



**PKP CARGO Capital Group
Consolidated Quarterly Report
for Q1 2014**

Warsaw, 15 may 2014



Quarterly Condensed Consolidated Financial Statements of the PKP CARGO Capital Group

for the period of 3 months ended 31 March 2014

prepared in accordance with IFRS
as endorsed by the European Union



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QUARTERLY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2014 TO 31 MARCH 2014

	Note	for the 3 months period ended 31/03/2014 (unaudited) PLN thousand	for the 3 months period ended 31/03/2013 (unaudited) PLN thousand
Continuing operations			
Sales revenue	4	1 004 259	1 022 691
Revenue from sales of goods and materials		12 431	23 857
Other operating revenue	6.1	21 788	4 773
Total operating revenue		1 038 478	1 051 321
Depreciation/amortisation and impairment losses	5.1	90 820	90 285
Consumption of raw materials and supplies	5.2	158 539	166 438
External services	5.3	320 135	356 994
Taxes and charges		10 717	9 316
Employee benefits	5.4	363 524	374 553
Other expenses by kind		9 185	11 607
Cost of merchandise and raw materials sold		8 622	17 601
Other operating expenses	6.2	8 467	8 488
Total operating expenses		970 009	1 035 282
Profit on operating activities		68 469	16 039
Financial revenue	7.1	6 088	10 680
Financial expenses	7.2	10 355	18 934
Share in the profit of equity accounted associates	13	9 361	472
Profit on sales of shares in an associate	13	-	-
Profit before tax		73 563	8 257
Income tax expense	8.1	16 029	6 814
Net profit on continuing operations		57 534	1 443
Discontinued operations			
Net profit/(loss) on discontinued operations		-	-
NET PROFIT		57 534	1 443
Net profit/(loss) attributable to:			
Shareholders of the parent company		56 867	3 733
Non-controlling interest		667	(2 290)
		57 534	1 443
Earnings per share (PLN per share)			
Continuing operations (ordinary):	19.1	1,30	0,09
Continuing operations (diluted):	19.2	1,27	0,09

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QUARTERLY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2014 TO 31 MARCH 2014 (cont'd.)

	Note	for the 3 months period ended 31/03/2014 (unaudited) PLN thousand	for the 3 months period ended 31/03/2013 (unaudited) PLN thousand
NET PROFIT		57 534	1 443
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods		138	-
The effective portion of changes in fair value of cash-flow hedging instruments	8.1	170	-
Income tax on other comprehensive income	8.1	(32)	-
Items not to be reclassified to profit or loss in subsequent periods		-	-
Actuarial gains/(losses) on employee benefits after employment period		-	-
Income tax on other comprehensive income		-	-
		138	-
TOTAL COMPREHENSIVE INCOME		57 672	1 443
Total comprehensive income attributable to:			
Shareholders of the parent company		56 944	3 733
Non-controlling interest		728	(2 290)
		57 672	1 443

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QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 31 MARCH 2014

	Note	As at 31/03/2014 (unaudited) PLN thousand	As at 31/12/2013 (audited) PLN thousand
ASSETS			
Non-current assets			
Property, plant and equipment	10	3 875 640	3 855 446
Intangible assets		59 301	61 395
Goodwill		2 712	2 712
Investment property		1 401	1 415
Investments accounted for under the equity method	13	47 509	38 214
Other long-term financial assets	15	6 082	6 090
Other long-term non-financial assets		1 130	1 438
Deferred tax assets	8.2	66 804	83 185
Total non-current assets		4 060 579	4 049 895
Current assets			
Inventory		79 051	76 041
Trade and other receivables	16	582 375	609 267
Income tax receivables		2 947	2 394
Other short-term financial assets	15	619 393	691 404
Other short-term non-financial assets		79 738	33 355
Cash and cash equivalents	17	184 338	263 700
		1 547 842	1 676 161
Non-current assets classified as held for sale	11	17 560	17 560
Total current assets		1 565 402	1 693 721
Total assets		5 625 981	5 743 616

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QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 31 MARCH 2014 (cont'd.)

	Note	As at 31/03/2014 (unaudited) PLN thousand	As at 31/12/2013 (audited) PLN thousand
EQUITY AND LIABILITIES			
Equity			
Share capital	18.1	2 239 346	2 166 901
Share premium	18.2	618 797	692 761
Other items of equity		(16 315)	(16 392)
Retained earnings		660 114	603 247
Equity attributable to the shareholders of the parent company		3 501 942	3 446 517
Equity attributable to non-controlling interest		63 105	62 377
Total equity		3 565 047	3 508 894
Non-current liabilities			
Long-term bank loans and credit facilities	21	105 502	121 558
Long-term finance lease liabilities and leases with purchase option	22	273 946	313 136
Long-term trade and other liabilities	23	102 586	113 688
Long-term provisions for employee benefits	24	592 923	592 923
Other long-term provisions	25	8 492	22 854
Other long-term financial liabilities	26	-	-
Deferred tax provision	8.2	2 519	2 577
Non-current liabilities		1 085 968	1 166 736
Current liabilities			
Short-term bank loans and credit facilities	21	64 784	73 217
Short-term finance lease liabilities and leases with purchase option	22	124 631	115 790
Short-term trade and other liabilities	23	655 738	675 841
Short-term provisions for employee benefits	24	105 453	176 461
Other short-term provisions	25	23 753	26 127
Other short-term financial liabilities	26	467	306
Income tax liability		140	244
		974 966	1 067 986
Liabilities directly related to non-current assets classified as held for sale	11	-	-
Total current liabilities		974 966	1 067 986
Total liabilities		2 060 934	2 234 722
Total equity and liabilities		5 625 981	5 743 616

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QUARTERLY STATEMENT OF CHANGES IN CONSOLIDATED EQUITY FOR THE FINANCIAL PERIOD ENDED 31 MARCH 2014

	Share capital	Share premium	Actuarial gain/loss on employee benefits after employment period	Changes in fair value of cash-flow hedging instruments	Retained earnings / (uncovered loss)	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
Balance as at 1/01/2013 (audited)	2 889 200	122 773	(29 059)	(267)	159 947	3 142 594	72 078	3 214 672
Net result for the financial year	-	-	-	-	3 733	3 733	(2 290)	1 443
Other net comprehensive income for the period	-	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	3 733	3 733	(2 290)	1 443
Issuance of shares	-	-	-	-	-	-	-	-
Other changes in equity	-	-	-	-	-	-	-	-
Balance as at 31/03/2013 (unaudited)	2 889 200	122 773	(29 059)	(267)	163 680	3 146 327	69 788	3 216 115
Balance as at 1/01/2014 (audited)	2 166 901	692 761	(16 182)	(210)	603 247	3 446 517	62 377	3 508 894
Net result for the financial year	-	-	-	-	56 867	56 867	667	57 534
Other net comprehensive income for the period	-	-	-	77	-	77	61	138
Total comprehensive income	-	-	-	77	56 867	56 944	728	57 672
Issuance of shares	72 445	26 051	-	-	-	98 496	-	98 496
Share based payment provision	-	(100 015)	-	-	-	(100 015)	-	(100 015)
Other changes in equity	-	-	-	-	-	-	-	-
Balance as at 31/03/2014 (unaudited)	2 239 346	618 797	(16 182)	(133)	660 114	3 501 942	63 105	3 565 047

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QUARTERLY CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY 2014 TO 31 MARCH 2014 [INDIRECT METHOD]

	Note	for the 3 months period ended 31/03/2014 (unaudited) PLN thousand	for the 3 months period ended 31/03/2013 (unaudited) PLN thousand
Cash flows from operating activities			
Gross profit/(loss) for the financial year		73 563	8 257
Adjustments:			
Depreciation and amortisation of non-current assets	5.1	90 820	92 170
Impairment of assets	5.1	-	(1 885)
(Gain)/ Loss on disposal of property, plant and equipment and intangible assets		4 221	5 659
(Profit)/loss on investing activities		792	927
Exchange (gains)/losses		1 695	6 930
(Gains)/losses on interest, dividend		845	1 027
Share in the (profit)/loss of equity accounted associates		(9 361)	(472)
Profit/(loss) on sales of an associate		-	-
Other adjustments		171	-
Changes in working capital:			
(Increase)/decrease in trade and other receivables		22 313	48 997
(Increase)/decrease in inventory		(3 010)	3 402
(Increase)/decrease in other assets		(45 997)	(43 074)
Increase/(decrease) in trade and other liabilities		(8 884)	(765)
Increase / (decrease) in other liabilities		-	-
Increase / (decrease) in provisions		(87 744)	6 362
Cash flows from operating activities		39 424	127 535
Interest received/(paid)		1 417	1 472
Income taxes received/(paid)		(395)	(535)
Net cash provided by operating activities		40 446	128 472

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QUARTERLY CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY 2014 TO 31 MARCH 2014 [INDIRECT METHOD] (cont'd.)

	Note	for the 3 months period ended 31/03/2014 (unaudited) PLN thousand	for the 3 months period ended 31/03/2013 (unaudited) PLN thousand
<i>Cash flows from investing activities</i>			
Acquisition of property, plant and equipment and intangible assets		(139 756)	(116 821)
Proceeds from sale of property, plant and equipment and intangible assets		358	410
Acquisition of subsidiaries, associates and joint venture		-	-
Proceeds from the sale of subsidiaries, associates and joint venture		-	-
Acquisition of other financial assets		-	-
Acquisition of subsidiary, net of acquired cash		-	-
Proceeds from sale of other financial assets		-	-
Interest received		5 626	8 748
Dividend received		66	-
Proceeds from loans granted		(2 997)	-
Repayment of loans granted		41	468
Other proceeds/(acquisitions) on investing activities ⁽¹⁾		75 170	(1 135)
		(61 492)	(108 330)
<i>Cash flows from financing activities</i>			
Proceeds from issuance of shares		-	-
Payments of liabilities under finance lease		(32 826)	(30 724)
Payments of interest under lease agreement		(3 306)	(4 485)
Proceeds from credit facilities/loans received		-	-
Repayments of credit facilities/loans received		(15 997)	(16 124)
Repayments of interest on credit facilities/loans received		(1 674)	(3 205)
Outflow / Repayment of bank overdrafts		(8 492)	(27 909)
Grants received		6 149	-
Other inflows/(outflows) from financing activities		(2 170)	(2 623)
		(58 316)	(85 070)
Net increase/(decrease) in cash and cash equivalents		(79 362)	(64 928)
Opening balance of cash and cash equivalents	17	263 700	188 008
Effects of exchange differences on the balance of cash denominated in foreign currency		-	-
Closing balance of cash and cash equivalents	17	184 338	123 080

⁽¹⁾ Other proceeds / (acquisitions) in investing activities represent mainly decrease of short term deposits over 3 months classified as short term financial assets of PLN 94.081 thousand and increase of EGP receivables representing cash contributions for allocation of employee shares of PLN 18.911 thousand. The above line items were disclosed in note 15.

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EXPLANATORY NOTES TO QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED AS AT 31 MARCH 2014

1. General information

1.1 Information on the Parent company

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

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

Composition of the Company's management and supervisory bodies as at the date of preparation of these quarterly condensed consolidated financial statements:

Management Board:

Adam Purwin	-	President of the Management Board
Jacek Neska	-	Member of the Management Board, responsible for Trade Matters
Łukasz Hadyś	-	Member of the Management Board, responsible for Financial Matters
Wojciech Derda	-	Member of the Management Board, responsible for Operation Matters
Dariusz Browarek	-	Member of the Management Board, Employee representatives in the Management Board

Supervisory Board:

Jakub Karnowski	-	Chairman
Milena Pacia	-	Member
Krzysztof Czarnota	-	Member
Marek Podskalny	-	Member
Artur Kawaler	-	Member
Kazimierz Jamrozik	-	Member
Konrad Anuszkiewicz	-	Member
Stanisław Knaflewski	-	Member
Paweł Ruka	-	Member
Jarosław Pawłowski	-	Member
Łukasz Górnicki	-	Member

On 6 February 2014 the Supervisory Board of the PKP CARGO S.A. appointed Mr. Adam Purwin to the position of President of the Management Board. Adam Purwin has been a Board Member responsible for finance matters from 25 February 2013 to 5 February 2014. From 18 November 2013 he has been in charge of matters and organizational units of Company's Headquarters belonging to the competences of President of the Management Board.

On 17 February 2014 Mr Sylwester Sigiel has resigned from the position of the Management Board Member responsible for trade matters. The resignation is effective from the day of a resolution of the Supervisory Board of PKP CARGO S.A. on appointment of the new Management Board Member responsible for trade matters. On 24 April 2014, the Supervisory Board appointed a new Member of the Management Board, responsible for Trade Matters, therefore, the resignation of Mr. Sylwester Sigiel entered into force.

On 24 April 2014, the Supervisory Board of PKP CARGO SA as a result of the contest has appointed four new Members of Management Board.: Mr. Jacek Neska - Member of the Management Board, responsible for Trade Matters, Mr. Wojciech Derda - Member of the Management Board, responsible for Operation Matters, Mr. Łukasz Hadyś - Member of the Management Board, responsible for Financial Matters and Mr. Dariusz Browarek - Member of the Management Board, Employee representatives in the Management Board. Mr. Łukasz Hadyś was appointed effectively from 12 May 2014.

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On 16 April 2014 Mr. Michał Karczyński resigned from the position of the member of the Supervisory Board effective from 25 April 2014.

On 25 April 2014 the Company's shareholder - PKP SA dismissed from the Supervisory Board Ms Danuta Tyszkiewicz and on 26 April 2014 appointed the Members of the Supervisory Board Mr. Jarosław Pawłowski and Mr. Łukasz Górnicki.

The Parent company's shareholder's structure as at 31 March 2014:

Entity	Registered office	Number of shares	% of share capital held	% of voting rights
PKP S.A. ⁽¹⁾	Warsaw	22 411 844	50,04%	50,04%
ING OFE ⁽²⁾	Warsaw	2 860 827	6,39%	6,39%
EBOiR ⁽³⁾	London	2 286 008	5,10%	5,10%
Other shareholders		15 779 336	35,23%	35,23%
Employee shares ⁽⁴⁾		1 448 902	3,24%	3,24%
Razem		44 786 917	100,00%	100,00%

⁽¹⁾ In accordance with the notice sent by shareholder dated 31 October 2013

⁽²⁾ In accordance with the notice sent by shareholder dated 8 November 2013

⁽³⁾ In accordance with the notice sent by shareholder dated 5 November 2013

⁽⁴⁾ On 7 March 2014 employee shares have been allocated - share of series C. The capital increase was registered in the National Court Register on 25 April 2014.

On 7 March 2014, the Management Board of the Company has allocated number of 1.448.902 shares series C ordinary with a nominal value of PLN 50 each. Shares series C are employee shares issued as a discharge of the Employees Guarantee Program. Issuance of shares series C is described in note 18, the share-based program is described in note 20.

1.2 Information on the Capital Group

As at the reporting date the PKP CARGO Capital Group ("Group") comprised of PKP CARGO S.A. as a parent company and 15 subsidiaries. Additionally the PKP CARGO Capital Group also includes 7 associates and shares in 3 joint ventures. Additional information about the subsidiaries and shares in associates and co-subsidiaries is presented in Notes 12, 13 and 14.

The duration of the companies belonging to the PKP CARGO Capital Group is unlimited. On 17 January 2014 the Extraordinary General Shareholders Meeting of PKP CARGO International a.s. located in Bratislava adopted the resolution to dissolve the company.

The Parent Company's and Capital Group companies' financial year is the calendar year.

Core business of the PKP CARGO Capital Group include freight rail transport. Additionally the PKP CARGO Capital Group offers the following services:

- a. intermodal services,
- b. transshipment services (domestic and international),
- c. terminals (cargo handling and storage of goods),
- d. siding services.

PKP CARGO Capital Group is also involved in the maintenance and repair of rolling stock.

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1.3 Functional and presentation currency

These quarterly condensed consolidated financial statements have been prepared in the Polish zloty (PLN). The Polish zloty (PLN) is the Capital Group's functional and presentation currency. The data were presented in financial statements in **thousand** PLN, unless more accuracy was required.

2. International Financial Reporting Standards Applied

2.1 Statement of compliance

These quarterly condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 - Interim Financial Reporting ("IAS 34") and in accordance with accounting standards applicable to interim financial reporting as adopted by the European Union (EU IFRS) issued and effective at the time of the preparation of quarterly condensed consolidated financial statements.

As at 31 March 2014 the Parent company keeps their accounting records in accordance with the accounting policy (principles) specified in the Accounting Act of 29 September 1994 (the "Act") as amended, and related secondary legislation ("Polish Accounting Standards") and in accordance with International Accounting Standards (IAS)/ International Financial Reporting Standards (IFRS) as endorsed by the European Union.

2.2 Status of endorsements of the Standards in the EU

The following amendments to the existing standards published by the International Accounting Standards Committee and approved by the European Union became effective in 2014:

- **IFRS 10 "Consolidated Financial Statements"**, applicable to the annual periods beginning on or after 1 January 2014,
- **IFRS 11 "Joint Arrangements"**, applicable to the annual periods beginning on or after 1 January 2014,
- **IFRS 12 "Disclosure of Interests in Other Entities"**, applicable to the annual periods beginning on or after 1 January 2014,
- **IAS 27 (amended in 2011) "Separate Financial Statements"**, applicable to the annual periods beginning on or after 1 January 2014,
- **IAS 28 (amended in 2011) "Investments in Associates and Joint Ventures"**, applicable to the annual periods beginning on or after 1 January 2014,
- **Amendments to IAS 32 "Financial Instruments: Presentation"** - offsetting financial assets and financial liabilities, applicable to the annual periods beginning on or after 1 January 2014,
- **Amendments to IAS 39 "Financial instruments: recognition and measurement"** (novation of OTC derivatives and continuing designation for hedge accounting), applicable to the annual periods beginning on or after 1 January 2014
- **Amendments to IAS 36 "Impairment of assets"** (recoverable amount disclosures for non-financial assets), applicable to the annual periods beginning on or after 1 January 2014

The Parent company anticipates that adoption of these standards, amendments to the existing standards and interpretations had no material impact on the previously applied accounting principles of the Group.

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

At present, IFRS as endorsed by the EU, do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in the EU as at 14 May 2014:

- **IFRS 9 „Financial instruments“**, (available for application, no mandatory effective date set)
- **Amendments to IFRS 9 „Financial instruments“ and IFRS 7 „Financial instruments: Disclosures“**, (available for application, no mandatory effective date set),
- **Interpretation to IFRIC 21 „Levies“**, applicable to the annual periods beginning on or later 1 January 2014,
- **Amendments to IAS 19 "Employee benefits"** (Defined Benefit Plans: Employee Contributions), applicable to annual periods beginning on 1 July 2014,
- **Improvements to IFRS for the 2010 – 2012**, contain 8 improvements to 7 standards, with consequential amendments to other standards and interpretations, applicable to the annual periods beginning on 1 July 2014,

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- **Improvements to IFRS for the 2011 – 2013**, contain 4 amendments to standards with consequential amendments to other standards and interpretations, applicable to the annual periods beginning on 1 July 2014,
- **IFRS 14 „Regulatory Deferral Accounts”**, applicable to the annual periods beginning on 1 January 2016

The Parent Company anticipates that adoption of these standards, amendments to the existing standards and interpretations would have no material impact on the financial statements if they were applied as at the reporting date.

3. Applied accounting principles

3.1 Going concern assumption

These quarterly condensed consolidated financial statements were prepared under the going concern assumption. As at the date of preparation of these quarterly condensed consolidated the financial statements there were no circumstances indicating a threat to the Group's ability to continue as a going concern within 12 months from signing the financial statements.

3.2 Basis for preparation of financial statements

These quarterly condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 - Interim Financial Reporting ("IAS 34") and in accordance with accounting standards applicable to interim financial reporting as adopted by the European Union (EU IFRS) issued and effective at the time of the preparation of quarterly condensed consolidated financial statements.

The foregoing quarterly condensed consolidated financial statements were prepared on the historical cost basis except derivatives measured at fair value and non-current assets classified as held for sale

The foregoing quarterly condensed consolidated financial statements should be read together with audited consolidated financial statement of the Capital Group PKP CARGO for the financial year ended 31 December 2013 prepared in accordance with International Financial Reporting Standards ("IFRS") containing notes ("the consolidated financial statements prepared in accordance with IFRS")

The quarterly condensed consolidated financial statements including a consolidated statement of comprehensive income, the consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and selected explanatory notes.

3.3 Statement of accounting policies

The accounting policies and methods of computation used in the preparation of the quarterly condensed consolidated financial statements are consistent with those described in the audited consolidated financial statement of the Capital Group PKP CARGO for the financial year ended 31 December 2013 prepared in accordance with IFRS UE (see note 3 of financial statements for the financial year ended 31 December 2013 prepared in accordance with IFRS UE).

3.4. Explanatory comments about the seasonality or cyclicity of interim Group operations

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

3.5. Changes in accounting estimates

During the 3 months period ended 31 March 2014, there were no significant changes of estimations and the estimation methodology that could affect the current period or future periods, with the following exception:

- deferred income tax - the effect of the conversion of the balance of deferred income tax is presented in note 8 of the quarterly condensed consolidated financial statements.

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4. Operating segments

4.1 Products and services of the operating segment

The Group has not determined operating segments since it has a single products to which all services provided by it are assigned. The Group operates only in one segment - domestic and international transport of goods and providing comprehensive logistics services in the field of railway freight. Management Board of Parent company analyzes financial data in a manner in which they have been presented in these quarterly condensed consolidated financial statement. Group's revenue generated from external clients by geographical location are disclosed in note 4.2.

4.2 Geographical information

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

The Group operates in one geographical area, Poland, which is its country of residence. The total revenue for all geographical areas except from Poland does not exceed 14,5% for the 3 months of 2014 and does not exceed 15,6% of total sales revenue for for the 3 months of 2013. No other geographical area (except from Poland) exceeds 10 % of revenue from sales of services. Below are presented Group revenues from external customers by location:

	for the 3 months period ended 31/03/2014	for the 3 months period ended 31/03/2013
	PLN thousand	PLN thousand
Poland	859 953	863 726
Germany	45 066	58 097
Czech Republic	25 607	21 861
Slovakia	17 998	22 363
Cyprus	16 682	20 602
Other countries	38 953	36 042
Total	1 004 259	1 022 691

4.3 Structure of the sales revenue

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

	for the 3 months period ended 31/03/2014	for the 3 months period ended 31/03/2013
	PLN thousand	PLN thousand
Transport revenue and railway shipping	908 647	930 449
Revenue from other transport activities	26 015	26 795
Siding and traction revenue	44 419	36 231
Cargo revenues	11 108	8 774
Other revenue ⁽¹⁾	14 070	20 442
Total	1 004 259	1 022 691

⁽¹⁾The position of other revenue for period ended 31 March 2014 presents mainly revenue arising from renting of railroad fleet PLN 5.406 thousand and from repair services of railroad fleet - PLN 3.305 thousand and customs agency services - PLN 2.458 thousand, while for the period ended 31 March 2013 this position presents revenue from renting of railroad fleet of PLN 6.464 thousand and revenue from repair services of railroad fleet of PLN 2.826 thousand and customs agency services PLN 2.170 thousand.

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5. Expenses by kind

5.1 Depreciation/Amortisation

	for the 3 months period ended 31/03/2014	for the 3 months period ended 31/03/2013
	PLN thousand	PLN thousand
Depreciation of property, plant and equipment	86 366	86 408
Amortisation of intangible assets	4 454	5 762
Impairment losses recognised / (derecognised):		
Property, plant and equipment	-	(1 885)
Total depreciation/amortisation	90 820	90 285

5.2 Consumption of raw materials and energy

	for the 3 months period ended 31/03/2014	for the 3 months period ended 31/03/2013
	PLN thousand	PLN thousand
Fuel consumption	52 519	51 696
Consumption of materials	13 823	13 419
Electricity, gas and water consumption	91 937	101 016
Impairment losses recognised / (derecognised)	193	217
Other	67	90
Total consumption of materials and energy	158 539	166 438

5.3 External services

	for the 3 months period ended 31/03/2014	for the 3 months period ended 31/03/2013
	PLN thousand	PLN thousand
Access to infrastructure connections	172 775	206 005
Repair services	4 693	859
Rent and lease fees (real estate and railroad fleet)	37 786	38 130
Transport services	66 909	68 573
Telecommunication services	3 048	4 267
Legal, advisory and similar services	2 799	3 475
IT services	11 824	10 923
Services related to property maintenance and operation of fixed assets	8 409	9 323
Cargo services	4 005	3 932
Siding services	5 889	3 427
Other services	1 998	8 080
Total external services	320 135	356 994

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5.4 Employee benefit

	for the 3 months period ended 31/03/2014	for the 3 months period ended 31/03/2013
	PLN thousand	PLN thousand
Salaries and wages	273 148	274 677
Costs of social insurance	54 931	55 479
Salaries and wages of employees who were transferred for obligatory holidays	370	5 011
Appropriation to the Company's Social Benefits Fund	8 006	8 315
Other employee benefits during employment	10 286	8 539
Other post-employment benefits	2 347	1 660
Changes in provision for employee benefits	14 296	20 371
Other employee benefit costs	140	501
Total employee benefit	363 524	374 553

6. Other operating revenue and expenses

6.1 Other operating revenue

	for the 3 months period ended 31/03/2014	for the 3 months period ended 31/03/2013
	PLN thousand	PLN thousand
Gains on disposal of assets:		
Gain on sales of non-current assets	-	270
	-	270
Derecognised impairment losses:		
Trade receivables	894	1 852
Other (including interest on receivables)	291	158
	1 185	2 010
Other operating revenue:		
Release of provisions for the fine imposed by OCCP	14 362	-
Release of provisions for other fines	3 210	43
Interest on trade and other receivables	616	246
Forex gains on trade receivables and liabilities	43	1 562
Grants	17	-
Other	2 355	642
Other operating revenue Total	21 788	4 773

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6.2 Other operating expense

	for the 3 months period ended 31/03/2014	for the 3 months period ended 31/03/2013
	PLN thousand	PLN thousand
Losses on disposal of assets:		
Loss on sales of non-current assets	1 017	-
	<u>1 017</u>	<u>-</u>
Recognised impairment losses:		
Trade receivables	1 960	810
Other (including on interest on receivables)	190	77
	<u>2 150</u>	<u>887</u>
Other operating expense:		
Costs of liquidation of non-current and current assets	3 557	6 632
Provisions for other fines	36	83
Court and collection costs	166	224
Costs of transport benefits for non-employees	894	44
Interest on trade and other liabilities	6	164
Trade receivables written off	-	2
Other	641	452
Other operating expense Total	<u>8 467</u>	<u>8 488</u>

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7. Financial revenue, financial expenses

7.1 Financial revenue

Interest revenue by class of financial instruments:	for the 3 months period ended 31/03/2014 PLN thousand	for the 3 months period ended 31/03/2013 PLN thousand
Interest income:		
Bank deposits and accounts	5 626	8 748
Bid bonds and collateral	95	114
Loans grantem	41	454
Other	39	466
	5 801	9 782
Dividends from capital investments	-	-
Total interest income and dividend	5 801	9 782

Interest revenue by category of financial instruments:	for the 3 months period ended 31/03/2014 PLN thousand	for the 3 months period ended 31/03/2013 PLN thousand
Interest income:		
Loans and receivables (including cash in hand and bank deposits)	5 762	9 316
Other	39	466
	5 801	9 782
Revenue from dividend earned on shares	-	-
Total interest income and dividend	5 801	9 782

Other financial revenue

Gain on shares	-	-
	-	-
Gains on measurement of financial assets and liabilities at FVTPL		
Other financial revenue:		
Net forex gain	34	318
Other	253	580
Total financial revenue	6 088	10 680

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7.2. Financial expenses

Interest expense by class of financial instruments:	for the 3 months period ended 31/03/2014	for the 3 months period ended 31/03/2013
	PLN thousand	PLN thousand
Interest expense:		
Interest on loans and overdraft facilities	1 674	3 205
Interest on liabilities under finance lease agreements	3 306	4 485
Interest on long-term liabilities	2 141	2 623
Interest on bid bonds and guarantees	160	134
Other	91	327
Total interest expense	7 372	10 774

Interest expense by category of financial instruments:	for the 3 months period ended 31/03/2014	for the 3 months period ended 31/03/2013
	PLN thousand	PLN thousand
Interest expense:		
Financial liabilities measured at amortized cost	7 281	10 447
Other (including interest on statutory settlements)	91	327
Total interest expense	7 372	10 774

Other financial expenses

Losses on shares:		
Recognised impairment losses on shares	9	-
	9	-
Losses on measurement of financial assets and liabilities at FVTPL	954	927
Other financial expenses:		
Net forex loss	1 716	6 971
Other financial expenses	304	262
Total financial expenses	10 355	18 934

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8. Income tax on continuing operations

8.1.1 Income tax recognised in profit or loss

	for the 3 months period ended 31/03/2014 PLN thousand	for the 3 months period ended 31/03/2013 PLN thousand
Current income tax:		
Current tax expense	364	1 237
Adjustments recognised in the current period with respect to prior year tax	(626)	(34)
	(262)	1 203
Deferred income tax:		
Deferred tax that occurred in the reporting period	16 291	5 611
	16 291	5 611
Total tax expense on continued operations recognised in the current year	16 029	6 814

8.1.2. Income tax recognised in other comprehensive income

	for the 3 months period ended 31/03/2014 PLN thousand	for the 3 months period ended 31/03/2013 PLN thousand
Deferred income tax		
Due to income and expenses recognised in other comprehensive income:		
Fair value measurement of financial instruments designated as cash flow hedges	32	-
	32	-
Due to income and expenses reclassified from equity to profit/loss	-	-
	-	-
Income tax recognised in other comprehensive income	32	-

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8.2 Deferred income tax:

for the 3 months period ended 31/03/2014	As at 31/12/2013 PLN thousand	Recognised in profit or loss PLN thousand	Recognised in other comprehensive income PLN thousand	As at 31/03/2014 PLN thousand
Temporary differences resulting in items of deferred tax (liabilities) / assets				
Property, plant and equipment (including lease)	(155 333)	(19 043)	-	(174 376)
Long-term liabilities	(3 031)	407	-	(2 624)
Inventory - impairment allowance	4 364	37	-	4 401
Receivables - impairment allowance	9 042	(815)	-	8 227
Accrued interest on assets	(2 374)	259	-	(2 115)
Accrued interest on liabilities	1	(1)	-	-
Provisions for employee benefits	165 191	(32 377)	-	132 814
Other provisions	4 381	(2 113)	-	2 268
Accrued expenses	5 654	(477)	-	5 177
Deferred revenue	(2 665)	(2 690)	-	(5 355)
Unpaid employee benefits	9 050	3 707	-	12 757
Forex losses	9 354	(752)	-	8 602
Forex gains	(7)	3	-	(4)
Other (including hedging derivatives)	1 754	1 532	(32)	3 254
	<u>45 381</u>	<u>(52 323)</u>	<u>(32)</u>	<u>(6 974)</u>
Unused tax losses and other reliefs				
Tax losses ⁽¹⁾	35 227	36 032	-	71 259
Total deferred tax assets (liabilities)	80 608	(16 291)	(32)	64 285

⁽¹⁾ deferred tax asset arising from tax losses to be used in future periods consists mainly of a loss incurred by the Parent company of PLN 181 million that expires in 2014, and loss of PLN 176 million that expires in 2019, and loss incurred by subsidiaries of PLN 18.4 million that expires in 2018 – 2019.

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8.2 Deferred income tax (cont'd.):

for the 3 months period ended 31/03/2013	As at 31/12/2012	Recognised in profit or loss	Recognised in other comprehensive income	As at 31/03/2012
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Temporary differences resulting in items of deferred tax (liabilities) / assets				
Property, plant and equipment (including finance lease)	(106 471)	(12 342)	-	(118 813)
Long-term liabilities	4 830	35	-	4 865
Inventory - impairment allowance	(4 718)	301	-	(4 417)
Receivables - impairment allowance	8 001	428	-	8 429
Accrued interest on assets	(3 399)	259	-	(3 140)
Accrued interest on liabilities	5	(1)	-	4
Provisions for employee benefits	135 468	1 233	-	136 701
Other provisions	2 318	(9)	-	2 309
Accrued expenses	482	4 186	-	4 668
Deferred revenue	(836)	(6 551)	-	(7 387)
Unpaid employee benefits	7 673	(540)	-	7 133
Forex losses	12 487	408	-	12 895
Forex gains	(12)	(168)	-	(180)
Other (including hedging derivatives)	1 937	1 956	-	3 893
	<u>57 765</u>	<u>(10 805)</u>	<u>-</u>	<u>46 960</u>
Unused tax losses and other reliefs				
Tax losses	43 197	5 194	-	48 391
Total deferred tax assets (liabilities)	<u>100 962</u>	<u>(5 611)</u>	<u>-</u>	<u>95 351</u>

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

	As at 31/03/2014	As at 31/12/2013
	PLN thousand	PLN thousand

As at the reporting date, the following deferred tax assets remained unrecognised

- Unused tax losses ⁽¹⁾	15 446	14 885
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⁽¹⁾ As at 31 March 2014 tax losses unrecognised in deferred tax asset represents mainly the tax loss of companies PKP CARGOLOK Sp. z o.o. of PLN 10.369 thousand and PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o. of PLN 3.591 thousand. As at 31 December 2013 the largest portion of tax loss represent PKP CARGOLOK of PLN 7.571 thousand and PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o. of PLN 3.938 thousand.

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9. Discontinued operations

During the 3 months period ended 31 March 2014, the Group did not discontinue any operations that would require disclosing

10. Property, plant and equipment

Carrying amounts:	As at 31/03/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Land	141 739	141 739
Buildings, premises, civil and water engineering structures	513 214	505 168
Technical equipment and machinery	128 846	134 361
Vehicles	3 064 167	3 034 047
Other fixed assets	8 920	9 935
Fixed assets under construction	18 754	30 196
	3 875 640	3 855 446

including finance lease:	As at 31/03/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Technical equipment and machinery	16 804	18 895
Vehicles	343 856	349 008
Other fixed assets	-	43
	360 660	367 946

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

For the 3 months period ended 31 March 2013 (unaudited)	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Vehicles	Other fixed assets	Total	
	Land					
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	
Gross value						
Balance as at 1 January 2013	115 053	511 809	263 885	4 116 823	30 787	5 038 357
<i>Increases</i>						
acquisition	-	575	5 478	72 656	972	79 681
finance leases	-	-	1 882	333	-	2 215
contribution in kind	-	-	-	-	-	-
other	-	-	5	-	862	867
<i>Decreases</i>						
sales	-	(27)	(139)	(209)	(23)	(398)
contribution in kind	-	-	-	-	-	-
liquidation	-	(8)	(904)	(35 145)	(74)	(36 131)
reclassification to assets held for sale	-	-	-	-	-	-
other	-	-	(862)	(5)	-	(867)
Balance as at 31 March 2013	115 053	512 349	269 345	4 154 453	32 524	5 083 724

For the 3 months period ended 31 March 2014 (unaudited)	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Vehicles	Other fixed assets	Total	
	Land					
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	
Gross value						
Balance as at 1 January 2014	142 430	600 987	290 583	4 235 250	31 926	5 301 176
<i>Increases</i>						
acquisition	-	13 765	3 029	104 327	132	121 253
finance leases	-	-	-	-	-	-
contribution in kind	-	-	-	-	-	-
other	-	194	101	2	-	297
<i>Decreases</i>						
sales	-	-	(137)	(901)	(44)	(1 082)
contribution in kind	-	-	-	-	-	-
liquidation	-	(9 582)	(219)	(42 447)	(32)	(52 280)
reclassification to assets held for sale	-	-	-	-	-	-
other	-	-	(249)	-	(46)	(295)
Balance as at 31 March 2014	142 430	605 364	293 108	4 296 231	31 936	5 369 069

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For the 3 months period ended 31 March 2013 (unaudited)	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Vehicles	Other fixed assets	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Accumulated depreciation						
Balance as at 1 January 2013	-	69 711	129 620	1 041 769	18 730	1 259 830
<i>Increases</i>						
depreciation charges	-	2 463	5 877	76 243	1 825	86 408
acquisition as a business combination.	-	-	-	-	-	-
other	-	-	-	-	667	667
<i>Decreases</i>						
sales	-	(8)	(137)	(123)	(23)	(291)
contribution in kind	-	-	-	-	-	-
liquidation	-	(8)	(712)	(29 373)	(75)	(30 168)
reclassification to assets held for sale	-	-	-	-	-	-
other	-	-	(667)	-	-	(667)
Balance as at 31 March 2013	-	72 158	133 981	1 088 516	21 124	1 315 779

For the 3 months period ended 31 March 2014 (unaudited)	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Vehicles	Other fixed assets	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Accumulated depreciation						
Balance as at 1 January 2014	-	84 519	156 222	1 201 203	21 991	1 463 935
<i>Increases</i>						
depreciation charges	-	5 833	8 169	71 248	1 116	86 366
other	-	-	44	-	-	44
<i>Decreases</i>						
sales	-	-	(66)	(876)	(16)	(958)
contribution in kind	-	-	-	-	-	-
liquidation	-	(892)	(107)	(39 511)	(31)	(40 541)
reclassification to assets held for sale	-	-	-	-	-	-
other	-	-	-	-	(44)	(44)
Balance as at 31 March 2014	-	89 460	164 262	1 232 064	23 016	1 508 802

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For the 3 months period ended 31 March 2013 (unaudited)	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Vehicles	Other fixed assets	Total
	PLN	PLN	PLN	PLN	PLN	PLN
	thousand	thousand	thousand	thousand	thousand	thousand
Accumulated impairment						
Balance as at 1 January 2013	-	-	-	1 885	-	1 885
Increases						
impairment recognition	-	-	-	-	-	-
other	-	-	-	-	-	-
Decreases						
impairment derecognition	-	-	-	(1 885)	-	(1 885)
reclassification to assets held for sale	-	-	-	-	-	-
other (use of allowance)	-	-	-	-	-	-
Balance as at 31 March 2013	-	-	-	-	-	-

For the 3 months period ended 31 March 2014 (unaudited)	Land	Buildings, premises, civil and water engineering structures	Technical equipment and machinery	Vehicles	Other fixed assets	Total
	PLN	PLN	PLN	PLN	PLN	PLN
	thousand	thousand	thousand	thousand	thousand	thousand
Accumulated impairment						
Balance as at 1 January 2014	691	11 300	-	-	-	11 991
Increases						
impairment recognition	-	-	-	-	-	-
other	-	-	-	-	-	-
Decreases						
impairment derecognition	-	-	-	-	-	-
reclassification to assets held for sale	-	-	-	-	-	-
other (use of allowance)	-	(8 610)	-	-	-	(8 610)
Balance as at 31 March 2014	691	2 690	-	-	-	3 381

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<i>Fixed assets under construction</i>	for the 3 months period ended 31/03/2014 PLN thousand	for the 3 months period ended 31/03/2013 PLN thousand
Opening balance	31 996	30 473
Increases	113 519	86 325
Grants to property, plant and equipment	(3 708)	-
Decreases - transfer to non-current assets	(121 253)	(81 896)
Decreases - discontinued investments	-	(8)
Closing balance	20 554	34 894

<i>Accumulated impairment</i>	for the 3 months period ended 31/03/2014 PLN thousand	for the 3 months period ended 31/03/2013 PLN thousand
Opening balance	1 800	-
Increases	-	-
Decreases	-	-
Closing balance	1 800	-

The amount of expenditures on property, plant and equipment incurred during the 3 months period ended 31 March 2014 amounted to PLN 139.756 thousand while in the same period of 2013 amounted to PLN 116.821 thousand.

11. Non-current assets classified as held for sale

Non-current assets classified as held for sale	As at 31/03/2014 PLN thousand	As at 31/12/2013 PLN thousand
Land held for sale	4 995	4 995
Vehicles	12 565	12 565
Total	17 560	17 560

As at 31 March 2014 and 31 December 2013 the Group had some redundant non-current assets and decided to sell them within next 12 months. They consisted of 3 land properties and 77 engines which, due to technical consumption, are not in use. The engines will be sold at auctions held by the Group for the purpose of scrapping them by the purchaser.

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12. Subsidiaries

Detailed information regarding subsidiaries as at 31 March 2014 and 31 December 2013:

No.	Name of subsidiary	Core business	Place of registration and operation	% of interests and voting rights held by the Group	
				As at 31/03/2014	As at 31/12/2013
1	CARGOSPED Sp. z o.o.	Forwarding services, transport of aggregate as well as domestic and international intermodal transport	Warsaw	100,0%	100,0%
2	PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	Services supporting land transport, transshipment of goods, wholesale and retail sale of waste and metal scrap	Małaszewicze	100,0%	100,0%
3	PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o.	Transshipment of goods in other terminals	Żurawica	100,0%	100,0%
4	PKP CARGO SERVICE Sp. z o.o.	Siding services	Warsaw	100,0%	100,0%
5	PKP CARGO TABOR – Karsznice Sp. z o.o.	Repair and maintenance of railroad	Zduńska - Wola	100,0%	100,0%
6	PKP CARGO International a.s. with registered office in Bratislava ⁽¹⁾	Shipping outside of Poland	Bratislava	51,0%	51,0%
7	PS TRADE TRANS Sp. z o.o.	Shipping services	Warsaw	55,6%	55,6%
8	PKP CARGOWAG Sp. z o.o.	Repair and maintenance of railroad fleet	Warsaw	100,0%	100,0%
9	PKP CARGO WAGON Sp. z o.o.	Repair and maintenance of railroad fleet	Toruń	100,0%	100,0%
10	CARGOTOR Sp.z o.o. ⁽²⁾	Management of logistics infrastructure including railway sidings and tracks. Sharing infrastructure to rail carriers.	Warsaw	100,0%	100,0%

⁽¹⁾ On 17 January 2014 the Extraordinary General Shareholders Meeting adopted a resolution and decided to dissolve the PKP CARGO International a.s. with registered office in Bratislava and conduct its liquidation.

⁽²⁾ CARGOTOR Sp. z o.o. was founded on 10 October 2013 and registered in the National Court Register on 13 November 2013.

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

	Name of subsidiary	Core business	Place of registration and operation	% of interests and voting rights held by the Group (nominal value)	
				As at 31/03/2014	As at 31/12/2013
11	Trade Trans Karya Sp. z o.o.	Transshipment of goods, customs depot	Lublin	60,3%	60,3%
12	Transgaz S.A.	Transport agency	Zalesie k. Małaszewicz	64,0%	64,0%
13	Trade Trans Finance Sp. z o.o.	Financial settlements	Warsaw	100,0%	100,0%
14	PPHU "Ukpol" Sp. z o.o.	Transshipment of goods, customs depot	Werchrata	75,0%	75,0%

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

	Name of subsidiary	Core business	Place of registration and operation	% of interests and voting rights held by the Group (nominal value)	
				As at 31/03/2014	As at 31/12/2013
15	Cargosped Terminal Braniewo Sp. z o.o.	Transshipment of goods, customs depot	Braniewo	100,0%	100,0%

13. Investments in subsidiaries and associates accounted for under the equity method

	for the 3 months period ended 31/03/2014	for the 3 months period ended 31/03/2013
	PLN thousand	PLN thousand
Opening balance	38 214	60 514
Purchase of shares	-	-
Sales of shares	-	-
Share in (loss) / profit of investments accounted for under the equity method	9 361	472
Changes in equity arising from dividend payment	(66)	-
Reclassification of shares to non-current assets held for sale	-	-
Closing balance	47 509	60 986

14. Detailed Information on entities accounted for under the equity method

Name of entity measured with equity method	% of interests and voting rights held by the Group		Carrying amount of assets	
	As at 31/03/2014	As at 31/12/2013	As at 31/03/2014	As at 31/12/2013
	%	%	PLN thousand	PLN thousand
COSCO POLAND Sp. z o.o.	20,0	20,0	1 091	1 128
Pol – Rail S.r.l	35,7	35,7	6 612	5 740
PKP CARGO INTERNATIONAL a.s. ¹⁾	51,0	51,0	-	-
CARGOTOR Sp. z o.o. ²⁾	100,0	100,0	12 243	3 103
Cargosped Składy Celne Sp. z o.o.	50,0	50,0	-	-
Terminale Przeładunkowe Sławków – Medyka Sp. z o.o.	27,8	27,8	20 604	21 000
Trade Trans Karya Sp. z o.o.	33,5	33,5	288	334
Transgaz S.A.	35,5	35,5	3 796	3 990
Trade Trans Finance Sp. z o.o.	55,6	55,6	346	529
PPHU "Ukpol" Sp. z o.o. ³⁾	41,7	41,7	-	-
Rail Cargo Spedition GmbH	20,9	20,9	881	869
Rentrans Cargo Sp. z o.o. (Szczecin)	15,2	14,7	1 206	1 075
TI Ferest Cargo Service Sp. z o.o. (Rail Cargo Service Sp. z o.o. Wrocław)	11,1	11,1	150	160
SC TRADE TRANS TERMINAL SRL ³⁾	13,2	13,2	-	-
Gdański Terminal Kontenerowy S.A.	41,9	41,9	292	286
TOTAL			47 509	38 214

⁽¹⁾ On 17 January 2014 the Extraordinary General Shareholders Meeting adopted a resolution and decided to dissolve the Company PKP CARGO International a.s. with registered office in Bratislava and conduct its liquidation, therefore, the Parent company has recognised an impairment allowance on shares and write down their values to 0.

⁽²⁾ CARGOTOR Sp. z o.o. was founded on 10 October 2013 and registered in the National Court Register on 13 November 2013.

⁽³⁾ On 31 December 2013 the Group decided to recognise an impairment allowance related to owned shares in PPHU "Ukpol" Sp. z o.o. and SC TRADE TRANS TERMINAL SRL and write down their values to 0, respectively.

In the above presented periods the Group did not hold interest in joint operations.

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15. Other financial assets

	As at 31/03/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Financial instruments recognised at fair value through profit and loss		
Currency forwards and spots	1 765	2 387
	<u>1 765</u>	<u>2 387</u>
Investments in shares		
Shares in Polish entities	6 021	6 020
Shares in foreign entities	-	9
	<u>6 021</u>	<u>6 029</u>
Loans and receivables recognised at amortized cost		
Loans granted to related parties	3 000	-
Loans granted to third parties	5 073	5 044
Deposits over 3 months	511 091	604 420
	<u>519 164</u>	<u>609 464</u>
Other financial assets		
Receivables form EGP ⁽¹⁾	98 525	79 614
	<u>98 525</u>	<u>79 614</u>
Total	<u>625 475</u>	<u>697 494</u>
Current assets	619 393	691 404
Non-current assets	6 082	6 090
Total	<u>625 475</u>	<u>697 494</u>

Financial assets available for sale financial assets are measured at historical cost reduced by impairment and include mainly shares in companies with no active market, whose fair value cannot be reliably measured.

⁽¹⁾ The amount of PLN 98.525 thousand represents the value of cash paid by PKP CARGO S.A. and its subsidiaries related to Employee Guarantee Program to the entitled employees' accounts at a brokerage house as payment for the acquisition of the shares by entitled employees. The share based payment cost on this transaction was incurred by Group companies, which were obliged to pay for the shares of PKP CARGO S.A. granted to employees of subsidiaries. Cash transferred to the brokerage house will be returned to PKP CARGO S.A. on 5 May 2014 after registration of the Parent company share capital increase in National Register Court as a payment for employee shares.

16. Trade and other receivables

	As at 31/03/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Trade receivables	649 722	657 543
Impairment allowance for receivables	(116 432)	(102 511)
Total	<u>533 290</u>	<u>555 032</u>
Receivables from sales of non-financial non-current assets	19 697	21 325
Settlements under public law (excluding CIT)	3 758	4 796
Guarantee, deposits and bid bonds	934	999
Receivables from co-financing agreements	8 341	10 782
VAT settlements	11 982	9 840
Other settlements	4 373	6 493
Total	<u>582 375</u>	<u>609 267</u>

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17. Cash and cash equivalents

For the purpose of preparation of the statement of cash flows, cash and cash equivalents consist of cash in hand and cash at bank, including bank deposits up to 3 months maturity.

	As at 31/03/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Cash in hand and at bank	59 058	82 738
Bank deposits up to 3 months	125 280	180 962
Total	184 338	263 700
Cash and cash equivalents classified as held for sale	-	-
Total	184 338	263 700

18. Changes in share capital, dividends

	As at 31/03/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Share capital consists of:		
Ordinary shares, fully paid and registered	2 166 901	2 166 901
Ordinary shares, fully paid and not registered as at 31 March 2014	72 445	-
Total share capital	2 239 346	2 166 901

As at 31 March 2014 and 31 December 2013 share capital consisted of ordinary shares with the nominal value of PLN 50 each. Fully covered Company shares with a nominal value of PLN 50, are equivalent to one vote at the shareholders' meeting and are entitled to the dividend.

The Parent company in the period covered by this quarterly condensed consolidated financial statements did not pay dividends.

On 12 May 2014 the Ordinary Shareholders Meeting of PKP CARGO SA (OSM) adopted a resolution on the distribution of the net profit for the year 2013, as disclosed in the separate financial statements of PKP CARGO SA prepared for the year ended 31 December 2013. According to the resolution it was decided that the net profit of PLN 94.083 thousand was allocated as follows:

- 1) For dividend payment of PLN 86.556 thousand,
- 2) for reserve capital of PLN 7.527 thousand.

Additionally the OSM decided to distribute the retained earnings of PLN 50.939 thousand for the dividend payment. At the same time it was established by the OSM that the dividend day is 20 May 2014, and the dividend payment day is 4 June 2014.

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18.1 Ordinary shares fully covered with capital

During the period covered in these quarterly condensed consolidated financial statements, the following changes in the Parent company's share capital took places:

	Number of shares	Share capital
	units	PLN thousand
As at 31/12/2012	2 889 200	2 889 200
no changes	-	-
As at 31/03/2013	2 889 200	2 889 200
As at 31/12/2013	43 338 015	2 166 901
Issue of shares series C - issuance not registered in the National Court Register as at 31 March 2014	1 448 902	72 445
As at 31/03/2014	44 786 917	2 239 346

On the basis of the agreement signed on 2 September 2013 between the Management Board of the Parent Company and the trade unions on the Employee Guarantee Program (PGP) the Parent company performed a share-based payment. On 2 October 2013, the Extraordinary General Meeting of Shareholders of the Parent Company adopted a resolution to increase the share capital of PKP CARGO SA through the issuance of shares series C, which were acquired in an open subscription. On 7 March 2014, the Management Board of the Parent Company allotted shares C. 1.448.902 of C series shares was subscribed at a nominal price of PLN 50 per share. Share based payment program is disclosed in note 20.

Issuance of Series C shares have been registered by the District Court for the Capital City Warsaw in Warsaw, XII Commercial Division of the National Court Register on 25 April 2014 .

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18.2 Share Premium

During the period covered in these quarterly condensed consolidated financial statements, the following changes in the share premium took places:

	Agio PLN thousand	Profit appropriations (statutory) PLN thousand	Profit appropriation (above the statutory minimum) PLN thousand	Capital created from shares redemption PLN thousand	Share- based payment provision PLN thousand	Total PLN thousand
As at 31/12/2012	58 662	19 158	44 953	-	-	122 773
No changes	-	-	-	-	-	-
As at 31/03/2013	58 662	19 158	44 953	-	-	122 773
As at 31/12/2013	175 741	36 497	240 526	139 982	100 015	692 761
Issue of shares series C	26 080	-	-	-	(98 525)	(72 445)
Cost of Issue of shares series C	(29)	-	-	-	-	(29)
Adjustment to PGP provisions	-	-	-	-	(1 490)	(1 490)
As at 31/03/2014	201 792	36 497	240 526	139 982	-	618 797

Agio represents the excess of the issue value over the nominal value of Company's shares which is transferred into the share premium with no ability to pay dividend.

Profit appropriation are made in order to cover losses in accordance with Article 396 of the Code of Commercial Companies to cover losses of future years.

Capital created from shares redemption is the capital created by reduction of the Parent company's share capital in 2013 and intended to cover losses.

The share-based payment results from Employee Guarantee Programme (EGP). On 2 September 2013 the Management Board of PKP CARGO S.A. and trade unions signed an agreement on the Employment Guarantee Program (EGP). On 7 March 2014 the Management Board of the Parent Company allocated shares to entitled employees. Adjustment to PGP provision is a result of a change of form of employee benefit payment for a part of entitled employees (instead of employees shares a cash benefits were received). This amount was paid on account of the liabilities claimed by the enforcement body. Share based payment is disclosed in note 20.

Shares series C have not been registered in the National Court Register as at 31 March 2014.

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19. Earnings per share

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

	for the 3 months period ended 31/03/2014	for the 3 months period ended 31/03/2013
	PLN thousand	PLN thousand
Profit on continuing operations attributable to shareholders of the Parent company	56 867	3 733
Profit on discontinued operations attributable to shareholders of the Parent company	-	-
Profit used to calculate basic earnings per share on continuing operations	56 867	3 733

19.1. Basic earnings per share

	for the 3 months period ended 31/03/2014	for the 3 months period ended 31/03/2013
Weighted average number of ordinary shares (units)	43 724 389	43 338 000
Basic earnings per share (PLN per share)		
On continuing operations	1,30	0,09
On discontinued operations	-	-

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

On 8 July 2013 the Parent company carried out a procedure involving a split of nominal value of shares at a ratio of 1:15. After the split the nominal value of one share amounts to PLN 50 (previously PLN 750). This operation did not have an impact on the value of share capital of the Parent company. In order to ensure comparability of data, the value of earnings per share for the year ended 31 March 2013 has been calculated taking into account the share split.

19.2. Diluted earnings per share

	for the 3 months period ended 31/03/2014	for the 3 months period ended 31/03/2013
Weighted average number of ordinary shares (units)	44 802 981	43 338 000
Diluted earnings per share (PLN per share)		
On continuing operations	1,27	0,09
On discontinued operations	-	-

In accordance with IAS 33 the Group prepares diluted earnings per share calculation taking into account the potential shares which are issued conditionally under the incentive program - the program of share based payments (EGP) described in Note 20. The diluted number of shares was calculated as the weighted average of ordinary shares adjusted as if they were converted into shares that result in dilution of potential ordinary shares. The number of shares was estimated on the basis of the sales price of shares offered in PKP CARGO S.A. public offering at the level of PLN 68 per share.

The weighted average number of shares applied in the calculation of diluted earnings per share was calculated including the 1.470.807 shares that were estimate for the entitled employee of the Parent company and employees of subsidiaries within the share based program EGP concluded on 2 September 2013 and actually granted number of 1.448.902 shares on 7 March 2014 under the issue of shares series C.

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20. Employee benefits- share based payments

In 2013 the Parent company has concluded a share based payment transaction in an equity settled instruments.

On 2 September 2013 an agreement was concluded between the Management Board of Parent company and trade unions on subject of the Employee Guarantee Program (EGP). According to the agreement employees of Parent company and employees of entities belonging to PKP CARGO Capital Group will receive a one-off share based payment settled in shares. The right to a share based payment was granted to the employees, who at the time of the conclusion of the agreement were employed in the Parent company or in PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o., PKP CARGO Centrum Logistyczne Medyka – Żurawica Sp. z o.o., PKP CARGO Tabor – Karsznice Sp. z o.o., PKP CARGOWAG Sp. z o.o. and PKP CARGOŁOK Sp. z o.o. with an exception of Management Board Members of Parent company and members of the management boards of subsidiaries included in the share based program. The vesting condition for a share based payment was an initial public offering of PKP CARGO S.A. shares on a WSE market.

The value of one-off bonus for entitled employees was dependent on their seniority in the railways sector. The number of employee shares was calculated as the quotient of the amount of one-off bonus and the sales price of the Parent company's shares offered by PKP S.A in public offer, i.e. PLN 68 per share.

On 2 October 2013 the Extraordinary General Meeting of Shareholders of the Parent Company adopted a resolution to increase the share capital of the Parent Company through the issuance of shares series C, which were acquired in an open subscription. Shares series C were offered to the employee of the Parent company and the entitled employees of subsidiaries of PKP CARGO Group. In the period from 2 December 2013 to 28 February 2014 entitled employees could sign up for shares.

In order to realize this employees' entitlement the Parent company increased its share capital by issuing new shares, excluding pre-emptive rights. On 7 March 2014 the Management Board of the Parent company allocated shares series C. The company allocated 1.448.902 shares series C at nominal value PLN 50 each upon the subscription.

Employee shares may not be sold within 2 years from the date of the first listing of the new shares. However, employee shares will participate in the distribution of dividend from 1 January 2015. The expiration date of this limitation is 30 October 2015.

On 7 March 2014, the Management Board of the Parent company allocated to entitled employees 1.448.902 shares series C. As at 31 March 2014 share capital increase from the issue of employee shares series C not been registered in the National Court Register. The Company has not made the payment of to the entitled employees representing, the difference between the value of a single benefit and the value of the shares granted. The payment is planned for the second quarter of 2014.

Amount related to Employee Guarantee Program recognised in the statement of financial position:

	As at 31/03/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Share premium - not registered as at 31 March 2014 (shares series C)	72 445	-
Share premium	26 080	100 015
including:		
Share premium (agio)	26 080	-
Share premium (share based payments granted to employees of PKP CARGO S.A.)	-	90 623
Share premium (share based payments granted to employees of subsidiaries)	-	9 392
Short- term employee benefits	600	73 171

Issuance of employee shares under the Employee Guarantee Program had no impact on the Company's result for the period ended 31 March 2014. The total cost of the premium is recognised in the profit or loss for 2013.

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21. Credit facilities and loans received

	As at 31/03/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Credit facilities and loans - measured at amortized cost		
Overdraft facilities	656	9 147
Bank loans- pledged on assets	167 853	183 833
Borrowings from other entities	1 777	1 795
Total	170 286	194 775
Current liabilities	64 784	73 217
Non-current liabilities	105 502	121 558
Total	170 286	194 775

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21.1 Summary of loan agreements

Investment loans agreements in the Group were signed mainly to finance the modernization of engines, to finance the purchase of real estate. The reference rate for loan agreements is WIBOR 1M and 3M plus margin. The agreements are signed for the period of maximum 5 years. Repayment is made in PLN. Investment loan agreements are secured by a registered pledge on the subject of financing which is gradually released after payment of specific amount of money. Loan for the purchase of real estate is secured by the mortgage. Details of the bank loans taken by the Parent company and subsidiaries are as follows:

Parent company As at 31/03/2014

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in currency	Contractual amount in PLN thousand	Liability in PLN thousand
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	05.10.2015	Registered pledge on the electric engines ET22 which is gradually released after payment of specific amount of money.	53 000	53 000	16 510
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	21.03.2016	Registered pledge on the electric engines ET22 which is gradually released after payment of specific amount of money.	36 400	36 400	14 440
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.03.2016	Registered pledge on the electric engines EU07 which is gradually released after payment of specific amount of money.	36 600	36 600	17 900
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Registered pledge on the electric engines ET22 which is gradually released after payment of specific amount of money.	39 000	39 000	27 537
Investment loan	FM Bank PBP S.A.	PLN	WIBOR 1M + margin	31.10.2017	Registered pledge on the diesel engines ST44 which is gradually released after payment of specific amount of money.	60 000	60 000	35 782
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2017	Registered pledge on the diesel engines ST45 which is gradually released after payment of specific amount of money.	49 200	49 200	36 900
Investment loan	Bank Millennium S.A.	PLN	WIBOR 3M + margin	21.08.2017	Mortgage to the amount of PLN 20.000 thousand.	16 667	16 667	11 385
Total								160 454

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**Subsidiaries
as at 31/03/2014**

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in currency	Contractual amount in PLN thousand	Liability in PLN thousand
Loan	BGŻ Leasing Sp. z o.o.	PLN	WIBOR 1M + margin	15.03.2015	Transfer of ownership, registered pledge on company's assets.	88	88	32
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	30.06.2015	1) Transfer of receivables, 2) Authorization to charge bank accounts, 3) Statement of submission to enforcement, 4) Registered pledge.	7 600	7 600	1 310
Loan	BGŻ Leasing Sp. z o.o.	PLN	WIBOR 1M + margin	15.08.2015	Transfer of ownership, registered pledge on company's assets.	186	186	59
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2015	1) Transfer of receivables, 2) Authorization to charge bank accounts, 3) Statement of submission to enforcement, 4) Registered pledge.	18 400	18 400	4 441
Overdraft facilities	PKO BP	PLN	WIBOR 1M + margin	15.04.2016	Capped mortgage in amount of PLN 700 thousand, Pledge on inventories PLN 600 thousand.	1 300	1 300	656
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.09.2016	Surety of PKP CARGO S.A. up to PLN 1.048 thousand.	911	911	453
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.10.2016	Surety of PKP CARGO S.A. up to PLN 1.380 thousand with submission to enforcement by the guarantor.	1 200	1 200	641
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Surety of PKP CARGO S.A. up to PLN 1.028 thousand.	894	894	554
Loan	WFOŚIGW Łódź	PLN	2,5% (fixed interest rate)	10.03.2024	1) Blank promissory notes, 2) Non-revocable authorization to charge bank accounts, 3) Surety of PKP CARGO S.A.	1 500	1 500	1 686
Total								9 832

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Parent company
As at 31/12/2013

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in currency	Contractual amount in PLN thousand	Liability in PLN thousand
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	05.10.2015	Registered pledge on the electric engines ET22 which is gradually released after payment of specific amount of money.	53 000	53 000	19 180
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	21.03.2016	Registered pledge on the electric engines ET22 which is gradually released after payment of specific amount of money.	36 400	36 400	16 270
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.03.2016	Registered pledge on the electric engines EU07 which is gradually released after payment of specific amount of money.	36 600	36 600	20 138
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Registered pledge on the electric engines ET22 which is gradually released after payment of specific amount of money.	39 000	39 000	29 658
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2017	Registered pledge on the diesel engines ST44 which is gradually released after payment of specific amount of money.	49 200	49 200	39 360
Investment loan	FM Bank PBP S.A.	PLN	WIBOR 1M + margin	31.10.2017	Registered pledge on the diesel engines ST45 which is gradually released after payment of specific amount of money.	60 000	60 000	38 562
Investment loan	Bank Millennium S.A.	PLN	WIBOR 3M + margin	21.08.2017	Mortgage to the amount of PLN 20.000 thousand.	16 667	16 667	12 219
Total								175 387

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**Subsidiaries
As at 31/12/2013**

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in currency	Contractual amount in PLN thousand	Liability in PLN thousand	
Overdraft facilities	Bank Pekao S.A.	PLN	WIBOR 1M + margin	30.06.2014	1) Transfer of receivables, 2) Authorization to charge bank accounts, 3) Statement of submission to enforcement,	15 000	15 000	7 772	
Overdraft facilities	CITI Handlowy	PLN	WIBOR 1M + margin	30.01.2015	Transfer of receivables in amount of PLN 30,000 thousand.	20 000	20 000	294	
Loan	BGŻ Leasing Sp. z o.o.	PLN	WIBOR 1M + margin	15.03.2015	Transfer of ownership, registered pledge on company's assets.	88	88	40	
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	30.06.2015	1) Transfer of receivables, 2) Authorization to charge bank accounts, 3) Statement of submission to enforcement, 4) Registered pledge	7 600	7 600	1 573	
Loan	BGŻ Leasing Sp. z o.o.	PLN	WIBOR 1M + margin	15.08.2015	Transfer of ownership, registered pledge on company's assets.	186	186	69	
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2015	1) Transfer of receivables, 2) Authorization to charge bank accounts, 3) Statement of submission to enforcement, 4) Registered pledge	18 400	18 400	5 076	
Overdraft facilities	PKO BP	PLN	WIBOR 1M + margin	15.04.2016	Capped mortgage in amount of PLN 700 thousand, Pledge on inventories PLN 600 thousand.	1 300	1 300	1 080	
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.09.2016	Surety of PKP CARGO S.A. up to PLN 1.048 thousand.	911	911	498	
Investment loan	mBank S.A.	PLN	WIBOR 1M +margin	31.10.2016	Surety of PKP CARGO S.A. up to PLN 1.380 thousand with submission to enforcement by the guarantor.	1 200	1 200	703	
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Surety of PKP CARGO S.A. up to PLN 1.028 thousand.	894	894	597	
Loan	WFOŚIGW Łódź	PLN	2,5% ((fixed interest rate)	10.03.2024	1) Blank promissory notes, 2) Non-revocable authorization to charge bank accounts, 3) Surety of PKP CARGO S.A.	1 500	1 500	1 686	
Total								19 388	

On 3 December 2013 the Parent company signed a loan agreement with the European Investment Bank based in Luxembourg for the credit facility up to PLN 200.000 thousand. This loan is dedicated for investments in the railway fleet. The Company can use this credit facility within 24 months from the date of signing the contract. The repayment period will be adjusted to the depreciation period of the fixed asset financed, however cannot be longer than 15 years. As at 31 March 2014 and 31 December 2013 the Parent company has not exercised the option to use the credit facility.

The parent company also has an credit facility to the amount of PLN 100.000 thousand. As at 31 March 2014 and 31 December 2013 the Parent company has not exercised the option to use the credit facility.

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Additionally a subsidiary Trade Trans Sp. z o.o. has an credit facility to the amount of PLN 35.000 thousand. As at 31 March 2014 the company has not exercised the option to use the credit facility. As at 31 December 2013 the value of used limit amounted to PLN 8.067 thousand.

21.2 Events of default in loan agreements

Within the period covered by these quarterly condensed consolidated financial statements no breaches of covenants in loan agreements occurred.

22. Short- and long-term finance lease liabilities and leases with purchase option

	Minimum Lease Payments	
	As at 31/03/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Up to one year	138 684	129 093
Over one year, up to five years	244 281	280 892
Over five years	56 177	61 434
Less future lease charges	(40 565)	(42 493)
Present value of minimum lease payments	398 577	428 926

	Present value of minimum lease payments	
	As at 31/03/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Up to one year	124 631	115 790
Over one year, up to five years	220 754	255 250
Over five years	53 192	57 886
Present value of minimum lease payments	398 577	428 926

	As at 31/03/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Included in the financial statements under:		
Short-term liabilities due to finance lease and leases with purchase option	124 631	115 790
Long-term liabilities due to finance lease and leases with purchase option	273 946	313 136
Total	398 577	428 926

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23. Trade and other liabilities

	As at 31/03/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Trade liabilities	233 784	266 864
Accruals	17 578	23 305
Liabilities due to purchase of non-financial non-current assets	180 056	203 866
Liabilities related to securities (deposits)	23 910	32 279
State liabilities	178 546	124 784
Settlements with employees	78 363	82 332
Other liabilities	40 840	4 341
VAT liabilities	5 247	51 758
Total	758 324	789 529
Current liabilities	655 738	675 841
Non-current liabilities	102 586	113 688
Total	758 324	789 529

The average turnover of Group's trade liabilities is 30 days from the invoice receipt date. Seldom, agreements are concluded with the payment deadline exceeding 30 days, but then the Group is not charged with statutory interest for payment delay over 30 days in light of provisions of the Act on payment deadlines in commercial transactions dated 12 June 2003 (Law Journal of 8 August 2003). Over last three years, the Group paid its liabilities within the contractual deadlines.

Long-term liabilities include in particular installments regarding the purchase (improvements of property, plant and equipment). They are made in accordance with pre-defined payment schedules.

24. Employee benefits

Amount recognised in the quarterly condensed consolidated statement of financial position in relation to Group's liabilities arising from employee benefit plans:

	As at 31/03/2014	As at 31/12/2013
	PLN thousand	PLN thousand
<u>Post-employment defined benefit plans</u>		
– retirement benefits	148 188	148 188
– appropriations to the Social Benefit Fund for pensioners	145 039	145 039
– transport benefits	36 232	36 232
<u>Other long-term employee benefits</u>		
– jubilee bonuses	329 524	329 546
<u>Short-term benefits</u>		
– other employee benefits (unused holidays/ bonuses)	38 793	37 208
– provision for Employee Guarantee Program (EGP)	600	73 171
Total	698 376	769 384
including:		
– short-term	105 453	176 461
– long-term	592 923	592 923

Quarterly condensed consolidated financial statements of PKP CARGO Capital Group for the period of 3 months ended 31 March 2014, prepared in accordance with IFRS EU (translation of a document originally issued in Polish)

25. Other provisions

	As at 31/03/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Provision for the fine imposed by OCCP	8 416	22 778
Other provisions	23 829	26 203
Total	32 245	48 981
Short-term provisions	23 753	26 127
Long-term provisions	8 492	22 854
Total	32 245	48 981

Other provisions	Provision for the fine imposed by OCCP	Other	Total
	PLN thousand	PLN thousand	PLN thousand
As at 1 January 2014	22 778	26 203	48 981
Provisions recognised	-	1 024	1 024
Derecognised	(14 362)	(3 398)	(17 760)
Used	-	-	-
Interest expense	-	-	-
As at 31 March 2014	8 416	23 829	32 245

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

The provision represents a fine imposed by Office of Competition and Consumer Protection. The basis of the imposition of the first of them (PLN 16.576 thousand on the basis of the Decision no RWR, 44/2012 dated on 31 December 2012) was accused of blocking the possibility of compete with shipping companies belonging to PKP CARGO Capital Group. In 2013 due to the reassessment of risk the Parent company reversed part of the provision of PLN 9.946 thousand, considering that the provision of PLN 6.630 thousand represent the best estimate of the expected outflows. As at 31 March 2014 the estimates remained unchanged. The second penalty (PLN 1.786 thousand on the basis of the Decision no DOK-4/2012 dated on 26 July 2012) is related to delay in implementation of the OCCP's President's decision dated on 31 December 2004 concerning unjustified differentiation of discounts in the carriage of coal. In both cases, Parent company filed an appeal to Court of Competition and Consumer Protection. OCCP's decisions are unlawful.

On 3 October 2013 the Supreme Court rescinded the judgements of District Court in Warsaw - Court of Competition and Consumer Protection (dismissal of the Company's appeal from the decision no DOK-3/2009) and Court of Appeal in Warsaw (dismissal of Parent company's appeal from the District Court's judgement). As a result, Office for Competition and Customer Protection returned the fine paid by Group in the amount of PLN 60.362 thousand. As at 31 December 2013 the Management Board of the Parent company has estimated that the amount of PLN 14.362 thousand, the represents the best estimation of probable payment. On 17 March 2014 (file ref. no. XVII AmA 148/13) Court of Competition and Consumer Protection repealed Decision no DOK-3/2009 as interpreted in the judgment of Supreme Court, as a consequence of the Management Board of the Parent Company decided to derecognise the remaining amount of provision for the fine of decision no DOK-3/2009.

Other provisions

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

Quarterly condensed consolidated financial statements of PKP CARGO Capital Group for the period of 3 months ended 31 March 2014, prepared in accordance with IFRS EU
(translation of a document originally issued in Polish)

26. Other financial liabilities

	As at 31/03/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Negative measurement of financial instruments		
Interest-rate swap (IRS)	467	306
Total	467	306
Current liabilities	467	306
Non-current liabilities	-	-
Total	467	306

27. Financial instruments - categories and classes of financial instruments

Financial instruments by category		
	As at 31/03/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Financial assets		
Financial assets measured at fair value through profit or loss	1 270	2 224
Hedging instruments	495	163
Loans and receivables	1 355 014	1 529 135
Total assets by category	1 356 779	1 531 522
Financial liabilities		
Liabilities arising from derivatives designated as hedges: hedge accounting	467	306
Financial liabilities measured at amortized cost	601 704	688 810
Liabilities excluded from IAS 39 (finance lease)	398 577	428 926
Total liabilities by category	1 000 748	1 118 042
Financial instruments by classes		
	As at 31/03/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Shares	-	-
Trade receivables	533 290	555 032
Receivables from sales of non-current assets	19 697	21 325
Loans granted	8 073	5 044
Receivables related to EGP	98 525	79 614
Bank deposits over 3 months	511 091	604 420
Cash	184 338	263 700
Assets from measurement of derivatives and embedded derivatives including:		
Derivatives designated as cash flow hedges	495	163
Derivatives held for trading	1 270	2 224
Total financial assets	1 356 779	1 531 522
Credit facilities and loans	170 286	194 775
Trade liabilities	251 362	290 169
Liabilities arising from purchase of non-current assets	180 056	203 866
Finance leases	398 577	428 926
Measurement of derivatives and embedded derivatives, including		
Derivatives designated as cash flow hedges	467	306
Financial liabilities total	1 000 748	1 118 042

Quarterly condensed consolidated financial statements of PKP CARGO Capital Group for the period of 3 months ended 31 March 2014, prepared in accordance with IFRS EU (translation of a document originally issued in Polish)

28. Related party transactions

28.1 Commercial transactions

During the financial year the Group entered into the following commercial transactions with related parties:

	for the 3 months period ended 31/03/2014		for the 3 months period ended 31/03/2013	
	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.)	(924)	20 195	459	22 281
Subsidiaries / Co-subsi- daries	1 458	17 058	2 450	11 305
Associates / Co-subsi- daries	1 267	114	13 440	1 162
Other related parties from PKP S.A. Group	19 662	289 294	20 091	344 036

	As at 31/03/2014		As at 31/12/2013	
	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.)	21 026	1 624	22 447	7 961
Subsidiaries / Co-subsi- daries	1 227	3 401	2 515	375
Associates / Co-subsi- daries	710	223	-	3
Other related parties from PKP S.A. Group	9 837	92 765	9 565	124 353

During reporting periods the Group also carries out related party transactions with the Treasury. All transactions were concluded on the arm's length basis.

28.2 Loans granted to / received from related parties

	As at 31/03/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Loans granted to related parties	3 000	-
Loans received from related parties	-	-
Loan granted to members of the management board	-	-
Total	3 000	-

Quarterly condensed consolidated financial statements of PKP CARGO Capital Group for the period of 3 months ended 31 March 2014, prepared in accordance with IFRS EU (translation of a document originally issued in Polish)

28.3 Remuneration of executive management

Remuneration of Members of the Parent company Management Board in the financial year:	for the 3 months period ended 31/03/2014 PLN thousand	for the 3 months period ended 31/03/2013 PLN thousand
Short-term benefits	731	533
Employment termination benefits	425	-
Total	1 156	533

Remuneration of Members of the Parent company Supervisory Board in the financial year:	for the 3 months period ended 31/03/2014 PLN thousand	for the 3 months period ended 31/03/2013 PLN thousand
Short-term benefits	104	79
Total	104	79

Remuneration of Parent company's other executive management (Proxies, Managing Directors) in the financial year:	for the 3 months period ended 31/03/2014 PLN thousand	for the 3 months period ended 31/03/2013 PLN thousand
Short-term benefits	360	206
Share-based payments	11	-
Total	371	206

Remuneration of Members of the subsidiaries Management Board in the financial year:	for the 3 months period ended 31/03/2014 PLN thousand	for the 3 months period ended 31/03/2013 PLN thousand
Short-term benefits	1 370	1 608
Employment termination benefits	203	41
Total	1 573	1 649

Remuneration of Members of the subsidiaries Supervisory Board in the financial year:	for the 3 months period ended 31/03/2014 PLN thousand	for the 3 months period ended 31/03/2013 PLN thousand
Short-term benefits	604	874
Total	604	874

For the 3 months period ended 31 March 2014 and 31 March 2013 the Members of Management Board and Supervisory Board of the Parent company and its subsidiaries did not purchase/sale of services and were not granted any loans or guarantees.

Quarterly condensed consolidated financial statements of PKP CARGO Capital Group for the period of 3 months ended 31 March 2014, prepared in accordance with IFRS EU (translation of a document originally issued in Polish)

29. Contingent liabilities

	As at 31/03/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Sureties granted to subsidiaries (i)	25 018	24 951
Guarantees issued on request of PKP Cargo Group (ii)	33 651	47 539
Proceedings carried out by OCCP (iii)	9 945	9 945
Other contingent liabilities (iv)	36 253	35 802
Total	104 867	118 237

(i) Sureties and guarantees granted to Group subsidiaries

As at 31 March 2014 the following valid sureties were granted by the Parent company: PKP CARGO Service Sp. z o.o. (surety regarding a multi-currency credit facility agreement), PKP CARGOWAG Sp. z o.o. (surety regarding an operating lease and credit agreement), PKP CARGOLOK Sp. z o.o. (surety regarding two investment loans), PKP CARGO Tabor Karsznice Sp. z o.o. (surety regarding a loan agreement).

As at 31 December 2013 the following valid sureties were granted by the Parent company: to PKP CARGO Service Sp. z o.o. (surety regarding a multi-currency credit facility agreement and endorsement regarding the payment of customs debt), PKP CARGOWAG Sp. z o.o. (surety regarding an operating lease and credit agreement), PKP CARGOLOK Sp. z o.o. (surety regarding two investment loans), PKP CARGO Tabor Karsznice Sp. z o.o. (surety of loan)

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

As at 31 March 2014 a number of guarantees issued by banks at the Group's request to counterparties were effective. The guarantees included bid bonds (worth PLN 680 thousand) and performance bonds (worth PLN 29.081 thousand) and payment guarantees (worth PLN 3.890 thousand).

As at 31 December 2013 a number of guarantees issued by banks at the Group's request to counterparties were effective. The guarantees included bid bonds (worth PLN 2.500 thousand) and performance bonds (worth PLN 42.070 thousand) and payment guarantees (worth PLN 2.969 thousand).

(iii) Proceedings conducted by the OCCP

As at 31 March 2014 and 31 December 2013 the Group recognises as a contingent liability a portion of provision for the Office of Competition and Consumer Protection (PLN 9.945 thousand) that was not recognised in provisions. In case of unfavourable settlement of the case, the Group will be obliged to recognise the cost of provision.

(iv) Other contingent liabilities

Other liabilities include mainly conducted by the subsidiary PS Trade Trans Sp. z o.o. guarantee agreements with recourse to insurance company.

30. Commitments to incur expenses for non-current assets

In May 2013 the Parent company concluded an agreement with a counterparty regarding overhaul of 30 SM-48 series diesel engines. The process of implementation of the agreement is being gradually realized and future value of the liabilities as at 31 March 2014 will range from PLN 133,0 million to PLN 135,8 million, depending on fulfillment of specific technical conditions.

In September 2013 the Parent company concluded an agreement with a contractor for the execution and delivery of 330 newly built Sggrs series container wagons. According to the scheduled timetable, the finalization of the works is planned until September 2014.

The future value of the liabilities as at 31 March 2014 will amount to PLN 92,0 million. For the implementation of this project the Parent company will be granted a funding under the Operational Programme "Infrastructure and Environment", in a total amount not exceeding PLN 28,5 million.

The Parent company also conducts investment in IT area consisting of the implementation of the Corporate Data Warehouse. The work should be completed by the end of 2016. The future value of the liabilities as at 31 March 2014 amount to PLN 9,0 million.

Quarterly condensed consolidated financial statements of PKP CARGO Capital Group for the period of 3 months ended 31 March 2014, prepared in accordance with IFRS EU
(translation of a document originally issued in Polish)

31. Events after reporting date

On 9 April 2014, the Management Board of PKP CARGO SA signed an agreement with the Trade Unions ending ongoing since mid 2013, labor dispute at the Company. As a result of the signed agreement entitled employees of the Company will receive a salary increase in the amount of PLN 100. Additionally some of the employees of Company will receive single premium in the amount of PLN 225.

On April 17, 2014 the Extraordinary General Meeting of Shareholders CARGOTOR Sp. z o.o. increased the Company's share capital from PLN 500 thousand to PLN 20.181 thousand by making the non-cash contribution of the PKP CARGO S.A.'s receivables from PKP S.A. as a result of sale of unamortized capital expenditures.

On 12 May 2014 the Ordinary Shareholders Meeting of PKP CARGO SA (OSM) adopted a resolution on distribution of the net profit for the year 2013, as disclosed in the separate financial statements of the PKP CARGO S.A. prepared for the year ended 31 December 2013. Information is disclosed in note 18.

Quarterly condensed consolidated financial statements of PKP CARGO Capital Group for the period of 3 months ended 31 March 2014, prepared in accordance with IFRS EU
(translation of a document originally issued in Polish)

32. Approval of the financial statements

These quarterly condensed consolidated financial statements were approved for publication by the Management Board on 14 May 2014.

The Management Board

Adam Purwin	President of the Management Board
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Jacek Neska	Member of the Management Board
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Łukasz Hadyś	Member of the Management Board
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Wojciech Derda	Member of the Management Board
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Dariusz Browarek	Member of the Management Board
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Warsaw, 14 May 2014

PKP CARGO LOGISTICS



Quarterly Financial Information Of
PKP CARGO S.A.
For The Q1 2014



SEPARATE STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2014 TO 31 MARCH 2014

	3 months ended 31/03/2014 (not audited) thous. PLN	3 months ended 31/03/2013 (not audited) thous. PLN
Continuing operations		
Sales revenue	908 664	942 407
Revenue from sales of goods and materials	6 207	15 467
Other operating revenue	20 596	2 970
Total operating revenue	935 467	960 844
Depreciation/amortization and impairment losses	82 150	88 498
Consumption of materials and supplies	152 105	160 592
External services	278 645	321 225
Taxes and charges	8 875	8 296
Employee benefits	331 057	340 383
Other expenses by type	-2 748	4 237
Value of goods and materials sold	3 749	10 228
Other operating expenses	6 998	7 248
Total operating expenses	860 831	940 707
Profit on operating activities	74 636	20 137
Financial revenue	5 547	9 024
Financial expenses	8 820	16 726
Profit before tax	71 363	12 435
Income tax	15 594	5 351
Net profit on continuing operations	55 769	7 084
Discontinued operations		
Net profit / (loss) on discontinued operations	-	-
NET PROFIT	55 769	7 084
Earnings per share (PLN per share)		
Basic earnings per share from continuing and discontinued operations:	1,28	0,16
Diluted earnings per share from continuing and discontinued operations:	1,24	0,16

SEPARATE STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2014 TO 31 MARCH 2014 (Cont'd.)

	3 months ended 31/03/2014 (not audited) thous. PLN	3 months ended 31/03/2013 (not audited) thous. PLN
NET PROFIT	55 769	7 084
Other comprehensive income:		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:	-	-
The effective portion of the profit and loss on cash-flow hedging instruments	-	-
Income tax on other comprehensive income/(loss)	-	-
Items not to be reclassified to profit or loss in subsequent periods:	-	-
Actuarial profit/(loss) on employee programs after employment period	-	-
Income tax on other comprehensive income/(loss)	-	-
TOTAL COMPREHENSIVE INCOME	55 769	7 084

SEPARATE STATEMENT OF FINANCIAL POSITION PREPARED AS AT 31 MARCH 2014

	Nota	Balance as at 31 March 2014 (not audited) thous. PLN	Balance as at 31 December 2013 (audited) thous. PLN
ASSETS			
Non-current assets			
Property, plant and equipment		3 559 065	3 533 830
Intangible assets		56 676	58 545
Shares in subsidiaries		243 164	243 164
Other long-term financial assets		7 432	7 440
Other long-term non-financial assets		901	1 201
Deferred tax assets		45 052	61 239
Total non-current assets		3 912 290	3 905 419
Current assets			
Inventory		45 308	46 277
Trade and other receivables		473 205	477 236
Income tax receivables		-	-
Other short-term financial assets		610 116	689 157
Other short-term non-financial assets		62 092	24 743
Cash and cash equivalents		147 686	229 232
		1 338 407	1 466 645
Non-current assets held for sale		17 560	22 607
Total current assets		1 355 967	1 489 252
Total assets		5 268 257	5 394 671

**SEPARATE STATEMENT OF FINANCIAL POSITION PREPARED AS AT
 31 MARCH 2014 (Cont'd.)**

	Balance as at 31 March 2014 (not audited) thous. PLN	Balance as at 31 December 2013 (audited) thous. PLN
EQUITY AND LIABILITIES		
Equity		
Share capital	2 239 346	2 166 901
Supplementary capital	577 508	651 472
Other items of equity	(9 901)	(9 901)
Retained earnings/(uncovered loss)	610 263	554 494
Total equity	3 417 216	3 362 966
Non-current liabilities		
Long-term bank loans and credit facilities	100 721	115 654
Long-term liabilities due to finance lease and hire purchase contracts	191 437	228 832
Long-term trade and other liabilities	102 423	113 509
Long-term provisions for employee benefits	551 951	551 951
Long-term provisions	8 416	22 778
Long-term liabilities	-	-
Deferred tax provision	-	-
Total non-current liabilities	954 948	1 032 724
Current liabilities		
Short-term credit facilities and loans	59 733	59 733
Short-term liabilities due to finance lease and hire purchase contracts	117 424	108 770
Short-term trade and other liabilities	571 648	604 599
Short-term provisions for employee benefits	101 788	165 790
Other short-term provisions	17 246	20 449
Other short-term financial liabilities	28 149	39 640
Income tax liability	105	-
	896 093	998 981
Liabilities directly related to non-current assets classified as held for sale	-	-
Total current liabilities	896 093	998 981
Total liabilities	1 851 041	2 031 705
Total equity and liabilities	5 268 257	5 394 671

STATEMENT OF CHANGES IN SEPARATE EQUITY FOR THE REPORTING PERIOD ENDED 31 MARCH 2014

	Share capital	Supplementary capital	Revaluation of financial assets available for sale	Other items of equity Actuarial profit/(loss) on employee programs after employment period	Changes in fair value of cash-flow hedging instruments	Retained earnings	Total
	thous. PLN	thous. PLN	thous. PLN	thous. PLN	thous. PLN	thous. PLN	thous. PLN
Balance as at 1 January 2013 (audited)	2 889 200	77 809	-	(23 339)	-	94 829	3 038 499
Net profit/(loss) for the financial year	-	-	-	-	-	7 084	7 084
Other total net comprehensive income for the period	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	7 084	7 084
Issuance of shares	-	-	-	-	-	-	-
Dividend payment	-	-	-	-	-	-	-
Other changes in equity	-	-	-	-	-	-	-
Balance as at 31 March 2013 (not audited)	2 889 200	77 809	-	(23 339)	-	101 913	3 045 583
Balance as at 1 January 2014 (audited)	2 166 901	651 472	-	(9 901)	-	554 494	3 362 966
Net profit/(loss) for the financial year	-	-	-	-	-	55 769	55 769
Other total net comprehensive income for the financial year	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	55 769	55 769
Issuance of shares	72 445	26 051	-	-	-	-	98 496
Dividend payment	-	-	-	-	-	-	-
Share based payment provision	-	(100 015)	-	-	-	-	(100 015)
Other changes in equity	-	-	-	-	-	-	-
Balance as at 31 March 2014 (not audited)	2 239 346	577 508	-	(9 901)	-	610 263	3 417 216

SEPARATE STATEMENT OF CASH FLOWS FROM 01 JANUARY 2014 TO 31 MARCH 2014

	3 months ended 31/03/2014 (not audited) thous. PLN	3 months ended 31/03/2013 (not audited) thous. PLN
Net cash flows from operating activities		
Net profit/(loss) for the financial year	71 363	12 435
Adjustments:		
Depreciation of non-current assets	82 150	90 383
Impairment of assets	-	(1 886)
(Gain) / loss on disposal of property, plant and equipment and intangible assets	4 213	5 578
(Gain) / loss on investing activities	963	927
Exchange (gains) / losses	1 694	6 929
(Gains) / losses on interest, dividend	(141)	(360)
Other adjustments	-	-
Changes in working capital:		
(Increase) / decrease in trade and other receivables	(546)	(5 858)
(Increase) / decrease in inventory	969	4 013
(Increase) / decrease in other assets	(36 971)	(42 024)
Increase / (decrease) in trade and other liabilities	(21 341)	8 848
Increase / (decrease) in other liabilities	-	-
Increase / (decrease) in provisions	(81 567)	6 335
Cash flows from operating activities	20 786	85 320
Interest (paid) /received	1 417	1 472
Income tax (paid) / received	698	379
Net cash from operating activities	22 901	87 171

SEPARATE STATEMENT OF CASH FLOWS FROM 01 JANUARY 2014 TO 31 MARCH 2014 (Cont'd)

	3 months ended 31/03/2014 (not audited) thous. PLN	3 months ended 31/03/2013 (not audited) thous. PLN
<i>Cash flows from investing activities</i>		
Payment for property, plant and equipment and intangible assets	(136 578)	(109 929)
Proceeds from sale of property, plant and equipment and intangible assets	5 251	340
Payment for acquisition of subsidiaries, associates and joint ventures	-	-
Proceeds from the sale of subsidiaries, associates and joint venture	-	38
Acquisition of other financial assets	-	-
Proceeds from sale of other financial assets	-	-
Interest received	5 099	8 180
Dividend received	66	-
Proceeds from loans granted	(4 037)	-
Repayment of loans granted	765	452
Other proceeds / (acquisitions) on investing activities	82 220	(173)
Net cash used in investing activities	(47 214)	(101 092)
<i>Cash flows from financing activities</i>		
Proceeds from issuance of shares	-	-
Payments of liabilities under finance lease	(31 218)	(28 948)
Payments of interest under lease agreement	(2 132)	(2 856)
Proceeds from credit facilities/loans received	-	-
Repayments of credit facilities/loans received	(14 933)	(14 655)
Repayments of interest on credit facilities/loans received	(1 573)	(2 879)
Grants received	6 149	-
Dividends paid to shareholders of the Company	-	-
Cash pool inflows/(outflows)	(11 354)	-
Other inflows/(outflows) from financing activities	(2 171)	(2 623)
Net cash (used in)/ provided by financing activities	(57 232)	(51 961)
Net increase/(decrease) in cash and cash equivalents	(81 546)	(65 882)
Opening balance of cash and cash equivalents	229 232	94 844
Effects of exchange differences on the balance of cash denominated in foreign currency	-	-
Closing balance of cash and cash equivalents	147 686	28 962



Other Information For
The Consolidated Quarterly Report Of
The PKP CARGO Capital Group
For Q1 2014

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OTHER INFORMATION FOR THE CONSOLIDATED QUARTERLY REPORT**1. Organisation of the PKP CARGO Group****1.1 Key information about the PKP CARGO Company and Group**

PKP CARGO Group ¹is the largest rail freight operator in Poland (according to data of the Office of Rail Transportation, "UTK"), and the second largest rail freight operator in the EU in terms of freight turnover in 2012 (according to Eurostat information). The Group is expanding the geographical reach of its operations, making use of the possibilities afforded by the liberalization of the European rail freight market. Currently, the Parent Company in the Group, i.e. PKP CARGO S.A., holds safety certificates allowing it to provide independent rail freight services in Slovakia, the Czech Republic, Germany, Austria, Belgium, Hungary and the Netherlands.

In addition to rail freight services, PKP CARGO Group offers its customers the value-added services mentioned below, related to rail freight services:

- intermodal services;
- freight forwarding (domestic and international);
- terminals (transloading and storage of cargo at the interface of broad and standard gauge tracks on the Eastern border of Poland, and in other key locations in Poland);
- siding services.

PKP CARGO Group is also involved in rolling stock maintenance and repair.

1.2 Entities subject to consolidation

Consolidation for the purposes of the Quarterly Abridged Consolidated Financial Statements includes PKP CARGO S.A. and 9 subsidiaries consolidated using the full consolidation method:

1. "PKP CARGO SERVICE" Sp. z o.o.
2. "PKP CARGOWAG" Sp. z o.o.
3. "PKP CARGOLOK" Sp. z o.o.
4. "PKP CARGO TABOR – KARSZNICE" Sp. z o.o.
5. "PKP CARGO Centrum Logistyczne Małaszewicze" Sp. z o.o.
6. PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o.
7. "Cargosped" Sp. z o.o.
8. "Przedsiębiorstwo Spedycyjne TRADE TRANS" Sp. z o.o. (PS TRADE TRANS Sp. z o.o.)
9. Cargosped Terminal Braniewo Sp. z o.o. (indirect subsidiary of PKP CARGO S.A.).

Other entities of the Group, named in note no. 14 to the Quarterly Abridged Consolidated Financial Statements of the PKP CARGO Group for the year quarter ended March 31st, 2014, according to EU IFRS, are measured using the equity method.

Presented below is a short description of companies subject to full consolidation.

PKP CARGO S.A.

The Parent Entity was established pursuant to Article 14 of the Act of 8 September 2000 on the commercialisation, restructuring and privatisation of the "Polskie Koleje Państwowe" state-owned enterprise. The Company was incorporated in a Notary Deed of 17 July 2001, and was afterwards registered under the name PKP CARGO Spółka Akcyjna (joint stock company) in the District Court in Katowice, 8th Commercial Department of the National Court Register with KRS number 0000027702. Following a change of the registered office of the Company as of 7 October 2002 to Warsaw, ul. Grójecka 17, the incorporation files have been kept by the Regional Court for the Capital City of Warsaw, 12th Commercial Department of the National Court Register.

¹For the purposes of this Report:

- "PKP CARGO Group", or the Group, shall mean PKP CARGO S.A. and its subsidiaries jointly,
- the Company, the Parent Company, shall mean PKP CARGO S.A. solely

CONSOLIDATED REPORT FOR THE FIRST QUARTER OF 2014
(translation of a document originally issued in Polish)

Since its inception, the Company has existed as a member of the PKP Group. The primary object of business of the Company is the domestic and international rail freight.

PKP CARGO SERVICE Sp. z o.o. with its registered office in Warsaw

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. The Company commenced its operations as of 1 December 2002. So-called "executive areas" are established for servicing of sidings wherever the Company is involved in sidings operations. The Company's core business are sidings management services, as well as rail freight services. PKP CARGO SERVICE also runs unloading and truck-related operations supporting the railway freight forwarding.

"PKP CARGOWAG" Sp. z o.o. with its registered office in Warsaw

Until 27 February 2013, "PKP CARGOWAG" Sp. z o.o was registered as the PKP CARGO WAGON-SZCZECIN Sp. z o.o. Company. As of 1 October 2013, the eight wagon companies were merged, with "PKP CARGOWAG" Sp. z o.o being the acquiring entity. The company's core business are services of repair and maintenance of cargo wagons and physical liquidation of cargo wagons. The Company focuses on provision of wagon repairs within the framework of the PKP CARGO Group.

"PKP CARGOLOK" Sp. z o.o. with its registered office in Warsaw

"PKP CARGOLOK" Sp. z o.o with its registered office in Warsaw was registered as PKP CARGO TABOR-CZERWIĘŃSK Sp. z o.o. until 1 March, 2013. The Company was incorporated on 28 April 2009. As of 1 October 2013, the two locomotive companies were merged, with "PKP CARGOLOK" Sp. z o.o being the acquiring entity. The main type of the company's business are rolling stock repair and maintenance services, in particular: scheduled overhauls of electric and diesel traction vehicles.

"PKP CARGO TABOR KARSZNICE" Sp. z o.o.

"PKP CARGO TABOR KARSZNICE" Sp. z o.o was incorporated on 1 December 2009. The Company provides a full scope of rolling stock, electrical machinery and wheelsets repair services, services of physical liquidation of wagons and locomotives, as well as services of weighing and adjustment of traction and wagon rolling stock on a Tensan diagnostics and measurement device.

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

"PKP CARGO Centrum Logistyczne Małaszewicze" Sp. z o.o was established on 22 February 2010. The company is in the business of comprehensive handling of cargo - transloading, storage, sorting, packaging, fracturing and a broad range of other auxiliary services. "PKP CARGO Centrum Logistyczne Małaszewicze" Sp. z o.o. has terminals enabling transloading of all types of bulk and itemised goods.

"PKP CARGO Centrum Logistyczne Medyka - Żurawica" Sp. z o.o.

"PKP CARGO Centrum Logistyczne Medyka - Żurawica" Sp. z o.o was established on 5 January 2011. The company has been in operation since 1 February 2011. The company is in the business of comprehensive handling of cargo - transloading, storage, sorting, packaging, fracturing and a broad range of other auxiliary services. The company's strength lies in the use of gauge-switching freight services, mainly in the shipment of hazardous materials, and transloading of oversize cargo, requiring the use of specialised transloading equipment.

"Cargosped" Sp. z o.o.

"Cargosped" Sp. z o.o was established on 29 February 2000. In 2005, PKP CARGO S.A. received an in-kind contribution from PKP S.A. of 100% of shares of "Cargosped" Sp. z o.o. The company's core business are domestic and international freight forwarding and logistics services, in particular within the scope of rail freight and related logistics services.

As part of the implementation of the process of optimisation of freight forwarding companies operations in the PKP CARGO Group, the company was dedicated to provision of freight forwarding services of aggregate shipment and intermodal freight. Furthermore, the company provides terminal services, including services on its own terminals.

PS TRADE TRANS Sp. z o.o.

PS TRADE TRANS Sp. z o.o. was established on 8 March 1990. The company's core business are domestic and international freight forwarding and logistics services. The Company provides comprehensive logistics services using rail, road, marine and inland water transportation, as it organises shipments, transloading, storage, warehousing, preparation for market and distribution. The Company also provides comprehensive customs procedures for customers 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 core business of the company are transloadings of different goods and coal trade.

The company is a direct importer of Russian coal. It engages in wholesale and retail of coal.

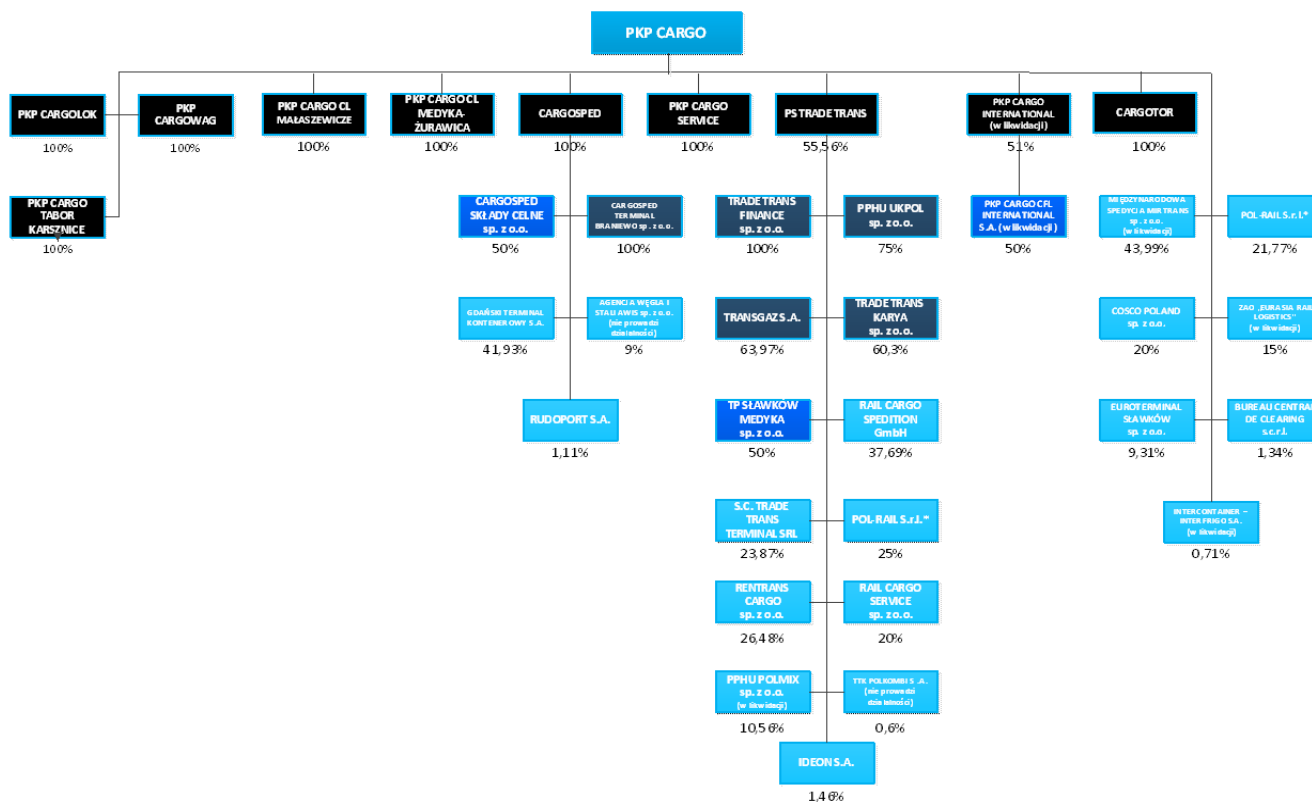
1.3 The structure of the PKP CARGO Group

As at 31 December 2014, in addition to the PKP CARGO S.A., the PKP CARGO Group was composed of 15 subsidiary companies, including 10 direct subsidiaries² and 5 indirect subsidiaries. The subsidiaries engage in forwarding, logistics and transloading services, as well as wagon and locomotive repair and siding operations.

The following chart presents the structure of the PKP CARGO Group as at 31 March 2014. The structure of the PKP CARGO Group in Q1 2014, taking into consideration companies put into liquidation, has remained unchanged.

² The Group's structure includes companies which are not included in full consolidation, i.e. CARGOTOR Sp. z o.o. and PKP CARGO CFL INTERNATIONAL S.A. (due to an insignificant scale of business)

Figure 1 The structure of the PKP CARGO Group as at 31 March 2014



* The Group's holdings in Pol-Rail S.r.l. amount to 46.77%, with PS TRADE TRANS Sp. z o.o and PKP CARGO S.A holding 25% and 21.77%, respectively. Furthermore, KTF VIAFER S.A. (company of the PKP Group in liquidation), holds 3,23%.
Source: Own review

1.4 Effects of changes in the structure of the Company and Group in Q1 2014

No transactions of merger, acquisition or disposal of companies in which PKP CARGO S.A. has shares or interest took place in Q1 2014.

2. Key information about the PKP CARGO Capital Group

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

MANAGEMENT BOARD OF THE COMPANY

The Management Board of PKP CARGO S.A. with the registered office in Warsaw operates pursuant to provisions of the law, in particular:

- 1) the Commercial Companies Code of 15 September 2000 (Journal of Laws no. 94, item 1037, as amended);
- 2) the Act on commercialisation, restructuring and privatisation of the "Polskie Koleje Państwowe" state-owned enterprise of 8 September 2000.
- 3) the Statute of PKP CARGO S.A.
- 4) the By-Laws of the Management Board of PKP CARGO S.A., adopted by Resolution no. 491/2013 of the Management Board of PKP CARGO S.A. of 16 October 2013.
- 5) other internal regulations.

The Management Board runs the business of the Company, manages its assets and represents the Company in its external relations. The Management Board performs all such actions as are not reserved for the General Meeting and the Supervisory Board. It makes its decisions in the form of Resolutions, which are promulgated by an absolute majority of votes present in the meeting, with the participation of at least half of the total number of Members of the Management Board, and which can be adopted only if all Members have been duly notified of the meeting of the Management Board. Meetings of the Management Board are held at least once each week. In the event of an equal number of votes in favour and against, including abstaining votes, the President of the Management Board is entitled to a ruling vote.

The following table presents the composition of the Management Board as of 31 March 2014.

Table 1 Composition of the Management Board of PKP CARGO S.A. in the reporting period between 1 January 2014 and 31 March 2014.

Name	Function	Period in office	
		From	To
Adam Purwin	Board Member in charge of Finance	25.02.2013	5.02.2014
	President of the Management Board	06.02.2014	in office
Sylwester Sigiel	Board Member	13.03.2013	23.04.2014

Source: Own review

On 26 February 2014, the Supervisory Board of PKP CARGO S.A. adopted a resolution on initiation of qualification procedures for the following positions:

- Board Member in charge of Finance,
- Board Member in charge of Operations,
- Board Member in charge of Commerce,
- Board Member, Employees' Representative to the Management Board of PKP CARGO S.A.

As a result of the recruitment procedure conducted pursuant to the Regulations for Appointment of Members of the Management Board of PKP CARGO Spółka Akcyjna and Regulations for Selection of Candidates for Employees' Representative to the Management Board of PKP CARGO S.A. and Appointment of Employees' Representatives to the Supervisory Board of PKP CARGO S.A. and the Manner of Dismissal, new Members of the Management Board were appointed and announced publicly on 24 April 2014. Appointed to the Management Board were: Jacek Neska - Board Member in Charge of Commerce, Wojciech Derda - Board Member in Charge of Operations, Dariusz Browarek - Employees' Representative to the Management Board - Board Member, and, as of 12 May 2014, Łukasz Hadyś - Board Member in Charge of Finance.

SUPERVISORY BOARD

In accordance with the approved Statute of PKP CARGO S.A. (Resolution no. 62/2013 of the Extraordinary General Meeting of PKP CARGO S.A. of 18 October 2013.) the Supervisory Board includes between 11 and 13 members (including the Chairman and Deputy Chairman of the Supervisory Board), appointed for the period of a common term of office. The Supervisory Board is appointed and dismissed by the General Meeting of Shareholders, subject to provisions of § 19.2 and § 19.3 of the Statute of PKP CARGO S.A.

The following table presents the composition of the Supervisory Board as of 31 March 2014.

Table 2 Composition of the Supervisory Board of PKP CARGO S.A. in the reporting period between 1 January 2014 and 31 March 2014.

Name	Function	Representation of	Period in office	
			From	To
Jakub Karnowski	Chairman of the Supervisory Board	PKP S.A.	24.05.2012	in office
Michał Karczyński	Deputy Chairman of the Supervisory Board	PKP S.A.	01.02.2010; 24.05.2012 – for the 5th term of office; 24.10.2012 (appointment to the office of Deputy Chairman)	25.04.2014
Milena Pacia	Member of the Supervisory Board	PKP S.A.	25.02.2013	in office
Artur Kawaler	Member of the Supervisory Board	Ministry of Finance	16.08.2007; 24.05.2012 – for the 5th term of office;	in office
Krzysztof Czarnota	Member of the Supervisory Board	The Employees	06.07.2006 – for the 3rd term of office; 24.05.2012 – for the 5th term of office;	in office
Marek Podskalny	Member of the Supervisory Board	The Employees	06.07.2006 – for the 3rd term of office; 24.05.2012 – for the 5th term of office;	in office
Kazimierz Jamrozik	Member of the Supervisory Board	The Employees	24.05.2012	in office
Danuta Tyszkiewicz	Member of the Supervisory Board	PKP S.A.	21.07.2011; 24.05.2012 – for the 5th term of office;	25.04.2014
Konrad Anuszkiewicz	Member of the Supervisory Board	PKP S.A.	13.12.2013	in office
Stanisław Knaflewski	Member of the Supervisory Board		17.12.2013	in office
Paweł Ruka	Member of the Supervisory Board	PKO TFI	17.12.2013	in office

Source: Own review

On 26 April 2014, the following persons were appointed in place of the persons dismissed: Jarosław Pawłowski and Łukasz Górnicki.

THE AUDIT COMMITTEE OF THE SUPERVISORY BOARD

The Audit Committee of PKP CARGO S.A. is appointed by the Supervisory Board of PKP CARGO S.A., and comprises three members of the Supervisory Board, including at least two Board Members meeting the independence criteria and appointed under the procedure of § 20 and 21 of the Statute of the Company. Members of the Committee are appointed for a period equal to the term of office of the Supervisory Board. Duties of the Audit Committee include, in particular: supervision over the organisational unit dealing with internal audit, monitoring of the financial reporting process, monitoring of performance of the financial audit activities, monitoring of the independence of the chartered auditor and the entity authorised to audit financial statements, recommending the entity authorized to audit financial statements of the Company to the Supervisory Board, etc.

Table 3 Composition of the Audit Committee of the Supervisory Board of PKP CARGO S.A. in the reporting period between 1 January 2014 and 31 March 2014.

Name	Function	Period in office	
		from	to
Artur Kawaler	Committee Chairman	21.09.2012	06.02.2014
Milena Pacia	Committee Member	26.02.2013	06.02.2014
Paweł Ruka	Committee Chairman	6.02.2014	in office
Stanisław Knaflewski	Committee Member	6.02.2014	in office
Konrad Anuszkiewicz	Committee Member	6.02.2014	in office

Source: Own review

NOMINATION COMMITTEE The Nomination Committee is appointed by the Supervisory Board of PKP CARGO S.A., and comprises three members of the Supervisory Board, including one Board Member meeting the independence criteria and appointed under the procedure of § 20 and 21 of the Statute of the Company. Members of the Committee are appointed for a period equal to the term of office of the Supervisory Board. The Nomination Committee organises and administers day-to-day supervision over the qualification procedures for the positions of Members of the Management Board and the process of evaluation and appointment of Members of the Management Board.

Table 4 Composition of the Nomination Committee of the Supervisory Board of PKP CARGO S.A. in the reporting period between 1 January 2014 and 31 March 2014.

Name	Function	Period in office	
		from	to
Stanisław Knaflewski	Committee Chairman	17.12.2013	in office
Jakub Karnowski	Committee Member	17.12.2013	in office
Milena Pacia	Committee Member	17.12.2013	in office

Source: Own review

2.2 Structure of share capital of PKP CARGO S.A.

The structure of share capital of PKP CARGO S.A. as at the date of issue hereof is presented in the table below.

Table 5 Structure of share capital of PKP CARGO S.A.

Lot and number	Issuing date	Date of issue registration	Number of shares
A 00000001-43338000	08.07.2013	02.10.2013	43,338,000
B 01-15	08.07.2013	02.10.2013	15
C	02.10.2013	25.04.2014	1,448,902
Total			44,786,917

Source: Own review

2.3 Shareholders with at least 5% of the total number of votes

As at the date of publication of the last periodic report, i.e. the annual report for 14 March 2014, the total number of the Company's shares was 43,338,015. According to notifications received by the Company, the structure of shareholders with at least 5% of the total number of votes in the General Meeting of Shareholders of the Company held directly or through subsidiaries, was as follows:

Table 6 Shareholders structure of PKP CARGO S.A. as of 14 March 2014

Shareholder	Number of shares	Percentage of share in the share capital	Number of votes	Percentage of share in the total number of votes at the General Meeting
PKP S.A.(1)	22,411,844	51.71%	22,411,844	51.71%
ING OFE (2)	2,860,827	6.60%	2,860,827	6.60%
EBRD (3)	2,286,008	5.27%	2,286,008	5.27%
AMPLICO OFE (4)	2,195,842	5.07%	2,195,842	5.07%
Other shareholders	13,583,494	31.34%	13,583,494	31.34%
Total	43,338,015	100.00%	43,338,015	100.00%

(1) According to notification submitted by the shareholder on 31.10.2013

(2) According to notification submitted by the shareholder on 08.11.2013

(3) According to notification submitted by the shareholder on 05.11.2013

(4) According to notification submitted by the shareholder on 02.01.2014

Source: Own review

As a result of C-series shares issue, the shareholdings in the Company's capital have changed. As at the date of publication of this report, i.e. the annual report for 15 May 2014, the total number of the Company's shares was 44,786,917. According to notifications received by the Company, the structure of shareholders with at least 5% of the total number of votes in the General Meeting of Shareholders of the Company held directly or through subsidiaries, is as follows:

Table 7 Structure of shareholdings of PKP CARGO S.A. as of 15 May 2014

Shareholder	Number of shares	Percentage share in the share capital	Number of votes	Percentage share in the total number of votes at the General Meeting
PKP S.A.(1)	22,411,844	50.04%	22,411,844	50.04%
ING OFE (2)	2,860,827	6.39%	2,860,827	6.39%
EBRD (3)	2,286,008	5.10%	2,286,008	5.10%
Other shareholders	17,228,238	38.47%	17,228,238	38.47%
Total	44,786,917	100.00%	44,786,917	100.00%

(1) According to notification submitted by the shareholder on 30.04.2014

(2) According to notification submitted by the shareholder on 08.11.2013

(3) According to notification submitted by the shareholder on 05.11.2013

Source: Own review

Pursuant to the agreement signed on 2 September 2013 between the Management Board of the Company and the trade unions, regarding the Employee Guarantees Package ("PGP") wherein duties of the Company are described regarding protection of employees with regard to the privatisation of PKP CARGO S.A, on 2 October 2013, the Extraordinary General Meeting of Shareholders of the Company adopted a resolution of increasing the share capital of PKP CARGO S.A by issuing C-series shares ("Employee Shares"), which were then taken up in an open subscription procedure. On 7 March 2014, the Management Board of the Company allotted the Employee Shares. As part of the subscription, 1,448,902 Employee shares were allotted at the nominal value of PLN 50 each. The issue price was PLN 68 per share. Increase of the share capital resulting from the issue of Employee Shares was registered with the National Court Register on 25 April 2014. The Company's share capital was increased from PLN 2,166,900,750 to PLN 2,239,345,850. Employee Shares will participate in the dividend for 2013 starting from 1 January 2013.

2.4 Presentation of shareholdings of executive and supervisory staff

The shareholdings in the Company or entitlements thereto of persons managing the Company in the period between 14 March 2014, i.e. the date of submission of the 2013 report, until 15 May 2014, i.e. the date of submission of the present report, was as follows:

Table 8 Shareholdings of managing persons in PKP CARGO S.A.

Name	Number of PKP CARGO shares
as at 14.03.2014	
Adam Purwin	245
Sylwester Sigiel	0
as at 15.05.2014	
Adam Purwin	245
Jacek Neska	150
Wojciech Derda	0
Łukasz Hadyś	0
Dariusz Browarek	70

Source: Own review

The shareholdings in the Company or entitlements thereto of persons supervising the Company in the period between 14 March 2014, i.e. the date of submission of the 2013 report, until 15 May 2014, i.e. the date of submission of the present report, was as follows:

Table 9 Shareholdings of supervising persons in PKP CARGO S.A.

Name	Number of PKP CARGO shares
as at 14.03.2014	
Krzysztof Czarnota	70
Kazimierz Jamrozik	70
Michał Karczyński	0
Jakub Karnowski	503
Artur Kawaler	0
Milena Pacia	0
Marek Podskalny	70
Danuta Tyszkiewicz	0
Paweł Ruka	0
Konrad Anuszkiewicz	0
Stanisław Knaflewski	0
as at 15.05.2014	
Krzysztof Czarnota	70
Kazimierz Jamrozik	70
Jarosław Pawłowski	0
Jakub Karnowski	503
Artur Kawaler	0
Milena Pacia	0
Marek Podskalny	70
Konrad Anuszkiewicz	0
Paweł Ruka	0
Łukasz Górnicki	245
Stanisław Knaflewski	0

Source: Own review

3. Activities of the PKP CARGO Group

3.1 Core business areas of the PKP CARGO Group

Rail freight

The principal service provided by the PKP CARGO Group is rail freight performed in Poland and abroad, i.e. in countries, in which the Group has obtained licences - in Germany, Czech Republic, Slovakia, Austria, Belgium, the Netherlands and Hungary.

Segments of goods shipped

The Group possesses diverse rolling stock, allowing any types of cargo to be shipped, in particular solid fuels, aggregates and construction materials, metals and ores, timber and agricultural produce, as well as chemical products and liquid fuels and hazardous and oversize loads. The PKP CARGO Group provides a full scope of freight services, including full train and dispersed carriage, performed per single wagon or group of wagons.

Processes of Q1 2014 in the Polish and European economies, largely resulting from the mild winter, had a major impact on the volume and structure of the entire rail freight market in Poland, including the results of the PKP CARGO Group³, which carried 25.3 million tonnes in Q1 2014, i.e. 2% more than in Q1 2013. The increase was predominantly caused by higher volumes of aggregates and construction materials shipped.

The main segment of cargo shipped by the Group are solid fuels, predominantly hard coal. Solid fuel accounts for 53% of freight volume in Q1 2014, vs 59% in Q1 2013, with 44% and 52% share in freight turnover, respectively. Solid fuel freight in Q1 2014, as compared to Q1 2013, in terms of freight turnover, exhibited a downward trend (- 12%). The decrease of the freight turnover share resulted from the decrease in coal haulage volumes resulting from the decrease in demand for the fuel (mild winter, 10% lower production of electricity from hard coal⁴) and the decrease of the mean carriage distance, resulting mainly from the lower level of coal export freight to seaports.

The second largest segment of cargo carried by the PKP CARGO Group are aggregates and construction materials. Owing to the climate conditions favourable of commencement of infrastructural projects, transportation of aggregates and construction materials enjoyed a major increase (which made up for the decline in transport volume of solid fuels). The share of aggregate transport in the freight turnover in Q1 2014 was 16%, compared to 9% in Q1 2013 (according to the General Roads and Motorways Directorate, about 500 km of new roads, mostly expressways, will be commissioned in 2014 [about 43% more than in 2013] and 1,680 km of roads will be refurbished⁵). The 81% increase in freight turnover in aggregate transport was a result of the significant increase in the freight volume (by 66%) and the increase of distance of journey.

The third largest segment of cargo transported by the Group is made up of metals and ores, with a 15% share in freight turnover in Q1 2014 and 14% in Q1 2013. Transport volume in the segment increased by 12% in comparison with Q1 2013, such result being driven by the growing transport of ore (mostly in marine imports and transit, characterised by long distances), which made up for the lower transport volume results of metals (caused, among other factors, by lowered metal production and activity of the competition).

In Q1 2014, the average haul was 260 km, exceeding that achieved in Q1 2013 by 7 km (3%). Solid fuels are characterised by a relatively low average haul, which results from the location of power plants and heating plants, the predominant recipients of coal, mostly in southern and central Poland, i.e. in a relative proximity of hard coal mines. A relatively high average haul is characteristic of aggregates and construction materials transportation. This is due to the fact that aggregates and construction materials are predominantly transported from the areas of production, concentrated in the southern part of Poland, to various locations in Poland, where they are used for execution of infrastructural projects. The intermodal transportation segment is also characterised by relatively long distances of shipment. Long distances result from the particular nature of intermodal transportation, which is mostly used for long distance transportation using different means of transport (rail, road and marine),

³ Over Q1 2014, PKP CARGO S.A. carried 25 million tonnes of cargo, and PKP CARGO SERVICE Sp. z o.o carried 0.3 million tonnes, and they totalled freight movement of 6,511.5 million tonne-km and 55.9 million tonne-km, respectively.

⁴ http://www.pse.pl/index.php?modul=8&y=2014&m=3&id_rap=212

⁵ http://www.biznes.newseria.pl/news/gddkia_w_przyszlym_roku

<http://www.rynekinfrastruktury.pl/artyku/52/1/jakie-drogi-gddkia-odda-do-uzytku-w-tym-roku.html>

http://budownictwo.wnp.pl/tusk-zmodernizowano-ponad-10-tys-drog-lokalnych,223532_1_0_0.html

and the Company often transports intermodal International Transport Units (UTI) via Poland as part of their international long-haul transportation.

Table 10 Structure of freight turnover by the PKP CARGO Group in Q1 2013 and Q1 2014 by type of communication

	Q1 2014	Q1 2013	Absolute change	% change	Q1 2014	Q1 2013
	<i>(mln tkm)</i>				<i>share of total (%)</i>	
Domestic	3,081	2,769	312	11%	47%	44%
Exports	1,529	1,981	-452	-23%	23%	32%
Imports	1,450	1,044	406	39%	22%	17%
Transit	508	493	15	3%	8%	8%
Total	6,567	6,287	280	4%	100%	100%

Source: Own review

Table 11 Structure of freight volume by the PKP CARGO Group in Q1 2013 and Q1 2014 by type of communication

	Q1 2014	Q1 2013	Absolute change	% change	Q1 2014	Q1 2013
	<i>(thousand tonnes)</i>				<i>share of total (%)</i>	
Domestic	14,589	14,095	495	4%	58%	57%
Exports	4,692	5,621	-929	-17%	19%	23%
Imports	5,145	4,375	769	18%	20%	18%
Transit	871	808	63	8%	3%	3%
Total	25,297	24,900	397	2%	100%	100%

Source: Own review

Table 12 Average haul in the PKP CARGO Group in Q1 2013 and Q1 2014 by type of communication

	Q1 2014	Q1 2013	Absolute change	% change
	<i>Km</i>			
Domestic	211	196	15	7%
Exports	326	352	-27	-8%
Imports	282	239	43	18%
Transit	583	610	-27	-4%
Total	260	253	7	3%

Source: Own review

Directions of transport

The share of domestic transport in the freight turnover of PKP CARGO Group remained at a level similar to the sum of shares of freight in international transport, amounting to 47% and 44%, in Q1 2014 and Q1 2013, respectively. The increased share of domestic transport resulted prominently from the increase of haulage of aggregate and construction materials (by 66%), which are mostly transported in domestic communication within Poland.

In Q1 2014, the share of international transportation in the freight turnover was reduced to 53% in comparison with 56% in the same period of 2013, as a result of a decrease in export shipments of hard coal.

In Q1 2014, the share of international transportation in the freight turnover was reduced to 23% in comparison with 32% in the same period of 2013, as a result of a decrease in export shipments of hard coal.

An increase of freight volume, on the other hand, was achieved in:

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- import shipments - by 39% in terms of the freight turnover, and 18% in terms of freight volume. This was a result of increased ore shipments, mostly in marine transportation.
- transit - by 3% in terms of freight turnover, and by 8% by freight volume, also as a result of the increase of transit freight of ore from seaports.

The position of the PKP CARGO Group on the rail freight market in Poland (according to UTK data)

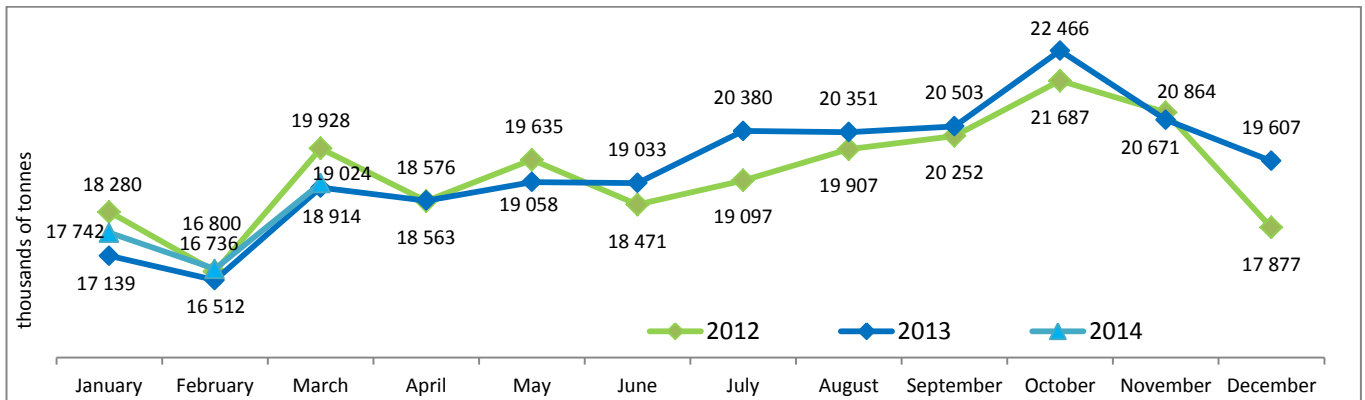
According to reports of the Railroad Transportation Authority, 53.6 million tonnes of goods were carried by rail in Q1 2014 (a 1.89% increase vs. Q1 2013). Improvement of the business climate was particularly evident in January, when the results of the rail transportation sector were 3.5% higher than in the same period of 2013.

In terms of freight turnover, the situation was even more optimistic - in Q1 2014, railroad transportation reached almost 11.4 bn tonne-kilometers, i.e. 6.37% more than in the same period of 2013. Also in this respect, January proved to be the best month in terms of growth for the entire rail freight sector, with freight turnover reaching 3.7 bn tonne-kilometers, 10.5% more than the year before.

In Q1 2014, also the average haul in rail transportation also increased - by 9.0 km in comparison with the results of the same period in 2013.

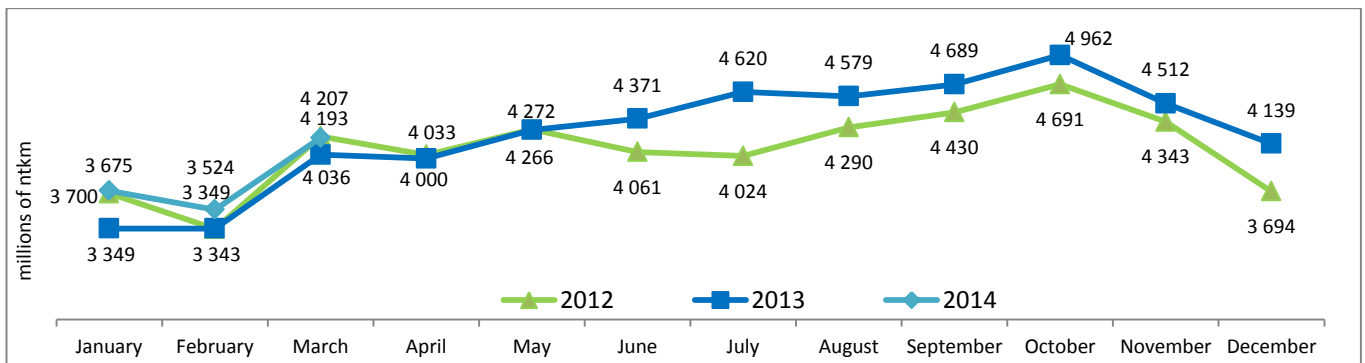
In 2014, railroad shipments continued the market trends of the previous years.

Figure 2 Volumes of rail freight in Poland (in thousands of tonnes) by month



Source: UTK

Figure 3 Rail freight turnover in Poland (in millions of tonne-km) by month



Source: UTK

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Apart of PKP CARGO Group (PKP CARGO S.A. and PKP CARGO SERVICE Sp. z o.o), there are 57 railway operators on the domestic rail freight market in 2014, holding licenses for transportation of goods. Both in terms of freight volume and freight turnover, PKP CARGO Group remains the leader in rail freight in Poland. In Q1 2014, PKP CARGO Group had a 47.2% share in the market (in terms of cargo freight volume) and 57.6% in terms of freight turnover. Among private railway operators, leading carriers also include: DB Schenker Group, CTL Group and Lotos Kolej. Together with the CARGO Group, these carriers have about 80% of the rail freight market in Poland. Others are smaller firms, with a negligible impact on the market as a whole.

In Q1 2014, PKP CARGO Group performed freight at a level of 25.3 million tonnes, 1.6% more than a year before. Other operators reached a level of 28.3 million tonnes, i.e. 2.2% more than in the same period of 2013. Only in March, PKP CARGO Group carried 1.8% more goods than in March 2013, whereas the remaining railway operators reported a reduction in their freight by 0.4%.

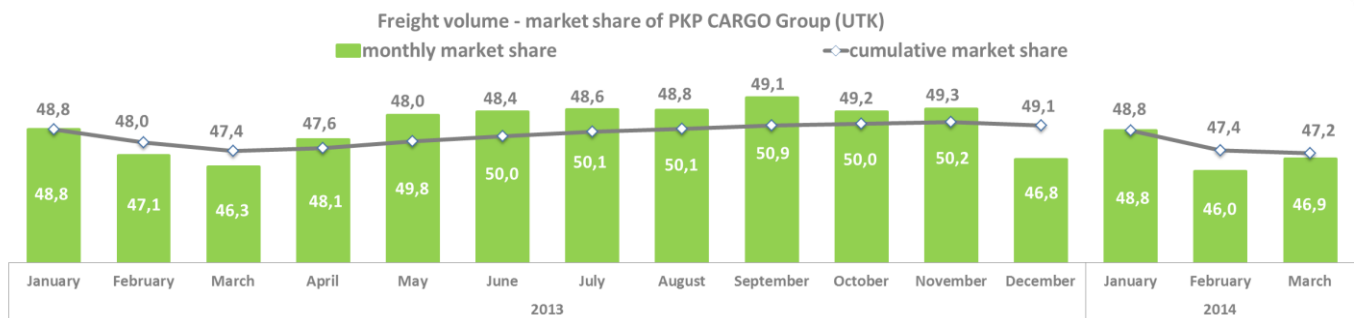
Over the period in analysis, both PKP CARGO Group and other participants of the railroad freight market performed their haulage on longer journeys, which, together with the increased quantity of loads carried, allowed the actual freight turnover to increase. PKP CARGO performed 4.6% more freight turnover (with an increase of average haul of 7.5 km), whereas freight turnover by other railway operators increased by 8.8% (with a 10.5 increase in the average haul).

The first year quarter is usually the weakest link in the freight activity of the PKP CARGO Group, as confirmed by 2014 market share results. This is caused by the structure of haulage, in which solid fuels prevail, coal in particular. The calm winter and high temperatures in Q1 2014 contributed to a major decrease in the demand for coal (unused reserves, coal sitting in bunkers), which consequently caused a reduction in coal haulage by the PKP CARGO Group.

PKP CARGO retains its immense advantage over the other freight carriers, but in Q1 2014, small decreases were reported, as they are every year, in the market share, both in terms of freight volume and freight turnover. March, however, saw a distinct rebound of the trend, and an improvement in results. The share of the PKP CARGO Group in March was higher than that in March 2013, both in terms of freight volume and freight turnover.

Monthly average and cumulative shares of the PKP CARGO Group in the rail freight market in 2013 and 2014 are presented on the chart below (freight volume - UTK).

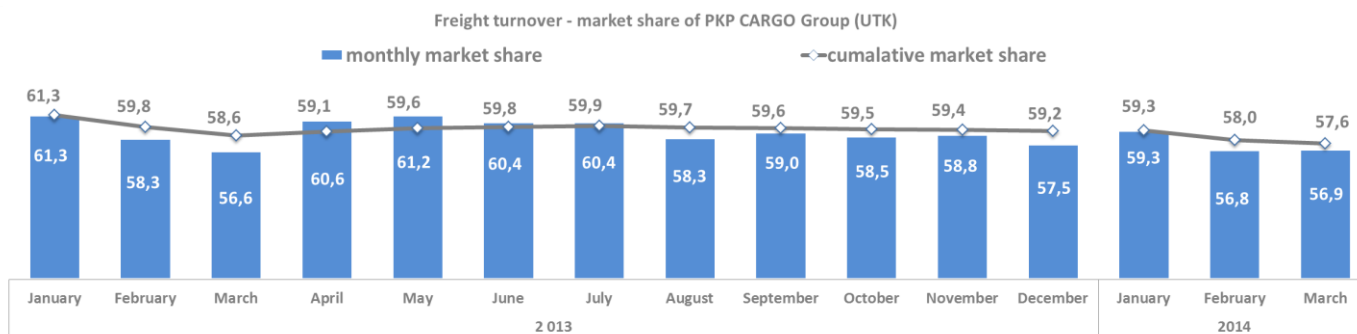
Figure 4 Share of the PKP CARGO Group in the total freight volume Q1 2013 and Q1 2014



Source: UTK, own statistics

Monthly average and cumulative shares of the PKP CARGO Group in the rail freight market in 2013 and 2014 are presented on the chart below (payload - UTK).

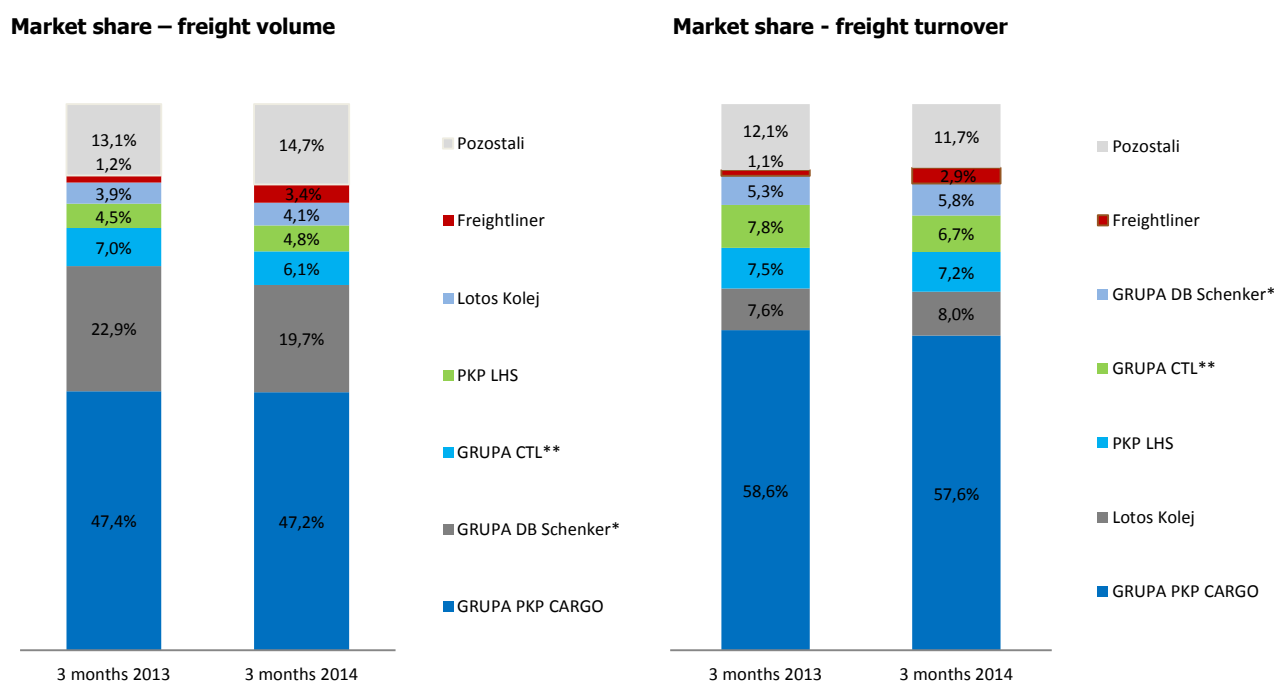
Figure 5 Share of the PKP CARGO Group in the total freight turnover in Q1 2013 and Q1 2014



Source: UTK, own statistics

Of the private railway operators, the largest market share in Q1 2014 (by freight volume) was held by DB Schenker Rail Polska - 19.7%, Lotos Kolej - 4.1%, Freightliner PL - 3.4% and CTL Logistics - 3.1%.

Figure 6 Market shares of railway operators by freight volume and freight turnover



* in 2014, the data only includes DB Schenker Rail Polska freight

** in 2014, the data only includes CTL Logistics, CTL Rail and CTL Train freight

Source: UTK, own statistics

Siding services

Apart from freight services, the Group also provides a range of auxiliary services, including, among other things, siding services consisting of train composition, shunting services providing company using own and third party rolling stock, siding traffic management, servicing of stations with personnel providing siding services and handling. Sidings operated by the Group are owned by third parties and they usually connect production plants of the Group's customers with the main railway network. PKP CARGO SERVICE Sp. z o.o. is the main entity providing the services mentioned above.

As part of the full scope of rail siding services, PKP CARGO SERVICE Sp. z o.o. offers its customers shunting service of railway sidings, management of railroad traffic on sidings, manning of positions related to running siding rail traffic, lease of rolling stock, diagnostics, ongoing maintenance of railway infrastructure, preparation of siding operations regulations, commercial servicing of shipments dispatched, and periodic training of employees.

PKP CARGO SERVICE Sp. z o.o. provides its services to companies in the mining sector - mostly hard coal and aggregate mines, and in the power industry: power plants and cogeneration plants. At present, the Company services a total of 34 sidings, in comparison with Q1 2013 the number of sidings serviced increased by 12. 3 New sidings were acquired for servicing in Q1 2014.

Transloading operations

PKP CARGO S.A. develops its transloading activities on the basis of conventional and intermodal transloading terminals owned by its subsidiaries - PKP CARGO Centrum Logistyczne Małaszewicze, PKP CARGO Centrum Logistyczne Medyka-Żurawica, Przedsiębiorstwo Spedycyjne Trade Trans and Cargosped.

Conventional terminals basically deal with transloading of different goods. Predominantly, these include: hard coal, crude oil and petroleum products, chemicals, metals and metal products, wood, woodchips, fertilisers, ores, cars. Due to the specific characteristics of handling different goods, there are terminals specialised for transloading of petroleum products, artificial fertilisers, etc. PKP CARGO Centrum Logistyczne Medyka-Żurawica is the only company with a defreezing plant and a shunting terminal for bogeys, for purposes of handling loads in transloading-free communication. In Q1 2014, the largest amount of transloadings were performed on terminals owned by CL Małaszewicze.

Conventional transloading terminals are almost solely managed by subsidiary companies.

Rolling stock maintenance and repair activities

Presented below is data pertaining to rolling stock repairs performed in the PKP CARGO Group in Q1 2014, as compared with Q1 2013, with breakdown by types of maintenance operations performed on locomotives and wagons.

Table13 Locomotive and wagon repairs performed in Q1 2014 and Q1 2013.

Locomotives (items)	Q1 2014	Q1 2013	Q1 change 2014 - 2013
Number of scheduled overhauls - NO (P4+P5 w/o upgrades.)	39	21	18
Number of scheduled inspections - PO (P2+P3)	2,275	2,239	36
Number of inspections - PK (P1)	10,151	10,169	-18
Number of current repairs - NB	13,728	16,372	-2,644
Wagons (items)	Q1 2014	Q1 2013	Q1 change 2014 - 2013
Number of scheduled overhauls - NO (P4+P5)	2,216	2,019	197
Number of scheduled inspections - PO (P3)	2,933	781	2,152
Number of current repairs - NB	31,733	38,772	-7,039

Source: Own review

Maintenance of rolling stock of the PKP CARGO Group is typically performed by repair outlets existing within the structure of the PKP CARGO S.A. Company, and in its subsidiaries. The rolling stock maintenance resources of the PKP CARGO Group are competent in performing wagons and electrical locomotives repairs at all maintenance levels P1 - P5, and repairs of diesel locomotives at levels P1 - P4. Apart of rolling stock owned by the PKP CARGO Group, the resources of the Group also perform repairs of rolling stock of third parties.

Repairs data include quantities of scheduled activities performed, such as scheduled inspections and scheduled overhauls, in accordance with Maintenance System Documentation (MSD) approved by the UTK for different series of rolling stock. The numbers of scheduled overhauls and inspections performed in different periods result from the cycles set out in the MSD and the quantity of rolling stock maintained in working order in accordance with demand submitted by the commercial department. Apart from scheduled activities, the repair outlets operating within the structures of the PKP CARGO Group perform ongoing repairs of rolling stock, aimed at removal of faults arising in the operation of rolling stock. The numbers of current repairs of the rolling stock depend on the amount of freight turnover.

Competency in repair of the main subassemblies of the running reserves - electrical machinery and wheelsets - is concentrated in PKP CARGO TABOR - KARSZNICE Sp. z o.o. The company in Karsznice performs a full scope of repairs of electrical equipment operated in locomotives of the PKP CARGO Group. Owing to the capital expenditure process in Karsznice, by purchasing specialist machinery and equipment over the recent years (most importantly: a hydraulic press, a vertical turning and boring mill) the company has built competency in a full scope of refurbishment of wheelsets for freight wagons. In the comparative period of Q1 2014, the quantities of wheelset refurbishments in Karsznice increased almost twofold in comparison with the same period of the previous year.

3.2 Seasonal/cyclic variation in operation

Activities of the PKP CARGO Group does not exhibit significant seasonal or cyclic trends.

The greatest demand for coal exists in the autumn and winter periods, due to the heating period (power plants and cogeneration plants being the main recipients of coal in Poland). Nonetheless, this does not largely impact the volumes of coal haulage in the autumn, winter and early spring periods, as recipients fulfil their increased demand from reserves stored in the summer and early autumn periods.

The demand for shipment of aggregate and construction materials is, as a rule, less in winter, due to the planned downtime in execution of infrastructural projects in Poland. Still, this has no major effect on the freight levels, as the recipients gather materials over that period, which they then utilise in periods of increased demand. In Q1 2014, due to the favourable weather conditions for construction works, the market has become invigorated earlier than usual, resulting in a 66% increase of aggregate freight for the PKP CARGO Group.

4. An analysis of the financial and property standing of the PKP CARGO Group

4.1 Macroeconomic and market situation

According to data of the Central Statistical Office of Poland (GUS), 53.3 million tonnes of freight volume were shipped by rail in Q1 2014, i.e. 1.5% more than in the same period of 2013. An increase of more than 6% was reported in international communication. Shipments of imported loads increased by ca. 21%, but shipments decreased of exported loads - by more than 8% - and loads in transit - by ca. 3%. Transport volume in domestic communication increased by 0.5% vs. the same period of the previous year.

Freight turnover in Q1 2014 reached 11,397.3 mln tkm and was 6.3% more than in the same period of the previous year.

Symptoms of economic upturn observed on the market contribute to the improvement of the condition of rail freight in Q1 2014.

According to data published by the GUS, GDP growth in Q1 could reach 3.3% y/y. Estimates of the Ministry of Economy assume an acceleration in GDP growth in Q1 to 3.1%-3.2%, and to 3.5% in all of 2014.

According to GUS data, production sold of the industry in Q1 2014 was 4.8% higher than last year, whereas the increase of production sold was reported in 29 (out of 34) industries, whose sales accounted for 86.9% of the total industrial production sold.

Construction and erection works production in Q1 2014 increased by 10.6%, in contrast with the deep downturn of 15.1% in the same period of previous year. Increases were reported in all areas of the construction industry - in specialist construction works - by 18.1%, in civil engineering works - 10.5%, and 5.5% in construction of buildings.

In Q1 2014, an increase of goods trading volumes was reported in foreign trade. Exports in PLN terms increased by 7,8%, and imports increased by 3.6%. In the geographical structure of turnover, in comparison with the same period of the previous year, the share of developed countries (including EU countries) increased in exports, and was reduced in imports. The share of exports of developing countries, on the other hand, was lower than last year, and their share in imports was higher.

The volume of trade with Germany, Poland's foremost trade partner, increased by 11,0% in exports, and by 4.3% in imports. The share of Germany in total turnover increased in exports from 25.3% to 26,3%, and from 21.1% to 21.6% in imports.

In terms of exports, the next places behind Germany were taken by: United Kingdom (6.4%), Czech Republic (6.1%), France (6.0%), Italy (4.5%), Russia (4.4%), Netherlands (4.1%), Sweden (2,9%), Hungary and Slovakia (2.6% each); and in imports: Russia (12.0%), China (10.0%), Italy (5,1%), France (4,0%), Netherlands (3.6%), Czech Republic (3.5%), United Kingdom (2.7%), Belgium (2.5%) and United States (2.2%).

The improvement in the business climate in the European economy also contributes to an improved condition of rail freight.

The latest forecasts of the European Commission (5 May 2014) for 2014 quote a 1.6% increase of GDP in the EU and 1.2% for the Eurozone. In 2015, a GDP growth is assumed of 2.0% and 1.7% for the EU and Eurozone, respectively.

Forecasts of the European Commission are consistent with forecasts published in April 2014 by the International Monetary Fund (World Economic Outlook, April 2014, IMF), according to which a GDP growth of 1.6% is forecasted for countries of the European Union, and 1.2% in the Euro zone.

Optimistic forecasts of the IMF also apply to the world economy, with the gross domestic product predicted to increase by 3.6% p.a.

Experts of the World Bank predict that in 2014 the global economic growth will reach 3.2%, i.e. 0.8% more than in the preceding year. The pace of economic growth worldwide will be influenced by the high GDP growth in developing countries, but also in Western countries. Among the largest European economies, a relatively low growth is expected in the United Kingdom (by 2.9%) and in Germany (by 1.7%).

Considering the above, one should expect 2014 to be beneficial for the rail transport industry in Poland.

4.2 Selected financial information of PKP CARGO S.A. and the PKP CARGO Group

Table 14 Selected financial information of the PKP CARGO Group

PKP CARGO GROUP	Q1 2014	Q1 2013	Q1 2014	Q1 2013
	PLN '000		EUR '000	
Income from operating activities	1,038,478	1,051,321	247,880	251,886
Profit (loss) on operating activities	68,469	16,039	16,343	3,843
Profit (loss) before taxation	73,563	8,257	17,559	1,978
Net profit	57,534	1,443	13,733	346
Total income attributable to shareholders of the parent company	56,944	3,733	13,592	894
Weighted average number of shares	43,724,389 shares	43,338,000 shares	43,724,389 shares	43,338,000 shares
Weighted average number of shares assumed for the calculation of diluted earnings	44,802,981 shares	43,338,000 shares	44,802,981 shares	43,338,000 shares
Earnings per share	1.30	0.09	0.31	0.02
Diluted earnings per share	1.27	0.09	0.30	0.02
Net cash flow from operating activities	40,446	128,472	9,654	30,781
Net cash flow from investment activities	-61,492	-108,330	-14,678	-25,955
Net cash flow from financial activities	-58,316	-85,070	-13,920	-20,382
Change in cash and cash equivalents	-79,362	-64,928	-18,943	-15,556
	2014-03-31	2013-12-31	2014-03-31	2013-12-31
	PLN '000		EUR '000	
Non-current assets	4,060,579	4,049,895	973,456	976,537
Current assets	1,547,842	1,676,161	371,069	404,167
Non-current assets classified as held for sale	17,560	17,560	4,210	4,234
Share capital	2,239,346	2,166,901	536,846	522,497
Equity attributable to shareholders of the parent company	3,501,942	3,446,517	839,533	831,047
Equity attributable to minority shareholders	63,105	62,377	15,128	15,041
Non-current liabilities	1,085,968	1,166,736	258,695	281,331
Current liabilities	974,966	1,067,986	235,380	257,520

Source: Own review

Table 15 Selected financial information of PKP CARGO S.A.

PKP CARGO S.A.	Q1	Q1	Q1	Q1
	2014	2013	2014	2013
	PLN '000		EUR '000	
Income from operating activities	935,467	960,844	223,292	230,208
Profit (loss) on operating activities	74,636	20,137	17,815	4,825
Profit (loss) before taxation	71,363	12,435	17,034	2,979
Net earnings from continued activity	55,769	7,084	13,312	1,697
Comprehensive income	55,769	7,084	13,312	1,697
Weighted average number of shares	43,724,389 shares	43,338,000 shares	43,724,389 shares	43,338,000 shares
Weighted average number of shares assumed for the calculation of diluted earnings	44,802,981 shares	43,338,000 shares	44,802,980 shares	43,338,000 shares
Earnings per share	1.28	0.16	0.31	0.04
Diluted earnings per share	1.24	0.16	0.30	0.04
Net cash flow from operating activities	22,901	87,171	5,466	20,885
Net cash flow from investment activities	-47,214	-101,092	-11,270	-24,221
Net cash flow from financial activities	-57,232	-51,961	-13,661	-12,449
Change in cash and cash equivalents	-81,546	-65,882	-19,465	-15,785
	2014-03-31	2013-12-31	2014-03-31	2013-12-31
	PLN '000		EUR '000	
Non-current assets	3,912,290	3,905,419	937,907	941,700
Current assets	1,338,407	1,466,645	320,861	353,647
Non-current assets classified as held for sale	17,560	22,607	4,210	5,451
Share capital	2,239,346	2,166,901	536,846	522,497
Equity	3,417,216	3,362,966	819,221	810,900
Non-current liabilities	954,948	1,032,724	228,933	249,017
Current liabilities	896,093	998,981	214,823	240,881

Source: Own review

For the purpose of conversion of items of the statement of financial position for 31 March 2014 and 31 December 2013, average exchange rates of Polish zloty to Euro provided by the National Bank of Poland ("NBP") as applicable on the last day of the reporting period (4.1713 and 4.1472, respectively) were used. Items of the statement of comprehensive income and the statement of cash flows for the 3 months of 2014 and 3 months of 2013 have been converted at the exchange rate equal to the arithmetic mean of average NBP exchange rates of the last days of each month within a period of 3 months ended 31 March 2014 and 31 March 2013 (4.1894 and 4.1738, respectively)

4.3 Key operational data of the PKP CARGO Group

Quantity of rolling stock

In the 1Q 2014 there were no changes in the number of locomotives, except for the 6 locomotives rebuilding from SM48 to ST48, changing its purpose from a shunting locomotive to a traction locomotive.

As for the changes in the quantities of wagons in 1Q 2014 the quantity of rolling stock decreased by 147 wagons, mainly as a result decommissioning and termination of lease of rolling stock. At the same time 30 wagons for container transport were purchased.

Capital expenditure

Over the period of 3 months of 2014, the company made capital outlay for the acquisition of property, plant and equipment and intangible assets in the form of purchase, modernisation, and for the so-called "overhaul component" (scheduled overhauls of rolling stock) in an amount of PLN 116.0 mln, constituting 126.7% of the comparable period of 2013.

Outlay for means of transport amounted to a total of PLN 110.0 mln (94.8% of total expenditure), of which PLN 73.4 mln was spent on the overhauls component. Other capital expenses pertained to construction projects - PLN 2.9 mln, IT - PLN 2.7 mln, machinery and equipment - PLN 0.2 mln, and other projects - PLN 0.3 mln.

Higher capital expenditure in the period of 3 months of 2014 than in the same period of 2013 result, among other things, from this year's purchases of 30 wagons for container transport, modernisation of 6 SM48 diesel locomotives, and performance of more scheduled overhauls of locomotives and wagons.

Table 16 Capital expenditure in Q1 2014, as compared do Q1 2013.

Description	Actual for 3 months 2014	Actual for 3 months 2013	Absolute change	Rate of change
Construction projects	2,764.20	2,005.10	759.10	37.86%
Locomotives modernisation	28,069.00	13,910.00	14,159.00	101.79%
Wagon purchases	8,581.30	2,865.30	5,716.00	199.49%
Machinery and equipment	175.7	2,310.40	-2,134.70	-92.40%
IT	2,662.80	10,969.00	-8,306.20	-75.72%
of which Intangible assets	2,351.50	3,605.50	-1,254.00	-34.78%
Other	266.4	541.4	-275	-50.79%
Components in overhauls:	73,351.10	57,329.30	16,021.80	27.95%
Scheduled overhauls of locomotives	19,116.20	9,760.00	9,356.20	95.86%
Scheduled overhauls of wagons	54,234.90	47,569.30	6,665.60	14.01%
Total	115,870.50	89,930.50	25,940.00	28.84%

Source: Own review

Real property

Considering the necessity of ensuring appropriate maintenance and repair resources, real property is of great importance for the entire freight process. Most of the property utilised by the PKP CARGO Group is used under lease and rent.

The table below presents the status of real property in Q1 2013 and 2014, along with change in the period.

Table 17 Real property of the Group, own and in use in 2013 and 2014

Description	31.03.2014	31.12.2013	Change in Q1 2014
Own land [ha]	24.5	24.5	0.0
Land in perpetual usufruct [ha]	191.5	191.5	0.0
Land leased from other entities [ha]	519.0	534.6	-15.6
Own buildings [sq.m]	244,638.8	242,123.4	2,515.4
Buildings leased from other entities [sq.m]	382,887.0	402,138.5	-19,251.5
Buildings rented from other entities [sq.m]	42,658.0	45,256.5	-2,598.5

Source: Own review

Own land and land in perpetual usufruct did not change in Q1 2014. The area of land leased from other entities decreased by 15.6 ha, subordinated entities of the Group and subsidiaries of the Company verify the extent of property in use on an ongoing basis.

The increase in the area of owned buildings in Q1 2014 by 2,515.4 sq.m results from CARGOWAG Sp. z o.o. obtaining permission for use of the building built on own resources, and update of the records - clearing of the legal status and Trade Trans's transformation of the co-operative rights to the premises into full ownership (Wrocław, Kościuszki 143/4).

In Q1 2014, there was also a decrease in the space of buildings leased and rented from other entities, by 21,849.9 sq.m. This results from the ongoing verification and optimisation of the extents of the property in use by the subsidiaries of the Company and Group.

The Employees

Structure of employment

Presented below is information about changes in the employment status in the PKP CARGO Group in Q1 2014.

The following table presents the number of people employed in the Group as at dates indicated.

Table 18 Employment in the PKP CARGO Group as at end of reporting period

Description	Number of persons employed as at:		
	31.03.2014	31.12.2013	Change from year beginning
Company	22,252	22,480	-228
Subsidiaries	4,110	3,965	145
Group	26,362	26,445	-83

Source: Own review

The following table presents average employment in the Group within Q1 2014 in comparison with the same period of the previous year.

Table 19 Structure of employment in the PKP CARGO Group in Q1 2013 and Q1 2014.

Description	average employment in FTE's	average employment in FTE's	Change 2014-2013	average employment in persons	average employment in persons	Change 2014-2013
	Q1 2014	Q1 2013		Q1 2014	Q1 2013	
Company	22,314.3	22,916.8	-602.5	22,316.8	22,919.8	-603.0
Subsidiaries	4,036.4	3,911.7	124.7	4,067.5	3,934.9	132.6
Group	26,350.7	26,828.5	-477.8	26,384.3	26,854.7	-470.4

Source: Own review

The following table presents the structure of employment in the PKP CARGO Group, broken down by non-worker and worker positions, as at dates indicated.

Table 20 Structure of employment in the PKP CARGO Group in Q1 2013 and Q1 2014

Description	Number of persons employed as at:					
	31.12.2013	31.03.2014	Change from year beginning	31.12.2012	31.03.2013	Change from year beginning
Non-worker positions	5,553	5,514	-39	5,786	5,557	-229
Worker positions	20,892	20,848	-44	21,841	20,702	-1,139
train crews group	4,842	4,764	-78	5,057	4,767	-290
shunting teams group	2,402	2,378	-24	2,439	2,288	-151
rolling stock maintenance and repair group	5,246	5,372	126	5,342	5,058	-284
train dispatch group	2,399	2,390	-9	2,377	2,357	-20
others*	6,003	5,944	-59	6,626	6,232	-394
total:	26,445	26,362	-83	27,627	26,259	-1,368

* Includes in particular employees of the following groups: freight cashiers, technical inspection, transloading, equipment maintenance, warehousing.

Source: Own review

In Q1 2014, the number of persons employed in the Group decreased by 83 employees. The decrease of employment pertained mostly to the Company, resulting from termination of employment due to retirement. In subsidiaries employment grew over the period in question, due to the increasing volume of services provided in terms of maintenance and repairs of (PKP CARGOLOK

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Sp. z o.o., CARGOWAG Sp. z o.o., PKP CARGO TABOR KARSZNICE Sp. z o.o.) and services as part of comprehensive siding services (PKP CARGO SERVICE Sp. z o.o.) In the entire structure, in the view of the overall decrease of employment, a reduction in the number of employees is evident nearly in all groups. The rolling stock maintenance and repair group is an exception. The increased employment in the group reflects the growing demand for maintenance and repair services, as demonstrated above, as well as the employee recruitment program implemented in the Company, the employees to be employed in the train crew group after professional preparation and acquiring the licenses required by law.

Other operational metrics

The following table presents significant financial and operational metrics of PKP CARGO Group in Q1 2013 and Q1 2014.

Table 21 Selected financial and operational metrics in Q1 2013 and Q1 2014

Description	Q1 2014	Q1 2013	Absolute change	% change
EBITDA margin ¹	15.3	10.1	5.2	51.4%
Net profit margin ²	5.53	0.14	5.39	3,929.9%
Net financial debt to EBITDA ³	-1.47	-0.19	-1.3	665,8%
ROA ⁴	1.023	0.025	1.00	3,970.2%
ROE ⁵	1.61	0.04	1.57	3,823.7%
Average distance of travel of 1 locomotive (km/day) ⁶	250.9	253.3	-2.4	-0.9%
Average gross train tonnage per operating locomotive (in tonnes) ⁷	1,477.0	1,427.0	50.0	3.5%
Average working time of locomotives (hours/day) ⁸	15.1	14.9	0.2	1.3%
Freight turnover per person employed (thousand tkm/employee) ⁹	249.2	234.3	7.0	2.5%

1) Calculated as the quotient of profit operating activities increased by depreciation/amortisation and impairment losses, by total operating revenue*100.

2) Calculated as the quotient of profit after tax and total operating revenue*100.

3) Calculated as the quotient of net financial debt (which is the sum of (i) long-term bank loans and credit facilities and; (ii) short-term bank loans and credit facilities, (iii) long-term finance lease liabilities and leases with purchase; (iv) short-term finance lease liabilities and leases with purchase option; and (v) other short-term financial liabilities less (i) cash and cash equivalents; and (ii) other short-term financial assets) and EBITDA (profit on operating activities increased by depreciation/amortization and impairment losses).

4) Calculated as the quotient of profit after tax and total assets*100.

5) Calculated as the quotient of profit after tax and equity*100.

6) Calculated as the quotient of vehicle-kilometres (i.e. the distance covered by PKP CARGO S.A. vehicles in a given period) and vehicle-days (i.e. the product of the number of active vehicles and the number of calendar days in a given period)

7) Calculated as the quotient of gross-tonne-kilometres and train-kilometres in train performance for locomotives running PKP CARGO S.A. trains (in paired running or pushed in a given period).

8) Calculated as the quotient of vehicle-hours (i.e. the number of hours of work of PKP CARGO S.A. vehicles in a given period) and vehicle-days (i.e. the product of active vehicles and the number of calendar days in a given period).

9) Calculated as the quotient of freight turnover of the Group by average employment (in FTEs) in a given time period.

Source: Own review

As a result of a significant increase of profit on operating activities and net earnings in Q1 2014 vs. Q1 2013, the EBITDA margin and net profit margin ratios in 2014 were higher than those achieved in 2013 by 5.2 p.p. and 5.4 p.p., respectively.

ROA for Q1 2014 was higher than in 2013 by 1.0 p.p., and ROE by 1.6 p.p., respectively. Improvement of those ratios in comparison with those achieved in the same period of 2013 resulted from a 3,887% improvement in net earnings, accompanied by an increase of the balance sheet total and of equity.

It is also worth noting that the ratio of financial debt to EBITDA for Q1 2014, in analogy with 2013, reached a negative value, due to the excess of cash and cash equivalents and other current financial assets over liabilities.

In Q1 2013, the average daily travel distance of locomotives was 253.3km/day. In the same period of 2014, the amount was reduced by 2.4km/day, reaching 250.9 km/day. There has, therefore, been a decrease in the average daily travel by 0.9%. This development was caused mostly by the increase of closures and operational hindrances on the PKP PLK S.A network.

Average gross weight of train per locomotive increased from 1,427.0 tonnes (Q1 2013) to 1,477.0 (Q1 2014). Hence, an increase of 50.0 tonnes was observed (a 3.5% increase of the average weight of trains pulled.) The above results from improved locomotive utilisation and optimisation of the freight process.

In Q1 2013, the average daily working time of locomotives was 14.9 hours/day. In the same period of 2014, the amount increased by 0.2 hours/day, reaching 15.1 km/day. There has, therefore, been a 1.3% increase of the average working time of locomotives. This results from continuous monitoring of performance of the freight process, accompanied by optimisation of the adaptation of the number of operational locomotives for performance of work under variable freight volumes.

4.4 Structure of sales by area of operation

Within the framework of its domestic and international rail freight operations, and provision of comprehensive logistics services within the scope of rail freight, the Group specifies groups of services provided, which are presented in the following table. The Management Board of the parent company, however, does not evaluate the performance of the Group, nor does it make decisions as to allocation of resources to groups of services provided, considering the following division, therefore individual groups of services presented below must not be considered as operating segments of the PKP CARGO Group.

Table 22 Structure of sales by area of operation in Q1 2014, as compared do Q1 2013 (PLN thousand)

Item no.	Description	3 months until 31/03/2014	3 months until 31/03/2013	Change Q1 2013 - Q1 2014	Rate of change Q1 2014/Q1 2013
1	2	3	4	5=4-3	6=(4-3)/3
1	Revenues from haulage and rail freight forwarding	908,647	930,449	-21,801	-2.30%
2	Revenues from other transportation operations	26,015	26,795	-781	-2.90%
3	Siding and traction revenues	44,419	36,231	8,188	22.60%
4	Transloading revenues	11,108	8,774	2,334	26.60%
5	Other revenue (*)	14,070	20,442	-6,371	-31.20%
6	Total	1,004,259	1,022,691	-18,432	-1.80%

(*) The Other revenue item for 31 March 2014 presents mostly revenue from rolling stock rental - PLN 5,406 thousand, and revenue from rolling stock repairs - PLN 3,305 thousand, and customs agencies services - PLN 2,458 thousand, and for 31 March 2013 presents PLN 6,464 thousand of revenue from rolling stock rental, PLN 2,826 thousand for rolling stock repairs and PLN 2,170 thousand from customs agencies services.

Source: Quarterly Abridged Consolidated Financial Statements of the PKP CARGO Group for Q1 2014 ended March 31st, 2014, according to EU IFRS.

The Group operates in one main geographical area – Poland, which is the country of its headquarters. The total revenues for all geographic areas outside of Poland did not exceed 14.5% of total sales revenue for 3 months of 2014, and 15.6% for 3 months of 2013. No geographical area individually (apart from Poland) exceeds 10% of revenues from sales of services.

4.5 Financial standing of the PKP CARGO Group in Q1 2014

Consolidated statement of comprehensive income

In Q1 2014, PKP CARGO Group performed freight with a volume of 25,297 thousand tonnes, i.e. 2% more than in the same period of 2013, and performed freight turnover at a level of 6,567 mln ntkm, i.e. 4% more than the previous year. The freight data is presented in detail in the "Rail freight" section. Operating revenue of the PKP CARGO Group in Q1 2014 reached PLN 1,038.5 mln, and was less than achieved in Q1 2013 by 1.2%. Reduction was much higher in the operating expenses, which amounted to PLN 970.0 mln in Q1 2014, and were lower by 6.3% than Q1 2013. Stronger rate of operating expenses reduction vis-a-vis reduction of revenue translated into a higher profit from operating activities and net profit achieved, which amounted to PLN 68.5 mln and PLN 57.5 mln, respectively, in Q1 2014.

Details of individual items of the statement of comprehensive income will be provided further in this section. Presented below is a table of results of the PKP CARGO Group in Q1 2014, with a comparison with Q1 2013.

Table 23 Results of the PKP CARGO Group in Q1 2014, as compared do Q1 2013 (PLN thousand)

Item no.	Description	3 months until	3 months until	Change Q1 2014 - Q1 2013	Rate of change Q1 2014/Q1 2013
		31/03/2014 (unaudited)	31/03/2013 (unaudited)		
		PLN	PLN		
1	2	3	4	5=4-3	6=(4-3)/3
1	Total operating revenue	1,038,478	1,051,321	-12,842	-1.2%
2	Total operating expenses	970,009	1,035,282	-65,272	-6.3%
3	Profit on operating activities	68,469	16,039	52,430	326.9%
4	Financial revenue	6,088	10,680	-4,593	-43.0%
5	Financial expenses	10,355	18,934	-8,579	-45.3%
6	Share in earnings of associated entities	9,361	472	8,889	1,883.9%
8	Earnings before income tax	73,563	8,257	65,306	790.9%
9	Income tax expense	16,029	6,814	9,215	135.2%
10	Net profit from continued operations	57,534	1,443	56,091	3,886.9%
11	Net profit (loss) from discontinued operations	0	0	0	-
12	NET PROFIT	57,534	1,443	56,091	3,886.9%

Source: Quarterly Abridged Consolidated Financial Statements of the PKP CARGO Group for Q1 2014 ended March 31st, 2014, according to EU IFRS.

Operating revenue

The largest item of operating revenue of the Group is freight revenue, which accounted for 87.5% and 88.5% of operating revenue of the Group in Q1 2014 and Q1 2013, respectively. The remaining part of operating revenue of the Group consists of revenue from sales of goods and materials, which include, among other things, sales of scrap steel and iron, as well as other operating income of the Group, including, among others, sales of property, plant and equipment, change in the status of write-downs of receivables and interest on receivables, change of balance of provisions for liabilities.

In Q1 2014, operating revenue of the Group decreased by 12.8, i.e. by 1.2%, to a level of PLN 1,038.5 mln, down from PLN 1,051.3 mln in Q1 2013. The reduction in operating revenue was caused predominantly by the decrease in prices. The decrease in the Group's revenue per 1 tkm was exacerbated by the decrease of income from sales of goods and materials. In Q1 2014, revenue from sales of goods and materials decreased by 11.4, i.e. by 47.9%, to a level of PLN 12.4 mln. The decrease described above resulted, above all, from the Group's discontinuance of materials sale transactions, including those in coal, construction materials and other items (mostly PS TRADE TRANS Sp. z o.o in Q1 2013, as a service related with transport). In part, the decrease of operating revenue was offset by the increase in other operating revenue by PLN 17.0 mln, i.e. by 356.5%, mostly due to income from release of provisions other than employee-related ones.

Table 24 Operating revenue in the PKP CARGO Group in Q1 2014, as compared do Q1 2013 (PLN thousand)

Item no.	Description	3 months until	3 months until	Change Q1 2013 - Q1 2014	Rate of change Q1 2014/Q1 2013
		31/03/2014	31/03/2013		
1	2	3	4	5=4-3	6=(4-3)/3
1	Sales revenue, including:	1,004,259	1,022,691	-18,432	-1.8%
1.1	Revenue from freight and freight forwarding	908,647	930,449	-21,801	-2.3%
2	Revenue from sales of goods and materials	12,431	23,857	-11,425	-47.9%
3	Other operating income	21,788	4,773	17,014	356.5%
4	Total revenue from operating activities	1,038,478	1,051,321	-12,842	-1.2%

Source: Quarterly Abridged Consolidated Financial Statements of the PKP CARGO Group for Q1 2014 ended March 31st, 2014, according to EU IFRS.

Operating expenses

Over the first three months of 2014, operating expenses was reduced by PLN 65.3 mln, i.e. 6.3% vs. the same period in the previous period, amounting to PLN 970.0 mln. This was spurred by significantly decreasing costs external services, which reached a level of PLN 320.1 mln in Q1 2014, and were lower by PLN 36.9 mln, i.e. 10.3% than in the previous year. This results from lower cost of access to railway infrastructure thanks to more efficient routing and lower unit access rates applied by PKP Polskie Linie Kolejowe S.A. For this reason, a total of PLN 33.2 mln was saved in Q1 2014 in comparison with the

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previous year. Among external services, increases were reported in repair services (by PLN 3.8 mln) and siding services (by PLN 2.5 mln) as a result of the increased operating activity of the Group in these areas.

Apart from costs of external services, a decrease of employee benefits was also reported in Q1 2014, reaching PLN 363.5 mln, constituting the largest part of the entire operating expenses. The decrease amounted to PLN 11.0 mln, i.e. 2.9%, as a result of continuous actions towards optimisation of the level of employment in the Group.

Among operating expenses in Q1 2014 vs. Q1 2013, costs of consumption of raw materials and supplies also decrease (by PLN 7.9 mln, i.e. 4.7%), cost of merchandise and raw materials sold (by PLN 9 mln, i.e. 51%), and other expenses by kind (by PLN 2.4 mln, i.e. 20.9%). Cost of merchandise and raw materials sold in percentage terms are decreasing more than any other operating expenses, due to the reduced revenue from sales of goods and materials by PLN 11.4 mln, i.e. 47.9% over the same period. The reduction of the raw materials and supplies consumption cost item is caused by the decrease in the cost of electricity (incl. 12% price decrease of traction electricity), gas and water consumption (by PLN 9.1 mln, i.e. 9%).

Table 25 Operating expenses in the PKP CARGO Group in Q1 2014, as compared do Q1 2013 (PLN thousand)

Item no.	Description	3 months until 31/03/2014	3 months until 31/03/2013	Change Q1 2014 - Q1 2013	Rate of change Q1 2014/Q1 2013
1	2	3	4	5=4-3	6=(4-3)/3
1	Depreciation and write-downs	90,820	90,285	535	0.6%
2	Consumption of raw materials and supplies	158,539	166,438	-7,899	-4.7%
3	External services	320,135	356,994	-36,859	-10.3%
4	Taxes and charges	10,717	9,316	1,402	15.0%
5	Employee benefits	363,524	374,553	-11,029	-2.9%
6	Other expenses by kind	9,185	11,607	-2,422	-20.9%
7	Cost of merchandise and raw materials sold	8,622	17,601	-8,978	-51.0%
8	Other operating expenses	8,467	8,488	-21	-0.2%
9	Total operating expenses	970,009	1,035,282	-65,272	-6.3%

Source: Quarterly Abridged Consolidated Financial Statements of the PKP CARGO Group for Q1 2014 ended March 31st, 2014, according to EU IFRS.

Profit on operating activities

As a result of the changes in operating revenue and operating expenses, profit on operating activities increased in Q1 2014 by PLN 52.4 mln, i.e. by 326.9%, to a level of PLN 68.5 mln.

EBITDA

As a result of the developments described above, the operating profit plus depreciation, referred to as EBITDA, increased in Q1 2014 by PLN 53.0 mln, i.e. by 49.8%, to a level of PLN 159.3 mln.

Financial activities

In Q1 2014, the Group reported a profit on financial activities of PLN 5.1 mln, which is an improvement of result of financial activities of PLN 12.9 mln in comparison with the same period of 2013, mostly due to the significant increase of the share in profits of investment measured using the equity method, by PLN 8.9, and the net result on exchange rate differences. In Q1 2013, net result on exchange rate differential was PLN -6.7 mln, vs just PLN -1.7 mln in the same period of 2014.

Earnings before income tax

In Q1 2014, earnings before income tax increased by PLN 65.3 mln, i.e. by 790.9%, to a level of PLN 73.6 mln. The increase of earnings before tax was mostly due to the significant improvement of the ratio of revenues to operating expenses (a 1.2% decrease of revenue offset by a 6.3% decrease in operating cost) and a reduction of loss on financial activities by PLN 4.0 million.

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Income tax expense

Over Q1 2014, the Group reported income tax expense in the amount of PLN 16 mln, of which deferred income tax amounted to PLN 16.3 mln, and current income tax due to adjustments of previous years was PLN -0.3 million.

Net profit

In Q1 2014, net profit increased vs. the same period of the previous year by PLN 56.1 mln, i.e. by 3,886.9%.

Property standing
Table 26 Horizontal and vertical analysis of assets (PLN thousand)

Description	Status as at 31/03/2014 (unaudited)	Status as at 31/12/2013 (audited)	Structure of assets		Rate of change	
			31/03/2014	31/12/2013		
ASSETS						
Non-current assets						
Property, plant & equipment	3,875,640	3,855,446	68.9%	67.1%	20,194	0.5%
Intangible assets	59,301	61,395	1.1%	1.1%	-2,094	-3.4%
Goodwill	2,712	2,712	0.0%	0.0%	0	0.0%
Investment property	1,401	1,415	0.0%	0.0%	-13	-0.9%
Investments in subsidiaries and associates	47,509	38,214	0.8%	0.7%	9,295	24.3%
Other non-current financial assets	6,082	6,090	0.1%	0.1%	-9	-0.1%
Other non-current non-financial assets	1,130	1,438	0.0%	0.0%	-307	-21.4%
Deferred tax assets	66,804	83,185	1.2%	1.4%	-16,381	-19.7%
Total non-current assets	4,060,579	4,049,895	72.2%	70.5%	10,685	0.3%
Current assets						
Inventory	79,051	76,041	1.4%	1.3%	3,010	4.0%
Trade and other receivables	582,375	609,267	10.4%	10.6%	-26,893	-4.4%
Income tax receivables	2,947	2,394	0.1%	0.0%	552	23.1%
Other current financial assets	619,393	691,404	11.0%	12.0%	-72,010	-10.4%
Other current non-financial assets	79,738	33,355	1.4%	0.6%	46,382	139.1%
Cash & cash equivalents	184,338	263,700	3.3%	4.6%	-79,362	-30.1%
	1,547,842	1,676,161	27.5%	29.2%	-128,320	-7.7%
Assets classified as held for sale	17,560	17,560	0.3%	0.3%	0	0.0%
Total current assets	1,565,402	1,693,721	27.8%	29.5%	-128,320	-7.6%
Total assets	5,625,981	5,743,616	100.0%	100.0%	-117,636	-2.0%

Source: Quarterly Abridged Consolidated Financial Statements of the PKP CARGO Group for Q1 2014 ended March 31st, 2014, according to EU IFRS.

Table 27 Horizontal and vertical analysis of liabilities and shareholders' equity (PLN thousand)

Description	Status as at 31/03/2014 (unaudited)	Status as at 31/12/2013 (audited)	Structure of assets		Rate of change	
			31/03/2014	31/12/2013		
EQUITY AND LIABILITIES						
Equity						
Share capital	2,239,346	2,166,901	39.8%	37.7%	72,445	3.3%
Share premium	618,797	692,761	11.0%	12.1%	-73,964	-10.7%
Other items of equity	-16,315	-16,392	-0.3%	-0.3%	77	-0.5%
Retained earnings	660,114	603,247	11.7%	10.5%	56,867	9.4%
Equity attributable to shareholders of parent entity	3,501,942	3,446,517	62.2%	60.0%	55,425	1.6%
Equity attributable to non-controlling interest	63,105	62,377	1.1%	1.1%	728	1.2%
Total equity	3,565,047	3,508,894	63.4%	61.1%	56,153	1.6%
Non-current liabilities						
Long-term bank loans and credit facilities	105,502	121,558	1.9%	2.1%	-16,056	-13.2%
Long-term finance lease liabilities and leases with purchase option	273,946	313,136	4.9%	5.5%	-39,191	-12.5%
Long-term trade and other receivables	102,586	113,688	1.8%	2.0%	-11,102	-9.8%
Long-term provisions for employee benefits	592,923	592,923	10.5%	10.3%	0	0.0%
Other long-term provisions	8,492	22,854	0.2%	0.4%	-14,362	-62.8%
Other non-current financial liabilities	0	0	0.0%	0.0%	0	-
Deferred tax provision	2,519	2,577	0.0%	0.0%	-58	-2.2%
Total non-current liabilities	1,085,968	1,166,736	19.3%	20.3%	-80,770	-6.9%
Current liabilities						
Short-term bank loans and credit facilities	64,784	73,217	1.2%	1.3%	-8,433	-11.5%
Short-term finance lease liabilities and leases with purchase option	124,631	115,790	2.2%	2.0%	8,842	7.6%
Short-term trade and other liabilities	655,738	675,841	11.7%	11.8%	-20,104	-3.0%
Short-term provisions for employee benefits	105,453	176,461	1.9%	3.1%	-71,008	-40.2%
Other short term provisions	23,753	26,127	0.4%	0.5%	-2,374	-9.1%
Other current financial liabilities	467	306	0.0%	0.0%	161	52.6%
Income tax liability	140	244	0.0%	0.0%	-104	-42.5%
	974,966	1,067,986	17.3%	18.6%	-93,020	-8.7%
Liabilities directly related to non-current assets classified as held for sale	0	0	0.0%	0.0%	0	-
Total current liabilities	974,966	1,067,986	17.3%	18.6%	-93,020	-8.7%
Total liabilities	2,060,934	2,234,722	36.6%	38.9%	-173,789	-7.8%
Total liabilities and shareholders' equity	5,625,981	5,743,616	100.0%	100.0%	-117,636	-2.0%

Source: Quarterly Abridged Consolidated Financial Statements of the PKP CARGO Group for Q1 2014 ended March 31st, 2014, according to EU IFRS.

Cash flows

At end of Q1 2014, cash and cash equivalents reached a level of PLN 184.3 mln, i.e. 49.8% above the level of the same period in the previous year. The main reason for the increase was the increase of gross profit by PLN 65.3 mln, i.e. 790.9%, as compared to Q1 2013.

Cash in the amount of PLN 40.4 million was generated from operating activities in the period in question, less than in the same period of the previous year by PLN 88 million, i.e. 69.1%, mostly due to the reduction in the balance of employee benefits provision. Investment activities generated a negative balance of PLN 61.5 mln, i.e. less by PLN 46.8 million. Financial activities generated a negative balance of PLN 58.3 mln, i.e. PLN 26.8 less than the negative balance generated in Q1 2013. In total, the adjustment of the cash and cash equivalents balance in Q1 2014 amounted to PLN -79.4 million.

4.6 Factors and events, in particular of untypical nature, with a major impact on financial results achieved

Fees for access to the network

The results of activities of the PKP CARGO Group largely depend on the amounts of network access fees paid. Costs to PKP PLK over the recent years remained at a level in excess of 20% of operating cost. The level of network access fees in Poland has been relatively high, in particular when compared with other countries of the EU. Rates of network fees are calculated by PKP PLK and are subject to approval by the Chairman of the Rail Transportation Authority.

As of 15 December 2013, a new price list of network fees is applicable for the period until 13 December 2014, in which the average network rate has been reduced by ca. 20%. One should bear in mind, however, that after the reduction, network access is expensive in Poland, and is a major item in the cost of rail freight, and a significant factor hindering the competitiveness of rail freight vs. road transport.

Condition of the railroad infrastructure

The activities of the PKP CARGO Group is dependent on the condition of the railway infrastructure, which is still inefficient in Poland, as compared with railway infrastructures of other, more developed EU countries, such as Germany or France. Although the rail network is dense in a large portion of the country, railway lines, in particular those used by freight carriers, are of low quality. It was only recently that investment began in Poland in modernisation of the railway infrastructure, in order to improve quality standards.

In its operations, PKP CARGO Group predominantly uses railway lines owned by PKP PLK, a company controlled by the State Treasury. Due to the inadequate technical condition, caused, above all, by many years of negligence in modernisation and maintenance of railway lines, the maximum commercial speed on railway lines managed by PKP PLK, and the throughput of the lines, is low. Average commercial speed of freight trains in Poland is twice as low as the European average. This results in higher demand for employees and the necessity of keeping, maintaining and servicing more rolling stock in order to perform the haulage.

Rolling stock technical regulations

The rolling stock utilised in rail transport must comply with applicable standards and technical requirements, which determine the scale of the Group's modernisation and repair activities. The related expenditure is directly dependent on the current technical condition of the rolling stock held and the resulting mandatory scheduled overhauls. In Q1 2014, repair activities in PKP CARGO Group remained at a high level (higher than in the same period of 2013.)

Infrastructural projects

Favourable changes in the tendering policies of the General Roads and Motorways Directorate, and beneficial weather conditions have contributed to construction work on infrastructural projects beginning earlier than in the same period of last year, causing a staggering 81% increase of aggregate and construction materials haulage in Q1 2014.

Situation on the coal market

Coal transport is a core freight group of the PKP CARGO Group, and the situation on the coal market has a major impact on the results achieved and on the market share. In Q1 2014, a relatively decreased demand for coal was recorded, resulting in major stocks of power plant coal (ca. 15 mln t), sitting in stockyards in mines (slightly above 6 mln t) and bunkers of power plants (9 mln t). Unfavourable prices on the world coal market determined poor domestic coal exports. As a result, coal freight turnover declined by 13% in comparison with Q1 2013.

4.7 Factors which, in the Issuer's opinion, will influence its financial results in the outlook of at least the next year quarter

PKP CARGO believes that the results of the Group's operations, in the outlook of at least one year quarter, will be predominantly influenced, as they have been in the past, by the following factors:

- The macroeconomic situation, both in Poland and in neighbouring countries,
- Economic climate in the energy, steelworking and construction industries;
- Seasonality and weather conditions;
- Scheduled overhauls of rolling stock.

4.8 Position of the Management Board regarding the feasibility of achieving previously published forecasts of results for the year

In accordance with information in the Prospectus, the present Management Board of PKP CARGO S.A. decided to not publish forecasts or estimates of results, which could be considered as forecasts.

5. Other information and events of Q1 2014

5.1 Material events reported which occurred in Q1 2014

Ending public offering of C-series shares of PKP CARGO S.A.

Subscriptions for C-series shares were accepted from entitled employees from 2 December 2013 to 28 February 2014. On 7 March 2014, allotment of shares ended.

The value of offering amounted to PLN 98,525,336 (1,448,902 C-series shares taken up at PLN 68.00 per share). Shares of the offering were allotted to 24,530 entitled employees and 14 inheritors of entitled employees.

Changes to the Statute of PKP CARGO S.A.

No changes to the Statute of PKP CARGO S.A. were made in the first quarter of 2014.

Signing of the significant agreement with PKP PLK S.A.

On 11 February 2014, an agreement was signed regarding access to railroad infrastructure for transportation of goods within the 2013/2014 train timetable, between PKP CARGO S.A. and PKP PLK S.A. The agreement is binding for the parties from 15 December 2013 to 13 December 2014.

The subject of the agreement is the infrastructure administrator affording the Company access to the line and railroad sections under management of PKP PLK for the purposes of the Company's implementation of the 2013/2014 train timetable. Pursuant to the agreement, PKP PLK provides basic services of minimum access to railroad infrastructure, which include, among others, preparation of the one-year timetable in agreement with the carrier, provision of access to railroad infrastructure in consistency with the assigned train routes, provision of access to traction network equipment, traffic management and provision, upon request of the Company, of train journey information, and basic services of access to train service equipment, and a range of ancillary services including provision of support in connection with non-standard loads and preparation, as well as assignment of additional trains.

Railway network access fees are charged pursuant to the Price list of unit rates for use of railroad infrastructure managed by PKP PLK, applicable as of 15 December 2013, approved by the Chairman of the Rail Transportation Authority by way of Decision no. DRRK-WKL-9110-11/2013 of 8 November 2013, and provisions of the By-laws of assignment of train routes and use of assigned train routes by licensed rail carriers within the framework of the 2013/2014 train timetable.

Changes in the Management Board of PKP CARGO S.A.

On 6 February 2014, the Supervisory Board of the Company, following the due qualification procedure, appointed Mr Adam Purwin, previously Member of the Management Board in Charge of Finance, to the position of the President of the Management Board of PKP CARGO S.A.

On 17 February 2014, Mr Sylwester Sigiel submitted resignation from the function of the Board Member in Charge of Commerce, effective as of the date of the Supervisory Board adopting the resolution of appointment of a new Board Member in Charge of Commerce.

On 26 February 2014, the Supervisory Board of PKP CARGO S.A adopted a resolution on initiation of qualification procedures for the following positions:

- Board Member in charge of Finance,
- Board Member in charge of Operations,
- Board Member in charge of Commerce,
- Board Member, Employees' Representative to the Management Board of PKP CARGO S.A.

The qualification procedure was conducted pursuant to the Regulations for Appointment of Members of the Management Board of PKP CARGO Spółka Akcyjna and Regulations for Selection of Candidates for Employees' Representative to the Management Board of PKP CARGO S.A, and Appointment of Employees' Representatives to the Supervisory Board of PKP CARGO S.A and the Manner of Dismissal.

The recruitment procedure was resolved in April 2014. On 24 April 2014, names of new Members of the Management Board were appointed and announced. Appointed to the Management Board were: Jacek Neska - Board Member in Charge of Commerce, Wojciech Derda - Board Member in Charge of Operations, Dariusz Browarek - Employees' Representative to the Management Board - Board Member, and, as of 12 May 2014, Łukasz Hadyś - Board Member in Charge of Finance.

Resolution of the Extraordinary General Meeting of the Company on stipulation of the rules and amount of remuneration of the President of the Management Board and Members of the Management Board of PKP CARGO S.A, and establishment of a non-competition rule

On 26 March 2014, the Extraordinary General Meeting of PKP CARGO S.A. passed Resolution no. 3/2014, which determined the principles and amount of remuneration of the President of the Management Board and Members of the Management Board of PKP CARGO S.A. The complete text of the Resolution is published on the website of PKP CARGO S.A.

5.2 Other events which occurred in Q1 2014

On 31 March 2014, the Management Board of PKP CARGO S.A. decided to launch the Management by Objectives Programme (MBO) as a component of the incentive system for the managing staff of PKP CARGO S.A. in order to improve effectiveness in the implementation of the Company's strategy. The Programme included about 250 senior and middle management executives.

6. Other information and events which occurred after the balance sheet date

6.1 Other material and reportable information and events which occurred after the balance sheet date

Announcement of the Ordinary General Meeting

On 11 April 2014, the Management Board of PKP CARGO S.A. passed a Resolution of convening an Ordinary General Meeting of PKP CARGO S.A. on 12 May 2014. The complete text of the announcement of Ordinary General Meeting is published on the website of PKP CARGO S.A.

Registration of the increase in the share capital

On 25 April 2014, the Management Board of PKP CARGO S.A. announced that the Company has received a ruling of the Regional Court for Warsaw in Warsaw, Commerce Department XII of the National Court Register of 25 April 2014, by which the amendment of the Company Statutes was registered. The amendment relates to the issue of C-series shares and increase of the Company's share capital.

The new wording of § 6(1) of the Statutes and § 6(6) of the Statutes:

„1. The share capital of the Company is PLN 2.239.345.850 (say: two billion two hundred and thirty nine million three hundred and forty five thousand eight hundred and fifty Polish zlotys) and is divided into:

- a) 43,338,000 (say: forty-three million three hundred and thirty-eight thousand) A series bearer shares of a nominal value of PLN 50 (say: fifty zlotys) each; and
- b) 15 (say: fifteen) B series bearer shares of a nominal value of PLN 50 (say: fifty zlotys) each;
- c) 1,448,902 (say: one million four hundred and forty-eight thousand nine hundred and two) C series registered ordinary shares of a nominal value of PLN 50 (say: fifty zlotys) each.”

„6. C series shares mentioned in item 1.3 are subject to prohibition of disposal over a period of two years after the date of first quotation of the Company's shares on the main market of the Warsaw Stock Exchange S.A. Upon expiry of the prohibition on shares disposal, C series shares are converted into bearer shares”.

Selection of the entity authorised to audit interim financial statements of the Company

On 27.03.2014, the Supervisory Board of the Company passed a resolution in which it selected KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp. k. as the entity authorised to audit interim financial statements of the Company and consolidated financial statements of the Company for the first half of the year 2014 and first half of 2015 under IFRS.

Signing of a significant contract with companies of the Arcelor Mittal Group

On 28 April 2014, PKP CARGO S.A. signed annexes to contracts of provision of rail freight services, signed on 20 April 2011 between PKP CARGO S.A. and companies of the Arcelor Mittal Group: ArcelorMittal Poland S.A., ArcelorMittal Warszawa Sp. z o.o. oraz ArcelorMittal Ostrava a.s., in force in the period between 1 July 2011 and 30 June 2014. The estimated value of the annexed contracts between 1 July 2014 and 30 June 2017 will amount to PLN 1.007.295,90 thousand. The contract of highest value is the contract with ArcelorMittal Poland S.A. ("Contract") with an estimated value of PLN 850.940,98 thousand. The subject of the Contract is provision of rail freight services by the Company to the other party of Contract. Annual volume of goods carried for the ArcelorMittal Group will amount to at least 11 million tonnes, and may reach 35 mln t within three years.

Signing of the Agreement with Trade Unions being party to the Collective Bargaining Agreement

In 9 April 2014, the Management Board of PKP CARGO S.A. signed an Agreement with Trade Unions being party to the CBA (Collective Bargaining Agreement), ending the collective dispute initiated by the statement of trade unions organisations of 10 June 2013. Commitments comprised in the aforementioned Agreement provide for disbursement of bonuses to employees of the Company in 2014 in an amount of PLN 225 to nearly 22 thousand employees, and implementation of a systemic raise in the amount of PLN 100, as of 1 August 2014. This also implements the provision stipulated in § 5 of the "Employee Guarantees Pact" signed on 2 September 2013, pertaining to effecting a yearly raise of employee remuneration within the period of the

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Pact. Signing of the compromise described above is a major event from the standpoint of maintaining social peace in PKP CARGO S.A., and proper relationships with the trade unions.

Resolution of the General Meeting on distribution of earnings in 2013 resulting from the Separate Financial Statements of PKP CARGO S.A. for the period from 1.01.2013 to 31.12.2013

In 12 of May 2014 the Ordinary General Meeting of Shareholders of PKP CARGO S.A. agreed to divide the profit after tax earned by PKP CARGO S.A. in the financial year of 2013 resulting from the statement of comprehensive income for the period from the first January two thousand and thirteen (01.01.2013) to the thirtieth first December two thousand and thirteenth (31.12.2013), established the dividend day and dividend payment day.

The Ordinary General Meeting of Shareholders of PKP CARGO S.A. decide, that the profit after tax earned by PKP CARGO S.A. in the financial year of 2013 amounting to PLN 94 083 (in words: ninety four million eighty three thousand), will be divided as follows:

- 1) the amount of PLN 86 556 464.15 shall be paid out as dividends for the shareholders.
- 2) the amount of PLN 7 526 649.06 shall be paid into the supplementary capital.

Additionally, the Ordinary General Meeting of Shareholders of PKP CARGO S.A. decided to allocate to dividend 50 939 371.04 (in words: fifty million nine hundred thirty nine thousand three hundred seventy one zloty four grosz) from retained earnings, which means the total amount of the dividend to be paid will account for PLN 137.5 mln.

The Ordinary General Meeting of Shareholders of PKP CARGO S.A. established 20 of May 2014 as a dividend day and 4 of June 2014 as the dividend payment day.

6.2 Other events past the balance sheet date

On 5 May 2014, the Management Board of PKP CARGO S.A. decided to consolidate entities included in the Company, as a result of which the ten establishments existing to date will be transformed into seven. The decision, previously announced in the share prospectus, will allow establishment of an efficient structure of the Company.

The structure assumes operation of seven establishments: Central (Mazovia-Podlasie combined with Central), Southern (Śląsko-Dąbrowski combined with Southern), Western (Wielkopolski combined with Zachodniopomorski.), Lower Silesian, Silesian, Eastern and Northern. In addition, borders of individual Establishments will change.

The main objective in the decision to adopt a new structure for PKP CARGO S.A. was the need to increase efficiency of Company management and the possibility to utilise its resources in an optimised manner.

Transportation will be performed in the area of a maximum of two Establishments, which will result in:

- streamlined operation of dispatching centres and train crews,
- faster deliveries and reaction to changes in the workload in sections,
- faster and more efficient movement of trains on main transport corridors,
- reduction of situations in which it is necessary to send electric locomotives between Establishments,
- elimination of unnecessary activities in train servicing.

7. Therefore, in order to better achieve the assumed objectives, PKP CARGO S.A. plans to implement a division-based restructuring process, which will allow streamlining of collaboration between the Headquarters and each Establishment. The process will be preceded by public consultation. Proceedings in court, in a body of arbitration or public administrative authorities

Initiated court proceedings

PKP CARGO is a party to court proceedings related to decisions of the Chairman of the Office of Competition and Consumer Protection (UOKiK) imposing cash penalties on the Company for abuse of dominant position. These are:

1. Fine in the amount of PLN 60.362.071,69, imposed in decision of the Chairman of UOKiK no. DOK-3/2009 of 07.07.2009. As a result of a ruling of the Supreme Court of 03.10.2013, ref. no. III SK 67/12, rulings of courts of 1st and 2nd instance were repealed. Therefore, the Chairman of UOKiK repaid the fine to PKP CARGO S.A. On 17 March 2014, the Court of Competition and Consumer Protection repealed the decision of the Chairman of UOKiK no. DOK-3/2009. The verdict is not final.
2. PKP CARGO S.A.'s appeal of the Decision of the Chairman of UOKiK no. RWR 44/2012 of 31.12.2012. The decision mentioned above states abuse by PKP CARGO S.A. of its dominant position on the domestic rail freight market by counteracting development of conditions necessary for emergence or development of competition, involving hindering of Majkoltrans sp. z o.o. company's possibility of competing with freight forwarding companies in the PKP CARGO Group, which led the Chairman of the UOKiK to imposing a fine of PLN 16.575.676,95. On 26 June 2014, PKP CARGO S.A. submitted a response to the letter of the Chairman of UOKiK to the Court of Competition and Consumer Protection (SOKiK), in which it applied for change of decision as a whole, by statement of not having found the practice in question being used. The decision of the UOKiK is not final. A date of hearing has not been specified by the SOKiK.
3. PKP CARGO S.A.'s appeal of the Decision of the Chairman of UOKiK no. DOK-4/2012 of 26.07.2012. In the decision in question, the Chairman of the UOKiK has stated default in execution of the Decision of the Chairman of UOKiK no. DOK 142/04 of 31.12.2004, and therefore imposed a fine of PLN 1.785.557,65. The decision of the UOKiK is not final. A date of hearing has not been specified by the SOKiK.

Initiated administrative proceedings

1. In March 2013, an investigation procedure was initiated by the UOKiK, for determining if, in connection with principles for providing access to railroad infrastructure and the rules for providing rail freight services, in particular the pricing policy applied by PKP CARGO S.A., provisions of the Competition and Consumer Protection Act of 16 February 2007 might be violated. The UOKiK Submitted queries as part of the investigation procedure and requested that information and clarifications be provided. PKP CARGO S.A. submitted the requested information.
2. On 28 May 2013, the President of the Railroad Transportation Authority (UTK) issued a decision, stating PKP CARGO S.A.'s infringement of the railroad industry regulation of Art. 5.3 of the Act on Railroad Transportation, consisting of PKP CARGO S.A. combining rail freight operations with actual performance of functions assigned to the railway infrastructure administrator. The President of the UTK set a deadline of 31.12.2013 for removal of the irregularities found. On 12 June 2013, PKP CARGO S.A. submitted a request to the President of the Railroad Transportation Authority for reconsideration of the matter. The procedure was extended until 29.11.2013. The procedure initiated by the request mentioned above ended in issue of UTK Decision of 31 December 2013, in which the President of the UTK maintained the UTK Decision of 28 May 2013, also with respect to the requirement to execute the decision by 31 December 2013. In both decisions, no fine has been imposed on PKP CARGO. On 14 February 2014, complaint was submitted by PKP CARGO S.A. to the Provincial Administrative Court in Warsaw, in which the Company appealed against the decision of the President of the UTK.
3. In 2012, the European Commission initiated an investigation procedure regarding the alleged anti-competitive behaviour of PKP CARGO S.A. in its railway services provided in Poland. To date, the European Commission has submitted one letter requesting information to be provided. On 21 September 2012, PKP CARGO S.A. submitted the requested information. At the same time, the Company informed the European Commission that the scope of the

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procedure being conducted largely overlaps the subject of the investigation procedure of the Railroad Transportation Authority, which is the Polish regulator of railroad transportation.

4. On 30.12.2013, a letter of the Wrocław office of the UOKiK was received by PKP CARGO S.A., which notified of investigation procedure being initiated for preliminary determination of whether the actions of PKP CARGO S.A. regarding the Majkoltrans company may infringe upon provisions of the Competition and Consumer Protection Act of 16 February 2007 (J.o.L. No. 50, item 331, as amended), in particular Art. 9 thereof. On 3 February 2014, the Company provided its responses to the aforementioned letter.

8. Information on transactions with associated entities

None of the entities in the PKP CARGO Group entered into transactions with associated entities in Q1 2014 on conditions other than arms' length terms. No such transactions were entered into after the balance sheet date.

9. Information about guarantees for credit or loans

No guarantees of loans or credit were issued by PKP CARGO S.A. in Q1 2014 - be it jointly to one entity or a subsidiary of such entity, with a total amount of existing guarantees being an equivalent of at least 10% of equity of PKP CARGO S.A.



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