional fees and fees for the basic services related to access to train handling devices.

August

- At a session of the Regional Court in Ostrava, the creditors of OKD A.S, a company which had been declared insolvent, made a decision to initiate a restructuring procedure in OKD in accordance with the provisions of Czech law. In accordance with the register, the receivables from OKD reported in the process, including the receivables due to AWT in the amount of CZK 462.9 million (PLN 73.0 million), were accepted. The decision means that OKD will continue its

	operations under a restructuring plan involving, among others, the phasing out of unprofitable mines.
	• Receipt of a notification from MetLife PTE S.A. reporting that the MetLife Open-end Pension Fund it manages ("OPF") increased its exposure to above 5% of the total number of votes in PKP CARGO S.A. Its exposure exceeded 5% as a result of the purchase of shares in PKP CARGO S.A. on 10 August 2016. Directly before the change in its shareholding OPF held 2,162,347 shares, representing 4.83% of the share capital of PKP CARGO S.A. giving it the right to 2,162,347 votes at the shareholder meeting, representing 4.83% of the total number of votes at the shareholder meeting of PKP CARGO S.A. At present, OPF holds 2,494,938 shares, representing 5.57% of the share capital of PKP CARGO S.A. giving it the right to 2,494,938 votes at the shareholder meeting, representing 5.57% of the total number of votes at the shareholder meeting of PKP CARGO S.A.
September	• Due to the petition for insolvency of OKD a.s. filed on 3 May 2016, the Company carried out impairment tests for AWT Group's assets as at 30 June 2016 and an assessment of the enforceability of the receivables from OKD. As a result of the completed work, the Company's Management Board, by virtue of the resolution of 26 September 2016, decided to include the following in the Condensed Interim Consolidated Financial Statements of the PKP CARGO Group prepared for the period of 6 months ended 30 June 2016: - impairment charges for ATW Group's assets in the amount of PLN 35 million - impairment losses for trade receivables in the amount of PLN 63 million.

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 associated with macroeconomic conditions – Transport is one of the most important elements of any economy. In Poland and in the Czech Republic in particular, road and rail transport plays an important role. The economic situation not only in these two countries but all over the world strongly affects the level of development of rail transport. Growth in total industrial production and the dynamics of development of various branches of the economy that depend on the supplied raw materials have a direct impact on the volume of international trade, which is an important factor affecting rail transport. Furthermore, the standing of the road transport sector has a strong impact on rail transport due to being its close counterpart.

The area of the PKP CARGO Group's business is strongly correlated with the current standing of the national economies and macroeconomic environment of the countries in which the Group renders its services. In the background of alternating phases of economic recovery and stagnation, long-term fluctuations are also observed in branches of the economy associated with industrial production and trade. This is reflected in the Group's financial performance. Moreover, the growth rate of freight turnover in rail freight transport demonstrates a strong positive correlation with the rate of GDP growth.

The main source of revenues for the PKP CARGO Group is the provision of rail transport services both domestically and internationally. As a result, on the PKP CARGO Group's business and financial performance are affected not only by the situation in the domestic market but also by the situation in countries which are Poland's trading partners. Therefore, unfavorable economic developments may have a negative impact on the Group's financial performance.

An example of a possible impact on transport (including rail transport) is the so-called Brexit. Following the UK voters' decision on the country's withdrawal from the European Union, analysts are considering various scenarios for the development of the British economy, from the signing of agreements enabling the UK's access to the EU single market and further economic development to the UK internal disintegration into Scotland and Northern Ireland on one side and England and Wales on the other[47].[48] Analysts focus their work largely on international trade. Among the countries that are the most likely to be affected by the repercussions of the recent events and the associated concern about international trade are Germany, France, Italy, Spain, Poland and the Netherlands[49]. The intensity of consequences will largely depend on the results of intergovernmental negotiations concerning the current and future trade relations between the UK and its business partners.

The rate of growth and structure of transport in Central and Eastern Europe is also affected by the situation of the Chinese economy which is driven to the greatest extent by the global prices of industrial raw materials and the global economy. Despite the pessimistic forecasts by analysts, China continues to demonstrate very good economic performance. In Q2 2016, the country's rate of growth was 6.7% yoy[50] despite earlier forecasts of a collapse of the Chinese market. The reason for concern are data on the value of investments (45% of total GDP) and demand driven by loans (an increase by 90% of GDP since 2009)

[47] Wyborcza.pl
[48] Wpolityce.pl
[49] "Brexit Vote" blog of the London School of Economics and Political Science
[50] Trading Economics

which suggests that the current model of growth is not very stable and will be difficult to maintain[51]. It should be noted, however, that a good standing of China's economy may have a favorable impact on the Group's transport business due to the signed trade contracts and bilateral agreements between Poland and China as part of the transport of goods via the New Silk Road[52].

Risk of a temporary reduction in transport of major cargo categories – Rail transport is closely related to the condition of the economy in the mining, metallurgical, refinery, chemical, construction materials and wood industries and depends on the volume of intermodal transport. Each of these sectors has a significant impact on the rate of growth in the volume of cargo transported by the PKP CARGO Group.

The coal transport market continues to depend on the unstable situation in the mining sector caused by:

- Low average prices of coal in the ARA markets – in June 2016 the price was USD 51.7 per ton, down USD 6.1 per ton compared to last year when it stood at USD 57.8 per ton. The lowest average monthly price in the period from June 2015 to June 2016 was in February 2016 when the price reached a minimum of USD 44.0 per ton[53].
- Growing significance of renewable energy sources ("RES") – in 2015 in Poland, according to the Energy Market Agency, renewable energy reached a share in gross final energy consumption of 13.7%[54] (compared to 12.4% in 2014 according to the European Commission). The objective of the Ministry of Energy is to increase this share to 15% in 2020. In the Czech Republic, according to estimates, the share of electricity generation from RES has already exceeded the planned target for 2020, i.e. a 13% share. Accordingly, the target for 2020 set in the National Action Plan has been changed to 15.3%[55].
- Difficulties experienced by NWR (New World Resources) and its Czech hard coal mining company OKD – at the beginning of May 2016 the court announced bankruptcy of OKD, a NWR subsidiary. Due to NWR's debts, the company is currently in bankruptcy. The primary reasons are low prices of coal and excessive costs of servicing the company's liabilities. This unfavorable situation also adversely affects OKD's former business partners. There may be a total of more than 500 such companies in the Czech Republic[56].

In H1 2016, 33.7 million tons of hard coal was mined in Poland, down 607 thousand tons compared to the period of January-June 2015 when 34.3 million tons of hard coal was mined. This means a decrease by 1.8% yoy. The lower production volume was caused by the pending restructuring process in coal-mining companies and an unfavorable condition of the Polish mining sector[57].

Another threat is posed by the trend in electricity generation by Polish power plants. According to data from the National Electrical Energy System and the Balancing Market[58], in H1 2016 a total of 79,706 GWh of electricity was generated in Poland, i.e. 179 GWh more than in the same period of 2015 when 79,527 GWh was generated. This means an increase by 0.2% yoy. Analysis of the acquisition of energy from various sources reveals a gradual decrease in energy generated from lignite: 26,776 GWh of electricity was generated in H1 2015 compared to only 24,110 GWh in H1 2016, down 9.9% yoy. The situation is better in the case of electricity obtained from hard coal: 39,511 GWh of electricity was generated in the period of January-June 2015, followed by a 3.2% increase yoy in the same period of year, reaching 40,792 GWh of electricity. Invariably, the rate of growth in energy generation from renewable sources remained high: the production of wind power plants in H1 2016 was up 17.7% yoy (6M 2015: 4,679 GWh; 6M 2016: 5,506 GWh).

A significant risk factor for the freight sector is the transport of materials used in infrastructural construction projects, i.e. primarily aggregates and other construction materials. This is closely related to the delayed commencement of construction projects and the absence of final decisions in tenders for construction projects to be co-financed under the new EU framework.

Risk associated with the rail freight sector – The liberalization of regulations governing railway business in Poland and in the Czech Republic affects the possibility of the emergence of new railway operators in the market which might compete with the Group. The number of carriers competing with the PKP CARGO Group keeps changing: at the end of 2015 there were 67 licensed operators in Poland and in June 2016 there were only 62. However, it cannot be ruled out that the operators from 2015 will renew their licenses and that additional new players will enter the market and start running their businesses.

Although the PKP CARGO Group is the largest rail freight carrier in Poland, it is losing its share in the total freight volume at the expense of competing operators. During the first 6 months of 2016, the competitors had a total share in freight volume of 56.2% compared with 52.2%, i.e. 4.0 percentage points less, a year earlier. In the period of January-June 2016, the share of AWT a.s. in the Czech market was 9.6%, and in the first 6 months of 2015, its share was 8.7%, reflecting an increase by 0.9 p.p. yoy[59]. It

[51] *Obserwator Finansowy* [Financial Observer]
[52] Business Insider Polska
[53] *Wirtualny Nowy Przemysł* [Virtual New Industry]
[54] Wysokienapiecie.pl
[55] TZBinfo - Technická Zařízení Budov
[56] *Wirtualny Nowy Przemysł* [Virtual New Industry]
[57] *Polski Rynek Węgla* [Polish Coal Market]
[58] Polskie Sieci Elektroenergetyczne
[59] SZDC

should be noted, however, that the Czech market is smaller than the Polish transport market – in 2015 in the Czech Republic, 97.4 million tons of freight was transported compared to 224.8 million tons of freight transported in Poland, which means that the Polish market is 2.3 times the size of the Czech market.

The Group's main competitors in the Polish rail freight market are: DB Cargo Polska, Lotos Kolej and CTL Logistics. Their services are focused on the transport of such freight as coal, aggregates, other bulk commodities, liquid fuels, chemical products and intermodal transport in a whole train transport system.

The competitors in the Czech rail freight market are: CD CARGO a.s., METRANS Rail s.r.o., Unipetrol Doprava s.r.o., IDS Cargo a.s., SD – Kolejova doprava a.s., Rail Cargo Carrier - Czech Republic and LTE Logistik a Transport Czechia s.r.o. In this market, the services of competing operators are associated with predominantly with the transport of the following freight: coal, bulk commodities, liquid fuels, chemical products and intermodal transport.

Risks in the operations conducted

Risks associated with rail infrastructure – The activities of the PKP CARGO Group depend on the condition of the rail 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.

Risk of amendments to legal regulations – Work is currently underway, at the request of the European Commission, to amend the 'Noise' Technical Specifications for Interoperability (NOI TSI), aimed at covering the entire fleet of freight wagons in the EU with the requirements of these specifications. This work is expected to be completed in H1 2017. According to the draft documents known to us, the requirements of the NOI TSI will concern:

- from the change in timetables for 2021/22 – wagons for international transport;
- from the change in timetables for 2025/26 – all other wagons;

with two definitions of "international wagons" being considered.

To meet the requirements of the NOI TSI, it will be necessary to carry out an "acoustic modernization" of freight wagons involving the replacement of cast-iron brake blocks with LL-type (or K-type) composite brake blocks along with other necessary technical work, depending on the fittings of a given series, type and specific wagon.

The costs of such "acoustic modernization" of the Company's fleet of wagons will depend on the final wording of the amended NOI TSI, i.e. the adopted definitions of international and domestic wagons, the timeframes of their applicability and the Company's decision regarding the quantity of wagons to be modernized.

Risk associated with changes in the conditions of access to rail infrastructure and conditions of access to/availability of service infrastructure facilities – Changes in these conditions are associated with the implementation in the Polish legal order of Directive 2012/34/EU of the European Parliament and of the Council of 21 November 2012 establishing a single European railway area. The PKP CARGO Group runs its core business based on access to rail infrastructure. In addition, the Group uses facilities which (according to the draft regulations) are likely to be designated as service infrastructure facilities, meaning that some of them may be subject to real estate tax. At the current stage, the draft regulations provide for the introduction of changes to payments for access to rail infrastructure, subjecting them to the execution plan of the Annual Timetable. Moreover, the draft regulations assume the introduction of new conditions for granting access to rail infrastructure facilities on terms less favorable to the PKP CARGO Group than the current terms.

Risk of changes in the rules for calculating the rates for access to rail infrastructure – Draft amendments to the Rail Transport Act provide for changes in the amount of the reservation fee and the ability to vary the rates for access to rail infrastructure depending on the operation of trains according to the timetable. This may result in incurring additional costs by the carriers and the takeover of freight by road transport operators. Transport needs are driven directly by the production objectives of the Group's customers – mostly mines, and the technological process and the specificity of their operation prevent the Group from making precise transport plans.

Road transport constitutes increasing competition for the Group – Road freight transport in Poland poses the most serious competition to rail transport. The country's road network has been modernized for several years as part of an intensive infrastructure development program. As a result, the condition of road surfaces and the density of the network have improved significantly. In particular, the motorway and express road network has been expanded. As at 1 July 2016, the plan provides for an expansion of the motorway network by 2,027.1 km, of which 1,660.5 km (81.9% of the plan) have already been completed and put into operation. The planned length of express roads is 5,765.9 km, of which 1,506.0 km (28.3% of the plan) have already been completed[60]. In total, the network comprises 3,167.5 km of roads and the plan provided for approximately 7,793 km of roads of key importance for road transport. The most significant source of financing for road infrastructure projects have been and will remain in the nearest future EU funds in the new budget framework for 2014-2020.

The network of roads with better surfaces and a gradually increasing density has a favorable impact on the costs of road transport and reduces the time required to transport freight by road. Also important for the customer is that freight may be delivered directly to the final location without the need to organize additional transport from the terminal or reloading station, as opposed to rail transport. The current work on the development of road infrastructure contributes to putting rail transport in a more challenging competitive position.
In the Czech Republic, the total length of the network of motorways and express roads is 1,212 km (as at 1 January 2016). However, the network keeps developing all the time due to ongoing construction work. The motorway network consists of 19 routes, 17 of which may be used at least partially. The construction of only 4 of them has been completed to render them operational throughout their entire length. The expected length of the motorway network, which is of key importance for the transport of freight, is 2,078 km. As is the case in Poland, a very important factor affecting the scale of road construction projects in the Czech Republic is EU funding.

The Group's customer base is highly dependent on a limited number of industries and their suppliers – The vast majority of the Group's key customers purchase their transport services under long-term agreements. This is aimed at ensuring the transport of large quantities of coal, aggregates, construction materials, metals, metal products and ores. There is a risk that long-term contracts with a guaranteed volume may not be performed in full or may not be extended in the future by the customer. An ever increasing number of competitors in the transport market makes it increasingly difficult to find new customers who will purchase services on similar terms.
AWT, as a company operating in the Czech market, must now seek new contracts. Until recently, AWT's largest customer was the coal mining company OKD, but it was declared bankrupt in May of this year. Since the consolidation of AWT and the PKP CARGO Group, the Czech rail operator has acquired contracts for the provision of transport services to companies operating in the chemical, agricultural, metallurgical and intermodal sectors, yet the loss of services provided to OKD is still severe.

Structural changes in the business of key customers – Changes in the business profile of the PKP CARGO Group's major customers have a big impact on the freight volumes. A significant threat to the Group's business is the establishment, in the business structure of its customers, of their own subsidiaries dealing with the transportation of such customers' freight. Another risk is posed by the takeover of the customer's transport by its own freight forwarding company in cases where the customer's rail carrier was unable to satisfy all transport needs of this customer. In such a situation, the Group will have an increasingly smaller share of the customer's transport purchases and the freight forwarding subsidiary will have an increasing share and will aim to take over all of the parent company's transport services. Over time, such subsidiaries may expand their operations and provide transport services to other customers, not only to their own parent company. This poses a risk of the establishment of a new rail operator competing with the Group.
Changes in the business structure of the Group's customers may also concern changes in the production cycle or location affecting the volume of transported freight.

Risk associated with the declaration of OKD's insolvency – On 11 August 2016, at a session of the Regional Court in Ostrava, the creditors of OKD A.S, a company which had been declared insolvent, made a decision to initiate a restructuring procedure in OKD in accordance with the provisions of Czech law. In accordance with the register, the receivables from OKD reported in the process, including the receivables due to AWT in the amount of CZK 462.9 million (PLN 73.0 million), were accepted. The decision means that OKD will continue its operations under a restructuring plan involving, among others, the phasing out of unprofitable mines. A decision on OKD's bankruptcy might have a negative impact on the possibility of recovering the receivables. The Company is taking appropriate steps to determine the rules of the restructuring procedure and its consequences for the collectability of the receivables under Czech law. In September, 2016 Company decided to an impairment of receivables from OKD in the amount of PLN 62.9 million.

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.

[60] PSWNA – Polish Association of Asphalt Surface Contractors

Risk of continuation of collective disputes and strike – In connection with the occurrence of a collective dispute in the Company on 2 July 2015, PKP CARGO S.A. executed a memorandum of agreement with the National Protest and Strike Committee on 16 December 2015 under which the parties undertook to take steps leading to the execution, by no later than 31 March 2016, of a memorandum of agreement ending the dispute. In connection with the above arrangements, the National Protest and Strike Committee resolved to suspend the general strike and not to undertake any protest or strike activities until 31 March 2016. A potential protest or strike may have a negative impact on the Group's financial performance.

On 15 March 2016, the parties to the CCBA entered into another memorandum of agreement under which the trade union undertook to dissolve the National Protest and Strike Committee, to cause the dissolution of the protest and strike committees at the establishment level and to call off any and all protest and strike-related actions pertaining to the Company's structural and organizational changes. During the subsequent negotiations, the parties undertook to execute, by the end of 2016, a memorandum of agreement on the implementation of the wage increase demand put forward as part of the collective dispute and the fulfillment of the liability arising from § 5 of the Employee Guarantee Package of 2 September 2013.

Risk of wage increases – In 2016, the risk of wage increases will be enhanced especially by the following two facts:

- the undertaking of the parties to the Employee Guarantee Package of 2 September 2013 as regards annual negotiation of wage increases and its implementation no later than by 1 July, depending on the Parent Company's performance and financial standing (permanent, predictable risk),
- the stance of the trade unions in the negotiations with the Company's Management Board in connection with the wage increase demand forming the subject matter of the collective dispute of 2 July 2015.

The situation in the next few months may change because the parties to the CCBA undertook to resolve the above issues by entering into a memorandum of agreement by the end of 2016.

As of now, it is not possible to determine the impact of the wage pressure on the Parent Company's result for 2016 because the resolutions in this respect will depend, on the one hand, on the Company's financial standing and, on the other hand, on the trade unions' willingness to reach an agreement.

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 financial expenses in the PKP CARGO Group, a cash pooling system is in place which comprises, as at 30 June 2016, 7 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 financial expenses (negative FX differences). The level of financial revenues and financial expenses fluctuates during the year, which is caused by changes in 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 at the level of financial expenses and revenues on account of unrealized FX differences. In 2016, 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 2018 through application of derivative transactions.

To present the effects of the hedging transactions in accordance with their economic content in the Group, the Parent Company 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. 1 month, 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 was 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 adopted by the Group, one of the Group companies (PKP CARGO CONNECT) 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 2016 to 30 June 2016 have been prepared in accordance with 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 of 2014 Item 133) ("Regulation").

The Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period from 1 January 2016 to 30 June 2016 should be read in conjunction with the audited Consolidated Financial Statements of the Group for the year ended 31 December 2015 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 2016 to 30 June 2016 have been prepared based on the assumption that the Group will continue to be 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 its business as a going concern for a period of at least 12 months from the date of the financial statements.

The Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period from 1 January 2016 to 30 June 2016 have been prepared in accordance with the historic cost principle, except for derivatives measured at fair value, net liabilities arising from "put" options for non-controlling interests, non-current assets classified as held for sale and financial assets traded on active markets.

5.2. Position of the corporate governing body and an opinion of the regulatory authority supervising the issuer regarding the reservations expressed in the financial statements review report by the entity authorized to audit the issuer's financial statements or regarding such entity's refusal to issue a financial statements review report

The entity authorized to audit the PKP CARGO Group's financial statements issued an unqualified review report.

5.3. Key economic and financial figures

5.3.1. Statement of comprehensive income

On 28 May 2015, the Parent Company acquired an 80% stake in AWT B.V. Because AWT's data have been consolidated since the date of acquisition, the consolidated data for H1 2016 take into account the AWT Group's financial performance for the whole period of the first 6 months of 2016, while the financial data for H1 2015 are presented with the AWT Group's figures starting from 28 May 2015.

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 2016 and H1 2015. Financial data for H1 2016 are adjusted for presentation purposes for impairment losses on receivables from OKD in the amount of PLN 62.9 million (described in Note 16) and an impairment loss of the fixed assets arising from a test for impairment of the AWT Group value in the amount of PLN 35.4 million, as described in Note 10.1, while the financial data for H1 2015 are adjusted for presentation purposes for profit on bargain purchase of AWT in the amount of PLN 137.8 million and the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million.

In H1 2016, the PKP CARGO Group transported 52.2 million tons of cargo (i.e. a similar volume to the freight volume transported in H1 2015) and recorded freight turnover of 13.5 billion tkm (i.e. 2% less than in the corresponding period of 2015), which is described in detail in the chapter "PKP CARGO Group rail transport".

In H1 2016, the Group's operating revenue increased 2.6% yoy and operating expenses increased 22.6% yoy. In H1 2016, the Group generated a result on operating activities and net result in the amount of PLN -194.1 million and PLN -194.6 million, respectively. The level of operating revenues and expenses in H1 2016 resulted to a large extent from the consolidation of AWT and the occurrence of non-recurring events, which is described in detail in the comments under the tables. The Group's adjusted operating revenue increased 9.9% yoy (adjusted by gains on the bargain acquisition of AWT in the amount of PLN 137.8 million in H1 2015), and adjusted operating expenses increased 22.0 % yoy (adjusted for VRP 2 in the amount of PLN 70.2 million in H1 2015, an impairment loss on receivables from OKD in the amount of PLN 62.9 million and an impairment loss of the fixed assets arising from a test for impairment of the AWT Group value in the amount of PLN 35.4 million; both these events occurred in H1 2016), which also resulted to a large extent from the consolidation of AWT.

The adjusted net profit for H1 2016 includes deferred tax resulting from an impairment of receivables from OKD in the amount of PLN 12.0 million and the related deferred tax on account of an impairment loss resulting from a test for impairment of AWT's value in the amount of PLN 6.7 million. The adjusted net profit for H1 2015 includes deferred tax resulting from VRP 2 in the amount of PLN 13.3 million (bargain purchase of AWT was not income tax).

In Q2 2016 alone, operating revenue decreased 7.1% compared to Q2 2015, driven predominantly by the one-off gains from the bargain acquisition of AWT in the amount of PLN 137.8 million posted in Q2 2015, while adjusted operating revenue increased 5.3% compared to the same period of the previous year, resulting largely from the presentation, in Q2 2016, of AWT data for the full three months as opposed to the presentation of AWT financial data from the date of acquisition in Q2 2015. Operating expenses in Q2 2016 increased 19.3% compared to the same period of the previous year, while adjusted operating expenses increased 17.8% yoy. The changes in the above figures were affected by the following non-recurring events: VRP 2 in the amount of PLN 70.2 million, which was included in the results for Q2 2015), an impairment loss on receivables from OKD in the amount of PLN 62.9 million and an impairment loss of the fixed assets arising from a test for impairment of the AWT Group value in the amount of PLN 35.4 million – both of them posted in Q2 2016. Moreover, AWT's financials in Q2 2016 were included for the full three months, whereas in Q2 2015 they were included from the date of acquisition.

The details of individual line items of the Statement of comprehensive income are presented in the further part of this section. The following tables present the results of the PKP CARGO Group in H1 2016 and Q2 2016 compared to the same periods of 2015.

Table 25 Results of the PKP CARGO Group in H1 2016 compared to the same period of 2015 (thousands of PLN)

No.	Item	6 months of 2016	6 months of 2015, restated data*	Change rate 2016/2015	6 months of 2016, adjusted**	6 months of 2015, adjusted***	Change rate 2016/2015, adjusted
1	Total operating revenue	2,123,009	2,070,173	2.6%	2,123,009	1,932,394	9.9%
2	Total operating expenses	2,317,152	1,889,338	22.6%	2,218,858	1,819,159	22.0%
3	**Result on operating activity**	**-194,143**	**180,835**	-	**-95,849**	**113,235**	-
4	Financial revenue	774	9,377	-91.7%	774	9,377	-91.7%
5	Financial expenses	37,918	26,362	43.8%	37,918	26,362	43.8%
6	Share in the profit / (loss) of entities accounted for under the equity method	2,002	3,482	-42.5%	2,002	3,482	-42.5%
7	Result on the sale of shares in entities accounted for under the equity method	0	1,865	-100.0%	0	1,865	-100.0%
8	**Pre-tax result**	**-229,285**	**169,197**	**-**	**-130,991**	**101,597**	**-**
9	Income tax	-34,696	6,677	-	-16,020	20,011	-
10	**NET RESULT**	**-194,589**	**162,520**	**-**	**-114,971**	**81,586**	**-**

Source: Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2016 prepared according to EU IFRS

** restatement of comparative data is described in detail in Note 4*
*** the data for H1 2016 are adjusted for presentation purposes for an impairment loss on receivables from OKD in the amount of PLN 62.9 million (described in Note 16) and an impairment loss of the fixed assets arising from a test for impairment of the AWT Group value in the amount of PLN 35.4 million, as described in Note 10.1; moreover, the adjusted net profit includes deferred tax resulting from an impairment of receivables from OKD in the amount of PLN 12.0 million and the related deferred tax on account of an impairment loss resulting from a test for impairment of AWT's value in the amount of PLN 6.7 million*
**** the data for H1 2015 are adjusted for presentation purposes for gains on the bargain purchase of AWT in the amount of PLN 137.8 million and the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million; moreover, the adjusted net profit includes deferred tax on account of VRP 2 in the amount of PLN 13.3 million, (bargain purchase of AWT was not income tax).*

Table 26 Results of the PKP CARGO Group in Q2 2016 compared to the corresponding period of 2015 (thousands of PLN)

No.	Item	Q2 2016	Q2 2015, restated data*	Change rate Q2 2016/Q2 2015	Q2 2016, adjusted**	Q2 2015, adjusted***	Change rate Q2 2016/Q2 2015, adjusted
1	Total operating revenue	1,088,655	1,171,597	-7.1%	1,088,655	1,033,818	5.3%
2	Total operating expenses	1,220,990	1,023,132	19.3%	1,122,696	952,953	17.8%
3	**Result on operating activity**	**-132,335**	**148,465**	**-**	**-34,041**	**80,865**	**-**
4	Financial revenue	384	2,695	-85.8%	384	2,695	-85.8%
5	Financial expenses	23,690	13,375	77.1%	23,690	13,375	77.1%
6	Share in the profit / (loss) of entities accounted for under the equity method	638	4,639	-86.2%	638	4,639	-86.2%
7	Result on the sale of shares in entities accounted for under the equity method	0	0	-	0	0	-
8	**Pre-tax result**	**-155,003**	**142,424**	**-**	**-56,709**	**74,824**	**-**
9	Income tax	-26,461	1,964	-	-7,785	15,298	-
10	**NET RESULT**	**-128,542**	**140,460**	**-**	**-48,924**	**59,526**	**-**

Source: Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2016 prepared according to EU IFRS

** restatement of comparative data is described in detail in Note 4*

*** the data for Q2 2016 are adjusted for presentation purposes for an impairment loss on receivables from OKD in the amount of PLN 62.9 million (described in Note 16) and an impairment loss of the fixed assets arising from a test for impairment of the AWT Group value in the amount of PLN 35.4 million, as described in Note 10.1; moreover, the adjusted net profit includes deferred tax resulting from an impairment of receivables from OKD in the amount of PLN 12.0 million and the related deferred tax on account of an impairment loss resulting from a test for impairment of AWT's value in the amount of PLN 6.7 million*

**** the data for Q2 2015 are adjusted for presentation purposes for gains on the bargain purchase of AWT in the amount of PLN 137.8 million and the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million; moreover, the adjusted net profit includes deferred tax on account of VRP 2 in the amount of PLN 13.3 million, (bargain purchase of AWT was not income tax).*

Operating revenues

Table 27 Operating revenue of the PKP CARGO Group in H1 2016 compared to the corresponding period of 2015 (thousands of PLN)

No.	Item	6 months of 2016	6 months of 2015, restated data*	Change rate 2016/2015	6 months of 2015, adjusted**	Change rate 2016/2015, adjusted
1	Revenue from sales of services and finished products	2,088,853	1,896,539	10.1%	1,896,539	10.1%
1.1	*Revenue from rail transportation and freight forwarding services*	*1,725,659*	*1,697,630*	1.7%	*1,697,630*	1.7%
2	Revenue from sales of goods and materials	13,605	17,674	-23.0%	17,674	-23.0%
3	Other operating revenue	20,551	155,960	-86.8%	18,181	13.0%
4	**Total operating revenue**	**2,123,009**	**2,070,173**	**2.6%**	**1,932,394**	**9.9%**

Source: Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2016 prepared according to EU IFRS

** restatement of comparative data is described in detail in Note 4*

*** the H1 2015 data are adjusted for presentation purposes for the effect of the bargain acquisition of AWT in the amount of PLN 137.8 million*

Table 28 Operating revenue of the PKP CARGO Group in Q2 2016 compared to the corresponding period of 2015 (thousands of PLN)

No.	Item	Q2 2016	Q2 2015, restated data*	Change rate Q2 2016/Q2 2015	Q2 2015, adjusted**	Change rate Q2 2016/Q2 2015, adjusted
1	Revenue from sales of services and finished products	*1,074,810*	*1,015,982*	5.8%	*1,015,982*	5.8%
1.1	*Revenue from rail transportation and freight forwarding services*	*922,689*	*894,741*	3.1%	*894,741*	3.1%
2	Revenue from sales of goods and materials	*4,848*	*9,510*	-49.0%	*9,510*	-49.0%
3	Other operating revenue	*8,997*	*146,105*	-93.8%	*8,326*	8.1%
4	**Total operating revenue**	**1,088,655**	**1,171,597**	**-7.1%**	**1,033,818**	**5.3%**

Source: Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2016 prepared according to EU IFRS

** restatement of comparative data is described in detail in Note 4*

*** the Q2 2015 data are adjusted for presentation purposes for the effect of the bargain acquisition of AWT in the amount of PLN 137.8 million*

The biggest item in the Group's total operating revenue is revenue from sales of services and finished products (98.4% in H1 2016 compared to 91.6% in H1 2015). Revenue from sales of services comprises mainly: revenue from rail transportation and freight forwarding services, revenue from siding and traction services, revenue from other transportation activity, revenue from transshipment, land reclamation and other revenue. The remaining part of operating revenue of the PKP CARGO Group comprises revenue from sales of goods and materials, which includes, among others, sales of steel and cast iron scrap as well as other operating revenue comprising, among others, gains from sales of assets, movement in impairment losses on receivables and interest on receivables, received fines and compensations and net foreign exchange gains/(losses) on trade receivables and liabilities, movement in other provisions.

Revenue from rail transportation and freight forwarding services in H1 2016 increased 1.7% yoy compared to the corresponding period of 2015. The increase in revenue from rail transportation and freight forwarding services was driven predominantly by the consolidation of AWT. An unfavorable impact on revenue was exerted by reduced domestic transport of aggregates and construction materials at a lower price than in the corresponding period of last year, resulting from the early stage of development of road and railway projects awaiting the completion of tenders and commencement of work on new infrastructural projects (chapter "PKP CARGO Group's rail transport"). In hard coal transport in Poland, a 9% yoy decrease in freight was recorded, both in terms of freight volume and freight turnover, which resulted from the difficult situation of the Polish coal mining companies and decreased demand for hard coal. The ores and metals segment recorded a decrease in transported freight volume by 13% yoy in connection with the lower demand for metal ores resulting from the situation in the metallurgical industry in global markets (China's economic slowdown translates into decreased demand for steel) and periodic suspension of deliveries of this raw material to one of the key customers of the Group as a result of its overhaul of a furnace). On the other hand, in intermodal transport, one can observe positive trends which translate into an increasing share of this cargo category in revenue from rail transportation and freight forwarding services. The details pertaining to PKP CARGO Group's transport services are described in detail in the chapter "PKP CARGO Group's rail transport". In Q2 2016 alone, revenue from railway freight services and freight forwarding increased 3.1% yoy, which was largely driven by the consolidation of AWT.

The decrease in revenue from sales of goods and materials in H1 2016 by 23.0% yoy was caused predominantly by decreased sales of scrap from the liquidated redundant rolling stock due to unfavorable scrap prices. In Q2 2016, revenue from sales of goods and materials decreased 49.0% compared to the corresponding period of the previous year for the above-described reason.

The decrease in other operating revenue by PLN 135.4 million, i.e. 86.8% yoy, was mainly due to the recognition, in H1 2015, of gains from the bargain acquisition of AWT in the amount of PLN 137.8 million, while adjusted other operating revenue (adjusted for the said gains on the bargain acquisition of AWT) increased by PLN 2.4 million, i.e. 13.0% yoy, driven predominantly by higher gains from the sale of non-financial assets by PLN 1.5 million, an increase in net foreign exchange gains on trade receivables and liabilities by PLN 3.9 million and a lower revenues from the reversal of other provisions by PLN 3.4 million. The decrease in Q2 2016 by 93.8% yoy was largely caused by the factors described above, while adjusted other operating revenue increased by 8.1% yoy, which resulted predominantly from an increase in revenues from the reversal of other provisions by PLN 1.5 million, an increase in foreign exchange gains by PLN 0.8 million and lower fines and compensations by PLN 1.6 million.

Operating expenses

Table 29 Operating expenses of the PKP CARGO Group in H1 2016 compared to the corresponding period of 2015 (thousands of PLN)

No.	Item	6 months of 2016	6 months of 2015, restated data*	Change rate 2016/2015	6 months of 2016, adjusted**	6 months of 2015, adjusted***	Change rate 2016/2015, adjusted
1	Depreciation/amortization and impairment losses	324,138	210,602	53.9%	288,777	210,602	37.1%
2	Consumption of materials and energy	326,553	306,956	6.4%	326,553	306,956	6.4%
3	External services	774,126	607,528	27.4%	774,126	607,528	27.4%
4	Taxes and charges	18,298	17,364	5.4%	18,298	17,364	5.4%
5	Employee benefits	752,992	695,129	8.3%	752,992	624,950	20.5%
6	Other expenses by kind	26,290	21,531	22.1%	26,290	21,531	22.1%
7	Cost of goods and materials sold	11,916	12,395	-3.9%	11,916	12,395	-3.9%
8	Other operating expenses	82,839	17,833	364.5%	19,906	17,833	11.6%
9	**Total operating expenses**	**2,317,152**	**1,889,338**	**22.6%**	**2,218,858**	**1,819,159**	**22.0%**

Source: Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2016 prepared according to EU IFRS

** restatement of comparative data is described in detail in Note 4*
*** the data for H1 2016 are adjusted for presentation purposes for an impairment loss on receivables from OKD in the amount of PLN 62.9 million (described in Note 16) and an impairment loss of the fixed assets arising from a test for impairment of the AWT Group value in the amount of PLN 35.4 million, as described in Note 10.1*
**** the data for H1 2015 are adjusted for presentation purposes for the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million*

Table 30 Operating expenses of the PKP CARGO Group in Q2 2016 compared to the corresponding period of 2015 (thousands of PLN)

No.	Item	Q2 2016	Q2 2015, restated data*	Change rate Q2 2016/Q2 2015	Q2 2016, adjusted**	Q2 2015, adjusted***	Change rate Q2 2016/Q2 2015, adjusted
1	Depreciation/amortization and impairment losses	181,779	108,206	68.0%	146,418	108,206	35.3%
2	Consumption of materials and energy	163,735	164,945	-0.7%	163,735	164,945	-0.7%
3	External services	407,558	337,589	20.7%	407,558	337,589	20.7%
4	Taxes and charges	11,272	10,678	5.6%	11,272	10,678	5.6%
5	Employee benefits	367,644	375,192	-2.0%	367,644	305,013	20.5%
6	Other expenses by kind	14,727	12,673	16.2%	14,727	12,673	16.2%
7	Cost of goods and materials sold	3,580	5,893	-39.2%	3,580	5,893	-39.2%
8	Other operating expenses	70,695	7,956	788.6%	7,762	7,956	-2.4%
9	**Total operating expenses**	**1,220,990**	**1,023,132**	**19.3%**	**1,122,696**	**952,953**	**17.8%**

Source: Condensed Interim Consolidated Financial Statements of the PKP CARGO Group for the period of 6 months ended 30 June 2016 prepared according to EU IFRS

** restatement of comparative data is described in detail in Note 4*
*** the data for Q2 2016 are adjusted for presentation purposes for an impairment loss on receivables from OKD in the amount of PLN 62.9 million (described in Note 16) and an impairment loss of the fixed assets arising from a test for impairment of the AWT Group value in the amount of PLN 35.4 million, as described in Note 10.1*
**** the data for Q2 2015 are adjusted for presentation purposes for the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million*

In H1 2016, operating revenue increased by PLN 427.8 million, i.e. 22.6% yoy to PLN 2,317.2 million, while adjusted operating expenses (adjusted for VRP 2 in the amount of PLN 70.2 million in H1 2015, an impairment loss on receivables from OKD in the amount of PLN 62.9 million and the impairment loss of the fixed assets arising from a test for impairment of the AWT Group value in the amount of PLN 35.4 million; both of them posted in H1 2016) increased by PLN 399.7 million, i.e. 22.0% yoy.

The increase in depreciation costs by PLN 113.5 million (with impairment losses) was driven mainly by an increase in property, plant and equipment associated with the acquisition of AWT and capital expenditures (especially periodic repairs of the rolling stock), adjustments of depreciation associated with a change in the residual value of rolling stock and the impairment loss of the fixed assets arising from a test for impairment of the AWT Group value in the amount of PLN 35.4 million.

Moreover, the costs of external services increased 27.4% yoy to PLN 774.1 million. This increase was driven mainly by the acquisition of a stake in AWT, which caused an increase in the costs of transportation services by PLN 95.9 million, rents and charges for the use of property and rolling stock by PLN 20.6 million, access to the lines of the infrastructure managers by PLN 9.9 million and other services, i.e. mainly subcontracted services associated with reclamation works, by PLN 29.5 million.

Additionally, the consumption cost of materials and energy increased by PLN 19.6 million, the consumption of electricity, gas and water increased by PLN 30.3 million and fuel consumption costs decreased by PLN 9.6 million. The said increase is directly related to the consolidation of AWT Group companies, whereas the decline in the consumption cost of fuel is due to a significant decrease in the unit cost of fuel resulting mainly from a decrease in fuel prices and a decrease in freight turnover in diesel traction.

In H1 2016, employee benefits increased by PLN 57.9 million, i.e. 8.3% yoy, to PLN 753.0 million vis-a-vis PLN 695.1 million in the corresponding period of 2015. The was mainly due to the consolidation of AWT Group companies and recognition of VRP 2 costs in H1 2015, while the adjusted costs of employee benefits (adjustment for VRP 2 in the amount of PLN 70.2 million) increased by PLN 128.0 million, i.e. by 20.5%, which was caused by the said factor. Changes in headcount are presented in the section “Information on headcount”.

The remaining expenses by kind in H1 2016 increased compared to the corresponding period of 2015 by PLN 4.8 million, i.e. 22.1% yoy, mainly due to an increase in the costs of property insurance by PLN 2.2 million and costs of business travel by PLN 2.6 million caused by the consolidation of the AWT Group.

In H1 2016, the cost of goods and materials sold decreased by PLN 0.5 million, i.e. 3.9%, to PLN 11.9 million, following a decrease in revenue from sales of scrap.

Other operating expenses in H1 2016 increased by PLN 65.0 million, or 364.5% yoy to PLN 82.8 million, chiefly on account of an increase of impairment losses on trade receivables from OKD in the amount of PLN 62.9 million and recognition of a provision for a UOKIK penalty in the amount of PLN 2.0 million.

When comparing the costs incurred by the Group in Q2 2016 to Q2 2015, we can observe an increase in the following items: depreciation and impairment losses by 68.0% yoy, external services by 20.7% yoy, taxes and charges by 5.6% yoy, other expenses by kind by 16.2% yoy, other operating expenses by 788.6% yoy, which was caused mainly by the consolidation of AWT, recognition of impairment losses on receivables from OKD in the amount of PLN 62.9 million and the impairment loss of the fixed assets arising from a test for impairment of the AWT Group value in the amount of PLN 35.4 million. Despite the consolidation of AWT in Q2 2016, decreases were recorded in the following items: employee benefits by 2.0% yoy (artificially increased in Q2 2015 as a result of the implementation of VRP 2), cost of goods and materials sold by 39.2% yoy (following the reduction of revenues on sale of goods and materials), other operating expenses by 2.4% yoy and consumption of materials and energy by 0.7% yoy.

Result on operating activities

As a result of the aforementioned changes in operating revenue and operating expenses, the result on operating activities in H1 2016 reached PLN -194.1 million.

EBITDA

The result on operating activities increased by the “Depreciation/amortization and impairment losses” line item, referred to as EBITDA, amounted to PLN 130.0 million in H1 2016.

Financial activities

Table 31 Financial activities of the PKP CARGO Group in H1 2016 and Q2 2016 compared to the corresponding periods in 2015 (in PLN thousand)

No.	Item	6 months of 2016	6 months of 2015, restated data*	Change rate 2016/2015	Q2 2016	Q2 2015, restated data*	Change rate Q2 2016/Q2 2015
1	Financial revenue	774	9,377	-91.7%	384	2,695	-85.8%
2	Financial expenses	37,918	26,362	43.8%	23,690	13,375	77.1%
3	Share in the profit / (loss) of entities accounted for under the equity method	2,002	3,482	-42.5%	638	4,639	-86.2%
4	Result on the sale of shares in entities accounted for under the equity method	0	1,865	-100.0%	0	0	-
5	**Result on financial activities**	**-35,142**	**-11,638**	**202.0%**	**-22,668**	**-6,041**	**275.2%**

Source: Condensed interim consolidated financial statements of the PKP CARGO Group for the period of 6 months ended 30 June 2016 prepared according to EU IFRS

** restatement of comparative data is described in detail in Note 4;*

In H1 2016, the PKP CARGO Group recorded a loss on financial activities in the amount of PLN -35.1 million, compared to PLN -11.6 million recorded in the corresponding period of the previous year. The negative result on financial activities was caused by a decrease of interest income by PLN 3.5 million, lower gain on the valuation of financial assets and liabilities carried at fair value through profit and loss by PLN 6.3 million, lower result on FX differences by PLN 8.8 million and an increase in interest costs by PLN 1.3 million due to higher liabilities arising from loans. In Q2 2016, the PKP CARGO Group recorded a loss on financial activities in the amount of PLN -22.7 million, compared to PLN -6.0 million recorded in the corresponding period of the previous year.

Details are presented Note 8.

Result before tax

In H1 2016, result before tax fell by PLN 398.5 million to PLN -229.3 million, driven by loss on operating and financing activities.

Income tax

In H1 2016, the PKP CARGO Group posted income tax in the amount of PLN -34.7 million, of which current tax was PLN 2.5 million and deferred tax was PLN -37.2 million.

Net result

In H1 2016, the Group generated net result of PLN -194.6 million compared to PLN 162.5 million in the same period of the previous year.

5.3.2. Description of the structure of assets and liabilities

ASSETS

Table 32 Horizontal and vertical analysis of assets (in PLN thousand)

	As at 30 June 2016 (unaudited)	As at 31 December 2015 (audited)	Asset structure 30/06/2016	Asset structure 31/12/2015	Change	
ASSETS						
Non-current assets						
Property, plant and equipment	4,727,738	4,719,748	79.2%	77.2%	7,990	0.2%
Intangible assets	60,699	66,437	1.0%	1.1%	-5,738	-8.6%
Investment property	1,284	1,309	0.0%	0.0%	-25	-1.9%
Investments accounted for under the equity method	39,855	39,831	0.7%	0.7%	24	0.1%
Trade and other receivables	2,901	5,074	0.0%	0.1%	-2,173	-42.8%
Other long-term financial assets	10,097	9,849	0.2%	0.2%	248	2.5%
Other long-term non-financial assets	44,961	32,666	0.8%	0.5%	12,295	37.6%
Deferred tax assets	120,856	104,587	2.0%	1.7%	16,269	15.6%
Total non-current assets	**5,008,391**	**4,979,501**	**83.9%**	**81.5%**	**28,890**	**0.6%**
Current assets						
Inventories	120,937	128,513	2.0%	2.1%	-7,576	-5.9%
Trade and other receivables	631,062	664,321	10.6%	10.9%	-33,259	-5.0%
Income tax receivables	4,621	2,748	0.1%	0.0%	1,873	68.2%
Other short-term financial assets	4,203	4,046	0.1%	0.1%	157	3.9%
Other short-term non-financial assets	38,093	13,281	0.6%	0.2%	24,812	186.8%
Cash and cash equivalents	157,361	276,191	2.6%	4.5%	-118,830	-43.0%
Non-current assets classified as held for sale	6,000	44,061	0.1%	0.7%	-38,061	-86.4%
Total current assets	**962,277**	**1,133,161**	**16.1%**	**18.5%**	**-170,884**	**-15.1%**
Total assets	**5,970,668**	**6,112,662**	**100.0%**	**100.0%**	**-141,994**	**-2.3%**

Source: Condensed interim consolidated financial statements of the PKP CARGO Group for the period of 6 months ended 30 June 2016 prepared according to EU IFRS

Non-current assets

The biggest share in the asset structure was held by property, plant and equipment, which as at the end of H1 2016 constituted 79.2% of total assets, compared to 77.2% at the end of 2015. Property, plant and equipment is dominated by the means of transportation (mainly locomotives and wagons) which as at the end of H1 2016 represented 80.4% of total property, plant and equipment, compared to 80.2% at the end of 2015. The increase of property, plant and equipment in H1 2016 by PLN 8.0 million is associated with the investments made in the total amount of PLN 267.5 million (of which PLN 247.2 million were the expenditures on rolling stock, mainly the purchase of 6 multi-system locomotives, repairs and periodic inspections of the rolling stock) as well as reclassification of the amount of PLN 38.1 million (including PLN 33.1 million of rolling stock) of assets in the item of assets classified as held for sale to property, plant and equipment because of the low benefits that the Parent Company would obtain by selling such assets in an environment that is not positive for scrap metal prices. The increase occurred with the fall of the value of means of transportation in connection with the impairment loss of the fixed assets arising from a test for impairment of the AWT Group value in the amount of PLN 35.4 million. Details are presented in Note 10.1. Major changes to non-current assets included: an increase in other long-term non-financial assets (by PLN 12.3 million to PLN 45.0 million) and an increase in deferred income tax assets (by PLN 16.3 million to PLN 120.9 million), which was associated with the loss posted as at 30 June 2016 by the Parent Company and subsidiaries.

Current assets

Current assets dropped at the end of H1 2016 by PLN 170.9 million, i.e. by 15.1%, in relation to the end of 2015, mainly as a result of a PLN 118.8 million, or 43.0% lower, reduction in cash and cash equivalents, which in turn resulted directly from the payment of liabilities under the Voluntary Redundancy Program, capital expenditures on property, plant and equipment and decline in assets classified as held for sale by PLN 38.1 million, or 86.4% yoy, for reasons described above. In addition, the final value of current assets was significantly affected by a decrease of trade and other receivables by PLN 33.3 million (or 5.0%). In this line item, the biggest changes were recorded in trade receivables (which increased by about PLN 49.5 million) and VAT settlements (which fell by PLN 19.2 million). Moreover, in H1 2016, impairment losses on receivables were higher than in the end of 2015 by PLN 61.6 million. This increased impairment resulted from recognition of impairment losses in the amount of PLN 62.9 million on receivables from OKD, a Czech coal consortium. Details are presented in Note 16. Among major changes one should also note the increase of other short-term non-financial assets by PLN 24.8 million, resulting largely from charges for the Company Social Benefits Fund (ZFŚS) in the amount of PLN 15.3 million, to be settled in future periods, and purchase of transportation services for authorized persons in the amount of PLN 7.6 million.

Total current assets expressed as a percentage of total assets dropped from 18.5% as at 31 December 2015 to 16.1% on 31 June 2016.

The structure of total current assets was dominated by trade and other receivables (65.6%) with cash and cash equivalents at 16.4% and inventories at 12.6%.

LIABILITIES

Table 33 Horizontal and vertical analysis of liabilities (PLN thousands)

	As at 30 June 2016 (unaudited)	As at 31 December 2015 (audited)	Structure of equity and liabilities 30/06/2016	31/12/2015	Change	
EQUITY AND LIABILITIES						
Equity						
Share capital	2,239,346	2,239,346	37.5%	36.7%	0	0.0%
Supplementary capital	618,531	619,407	10.4%	10.1%	-876	-0.1%
Other items of equity	-5,708	-2,779	-0.1%	0.0%	-2,929	105.4%
Exchange differences resulting from conversion of financial statements of foreign operations	59,151	31,500	1.0%	0.5%	27,651	87.8%
Retained earnings	272,679	466,392	4.6%	7.6%	-193,713	-41.5%
Equity attributable to the owners of the parent company	**3,183,999**	**3,353,866**	**53.3%**	**54.9%**	**-169,867**	**-5.1%**
Total equity	**3,183,999**	**3,353,866**	**53.3%**	**54.9%**	**-169,867**	**-5.1%**
Non-current liabilities						
Long-term bank loans and credit facilities	663,096	460,577	11.1%	7.5%	202,519	44.0%
Long-term finance lease liabilities and leases with purchase option	163,380	193,500	2.7%	3.2%	-30,120	-15.6%
Long-term trade and other payables	8,209	25,953	0.1%	0.4%	-17,744	-68.4%
Long-term provisions for employee benefits	602,623	603,621	10.1%	9.9%	-998	-0.2%
Other long-term provisions	28,502	28,886	0.5%	0.5%	-384	-1.3%
Other long-term financial liabilities	0	155,198	0.0%	2.5%	-155,198	-100.0%
Deferred tax liabilities	100,788	118,353	1.7%	1.9%	-17,565	-14.8%
Non-current liabilities, total	**1,566,598**	**1,586,088**	**26.2%**	**25.9%**	**-19,490**	**-1.2%**
Current liabilities						
Short-term bank loans and credit facilities	269,768	253,592	4.5%	4.2%	16,176	6.4%
Short-term finance lease liabilities and leases with purchase option	70,409	65,416	1.2%	1.1%	4,993	7.6%
Short-term trade and other payables	580,735	729,793	9.7%	11.9%	-149,058	-20.4%
Short-term provisions for employee benefits	116,743	100,383	2.0%	1.6%	16,360	16.3%
Other short-term provisions	16,596	17,856	0.3%	0.3%	-1,260	-7.1%
Other short-term financial liabilities	164,985	2,174	2.8%	0.0%	162,811	7489.0%
Current tax liabilities	835	3,494	0.0%	0.1%	-2,659	-76.1%
Current liabilities, total	**1,220,071**	**1,172,708**	**20.4%**	**19.2%**	**47,363**	**4.0%**
Total liabilities	**2,786,669**	**2,758,796**	**46.7%**	**45.1%**	**27,873**	**1.0%**
Total liabilities and equity	**5,970,668**	**6,112,662**	**100.0%**	**100.0%**	**-141,994**	**-2.3%**

Source: Condensed interim consolidated financial statements of the PKP CARGO Group for the period of 6 months ended 30 June 2016 prepared according to EU IFRS

Equity

Equity expressed as a percentage of total assets as at 30 June 2016 was 53.3% compared to 54.9% at the end of 2015. The drop in the equity to total assets ratio was caused by both an increase of liabilities and the loss recorded in H1 2016 charged to equity in the amount of PLN 194.6 million, which reduced retained earnings by PLN 193.7 million. The equity was also materially affected by the increased exchange differences arising from conversion of financial statements of foreign operations by PLN 27.7 million, or 87.8%.

Non-current liabilities

Long-term liabilities at the end of H1 2016 fell by PLN 19.5 million, i.e. 1.2%, compared to 31 December 2015. The largest movement was recorded in other long-term financial liabilities in the amount of PLN 155.2 million (a decrease resulting from reclassification of a liability under a put option for AWT shares to current liabilities – the put option exercise period was set from 1 January 2017 to 31 December 2020). The second most important factor driving the change in long-term liabilities was an increase in long-term loans and borrowings by PLN 202.5 million as a result of incurring following loan tranches to execute an investment project or to refinance capital expenditures. Long-term liabilities were also affected by repayment of leasing liabilities - the balance dropped by PLN 30.1 million, and a PLN 17.7 million decrease in long-term trade liabilities.

Current liabilities

Current liabilities increased as at the end of H1 2016 compared to the end of 2015 by PLN 47.4 million (or 4.0%). The largest movements were recorded in the following line items:

- Other short-term financial liabilities: increase by PLN 162.8 million mainly in connection with reclassification of the liabilities on account of the put option for the sale of AWT shares,
- Short-term bank loans and credit facilities: growth of PLN 16.2 million,
- Short-term trade and other payables - decline by PLN 149.1 million caused primarily by the following:
  1) drop in short-term trade and other payables by PLN 63.1 million,
  2) repayment of liabilities stemming from the implemented Voluntary Redundancy Program in the amount of PLN 48.2 million, and
  3) drop in liabilities arising from the purchase of non-financial non-current assets by PLN 33.8 million, among which the largest decrease of PLN 13.6 million resulted from the modernization of locomotives in the previous years, where payments are made over a certain period of time, and a decrease in companies in the amount of PLN 5.8 million.

Short-term liabilities expressed as a percentage of total assets increased in H1 2016 to 20.5% (compared to 19.2% at the end of 2015).

5.3.3. Cash flow statement

The table below depicts the main line items in the PKP CARGO Group's cash flow statement in H1 2016 compared to H1 2015.

Table 34 Main line items in the PKP CARGO Group's cash flow statement in H1 2016 compared to H1 2015.

Item	6 months 2016	6 months 2015	Change 2016 - 2015	Change 2016/2015
Net cash on operating activities	19,166	19,690	-524	-2.7%
Net cash generated / (used) in connection with investing activities	-309,082	-284,361	-24,721	8.7%
Net cash generated / (used) in connection with financing activities	166,668	54,548	112,120	205.5%
Net increase / (decrease) in cash and cash equivalents	**-123,248**	**-210,123**	**86,875**	**-41.3%**
Cash and cash equivalents at the beginning of the reporting period	**276,191**	**429,178**	**-152,987**	**-35.6%**
Impact exerted by FX rate movements on the cash balance in foreign currencies	4,418	1,758	2,660	151.3%
Cash and cash equivalents at the end of the reporting period	**157,361**	**220,813**	**-63,452**	**-28.7%**

Source: Condensed interim consolidated financial statements of the PKP CARGO Group for the period of 6 months ended 30 June 2016 prepared according to EU IFRS

Cash flow on operating activities

In H1 2016 net cash flow from operating activities was PLN 19.2 million compared to PLN 19.7 million in the same period of 2015. The cash flow was generated on the result before tax of PLN -229.3 million and amortization and depreciation and impairment losses of PLN 324.1 million. The cash flows on operating activities are also related to the payment of the second tranche of liabilities under the Voluntary Redundancy Programs 1 and 2 in the amount of PLN 48.2 million and a decrease in trade and other receivables by PLN 34.9 million.

Cash flow from investing activities

In H1 2016 net cash flow used in connection with investing activities was PLN -309.1 million versus PLN -284.4 million in the same period of the previous year. The negative cash flows were related directly to the capital expenditures incurred by the PKP CARGO Group. The details of the capital expenditures are described in chapter 4.5. "PKP CARGO Group's investments".

Cash flow on financial activities

Net cash flow from financing activities in H1 2016 was PLN 166.7 million versus PLN 54.5 million in the same period in 2015. Proceeds of PLN 275.3 million were obtained from loans taken out in the first 6 months of 2016, compared to PLN 345.4 million in the corresponding period of 2015. In the analyzed period of 2016, total cash expenditures for leases, to repay loans and borrowings and interest on leases and borrowings were PLN 111.9 million versus PLN 136.8 million in 6M 2015.

5.3.4. Selected financial and operating ratios

The table below presents key financial and operating ratios of the PKP CARGO Group in H1 2016 and Q2 2016 compared to H1 2015 and Q2 2015.

Table 35 Selected financial and operating ratios in H1 2016 compared to H1 2015

No.	Item	6 months of 2016	6 months of 2015, restated data*	6 months of 2016, adjusted**	6 months of 2015, adjusted***, restated data*	Change rate 2016/2015, adjusted
1	EBITDA margin[1]	6.1%	18.9%	9.1%	16.8%	-45.8%
2	Net profit margin[2]	-9.2%	7.9%	-5.4%	4.2%	-
3	Net financial debt to EBITDA ratio[3]	2.6	1.8	2.3	1.3	76.9%
4	ROA[4]	-5.5%	1.8%	-1.7%	3.9%	-
5	ROE[5]	-10.2%	3.2%	-3.2%	7.1%	-
6	Average distance covered by one locomotive (km/day)[6]	242.3	248.4	242.3	248.4	-2.5%
7	Average gross train tonnage per operating locomotive (tons)[7]	1468.0	1517.0	1468.0	1517.0	-3.2%
8	Average running time of train locomotives (hours per day)[8]	14.9	15.3	14.9	15.3	-2.6%
9	Freight turnover per employee (thousands tkm/employee)[9]	570.5	550.9	570.5	550.9	3.6%

Source: Proprietary material

Table 36 Selected financial and operating ratios in Q2 2016 compared to Q2 2015

No.	Item	Q2 2016	Q2 2015, restated data*	Q2 2016, adjusted**	Q2 2015, adjusted***, restated data*	Change rate Q2 2016/Q2 2015, adjusted
1	EBITDA margin[1]	4.5%	21.9%	10.3%	18.3%	-75.4%
2	Net profit margin[2]	-11.8%	12.0%	-4.5%	5.8%	-
3	Net financial debt to EBITDA ratio[3]					
4	ROA[4]					
5	ROE[5]					
6	Average distance covered by one locomotive (km/day)[6]	241.5	245.2	241.5	245.2	-1.5%
7	Average gross train tonnage per operating locomotive (tons)[7]	1458.0	1513.0	1458.0	1513.0	-3.6%
8	Average running time of train locomotives (hours per day)[8]	14.9	15.2	14.9	15.2	-2.0%
9	Freight turnover per employee (thousands tkm/employee)[9]	295.2	298.0	295.2	298.0	-0.9%

Source: Proprietary material

** restatement of comparative data is described in detail in Note 4*

*** Annualized 2016 data adjusted for presentation purposes by (1) impairment losses on non-current assets and assets classified as held for sale, in the amount of PLN 178.7 million, (2) impairment losses on receivables from OKD in the amount of PLN 62.9 million (described in Note 16), (3) impairment losses arising from an impairment loss of the fixed assets arising from a test for impairment of the AWT Group in the amount of PLN 35.4 million (described in Note 10.1)*

Data for H1 2016 and for Q2 2016 adjusted for presentation purposes by impairment losses on receivables from OKD in the amount of PLN 62.9 million (described in Note 16) the impairment loss of the fixed assets arising from a test for impairment of the AWT Group in the amount of PLN 35.4 million (described in Note 10.1).

**** Annualized 2015 data, adjusted for presentation purposes by (1) profit on bargain purchase of AWT in the amount of PLN 137.8 million and (2) costs following from the implemented 2nd Voluntary Redundancy Program (VRP 2) pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million, (3) costs following from the implemented 1st Voluntary Redundancy Program (VRP 1) pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. These liabilities were estimated at PLN 265.3 million,*

The data for H1 2015 and Q2 2015 were adjusted for presentation purposes for (1) the profit on bargain purchase of AWT in the amount of PLN 137.8 million, (2) the costs following from the implemented 2nd Voluntary Redundancy Program (VRP 2) pursuant to Resolutions adopted by the Management Boards and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million.

The adjustments concern 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
2. Calculated as the quotient of net profit and total operating revenue
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; and (v) other short-term financial liabilities and (iv) 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 (profit on operating activities plus amortization and impairment charges).
4. Calculated as the quotient of annualized net profit for the past 12 months and total assets.
5. Calculated as the quotient of annualized net profit for the past 12 months and equity.
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.

In 6 months of 2016, due to reasons described above, the key annualized profitability ratios, i.e. EBITDA margin, net profit margin, ROA, ROE were lower than in the same period of the previous year. The net financial debt to EBITDA ratio also deteriorated. It increased from 1.8 in 6M 2015 to 2.6 in the same period of 2016. In Q2 2016 itself, the EBITDA margin and net profit margin deteriorated, as compared to the corresponding period of the previous year.

If annualized performance is adjusted by non-recurring events, the foregoing ratios (ROA, ROE) are better than the reported figures. This is largely driven by the impairment loss on non-current assets in the amount of PLN 178.7 million and the impairment loss on receivables from OKD in the amount of PLN 62.9 million and an impairment loss of the fixed assets arising from a test for impairment of the AWT Group in the amount of PLN 35.4 million.

In H1 2015 the average daily mileage of locomotives was 248.4 km/day. In the corresponding period of 2016, this figure fell by 6.1 km/day, reaching 242.3 km/day. Hence the average daily mileage shrunk by 2.5%. In Q2 2015 the average daily locomotive mileage was 245.2 km/day. In the corresponding period of 2016, this figure fell by 3.7 km/day, reaching 241.5 km/day. This phenomenon was caused mainly by the high level of closures and operating difficulties in the PKP PLK S.A. grid, and decrease of transport.

During the 6 months of 2016, the gross average train freight turnover per locomotive moved down from 1517.0 tons (H1 2015) to 1468.0 tons. Hence a decrease of 49.0 tons was recorded (the average freight turnover of driven trains fell by 3.2%). In Q2 2016, the gross average train freight turnover per locomotive moved down from 1513.0 tons (Q2 2015) to 1458.0 tons. The figure fell due to decrease of transport.

In H1 2015 the average running time of locomotives was 15.3 hours/day. In the corresponding period of 2016, this figure decreased by 0.4 hours/day, reaching 14.9 hours/day. Hence the average daily running time of locomotives decreased 2.6%. In Q2 2015 the average running time of train locomotives amounted to 15.2 hours/day. In the corresponding period of 2016, this figure decreased by 0.3 hours/day, reaching 14.9 hours/day. The decrease of the figure results from execution of the transport process with a very high level of closures and operating difficulties in the PKP PLK grid, and decrease of transport.

5.4. Factors that will affect the financial performance in the next quarter

CCBA Memorandum of Agreement

On 15 March 2016, a memorandum of agreement was executed between the parties to the Company Collective Bargaining Agreement for Employees Hired by the Establishments of PKP CARGO S.A. ("CCBA Memorandum of Agreement"), in particular with respect to the collective dispute commenced on 2 July 2015.

Under the memorandum of agreement, the trade unions dissolved the Protest and Strike Committee and company level committees, and cancelled all protest and strike activities as regards the structural and organizational changes in the Company. At the same time, the Company withdrew the claims of 2 November 2015 to rule non-existence of collective disputes in the Company's individual plants and on the level of the entire Company.

Moreover, the parties to the CCBA Memorandum of Agreement undertook to enter into a memorandum of agreement pertaining to the collective dispute commenced on 2 July 2015 by the end of 2016 to implement, in particular, the post-inspection report of the District Labor Inspector in Warsaw of 15 October 2015 on the procedure for changing the terms and conditions of employee compensation in the form of additional protocols to the Company Collective Bargaining Agreement.

Situation on the rail transport market in the main cargo categories

Favorable business conditions on the market for coal, aggregates, coke, iron ore, metals, petroleum oil refinery products, chemical products and container transport directly affect the situation in the rail freight turnover sector.

Changes in transport of the foregoing groups of commodities directly affect the changes in volumes of those commodities transported by the PKP CARGO Group. Majority of revenues in the PKP CARGO Group comes from activity linked to rail freight transport in Poland, both domestically, exports, imports and transit, as well as in the CEE region. Therefore, the Group's activity and financial performance depend on the market situation not just in Poland and the Czech Republic but also in countries which are their main trading partners.

Deterioration of business conditions on domestic markets or in countries constituting the existing or potential areas of the Group's operations may have adverse effect on the demand for the services provided by the Group, which in turn may directly affects its financial performance.

The uncertain situation in the mining industry significantly affects the market for hard coal transportation. It is caused predominantly by the low prices of coal and the increasing role of renewable energy sources ("RES").

Situation in the Czech coal sector

One of the Group's key clients is OKD a.s., the only producer of hard coal in the Czech Republic. In May 2016, the coal consortium OKD filed for bankruptcy. AWT will continue to provide services to OKD; nevertheless, in order to preclude the risk of improper and untimely payment for freight, the principle has been implemented for prepayments to be made for the amounts due for the services provided.

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 in Poland in the first 6 months of 2016 accounted to approx. 14.3% of operating expenses in the PKP CARGO Group.

Since 13 December 2015 (the launch of the new timetable), the infrastructure managed by PKP PLK S.A. is subject to a new price list for the use of 1435 mm gauge rail infrastructure on a per-unit basis, as approved by the President of the Office of Rail Transport (UTK) on 23 October 2015, and to a separate type of fee for the use of broad gauge (1520 mm) infrastructure. The above price lists are tied to pertinent provisions of the Rules of train route allotment and use of allotted routes by licensed rail carriers within the 2015/2016 timetable.

Introduction of a new price list for unit fees for the use of rail infrastructure caused an increase of the costs of using the access to the infrastructure, thus exerting negative influence on the PKP CARGO Group's results.

The new timetable has also taken into account the changes in fees charged for the use of lines managed by private operators. PKP CARGO S.A. provides some of its transportation services also using part of that infrastructure.

On 27 July 2016, the President of the Office of Rail Transport approved the unit rates of the basic fee for access to rail infrastructure, the unit rates of the basic fee for access to train handling devices and the unit rates of extra fees for access to railway infrastructure with a track gauge of 1435 mm managed by PKP Polskie Linie Kolejowe S.A. which will apply from 11 December 2016. PKP PLK's approved price list will bring a slight decrease in the rates of the basic fee and increases in most rates of additional fees and fees for the basic services related to access to train handling devices.

Technical regulations related to 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. They may also depend on the requirements imposed by EU regulations.

Call and put option

In parallel with the AWT B.V. acquisition agreement, PKP CARGO S.A. also entered into 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 priority right to purchase the AWT shares held by MSE when MWE 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 MSW 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, European Bank for Reconstruction and Development and commercial banks. The increase of borrowing liabilities will result in an increase of (short- and long-term) liabilities and financial expenses.

Operating difficulties on rail lines

Additionally, the activities of the PKP CARGO Group depend on the condition of the rail infrastructure, and the railway network is of low quality. An intense railway network modernization program, although expected to ultimately result in improved operating conditions, during the course of the construction and renovation work will cause hindrances and the need to route railway traffic through detours.

Railway track closures caused by modernization works have and will continue to have direct negative impact on the throughput of the lines and stations used, and rejection of applications for individual timetables (IRJ)[61], extension of the travel time, longer train travel courses and longer train stays at the stations. This situation requires increased human resources involved in the transport process, in terms of the rolling stock and train crews, which impacts the costs incurred by the Group.

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

The Parent Company and the Group companies are exposed to FX risk resulting from the receivables, payables and cash denominated in foreign currencies. The Parent Company's receivables expressed in foreign currencies are short-term receivables and payables expressed in foreign currencies are mostly short- and long-term lease 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 financial expenses (negative FX differences). The level of financial revenues and financial expenses fluctuates during the year, which is caused by changes in the exchange rates.

Scrap price level

Since October 2015, when a significant price decline occurred, including in Q1 2016, the scrap price has been low. In May of this year, the steel scrap price increased PLN 100-200 per ton to reach, on average, PLN 450-640 per ton. In Q3 2016, a slight increase in prices is expected.

[61] Individual Train Timetable - timetable prepared on the carrier's application, for one or more travel times within the framework of free transport throughput capacity.

5.5. 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 the first 6 months of 2016.

5.6. Information about production assets

5.6.1. 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 such actions as liquidation and sale of rolling stock or purchase of rolling stock. In H1 2016, the number of diesel locomotives declined as a result of their sale, while the reduction of the number of owned wagons resulted from removing them from the books following their liquidation (due to the technical condition).

The tables below present the structure of the locomotives and wagons used, by type and ownership during the reporting period.

Table 37 Structure of the locomotives used by the PKP CARGO Group by traction type and ownership

Item	30/06/2016	31/03/2016	31/12/2015	Change YTD	Change in Q2 2016
diesel locomotives	1,400	1,417	1,429	-29	-17
electric locomotives	1,171	1,172	1,173	-2	-1
Total	**2,571**	**2,589**	**2,602**	**-31**	**-18**
owned locomotives (including financial lease)	2,552	2,573	2,579	-27	-21
locomotives in operational lease or rented	19	16	23	-4	3
Total	**2,571**	**2,589**	**2,602**	**-31**	**-18**

Source: Proprietary material

Table 38 Structure of the wagons used by the PKP CARGO Group, by ownership

Item	30/06/2016	31/03/2016	31/12/2015	Change YTD	Change in Q2 2016
owned wagons (including financial lease)	64,775	64,859	64,907	-132	-84
wagons in operational lease or rented	1,511	1,577	1,868	-357	-66
Total	**66,286**	**66,436**	**66,775**	**-489**	**-150**

Source: Proprietary material

On 23 September 2015, an agreement was signed with the Consortium composed of Siemens Sp. z o.o. and Siemens A.G. for the delivery of 15 multi-system locomotives in three batches from 31 January 2016 to 30 June 2017 (the basic order) with an option to purchase 5 additional locomotives at basic order prices, where PKP CARGO S.A. must take the decision to exercise this option no later than on 31 December 2017 (the optional order).

Between 1 January 2016 and the delivery date of this report, 9 locomotives were delivered by the manufacturer.

5.6.2. 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 changes in real estate owned and used by the PKP CARGO Group during the first 6 months of 2016.

Table 39 Real estate owned and used by the PKP CARGO Group as at 30 June 2016 compared to 31 December 2015.

Item	30/06/2016	31/12/2015	Change YTD
Land - owned, in perpetual usufruct and leased from other entities [ha]	1,554	1,560	-6
Buildings - owned, leased and rented from other entities [sqm]	781,854	794,303	-12,449

Source: Proprietary material

Decrease of the size of buildings owned, leased and rented results from the on-going verification of the size of the assets used by the Parent Company and its Subsidiaries.

6. Other key information and events

6.1. Proceedings pending before courts, arbitration bodies or public administration authorities

PKP CARGO S.A. and its subsidiaries are not parties to proceedings pending before courts, arbitration bodies or public administration authorities pertaining to liabilities or claims the value of which constitutes 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 or the issuer's subsidiary where the total value of such liabilities or claims constitutes at least 10% of the Parent Company's equity.

6.2. Information on transactions with related parties

In the first 6 months of 2016, no entity from the PKP CARGO Group entered into any transactions with related parties on non-market terms. Also after the balance sheet date no such transactions have been entered into.

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 of relevance for evaluation of the employment situation, financial standing, financial performance, assets and their movements as well as information of relevance for assessment of the ability of the issuer and other Group companies to pay their debts.

Other than the information presented in this Report, no other information has been identified that would be of relevance for evaluation of the employment situation, financial standing, financial performance, assets or their movements or information of relevance for assessment of the ability of the issuer to pay its debts.

This Consolidated Annual Report was approved by the PKP CARGO S.A. Management Board on 27 September 2016.

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Maciej Libiszewski

President of the Management Board

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Arkadiusz Olewnik

Management Board Member

……………………………………………

Grzegorz Fingas

Management Board Member

……………………………………………

Jarosław Klasa

Management Board Member

……………………………………………

Zenon Kozendra

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 Maciej Libiszewski – President of the Board

2 Arkadiusz Olewnik – Board Member

3 Jarosław Klasa – Board Member

4 Grzegorz Fingas – Board Member

5 Zenon Kozendra – Board Member

Warsaw, 27 September 2016

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 Maciej Libiszewski – President of the Board

2 Arkadiusz Olewnik – Board Member

3 Jarosław Klasa – Board Member

4 Grzegorz Fingas – Board Member

5 Zenon Kozendra – Board Member

Warsaw, 27 September 2016

pkpcargo.com

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