PKP CARGO Capital Group consolidated semi-annual report for 1 half 2014

Warsaw, 28 August 2014

KPMG Audyt
Spółka z ograniczoną
odpowiedzialnością sp.k.
ul. Chłodna 51
00-867 Warszawa
Poland

Telefon +48 22 528 11 00
Fax +48 22 528 10 09
E-mail kpmg@kpmg.pl
Internet www.kpmg.pl

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

INDEPENDENT AUDITORS' REPORT ON REVIEW OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF PKP CARGO S.A. GROUP FOR THE PERIOD FROM 1 JANUARY 2014 TO 30 JUNE 2014

To the Shareholders of PKP CARGO S.A.

Introduction

We have reviewed the accompanying condensed interim consolidated financial statements of PKP CARGO S.A. Group ("the Group"), with its parent company's registered office in Warsaw, Grójecka 17 Street as at 30 June 2014 ("the condensed interim consolidated financial statements"), which comprise:

- the interim consolidated statement of financial position as at 30 June 2014,
- the interim consolidated statements of comprehensive income for the six- month period ended 30 June 2014,
- the interim consolidated statement of changes in equity for the six- month period ended 30 June 2014,
- the interim consolidated statement of cash flows for the six- month period ended 30 June 2014, and
- notes to the condensed interim consolidated financial statements.

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements of PKP CARGO S.A. Group as at 30 June 2014 are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnościa sp.k.
registration number 3546
ul. Chłodna 51,
00-867 Warsaw

Signed on the Polish original

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

27 August 2014

PKP CARGO LOGISTICS

Interim Condensed Consolidated Financial Statements of the PKP CARGO Capital Group for the period of 6 months ended 30 June 2014 prepared in accordance with IFRS as endorsed by the European Union

TABLE OF CONTENTS:

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2014 TO 30 JUNE 2014

	Note	for the 6 months period ended 30/06/2014 (unaudited)	for the 6 months period ended 30/06/2013 (unaudited)
		PLN thousand	PLN thousand
Continuing operations			
Sales revenue	4	2 053 326	2 152 674
Revenue from sales of goods and materials		23 655	114 049
Other operating revenue	6.1	22 847	24 507
Total operating revenue		**2 099 828**	**2 291 230**
Depreciation/amortization and impairment losses	5.1	181 540	185 959
Consumption of raw materials and supplies	5.2	313 806	335 539
External services	5.3	637 974	738 318
Taxes and charges		20 331	18 534
Employee benefits	5.4	724 799	739 585
Other expenses by kind		21 918	30 666
Cost of merchandise and raw materials sold		15 865	98 100
Other operating expenses	6.2	14 643	18 186
Total operating expenses		**1 930 876**	**2 164 887**
Profit on operating activities		**168 952**	**126 343**
Financial revenue	7.1	11 608	19 361
Financial expenses	7.2	16 477	41 217
Share in the profit of equity accounted associates	13	(435)	181
Profit on sales of shares in an associate	13	-	-
Profit before tax		**163 648**	**104 668**
Income tax expense	8.1.1	35 499	27 902
Net profit on continuing operations		**128 149**	**76 766**
Discontinued operations			
Net profit/(loss) on discontinued operations		-	-
NET PROFIT		**128 149**	**76 766**
Net profit/(loss) attributable to:			
Shareholders of the parent company		126 737	76 409
Non-controlling interest		1 412	357
		128 149	**76 766**
Earnings per share (PLN per share)			
Continuing operations (ordinary):	20.1	**2.86**	**1.76**
Continuing operations (diluted):	20.2	**2.83**	**1.76**

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2014 TO 30 JUNE 2014 (cont'd.)

	Note	for the 6 months period ended 30/06/2014 (unaudited)	for the 6 months period ended 30/06/2013 (unaudited)
		PLN thousand	PLN thousand
NET PROFIT		**128 149**	**76 766**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		**(1 043)**	**(1 177)**
The effective portion of changes in fair value of cash-flow hedging instruments		(1 288)	(1 453)
Income tax on other comprehensive income	8.1.2	245	276
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		-	-
		(1 043)	**(1 177)**
TOTAL COMPREHENSIVE INCOME		**127 106**	**75 589**
Total comprehensive income attributable to:			
Shareholders of the parent company		126 158	75 754
Non-controlling interest		948	(165)
		127 106	**75 589**

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 JUNE 2014

	Note	As at 30/06/2014 (unaudited)	As at 31/12/2013 (audited)
		PLN thousand	PLN thousand
ASSETS			
Non-current assets			
Property, plant and equipment	10	3 926 422	3 855 446
Intangible assets		58 052	61 395
Goodwill		2 712	2 712
Investment property		1 388	1 415
Investments accounted for under the equity method	13	33 625	38 214
Other long-term financial assets	15	6 051	6 090
Other long-term non-financial assets	16	1 675	1 438
Deferred tax assets	8.2	53 278	83 185
Total non-current assets		**4 083 203**	**4 049 895**
Current assets			
Inventory		74 340	76 041
Trade and other receivables	17	567 921	609 267
Income tax receivables		535	2 394
Other short-term financial assets	15	209 877	691 404
Other short-term non-financial assets	16	69 573	33 355
Cash and cash equivalents	18	339 371	263 700
		1 261 617	**1 676 161**
Assets held for sale	11	17 560	17 560
Total current assets		**1 279 177**	**1 693 721**
Total assets		**5 362 380**	**5 743 616**

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 JUNE 2014 (cont'd.)

	Note	As at 30/06/2014 (unaudited)	As at 31/12/2013 (audited)
		PLN thousand	PLN thousand
EQUITY AND LIABILITIES			
Equity			
Share capital	19.1	2 239 346	2 166 901
Share premium	19.2	625 802	692 761
Other items of equity		(16 971)	(16 392)
Retained earnings		584 961	603 247
Equity attributable to the shareholders of the parent company		**3 433 138**	**3 446 517**
Equity attributable to non-controlling interest		63 326	62 377
Total equity		**3 496 464**	**3 508 894**
Non-current liabilities			
Long-term bank loans and credit facilities	22	89 512	121 558
Long-term finance lease liabilities and leases with purchase option	23	236 827	313 136
Long-term trade and other liabilities	24	91 252	113 688
Long-term provisions for employee benefits	25	592 923	592 923
Other long-term provisions	26	9 307	22 854
Other long-term financial liabilities	27	-	-
Deferred tax provision	8.2	2 465	2 577
Total non-current liabilities		**1 022 286**	**1 166 736**
Current liabilities			
Short-term bank loans and credit facilities	22	64 502	73 217
Short-term finance lease liabilities and leases with purchase option	23	131 558	115 790
Short-term trade and other liabilities	24	528 958	675 841
Short-term provisions for employee benefits	25	94 047	176 461
Other short-term provisions	26	22 036	26 127
Other short-term financial liabilities	27	2 015	306
Income tax liability		514	244
		843 630	**1 067 986**
Liabilities directly related to non-current assets classified as held for sale		-	-
Total current liabilities		**843 630**	**1 067 986**
Total liabilities		**1 865 916**	**2 234 722**
Total equity and liabilities		**5 362 380**	**5 743 616**

INTERIM STATEMENT OF CHANGES IN CONSOLIDATED EQUITY FOR THE REPORTING PERIOD ENDED 30 JUNE 2014

	Share capital	Share premium	Actuarial gains/losses 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	-	-	-	-	76 409	**76 409**	357	**76 766**
Other net comprehensive income for the period	-	-	-	(655)	-	**(655)**	(522)	**(1 177)**
Total comprehensive income	-	-	-	(655)	76 409	**75 754**	(165)	**75 589**
Issuance of shares	-	-	-	-	-	**-**		**-**
Dividend payment	-	-	-	-	-	**-**		**-**
Other changes in equity	-	(4 852)	-	-	4 852	**-**		**-**
Balance as at 30/06/2013 (unaudited)	**2 889 200**	**117 921**	**(29 059)**	**(922)**	**241 208**	**3 218 348**	**71 913**	**3 290 261**
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	-	-	-	-	126 737	**126 737**	1 412	**128 149**
Other net comprehensive income for the period	-	-	-	(579)	-	**(579)**	(464)	**(1 043)**
Total comprehensive income	-	-	-	(579)	126 737	**126 158**	948	**127 106**
Issuance of shares	72 445	25 529	-	-	-	**97 974**	-	**97 975**
Dividend payment	-	-	-	-	(137 496)	**(137 496)**	-	**(137 496)**
Share based payment provision	-	(100 015)	-	-	-	**(100 015)**	-	**(100 015)**
Other changes in equity	-	7 527	-	-	(7 527)	**-**	-	**-**
Balance as at 30/06/2014 (unaudited)	**2 239 346**	**625 802**	**(16 182)**	**(789)**	**584 961**	**3 433 138**	**63 326**	**3 496 464**

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY 2014 TO 30 JUNE 2014 [INDIRECT METHOD]

	Note	for the 6 months period ended 30/06/2014 (unaudited)	for the 6 months period ended 30/06/2013 (unaudited)
		PLN thousand	PLN thousand
Net cash flows from operating activities			
Profit before tax		**163 648**	**104 668**
Adjustments:			
Depreciation and amortization of non-current assets	5.1	181 540	186 761
Impairment of assets	5.1	-	(802)
(Gain)/ Loss on disposal of property, plant and equipment and intangible assets		5 213	11 601
(Profit)/loss on investing activities		(8)	-
Foreign exchange (gains)/losses		643	17 436
(Gains)/losses on interest, dividends		4 280	(1 806)
Share in the (profit)/loss of equity accounted associates		435	(181)
Profit/(loss) on sales of an associate		-	-
Other adjustments		(1 287)	(1 453)
Changes in working capital:			
(Increase)/decrease in trade and other receivables		34 624	12 946
(Increase)/decrease in inventory		1 702	(2 578)
(Increase)/decrease in other assets		(35 828)	(29 430)
Increase/(decrease) in trade and other liabilities		(120 214)	(6 220)
Increase / (decrease) in other financial liabilities		1 709	4 001
Increase / (decrease) in provisions		(100 052)	(2 988)
Cash flows from operating activities		**136 405**	**291 955**
Interest received/(paid)		2 114	3 244
Income taxes received/(paid)		(3 329)	(2 232)
Net cash provided by operating activities		**135 190**	**292 967**

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY 2014 TO 30 JUNE 2014 [INDIRECT METHOD] (cont'd.)

	Note	for the 6 months period ended 30/06/2014 (unaudited) PLN thousand	for the 6 months period ended 30/06/2013 (unaudited) PLN thousand
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets	10	(309 891)	(209 807)
Proceeds from sale of property, plant and equipment and intangible assets		839	1 076
Proceeds from sale of other financial assets		-	38
Interest received		15 066	14 842
Dividend received		269	906
Repayment of loans granted		-	51 556
Other proceeds/(acquisitions) on investing activities [(1)]		478 215	50 106
Net cash (used in) / provided by investing activities		**184 498**	**(91 283)**
Cash flows from financing activities			
Proceeds from issuance of shares		-	-
Payments of liabilities under finance lease		(62 774)	(57 922)
Payments of interest under lease agreement		(6 421)	(8 535)
Proceeds from credit/loans received		-	728
Repayments of credit facilities/loans received		(32 039)	(58 140)
Repayments of interest on credit facilities/loans received		(3 261)	(5 740)
Repayments of overdraft facilities		(8 723)	-
Grants received		11 390	-
Dividends paid to shareholders of the Parent company		(137 496)	-
Other inflows/(outflows) from financing activities		(4 693)	(5 244)
Net cash used in financing activities		**(244 017)**	**(134 922)**
Net increase/(decrease) in cash and cash equivalents		75 671	66 762
Opening balance of cash and cash equivalents	18	263 700	188 008
Effects of exchange differences on the balance of cash denominated in foreign currency		-	-
Closing balance of cash and cash equivalents	**18**	**339 371**	**254 770**

[(1)] Other inflows / (outflows) from investing activities represent mainly a decrease in short-term deposits over 3 months, which are classified as short-term financial assets in the amount of PLN 398,601 thousand, and the impact of receivables from Employee Guarantee Program representing employee share based payments in the amount of PLN 79,614 thousand. The above mentioned positions are disclosed in Note 15.

EXPLANATORY NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATAMENTS PREPARED AS AT 30 JUNE 2014

1. General information

1.2 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 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 interim 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 Finance Matters
Wojciech Derda	-	Member of the Management Board, responsible for Operation Matters
Dariusz Browarek	-	Member of the Management Board, Employees representative in the Management Board

Supervisory Board:

Jakub Karnowski	-	Chairman
Piotr Ciżkowicz	-	Vice-Chairman
Krzysztof Czarnota	-	Member
Marek Podskalny	-	Member
Kazimierz Jamrozik	-	Member
Konrad Anuszkiewicz	-	Member
Stanisław Knaflewski	-	Member
Paweł Ruka	-	Member
Jarosław Pawłowski	-	Member
Łukasz Górnicki	-	Member
Jacek Leonkiewicz	-	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 Febuary 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.

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

On 24 April 2014 the Company's shareholder - PKP SA dismissed from the Supervisory Board Ms. Danuta Tyszkiewicz (effective from 25 April 2014) and on 26 April 2014 appointed the Members of the Supervisory Board Mr. Jarosław Pawłowski and Mr. Łukasz Górnicki.

On 27 June 2014 Ms. Milena Pacia has resigned from the position of the Supervisory Board Member. The resignation is effective from 27 June 2014.

On 29 July 2014 the Company's shareholder – PKP S.A. dismissed from the Supervisory Board Mr. Artur Kawaler and appointed as the Supervisory Board Members Mr. Piotr Ciżkowicz and Jacek Leonkiewicz with effect from 29 July 2014.

The Parent company's shareholder's structure as at 30 June 2014:

Entity	Registered office	Number of shares	% of share capital held	% of voting rights
PKP S.A.(1)	Warsaw	14 784 194	33.01%	33.01%
ING OFE (2)	Warsaw	4 738 369	10.58%	10.58%
Morgan Stanley (3)	New York	2 380 008	5.31%	5.31%
EBRD (4)	London	2 286 008	5.10%	5.10%
Other shareholders		20 598 338	46.00%	46.00%
Total		**44 786 917**	**100.00%**	**100.00%**

(1) In accordance with the notice sent by shareholder dated 24 June 2014

(2) In accordance with the notice sent by shareholder dated 30 June 2014

(3) In accordance with the notice sent by shareholder dated 18 June 2014. The total number of shares held by Morgan Stanley amounts to 14.916 shares and indirectly held by its subsidiary Morgan Stanley Investment Management Inc. amounts to 2,365,092 shares.

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

1.2 Information on the Capital Group

As at the reporting date the PKP Cargo Capital Group ("the Group") comprised of PKP CARGO S.A. as the Parent company and 15 subsidiaries. Additionally the Group also includes 8 associates and shares in 3 joint ventures. As a result of the merger process of subsidiaries, since 1 July 2014 the Capital Group has comprised of 14 subsidiaries. The information about the merger process of subsidiaries is presented in Note 12.
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.

The core business of the PKP CARGO Capital Group is rail transport of goods. In addition to the rail transport services, PKP CARGO Capital Group offers additional services:

a) intermodal services,
b) spedition (national and international),
c) terminals (handling and storage of goods),
d) siding services.

PKP CARGO Capital Group occupies also with repair and maintenance of rolling stock.

1.3 Functional and presentation currency

These interim condensed consolidated financial statements have been prepared in the Polish zloty (PLN). The Polish zloty (PLN) is the Parent Company'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

2.2 Statement of compliance

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

The Parent company keeps its 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 as endorsed by the European Union ("IFRS EU").

2.1. Standards and interpretations issued for the first time in 2014

The following amendments to existing standards issued by the International Accounting Standards Board and adopted by European Union are effective since 2014:

- **IFRS 10 „Consolidated Financial Statement"**, 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"** – compensation of 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"** (amendment of derivatives and hedge accounting) – applicable to the annual periods beginning on or after 1 January 2014,
- Amendments to **IAS 36 „Impairment of Assets"** (disclosures of recoverable amount for non-financial assets) - applicable to the annual periods beginning on 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.

2.2. Standards and Interpretations issued by European Union, but not yet effective

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

- **Interpretation to IFRIC 21 „Levies"** - applicable to the annual periods beginning on or later 17 June 2014 (effective date specified by the IASB is 1 January 2014).

The Parent Company anticipates that adoption of these standards, amendments to the existing standards and interpretations will not have 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 30 June 2014:

- **IFRS 9 „Financial instruments"** – applicable to the annual periods beginning on or after 1 January 2018,
- **Amendments to IFRS 9 „Financial instruments" and IFRS 7 „Financial instruments: Disclosures", (**available for application, no mandatory effective date set),
- **Amendments to IAS 19 "Employee benefits"** (Defined Benefit Plans: Employee Contributions), applicable to annual periods beginning on or after 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 reporting periods beginning on or after 1 July 2014,
- **Improvements to IFRS for the 2011 – 2013**, contain 4 amendments to standards with consequential amendments to other standards and interpretations, applicable to the reporting periods beginning on or after 1 July 2014,
- **IFRS 14 „Regulatory Deferral Accounts"**, applicable to the annual periods beginning on 1 January 2016.
- **Recognition of the acquisition of shares in joint activities (Amendment to IFRS 11 „Joint Arrangements")** - applicable to the annual periods beginning on 1 January 2016,
- **Explanations in terms of acceptable methods of depreciation and amortization (Amendment to IAS 16 „Property, Plant and Equipment" and IAS 38 „Intangible Assets** applicable to the annual periods beginning on 1 January 2016,
- **IFRS 15 "Revenue from contracts with customers"** - applicable to the annual periods beginning on 1 January 2017.

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 Interim Condensed Consolidated Financial Statements were prepared under the going concern assumption. As at the date of preparation of these Interim Condensed Consolidated 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 Interim Condensed Consolidated Financial Statements have been prepared in accordance with the International Accounting Standard 34 – Interim Financial Reporting ("IAS 34") and in accordance with accounting standards applicable to interim financial reporting adopted by the European Union, issued and effective at the time of preparation these Interim Condensed Consolidated Financial Statements. The foregoing Interim 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.

These Interim Condensed Consolidated Financial Statements should be read along with audited financial statements of PKP Cargo S.A. for the year ended 31 December 2013, prepared in accordance with International Financial Reporting Standards as endorsed by the European Union (IFRS EU), that include notes "Financial Statement prepared in accordance to IFRS EU".
Interim Condensed Consolidated Financial Statements consist of the consolidated statement of comprehensive income, consolidated statement of financial position, statement of changes in consolidated equity, consolidated statement of cash flows and explanatory notes to the financial statements.

3.3. Statement of accounting principles

The accounting principles and calculations methods adopted in the preparation of interim condensed consolidated financial statements are consistent with those described in audited financial statements for the year ended 31 December 2013 prepared in accordance with IFRS EU (see note 3 to consolidated financial statement prepared for the year ended 31 December 2013, prepared in accordance with IFRS EU.)

3.4. Explanations concerning seasonality or cyclicality of interim Group operations

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

3.5. Changes in estimates

During the six months period ended 30 June 2014 there were no significant changes in estimates and methodology of making estimates that would affect the current 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 Interim Condensed Consolidated Financial Statements,
- Provision for unused holidays - provision has been calculated as of the unused leave at the date 30 June 2014, the effect of the conversion is presented in note 25 of the Interim Condensed Consolidated Financial Statements.

4. Operating segments

4.1. Products and services of the operating segment

The Group has not determined operating segments since it has a single product to which all services provided by 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 the Parent company analyzes financial data in a manner in which they have been presented in the Interim Condensed Consolidated Financial Statements.
Group's revenues gained from external customers accordingly to geographical areas presents 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 for 6 months periods ended 30 June 2014 and 30 June 2013 do not exceed 15% of revenue grand total. 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 6 months period ended 30/06/2014	for the 6 months period ended 30/06/2013
	PLN thousand	PLN thousand
Poland	1 753 694	1 826 951
Germany	86 997	113 419
Czech Republic	45 334	50 408
Slovakia	43 679	59 174
Cyprus	39 668	26 491
Other countries	83 954	76 231
Total	**2 053 326**	**2 152 674**

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 the 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 Capital Group.

	for the 6 months period ended 30/06/2014	for the 6 months period ended 30/06/2013
	PLN thousand	PLN thousand
Transport revenue and railway shipping	1 874 532	1 960 422
Revenue from other transport activities	54 523	56 483
Siding and traction revenue	76 437	79 032
Cargo revenues	22 247	18 192
Other revenue [1]	25 588	38 545
Total	**2 053 326**	**2 152 674**

[1] The position of other revenue for 6 months period ended 30 June 2014 presents mainly revenue arising from renting of railroad fleet of PLN 7,802 thousand, revenue from repair services of railroad fleet of PLN 6,347 thousand and PLN 4,900 thousand revenues from customs agency services and other. For the same period in 2013 this position presents revenue of PLN 10,615 thousand from renting of railroad fleet, PLN 10,813 thousand revenue from repair services of railroad fleet, PLN 6,777 thousand revenue from comprehensive support in extraction of chalk and PLN 4,157 thousand revenue from customs agency services and other.

5. Operating expenses

5.1. Depreciation and amortization

	for the 6 months period ended 30/06/2014	for the 6 months period ended 30/06/2013
	PLN thousand	PLN thousand
Depreciation of property, plant and equipment	172 211	175 500
Amortization of intangible assets	8 829	11 261
Impairment losses recognized / (derecognized):		
Property, plant and equipment	-	(1 886)
Non-current assets held for sale	-	1 084
Total depreciation/amortization	**181 540**	**185 959**

5.2. Consumption of raw materials and energy

	for the 6 months period ended 30/06/2014	for the 6 months period ended 30/06/2013
	PLN thousand	PLN thousand
Fuel consumption	102 090	100 261
Consumption of materials	23 817	29 844
Electricity, gas and water consumption	189 629	211 818
Impairment losses recognized / (derecognized)	(2 700)	(7 179)
Other	970	795
Total consumption of materials and energy	**313 806**	**335 539**

5.3. External services

	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Access to infrastructure connections	326 541	444 911
Repair services	7 506	6 129
Rent and lease fees (real estate and railroad fleet)	82 240	75 891
Transport services	141 383	127 503
Telecommunication services	5 912	8 366
Legal, advisory and similar services	6 963	6 137
IT services	23 478	23 911
Services related to property maintenance and operation of tangible assets	17 735	17 154
Cargo services	8 740	8 443
Siding services	12 010	7 591
Other services	5 466	12 282
Total external services	**637 974**	**738 318**

5.4. Employee benefit

	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Salaries and wages	545 896	553 723
Costs of social insurance	109 141	111 056
Appropriation to the Company's Social Benefits Fund	16 545	16 744
Other employee benefits	21 053	19 090
Other post-employment benefits	5 990	3 462
Changes in provision for employee benefits	25 608	34 241
Other employee benefit costs	566	1 269
Total employee benefit	**724 799**	**739 585**

6. Other operating revenue and expenses

6.1. Other operating revenue

	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Gains on disposal of assets:		
Gains on sales of non-current assets	-	829
	-	829
Derecognized impairment losses:		
Trade receivables	1 737	2 824
Other (including interest on receivables)	492	1 334
	2 229	4 158
Other operating revenue:		
Release of provisions for the fine imposed by OCCP	14 362	9 945
Release of provisions for other fines	3 406	1 739
Interest on trade and other receivables	1 002	1 428
Forex gains on trade receivables and liabilities	-	4 071
Grants	37	-
Other	1 811	2 337
Other operating revenue total	**22 847**	**24 507**

6.2. Other operating expenses

	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Losses on disposal of assets:		
Loss on sales of non-current assets	1 504	-
	1 504	-
Recognized impairment losses:		
Trade receivables	3 865	1 286
Other (including on interest on receivables)	321	91
	4 186	1 377
Other operating expense:		
Costs of liquidation of non-current and current assets	4 740	13 855
Provisions for other fines	800	88
Court and collection costs	369	383
Costs of transport benefits for non-employees	1 486	1 223
Interest on trade and other liabilities	19	167
Forex losses on trade receivables and liabilities	129	-
Trade receivables written off	-	5
Other	1 410	1 088
Other operating expenses total	**14 643**	**18 186**

7. Financial revenue, financial expenses

7.1. Financial revenue

Interest revenue by class of financial instruments:	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Interest income:		
Bank deposits and accounts	10 635	16 026
Bid bonds and collateral	168	201
Loans granted	15	1 146
Other	198	460
	11 016	17 833
Dividends from capital investments	-	-
Total interest income and dividend	**11 016**	**17 833**

Interest revenue by category of financial instruments:	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Interest income:		
Loans and receivables (including cash in hand and bank deposits)	10 818	17 372
Other	198	461
	11 016	17 833
Revenue from dividend earned on shares	-	-
Total interest income and dividend	**11 016**	**17 833**
Other financial revenue		
Gain on shares	-	-
	-	**-**
Gains on measurement of financial assets and liabilities at FVTPL	-	-
Other financial revenue:		
Net forex gain	-	672
Other	592	856
Total financial revenue	**11 608**	**19 361**

7.3. Financial expenses

Interest expense by class of financial instruments:	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Interest expense:		
Interest on loans and overdraft facilities	3 261	5 740
Interest on liabilities under finance lease agreements	6 421	8 535
Interest on long-term liabilities	4 143	5 244
Interest on bid bonds and guarantees	223	171
Other	283	594
Total interest expense	**14 331**	**20 284**

Interest expense by category of financial instruments:	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Interest expense:		
Financial liabilities measured at amortized cost	14 048	19 690
Other	283	594
Total interest expense	**14 331**	**20 284**
Other financial expenses		
Losses on shares:		
Recognized impairment losses on shares	9	-
	9	**-**
Losses on measurement of financial assets and liabilities at FVTPL	941	2 831
Other financial expenses:		
Net forex loss	736	17 441
Other financial expenses	460	661
Total financial expenses	**16 477**	**41 217**

8. Income tax on continuing operations

Income tax recognized in profit or loss

	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Current income tax:		
Current tax expense	6 084	2 902
Adjustments recognized in the current period with respect to prior year tax	(625)	(34)
	5 459	**2 868**
Deferred income tax:		
Deferred tax that occurred in the reporting period	30 040	25 034
	30 040	**25 034**
Total tax expense on continued operations recognized in the current year	**35 499**	**27 902**

Income tax recognized in other comprehensive income

	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 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	(245)	(276)
	(245)	**(276)**
Due to income and expenses reclassified from equity to profit or loss	-	-
Income tax recognised in other comprehensive income	**(245)**	**(276)**

The decrease of the effective tax rate for 6 months period ended 30 June 2014 in comparison to the same period in 2013 results mainly from occurrence higher tax-free revenues in current period, in particular, revenues from release of provisions.

Deferred income tax:

For the 6 months period ended 30/06/2014	As at 31/12/2013 PLN thousand	Recognized in profit or loss PLN thousand	Recognized in other comprehensive income PLN thousand	As at 30/06/2014 PLN thousand
Temporary differences resulting in items of deferred tax (liabilities) / assets:				
Property, plant and equipment (including lease)	(155 333)	(37 913)	-	(193 246)
Long-term liabilities	(3 031)	786	-	(2 245)
Inventory - impairment allowance	4 364	(514)	-	3 850
Receivables - impairment allowance	9 042	(2 219)	-	6 823
Accrued interest on assets	(2 374)	1 901	-	(473)
Accrued interest on liabilities	1	(1)	-	-
Provisions for employee benefits	165 191	(34 288)	-	130 903
Other provisions	4 381	(1 102)	-	3 279
Accrued expenses	5 654	(1 192)	-	4 462
Deferred revenue	(2 665)	(4 529)	-	(7 194)
Unpaid employee benefits	9 050	(1 385)	-	7 665
Forex losses	9 354	(1 846)	-	7 508
Forex gains	(7)	(5)	-	(12)
Other (including hedging derivatives)	1 754	(1 806)	245	193
Total	**45 381**	**(84 113)**	**245**	**(38 487)**
Unused tax losses and other reliefs				
Tax losses [(1)]	35 227	54 073	-	89 300
Total	**35 227**	**54 073**	**-**	**89 300**
Total deferred tax assets (liabilities)	**80 608**	**(30 040)**	**245**	**50 813**

[(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 PLN 269 million that expires in 2019, and subsidiaries' tax losses in amount of PLN 19.5 million that expires in years 2018-2019.

8.1. Deferred income tax (cont'd.):

For the 6 months period ended 30/06/2013	As at 31/12/2012	Recognized in profit or loss	Recognized in other comprehensive income	As at 30/06/2013
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Temporary differences resulting in items of deferred tax (liabilities) / assets:				
Property, plant and equipment (including lease)	(106 472)	(25 098)	-	(131 570)
Intangible assets	-	-	-	-
Investment property	-	-	-	-
Financial assets held for sale	-	-	-	-
Long-term liabilities	(4 718)	597	-	(4 121)
Inventory - impairment allowance	4 830	(1 399)	-	3 431
Receivables - impairment allowance	8 001	(793)	-	7 208
Accrued interest on assets	(3 399)	784	-	(2 615)
Accrued interest on liabilities	5	(1)	-	4
Provisions for employee benefits	135 468	1 648	-	137 116
Other provisions	2 318	(333)	-	1 985
Accrued expenses	482	2 194	-	2 676
Deferred revenue	(836)	(9 709)	-	(10 545)
Unpaid employee benefits	7 673	(427)	-	7 246
Forex losses	12 487	1 408	-	13 895
Forex gains	(11)	(416)	-	(427)
Other (including hedging derivatives)	1 938	700	276	2 914
Total	**57 766**	**(30 845)**	**276**	**27 197**
Unused tax losses and other reliefs				
Tax losses	43 197	5 811	-	49 008
Total	**43 197**	**5 811**	**-**	**49 008**
Total deferred tax assets (liabilities)	**100 963**	**(25 034)**	**276**	**76 205**

Unrecognized deferred tax asset and unused tax reliefs

	As at 30/06/2014	As at 31/12/2013
	PLN thousand	PLN thousand
As at the reporting date, the following deferred tax assets remained unrecognized:		
- Unused tax losses [(1)]	9 348	14 885

[(1)] As at 30 June 2014 tax losses unrecognised in deferred tax asset represents mainly the tax loss of companies PKP CARGOLOK Sp. z o.o. of PLN 3,784 thousand, PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o. of PLN 4,079 thousand and Cargosped Terminal Braniewo of PLN 1,485 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.

9. Discontinued operations

In the six months period ended 30 June 2014 and 30 June 2013 the Group did not discontinue any operations that would require recognition herein.

10. Property, plant and equipment

Carrying amounts:	As at 30/06/2014 PLN thousand	As at 31/12/2013 PLN thousand
Land	141 739	141 739
Buildings, premises, civil and water engineering structures	512 585	505 168
Technical equipment and machinery	123 595	134 361
Vehicles	3 120 203	3 034 047
Other fixed assets	8 450	9 935
Fixed assets under construction	19 850	30 196
Total	**3 926 422**	**3 855 446**

Including finance lease:	As at 30/06/2014 PLN thousand	As at 31/12/2013 PLN thousand
Technical equipment and machinery	15 321	18 895
Vehicles	334 046	349 008
Other fixed assets	-	43
Total	**349 367**	**367 946**

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

For the 6 months period ended 30 June 2013	Land PLN thousand	Buildings, premises, civil and water engineering structures PLN thousand	Technical equipment and machinery PLN thousand	Vehicles PLN thousand	Other fixed assets PLN thousand	Total PLN thousand
Gross value						
Balance as at 1 January 2013	**115 053**	**511 809**	**263 885**	**4 116 823**	**30 787**	**5 038 357**
Increases						
Acquisition	-	1 590	7 542	143 541	1 332	**154 005**
Finance leases	-	-	5 176	4 696	-	**9 872**
Contribution in kind	-	-	-	-	-	**-**
Other	-	-	1 682	74	855	**2 611**
Decreases						
Sales	-	(27)	(494)	(483)	(69)	**(1 073)**
Contribution in kind	-	-	-	-	-	**-**
Liquidation	-	(1 651)	(1 367)	(72 897)	(114)	**(76 029)**
Reclassification to assets held for sale	(6 489)	(85)	(2 191)	(15 577)	(92)	**(24 434)**
Other	-	-	(838)	(773)	(1 634)	**(3 245)**
Balance as at 30 June 2013	**108 564**	**511 636**	**273 395**	**4 175 404**	**31 065**	**5 100 064**

For the 6 months period ended 30 June 2014	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
Gross value						
Balance as at 1 January 2014	**142 430**	**600 987**	**290 583**	**4 235 250**	**31 926**	**5 301 176**
Increases						
Acquisition	-	19 026	6 606	232 808	457	**258 897**
Finance leases	-	-	-	-	-	**-**
Contribution in kind	-	-	-	-	-	**-**
Other	-	194	208	2	-	**404**
Decreases						
Sales	-	-	(181)	(1 522)	(46)	**(1 749)**
Contribution in kind	-	-	-	-	-	**-**
Liquidation	-	(9 602)	(1 711)	(97 263)	(66)	**(108 642)**
Reclassification to assets held for sale	-	-	-	-	-	**-**
Other	-	-	(313)	(494)	(393)	**(1 200)**
Balance as at 30 June 2014	**142 430**	**610 605**	**295 192**	**4 368 781**	**31 878**	**5 448 886**

For the 6 months period ended 30 June 2013	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**
Increases						
Depreciation charges	-	7 320	13 881	151 634	2 665	**175 500**
Business combination	-	-	-	-	-	**-**
Other	-	-	975	32	680	**1 687**
Decreases						
Sales	-	(8)	(347)	(293)	(60)	**(708)**
Contribution in kind	-	-	-	-	-	**-**
Liquidation	-	(807)	(966)	(61 442)	(101)	**(63 316)**
Reclassification to assets held for sale	-	(6)	(906)	(3 011)	(55)	**(3 978)**
Other	-	-	(680)	(769)	(981)	**(2 430)**
Balance as at 30 June 2013	**-**	**76 210**	**141 577**	**1 127 920**	**20 878**	**1 366 585**

For the 6 months period ended 30 June 2014	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**
Increases						
Depreciation charges	-	11 722	16 165	142 932	1 892	**172 711**
Other	-	-	131	-	-	**131**
Decreases						
Sales	-	-	(108)	(1 495)	(18)	**(1 621)**
Contribution in kind	-	-	-	-	-	**-**
Liquidation	-	(911)	(707)	(93 766)	(65)	**(95 449)**
Reclassification to assets held for sale	-	-	-	-	-	**-**
Other	-	-	(106)	(296)	(372)	**(774)**
Balance as at 30 June 2014	-	**95 330**	**171 597**	**1 248 578**	**23 428**	**1 538 933**

For the 6 months period ended 30 June 2013	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 impairment						
Balance as at 1 January 2013	**-**	**-**	**-**	**1 886**	**-**	**1 886**
Increases						
Impairment recognition	-	-	-	-	-	**-**
Other	-	-	-	-	-	**-**
Decreases						
Impairment derecognition	-	-	-	(1 886)	-	**(1 886)**
Reclassification to assets held for sale	-	-	-	-	-	**-**
Other	-	-	-	-	-	**-**
Balance as at 30 June 2013	**-**	**-**	**-**	**-**	**-**	**-**

For the 6 months period ended 30 June 2014	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 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 (allowance used)	-	(8 610)	-	-	-	**(8 610)**
Balance as at 30 June 2014	**691**	**2 690**	**-**	**-**	**-**	**3 381**

Fixed assets under construction	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Opening balance	**31 996**	**30 473**
Increases	251 439	161 861
Grants to property, plant and equipment	(2 538)	-
Decreases - transfer to non-current assets	(258 897)	(163 877)
Decreases - discontinued investments	(350)	-
Closing balance	**21 650**	**28 457**

Accumulated impairment of fixed assets under construction	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Opening balance	**1 800**	**-**
Increases	-	-
Decreases	-	-
Closing balance	**1 800**	**-**

The amount of expenditures on property, plant and equipment incurred in 1 half of 2014 amounted to PLN 309,891 thousand, while in the same period of prior year of PLN 209,807 thousand.
The amount of expenditures on property, plant and equipment is higher in comparison to additions to property, plant and equipment mainly due to repayment of long term investment liabilities on modernization of railroad fleet by the Parent company.

11. Non-current assets classified as held for sale

Non-current assets classified as held for sale	As at 30/06/2014 PLN thousand	As at 30/06/2013 PLN thousand
Land held for sale	4 995	4 995
Vehicles	12 565	12 565
Total	**17 560**	**17 560**
Liabilities related directly to non-current assets classified as held for sale	-	-

As at 30 June 2014 and 31 December 2013 the Group had some redundant non-current assets and decided to sell them. Non-current assets classified as held for sale consisted of 77 engines which, due to technical consumption, are not in use, and 3 land properties. Engines will be sold at auctions held by the Company for the purpose of scrapping them by the purchaser.

12. Subsidiaries

Detailed information regarding subsidiaries as at 30 June 2014 and 31 December 2013:

No.	Name of subsidiary	Core business	Place of registration and operation	% of interests and voting rights held by PKP CARGO S.A.	
				As at 30/06/2014	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. (1)	Repair and maintenance of railroad	Zduńska Wola	100.0%	100.0%
6	PKP CARGO International a. s. with its seat in Bratislava (3)	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. (1)	Repair and maintenance of railroad fleet	Warsaw	100.0%	100.0%
9	PKP CARGOLOK Sp. z o.o. (2)	Repair and maintenance of railroad fleet	Warsaw	100.0%	100.0%
10	CARGOTOR Sp. z o.o. (4)	Management of logistics infrastructure including railway sidings and tracks	Warsaw	100.0%	100.0%

(1) On 2 June 2014 the Extraordinary General Shareholders Meetings of PKP CARGOWAG Sp. z o.o. and PKP CARGO TABOR-KARCZNICE Sp. z o.o. adopted resolutions to take-over of subsidiary PKP CARGO TABOR-KARSZNICE Sp. z o.o. in Zduńska Wola by PKP CARGOWAG Sp. z o.o. in Warsaw. The take-over was proceeded under Article 492 § 1 of the Commercial companies code, i.e. by transfer of all property from entity to acquiring company. The take-over was registered by the National Register Court on 1 July 2014. From 1 July 2014 PKP CARGOWAG Sp. z o.o operates under the name of PKP CARGOTABOR Sp. z o.o with its registered office in Warsaw, 100% of the share capital of the company belongs to the PKP CARGO S.A.

(2) On 1 July 2014 an agreement was concluded for the sale of company between PKP CARGOLOK Sp. z o.o and PKP CARGOTABOR Sp. z o.o. The information is disclosed in Note 32.

(3) 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.

(4) 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 follow:

	Name of subsidiary	Core business	Place of registration and operation	% of interests and voting rights held by PS Trade Trans Sp. z o.o. (nominal value)	
				As at 30/06/2014	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%

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

	Name of subsidiary	Core business	Place of registration and operation	% of interests and voting rights held by the Cargosped Sp. z o.o. (nominal value)	
				As at 30/06/2014	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 6 months period ended 30/06/2014	for the 6 months period ended 30/06/2013
	PLN thousand	PLN thousand
Opening balance	**38 214**	**60 514**
Share in (losses) / profits of investments accounted for under the equity method	(435)	181
Changes in equity arising from dividend payment	(1 051)	(529)
Change in method of consolidation of investments that were accounted for under the equity method to full method [1)]	(3 103)	-
Closing balance	**33 625**	**60 166**

[(1)] Because of the fact that as at 30 June 2014, CARGOTOR Sp. z o.o. has met the criteria defined in the accounting principles applied by the PKP Cargo Capital Group, this entity was consolidated using the full method in these interim condensed consolidated financial statements. As at 31 December 2013 CARGOTOR Sp. z o.o. was accounted for using the equity method in the consolidated financial statements of PKP Cargo Capital Group.

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

Name of entity accounted for under the equity method	% if interests and voting rights held by the Group		Carrying amount of assets	
	As at 30/06/2014	As at 31/12/2013	As at 30/06/2014	As at 31/12/2013
	%	%	PLN thousand	PLN thousand
COSCO POLAND Sp. z o.o.	20.0	20.0	1 126	1 128
Pol – Rail S.r.l	35.7	35.7	5 407	5 740
PKP CARGO INTERNATIONAL a.s. [1)]	51.0	51.0	-	-
CARGOTOR Sp. z o.o. [2), 3)]	100.0	100.0	-	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	20 196	21 000
Trade Trans Karya Sp. z o.o.	33.5	33.5	135	334
Transgaz S.A.	35.5	35.5	3 723	3 990
Trade Trans Finance Sp. z o.o.	55.6	55.6	290	529
PPHU "Ukpol" Sp. z o.o. [4)]	41.7	41.7	-	-
Rail Cargo Spedition GmbH	20.9	20.9	880	869
RENTRANS Cargo Sp. z o.o. (Szczecin)	15.2	14.7	1 428	1 075
TI Ferest Cargo Service Sp. z o.o. (Rail Cargo Service Sp. z o.o. Wrocław)	11.1	11.1	140	160
SC TRADE TRANS TERMINAL SRL [4)]	13.2	13.2	-	-
Gdański Terminal Kontenerowy S.A.	41.9	41.9	300	286
TOTAL			**33 625**	**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 its seat in Bratislava and conduct its liquidation, therefore, the Parent company has recognised an impairment allowance on shares and written down their value 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. As at 30 June 2014, the entity is consolidated under the full method.

[(3)] Because of the fact that as at 30 June 2014, CARGOTOR Sp. z o.o. has met the criteria defined in the accounting principles applied by the PKP Cargo Capital Group, this entity was consolidated using the full method in these interim condensed consolidated financial statements. As at 31 December 2013 CARGOTOR Sp. z o.o. was accounted for using the equity method in the consolidated financial statements of PKP Cargo Capital Group.

[(4)] 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. As at 30 June 2014 the impairment allowance has not been changed.

The Group held no interests in joint operations in the above disclosed periods.

15. Other financial assets

	As at 30/06/2014 PLN thousand	As at 31/12/2013 PLN thousand
Financial assets measured at fair value through profit or loss		
Currency forwards and spots	1 868	2 387
	1 868	2 387
Investments in shares		
Shares in Polish entities [1]	6 021	6 020
Shares in foreign entities [1]	-	9
	6 021	6 029
Loans and receivables measured at amortized cost		
Loans granted to other entities	5 061	5 044
Deposits over 3 months	202 978	604 420
	208 039	609 464
Other financial assets		
Receivables from EGP [2]	-	79 614
	-	79 614
Total	**215 928**	**697 494**
Current assets	209 877	691 404
Non-current assets	6 051	6 090
Total	**215 928**	**697 494**

Financial assets available for sale 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) As at 30 June 2014 the impairment allowance on shares amounts to PLN 11,834 thousand, while as at 31 December 2013 amounted to PLN 11,825 thousand.

(2) Receivables from EGP represent 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. Cash transferred to the brokerage house was returned to PKP CARGO S.A. on 5 May 2014 after registration of the Company's share capital increase as a payment for employee shares. 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.

16. Other non-financial assets

The value of other non-financial assets mainly consist of prepaid expenses, the value of which as at 30 June 2014 amounts to PLN 69,255 thousand and as at 31 December 2013 PLN 33,240 thousand. As at 30 June 2014 the most significant items of prepayments are: the cost of traction energy of PLN 18,523 thousand, Social Benefit Fund appropriations of PLN 18,921 thousand, the cost of insurance of PLN 4,853 thousand, the cost of IT services of PLN 2,150 thousand, prepaid transport benefits for employees of PLN 6,990 thousand. As at 31 December 2013 the most significant items of prepayments were: the costs of IT services of PLN 7,148 thousand, prepaid rents of PLN 2,648 thousand, prepaid transport benefits for employees of PLN 9,750 thousand.

17. Trade and other receivables

	As at 30/06/2014 PLN thousand	As at 31/12/2013 PLN thousand
Trade receivables	611 717	657 543
Impairment allowance for receivables	(92 525)	(102 511)
Total	**519 192**	**555 032**
Receivables from sales of non-financial non-current assets	19 683	21 325
State receivables (excluding CIT)	3 629	4 796
Dividends	783	-
Guarantee, deposits and bid bonds	765	999
Receivables from co-financing agreements	1 930	10 782
VAT settlements	16 674	9 840
Other	5 265	6 493
Total	**567 921**	**609 267**

18. 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 30/06/2014 PLN thousand	As at 31/12/2013 PLN thousand
Cash in hand and at bank	70 388	82 738
Bank deposits up to 3 months	268 983	180 962
Total	**339 371**	**263 700**
Cash and cash equivalents classified as held for sale	-	-
Total	**339 371**	**263 700**

19. Changes in share capital, dividends

	As at 30/06/2014 PLN thousand	As at 31/12/2013 PLN thousand
Share capital consists of:		
Ordinary shares, fully paid and registered	2 239 346	2 166 901
Ordinary shares, fully paid and not registered	-	-
Total share capital	**2 239 346**	**2 166 901**

As at 30 June 2014 and 31 December 2013 share capital consisted of ordinary shares with the nominal value of PLN 50 each. Fully covered ordinary shares with nominal value of PLN 50 are equivalent to one vote at the shareholders' meeting and are entitled to the dividend.

On 12 May 2014, the General Shareholders Meeting of PKP CARGO S.A. ("GSM") adopted a resolution on distribution of profit recognized in 2013, resulting of the separate financial statements of the Parent company for the year ended 31 December 2013. In accordance with the GSM resolution a net profit achieved in 2013 in amount of PLN 94,083 thousand will be allocated to:

1) payment of the dividend in amount of PLN 86,556 thousand,
2) share premium in amount of PLN 7,527 thousand.

Additionally, the General Shareholders Meeting decided to allocate PLN 50,939 thousand from retained earnings on the payment of dividends. The dividend day was established on 20 May 2014 and the dividend payment date on 4 June 2014.

19.1. Ordinary shares fully covered with capital

During the period covered by these Interim 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 1/01/2013	**2 889 200**	**2 889 200**
No changes	-	-
As at 30/06/2013	**2 889 200**	**2 889 200**
As at 1/01/2014	**43 338 015**	**2 166 901**
issue of shares series C	1 448 902	72 445
As at 30/06/2014	**44 786 917**	**2 239 346**

According to the agreement between the Management Board of PKP CARGO S.A. and trade unions signed on 2 September 2013 on subject of the Employment Guarantees Program (PGP), the Parent Company made the transaction of payment in form of shares. On 2 October 2013 the Extraordinary General Shareholders Meeting adopted resolution of share capital increase by issuance of series C shares, which were acquired in the open subscription. On 7 March 2014, the Management Board allocated shares of series C to eligible employees. In the subscription, the Parent Company has allocated 1,448,902 shares of series C at a nominal price of PLN 50 per each. Employee benefits are disclosed in Note 21.

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

19.2. Share Premium

During the period covered by these Interim Condensed Consolidated Financial Statements, ended 30 June 2014, the following changes in the Group share premium took places:

	Agio	Profit appropriations (statutory	Profit appropriation (above the statutory minimum)	Capital created from shares redemption	Share-based payment provision	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
As at 1/01/2013	58 662	19 158	44 953	-	-	122 773
No changes	-	-	-	-	-	-
As at 30/06/2013	**58 662**	**19 158**	**44 953**	**-**	**-**	**122 773**
As at 1/01/2014	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	(551)	-	-	-	-	(551)
Adjustment to EGP provisions	-	-	-	-	(1 490)	(1 490)
Distribution of profit	-	7 527	-	-	-	7 527
As at 30/06/2014	**201 270**	**44 024**	**240 526**	**139 982**	**-**	**625 802**

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 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 Program. On 2 September 2013 the Management Board of PKP CARGO S.A. and trade unions signed an agreement on the Employment Guarantee Program. On 7 March 2014, the Management Board allocated shares to eligible employees. Adjustment to the provision for Employee Guarantee Program is the result of change of the form of employees' bonus payment for a part of eligible employees, in exchange for shares employees received cash benefits. This amount was paid on account of the obligations claimed by the enforcement authorities. Employee benefits are disclosed in Note 20.

On 12 May 2014, the General Shareholders Meeting of PKP CARGO S.A. adopted a resolution on distribution of profit made in 2013, resulting from the separate financial statements of the Parent Company for the year ended 31 December 2013. In accordance with the resolution part of net profit achieved in 2013 in amount of PLN 7,527 thousand was dedicated to increase share premium.

20. Earnings per share

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

	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Profit on continuing operations attributable to the Parent Company's shareholders	126 737	76 409
Profit on discontinued operations attributable to the Parent Company's shareholders	-	-
Profit used to calculate basic earnings per share on continuing operations	**126 737**	**76 409**

20.1. Basic earnings per share

	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Weighted average number of ordinary shares (units)	44 258 588	43 338 000
Basic earnings per share (PLN per share)		
On continuing operations	2.86	1.76
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 50.00 (previously PLN 750.00). 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 period ended 30 June 2013 has been calculated taking into account the share split.

20.2. Diluted earnings per share

	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Weighted average number of ordinary shares (units)	44 794 904	43 338 000
Diluted earnings per share (PLN per share)		
On continuing operations	2.83	1.76
On discontinued operations	-	-

In accordance with IAS 33 the Parent Company prepares diluted earnings per share calculation taking into account the potential shares which are issued conditionally under the incentive program - the employee of share based payment program (EGP) described in Note 21. 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 have been estimated for the employee of the Parent Company and employees of subsidiaries within the share based program EGP concluded on 2 September 2013 and actually granted 1,448,902 shares on 7 March 2014 of the issue of shares of series C.

21. Employee benefits- share based payments

In 2013 PKP CARGO S.A. 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 PKP CARGO S.A. and trade unions on subject of the Employment Guarantees Program (PGP). 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 of PKP CARGO S.A. 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 CARGOLOK Sp. z o.o. with an exception of Management Board Members 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 is dependent on their seniority in the railways sector. The number of employee shares will be equal to the quotient of the amount of one-off bonus and the sales price of the Company's shares offered by PKP S.A in public offer, i.e. PLN 68 per share.

On 2 October 2013 the Extraordinary General Shareholders Meeting of Parent Company adopted resolution of share capital increase by issuance of series C shares, which were acquired in the open subscription. Shares of series C were only offered to employees of the Parent Company and eligible employees of the Group PKP CARGO. Entitled employees could sign up for shares in the period from 2 December 2013 to 28 February 2014.

In order to realize this employees' entitlement the Parent Company will increase its share capital by issuing new shares, excluding issuance rights. On 7 March 2014, the Management Board allocated shares of series C to eligible employees. In the subscription, the Parent Company has allocated 1,448,902 shares of series C at a nominal price of PLN 50 per each.

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 dividend from 1 January 2013. The expiration date of this limitation is 30 October 2015.
On 7 March 2014, the Management Board allocated 1,448,902 shares of series C to eligible employees. Issuance of Series C shares was registered in the National Court Register on 25 April 2014.

Amount related to Employment Guarantee Program recognized in the Statement of Financial Position:

	As at 30/06/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Share capital (shares series C)	72 445	-
Share premium including:	25 529	100 015
Share premium (agio)	26 080	-
Share premium (agio) - cost of issue of shares series C	(551)	-
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 provisions for employee benefits	-	73 171

Issuance of employee shares under the Employee Guarantee Program had no impact on the Capital Group's result in the period ended 30 June 2014. The total cost of the bonuses has been included in profit or loss of 2013.

22. Credit facilities and loans received

	As at 30/06/2014 PLN thousand	As at 31/12/2013 PLN thousand
Credit facilities and loans received measured at amortized cost		
Overdraft facilities	424	9 147
Bank loans - secured on assets	151 875	183 833
Borrowings from other entities	1 715	1 795
Total	**154 014**	**194 775**
Current liabilities	64 502	73 217
Non-current liabilities	89 512	121 558
Total	**154 014**	**194 775**

22.1. Summary of loan agreements

In Parent Company investment loans agreements were signed to finance the modernization of engines and 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 Parent Company's investment loans are presented below.

Parent Company as at 30/06/2014

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	13 840
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	12 610
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	15 661
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	25 416
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	33 002
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	34 440
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	10 552
						Total		**145 521**

Subsidiaries as at 30/06/2014

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	24
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	1 048
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	49
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	3 808
Overdraft facilities	PKO BP S.A.	PLN	WIBOR 1M + margin	15/04/2016	Capped mortgage in amount of PLN 700 thousand, Pledge on inventories PLN 600 thousand.	1 300	1 300	424
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	408
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	579
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	511
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	1 642
							Total	**8 493**

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	5/10/2015	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	20 137
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 ST45 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 ST44 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**

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	295
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	1 572
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 Parent 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 30 June 2014 and 31 December 2013 the Parent Company has not exercised the option to use the credit facility.
The Parent Company signed also an agreement with mBank S.A. for the overdraft facility up to PLN 100,000 thousand. As at 30 June 2014 and as at 31 December 2013 the Parent Company did not use granted facility.
Additionally a subsidiary PS Trade Trans Sp. z o.o. has an overdraft facility up to PLN 2,500 thousand. As at 30 June 2014 the company has not exercised the option to use the overdraft facility.

As at 31 December 2013 PS Trade Trans Sp. z o.o. had an overdraft facility up to PLN 35,000 thousand. As at 31 December 2013 the value of used limit amounted to PLN 8,067 thousand.

22.2. Events of default in loan agreements

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

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

	Minimum lease payments	
	As at 30/06/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Up to one year	143 287	129 093
Over one year, up to five years	207 783	280 892
Over five years	52 990	61 434
	404 060	471 419
Less future lease charges	(35 675)	(42 493)
Present value of minimum lease payments	**368 385**	**428 926**

	Present value of minimum lease payments	
	As at 30/06/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Up to one year	131 558	115 790
Over one year, up to five years	186 320	255 250
Over five years	50 507	57 886
Present value of minimum lease payments	**368 385**	**428 926**

	As at 30/06/2014	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	131 558	115 790
Long-term liabilities due to finance lease and leases with purchase option	236 827	313 136
Total	**368 385**	**428 926**

24. Trade and other liabilities

	As at 30/06/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Trade liabilities	211 038	266 864
Accruals	24 065	23 305
Liabilities due to purchase non-financial non-current assets	150 288	203 866
Liabilities related to securities (deposits)	23 391	32 279
State liabilities	110 753	124 784
Settlements with employees	78 988	82 332
Other liabilities	14 641	4 341
VAT liabilities	7 046	51 758
Total	**620 210**	**789 529**
Current liabilities	528 958	675 841
Non-current liabilities	91 252	113 688
Total	**620 210**	**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.

25. Employee benefits

Amounts recognized in the statement of financial position in relation to employee benefit plans liabilities:

	As at 30/06/2014 PLN thousand	As at 31/12/2013 PLN thousand
Post-employment defined benefit plans		
– retirement benefits	145 037	148 188
– appropriations to the Social Benefit Fund for pensioners	144 603	145 039
– transport benefits	36 531	36 232
Other long-term employee benefits		
– jubilee bonuses	330 393	329 546
Short-term benefits		
– other employee benefits (unused holidays)	30 406	37 208
– provision for Employment Guarantee Program (EGP)	-	73 171
Total	**686 970**	**769 384**
Including:		
– short-term	94 047	176 461
– long-term	592 923	592 923

26. Other provisions

	As at 30/06/2014 PLN thousand	As at 31/12/2013 PLN thousand
Provision for the fine imposed by OCCP	8 416	22 778
Other provisions	22 927	26 203
Total	**31 343**	**48 981**
Short-term provisions	22 036	26 127
Long-term provisions	9 307	22 854
Total	**31 343**	**48 981**

Other provisions	Provision for the fine imposed by OCCP	Other	Total
	PLN thousand	PLN thousand	PLN thousand
As at 1 January 2013	**16 576**	**10 573**	**27 149**
Provisions recognized	-	467	467
Derecognized	(9 946)	(1 800)	(11 746)
Used	-	360	360
Interest expense	-	-	-
As at 30 June 2013	**6 630**	**8 880**	**15 510**
As at 1 January 2014	**22 778**	**26 203**	**48 981**
Provisions recognized	-	2 591	2 591
Derecognized	(14 362)	(5 867)	(20 229)
Used	-	-	-
Interest expense	-	-	-
As at 30 June 2014	**8 416**	**22 927**	**31 343**

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

The provision represents a fine imposed on Parent company by the Office of Competition and Consumer Protection in Warsaw. First of them (in the amount of PLN 16,576 thousand imposed on 31 December 2012 on the basis of the Decision no RWR 44/2012) was imposed on the basis of statement that PKP CARGO S.A was accused of blocking the possibility of compete with shipping companies belonging to PKP CARGO Capital Group for the period from 1 April 2011 to 31 March 2012. In 2013 as a result of recalculation of the provision for known and quantifiable risk related to OCCP's proceedings, the Parent company derecognized the provision in the amount of PLN 9,946 thousand, acknowledging that provision in amount of PLN 6,630 thousand is the best estimate of the amount of which payment is probable. As at 30 June 2014, these estimates have not been changed. Second fine (in the amount of PLN 1,786 thousand on the basis of the Decision no DOK-4/2012 dated on 26 July 2012) was 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 district Court in Warsaw - Court of Competition and Consumer Protection. OCCP's decision is unlawful.

On 3 October 2013 the Supreme Court rescinded the judgments 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 judgment). As a result, Office for Competition and Customer Protection returned the fine paid by PKP CARGO S.A in the amount of PLN 60,362 thousand. As at 31 December 2013, the Management Board estimated that the provision in amount of PLN 14,362 thousand is the best estimate of the amount of which payment is probable. On 17 March 2014 (sig. Act XVII AmA 148/13) Court of Competition and Consumer Protection in the decision no DOK-3/2009 repealed from the decision no DOK-3/2009 stating that it is bound by the law applied by the Supreme Court, and as a result, the Management Board of the Parent company has decided to reverse the remaining amount of the provision for the fine on decision no DOK-3/2009.

Other provisions

According to the Management Board of the Parent company, the amount of other provisions as at 30 June 2014 and as at 31 December 2013 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.

27. Other financial liabilities

	As at 30/06/2014 PLN thousand	As at 31/12/2013 PLN thousand
Other financial liabilities		
Interest rate SWAP	2 015	306
Total	**2 015**	**306**
Current liabilities	2 015	306
Non-current liabilities	-	-
Total	**2 015**	**306**

28. Financial instruments - categories and classes of financial instruments

Financial instruments by category	As at 30/06/2014 PLN thousand	As at 31/12/2013 PLN thousand
Financial assets		
Financial assets measured at fair value through profit or loss	1 283	2 224
Hedge instruments	585	163
Loans and receivables	1 086 285	1 529 135
Total assets by category	**1 088 153**	**1 531 522**
Financial liabilities		
Liabilities arising from derivatives assigned as hedge instruments - hedge accounting	2 015	306
Financial liabilities measured at amortized cost	539 405	688 810
Liabilities excluded from IAS 39 (finance lease)	368 385	428 926
Total liabilities by category	**909 805**	**1 118 042**

Financial instruments by classes	As at 30/06/2014 PLN thousand	As at 31/12/2013 PLN thousand
Trade receivables	519 192	555 032
Receivables from sales of non-current assets	19 683	21 325
Loans granted	5 061	5 044
Receivables related to EGP	-	79 614
Bank deposits (over 3 months)	202 978	604 420
Cash	339 371	263 700
Assets from measurement of derivatives and embedded derivatives including:		
Derivatives - hedge of cash flow	585	163
Derivatives held for trading	1 283	2 224
Total financial assets	**1 088 153**	**1 531 522**
Credit facilities and loans	154 014	194 755
Trade liabilities	235 103	290 169
Liabilities arising from purchase of non-current assets	150 288	203 866
Finance leases	368 385	428 926
Valuation of derivatives and embedded derivatives, including:		
Derivatives- hedge of cash flow	2 015	306
Financial liabilities total	**909 805**	**1 118 042**

29. Related party transactions

29.1. Commercial transactions

In the financial year, the Group concluded the following commercial transactions with related parties:

	for the 6 months period ended 30/06/2014		for the 6 months period ended 30/06/2013	
	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.)	550	35 277	948	49 474
Subsidiaries / Co-subsidiaries	1 060	3 927	2 081	-
Associates	4 643	1 136	10 572	104
Other related parties from PKP S.A. Group	35 723	600 290	42 659	739 298

	As at 30/06/2014		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.)	22 417	1 668	22 447	7 961
Subsidiaries / Co-subsidiaries	1 458	619	2 515	375
Associates	909	1	-	3
Other related parties from PKP S.A. Group	8 363	102 907	9 565	124 353

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

29.2. Loans granted to / received from related parties

	As at 30/06/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Loans granted to related parties	-	-
Loans received from related parties	-	-
Loan granted to members of the management board	-	-
Total	**-**	**-**

29.3. Remuneration of executive management

Remuneration of Members of the Management Board of Parent Company in the reporting period:	for the 6 months period ended 30/06/2014	for the 6 months period ended 30/06/2013
	PLN thousand	PLN thousand
Short-term benefits	1 255	1 157
Post-employment benefits	562	102
Employment termination benefits	255	264
Total	**2 072**	**1 523**

Remuneration of Members of the Supervisory Board of the Parent Company in the reporting period:	for the 6 months period ended 30/06/2014	for the 6 months period ended 30/06/2013
	PLN thousand	PLN thousand
Short-term benefits	204	160
Total	**204**	**160**

Remuneration of other executive management (Proxies, Managing Directors) in the reporting period:	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Short-term benefits	805	314
Share-based payments	11	-
Employment termination benefits	19	22
Total	**835**	**336**

Remuneration of Members of Management Board of subsidiaries in the reporting period:	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Short-term benefits	2 344	3 478
Post-employment benefits	923	-
Other long-term benefits	-	4
Share-based payments	-	-
Employment termination benefits	-	58
Total	**3 267**	**3 540**

Remuneration of Members of the Supervisory Board of the subsidiaries in the reporting period:	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Short-term benefits	1 662	1 204
Total	**1 662**	**1 204**

During the six months period ended 30 June 2014 and six months period ended 30 June 2013 Members of the Management Board and Supervisory Board of the Parent company and subsidiaries of PKP Cargo Capital Group did not conclude any purchase or sale transactions as well as did not grant nor receive any loans or guarantees.

30. Contingent liabilities

	As at 30/06/2014 PLN thousand	As at 31/12/2013 PLN thousand
Sureties granted to subsidiaries (i)	24 657	24 951
Guarantees issued on request of PKP Cargo Group (ii)	33 535	47 539
Proceedings carried out by OCCP (iii)	9 946	9 946
Other contingent liabilities	36 170	35 802
Total	**104 308**	**118 238**

(i) Sureties and guarantees granted to subsidiaries
As at 30 June 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 and guarantees), 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 and surety of the guarantee line), 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: PKP CARGO Service Sp. z o.o. (surety regarding a multi-currency credit facility agreement and guarantees), 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).

(ii) Guarantees issued by banks on request of PKP CARGO S.A.
As at 30 June 2014 a number of guarantees issued by banks at the Group's request to counterparties were effective. The guarantees included bid bonds (worth PLN 1,039 thousand) and performance bonds (worth PLN 28,606 thousand) and payment bonds (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 bonds (worth PLN 2,969 thousand).

(iii) Proceedings conducted by the OCCP

As at 30 June 2014 and 31 December 2013 the Group recognizes as a contingent liability part of provision for the fine imposed by OCCP of PLN 9,946 thousand, which has not been recognized in provisions for liabilities. In case of a negative outcome of the proceeding described in note 26, the Group may have to recognize the cost in profit or loss.

(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. As at 30 June 2014 value of these contracts amounted to PLN 35,500 thousand, and as at 31 December 2013 amounted to PLN 35,050 thousand.

On 24 June 2014 the Parent company received a demand for payment from a potential breach of a trade agreement by the Company. Due to the early stage of the case, the Parent company is not able to reliably assess the amount of the liability and the likelihood of its payment. Consequently, the assessment of future events may vary in future periods.

31. 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 30 June 2014 will range from PLN 110.2 million to PLN 113.0 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 Sggrss series container wagons. Until 30 June 2014, the Parent company received 140 wagons, while the remainder part of wagons according to the scheduled timetable, should be delivered until the end of 2014.
The future value of the liabilities under this agreement as at 30 June 2014 will amount to PLN 67.3 million. For the implementation of this project the Parent company will be granted a funding under the Operational Program "Infrastructure and Environment", in a total amount not exceeding 30% of contract value.
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 under the agreement is approximately PLN 11.4 million.

32. Events after reporting date

On 1 July 2014 the take-over of subsidiary PKP CARGO TABOR-KARSZNICE Sp. z o.o. (acquired company) by PKP CARGOWAG Sp. z o.o. (the acquiring company under a new name: PKP CARGOTABOR Sp. z o.o. was registered by the National Register Court. For more information please refer to the Note 12.

On 1 July 2014 an agreement was signed for sale of the company between CARGOLOK Sp. z o.o. (vendor) and PKP CARGOTABOR Sp. z o.o. (buyer). The subject of the sale is the sale of the company, which is understood as the sale of organized units of tangible and intangible assets for business within the meaning of Art. 551 of the Civil Code (including the name of the company - PKP CARGOLOK, movable property, rights arising from contracts, cash, cash receivables, business secrets, books and documents related to business of the enterprise) and the assumption of liabilities associated with entrepreneurship.

On 22 August 2014 the Management Board of PKP CARGO S.A. received an information from the President of the Office of Competition and Consumer Protection to continue the anti-trust proceeding related to the accusation of PKP CARGO S.A. for using a dominant position in domestic rail freight market for the period from 1 May 2006 to 20 April 2007 (proceedings in which a decision no DOK-3/2009 was issued). As at the date of publication of the foregoing financial statements the Management Board of PKP CARGO S.A. does not foresee any threat that this proceeding will be finalized with a decision to impose another financial penalty to the Parent Company. Due to the early stage of the proceeding, it cannot be excluded that in the occurrence of the future events, the assessment of the Management Board may change and may have an impact on the financial information presented in subsequent reporting periods.

33. Approval of the financial statements

These Interim Condensed Consolidated Financial Statements were approved for publication by the Management Board of the Parent company on 27 August 2014.

The Management Board

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

Warsaw, 27 August 2014

KPMG Audyt
Spółka z ograniczoną
odpowiedzialnością sp.k.
ul. Chłodna 51
00-867 Warszawa
Poland

Telefon +48 22 528 11 00
Fax +48 22 528 10 09
E-mail kpmg@kpmg.pl
Internet www.kpmg.pl

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

INDEPENDENT AUDITORS' REPORT ON REVIEW OF THE CONDENSED INTERIM SEPARATE FINANCIAL STATEMENTS OF PKP CARGO S.A. FOR THE PERIOD FROM 1 JANUARY 2014 TO 30 JUNE 2014

To the Shareholders of PKP CARGO S.A.

Introduction

We have reviewed the accompanying 30 June 2014 condensed interim separate financial statements of PKP CARGO S.A. with its registered office in Warsaw, Grójecka 17 Street ("the condensed separate interim financial statements"), which comprise:

- the interim separate statement of financial position as at 30 June 2014,
- the interim separate statements of comprehensive income for the six-month period ended 30 June 2014,
- the interim separate statement of changes in equity for the six- month period ended 30 June 2014,
- the interim separate statement of cash flows for the six-month period ended 30 June 2014, and
- notes to the interim separate financial statements.

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 30 June 2014 condensed interim separate financial statements of PKP CARGO S.A. are not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the European Union.

On behalf of KPMG Audyt Spółka z ograniczoną odpowiedzialnością sp.k.
registration number 3546
ul. Chłodna 51,
00-867 Warsaw

Signed on the Polish original

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

27 August 2014

PKP cargo
LOGISTICS

Interim Condensed Separate Financial Statements of the PKP CARGO S.A. for the period of 6 months ended 30 June 2014 prepared in accordance with IFRS as endorsed by the European Union.

TABLE OF CONTENTS:

INTERIM SEPARATE STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2014 TO 30 JUNE 2014

	Note	for the 6 months period ended 30/06 2014 (unaudited) PLN thousand	for the 6 months period ended 30/06/2013 (unaudited) PLN thousand
Continuing operations			
Sales revenue	4	1 851 693	1 977 920
Revenue from sales of goods and materials		10 778	30 679
Other operating revenue	6.1	22 199	19 847
Total operating revenue		**1 884 670**	**2 028 446**
Depreciation/amortization and impairment losses	5.1	164 137	175 044
Consumption of raw materials and supplies	5.2	305 494	322 813
External services	5.3	572 109	669 422
Taxes and charges		18 429	16 666
Employee benefits	5.4	653 188	673 110
Other expenses by kind		9 209	20 056
Cost of merchandise and raw materials sold		5 523	18 178
Other operating expenses	6.2	11 459	15 888
Total operating expenses		**1 739 548**	**1 911 177**
Profit on operating activities		**145 122**	**117 269**
Financial revenue	7.1	28 874	24 444
Financial expenses	7.2	13 407	37 097
Profit before tax		**160 589**	**104 616**
Income tax expense	8.1	30 728	24 411
Net profit on continuing operations		**129 861**	**80 205**
Discontinued operations			
Net profit/(loss) on discontinued operations		-	-
NET PROFIT		**129 861**	**80 205**
Earnings per share (PLN per share)			
Continuing operations (ordinary):	20.1	**2.93**	**1.85**
Continuing operations (diluted):	20.2	**2.90**	**1.85**

INTERIM SEPARATE STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2014 TO 30 JUNE 2014 (cont'd.)

	Note	for the 6 months period ended 30/06/2014 (unaudited) PLN thousand	for the 6 months period ended 30/06/ 2013 (unaudited) PLN thousand
NET PROFIT		**129 861**	**80 205**
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		-	-
The effective portion of changes in fair value of cash-flow hedging instruments		-	-
Income tax on other comprehensive income		-	-
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		-	-
		-	**-**
TOTAL COMPREHENSIVE INCOME		**129 861**	**80 205**

INTERIM SEPARATE STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 JUNE 2014

	Note	As at 30/06/ 2014 (unaudited) PLN thousand	As at 31/12/2013 (audited) PLN thousand
ASSETS			
Non-current assets			
Property, plan and equipment	10	3 616 195	3 533 830
Intangible assets		55 660	58 545
Investments in subsidiaries and associates	14.1	262 846	243 164
Other long-term financial assets	15	7 130	7 440
Other long-term non-financial assets	16	1 442	1 201
Deferred tax assets	8.2	30 145	61 239
Total non-current assets		**3 973 418**	**3 905 419**
Current assets			
Inventory		47 879	46 277
Trade and other receivables	17	445 974	477 236
Other short-term financial assets	15	204 180	689 157
Other short-term non-financial assets	16	59 742	24 743
Cash and cash equivalents	18	292 291	229 232
		1 050 066	**1 466 645**
Assets held for sale	11	17 560	22 607
Total current assets		**1 067 626**	**1 489 252**
Total assets		**5 041 044**	**5 394 671**

INTERIM SEPARATE STATEMENT OF FINANCIAL POSITION PREPARED AS AT 30 JUNE 2014 (cont'd.)

	Note	As at 30/06/ 2014 (unaudited)	As at 31/12/ 2013 (audited)
		PLN thousand	PLN thousand
EQUITY AND LIABILITIES			
Equity			
Share capital	19	2 239 346	2 166 901
Share premium	19.2	584 513	651 472
Other items of equity		(9 901)	(9 901)
Retained earnings		539 332	554 494
Total equity		**3 353 290**	**3 362 966**
Non-current liabilities			
Long-term bank loans and credit facilities	22	85 788	115 654
Long-term finance lease liabilities and leases with purchase option	23	156 283	228 832
Long-term trade and other liabilities	24	91 180	113 509
Long-term provisions for employee benefits	25	551 951	551 951
Other long-term provisions	26	8 416	22 778
Total non-current liabilities		**893 618**	**1 032 724**
Current liabilities			
Short-term bank loans and credit facilities	22	59 733	59 733
Short-term finance lease liabilities and leases with purchase option	23	124 376	108 770
Short-term trade and other liabilities	24	469 247	604 599
Short-term provisions for employee benefits	25	90 840	165 790
Other short-term provisions	26	16 382	20 449
Other short-term financial liabilities	27	33 411	39 640
Income tax liability		147	
		794 136	**998 981**
Liabilities directly related to non-current assets classified as held for sale		-	-
Total current liabilities		**794 136**	**998 981**
Total liabilities		**1 687 754**	**2 031 705**
Total equity and liabilities		**5 041 044**	**5 394 671**

INTERIM STATEMENT OF CHANGES IN SEPARATE EQUITY FOR THE REPORTING PERIOD ENDED 30 JUNE 2014

			Other items of equity				
	Share capital	Share premium	Revaluation of financial assets available for sale	Actuarial gains/losses on employee benefits after employment period	Changes in fair value of cash-flow hedging instruments	Retained earnings	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Balance as at 1/01/2013 (audited)	**2 889 200**	**77 809**	**-**	**(23 339)**	**-**	**94 829**	**3 038 499**
Net result for the financial year	-	-	-	-	-	80 205	**80 205**
Other net comprehensive income for the period	-	-	-	-	-	-	**-**
Total comprehensive income	-	-	-	-	-	**80 205**	**80 205**
Issuance of shares	-	-	-	-	-	-	**-**
Dividend payment	-	-	-	-	-	-	**-**
Other changes in equity	-	-	-	-	-	-	**-**
Balance as at 30/06/ 2013 (unaudited)	**2 889 200**	**77 809**	**-**	**(23 339)**	**-**	**175 034**	**3 118 704**
Balance as at 1/01/2014 (audited)	**2 166 901**	**651 472**	**-**	**(9 901)**	**-**	**554 494**	**3 362 966**
Net result for the financial year	-	-	-	-	-	129 861	**129 861**
Other net comprehensive income for the period	-	-	-	-	-	-	**-**
Total comprehensive income	-	-	-	-	-	**129 861**	**129 861**
Issuance of shares	72 445	25 529	-	-	-	-	**97 974**
Dividend payment	-	-	-	-	-	(137 496)	**(137 496)**
Share based payment provision	-	(100 015)	-	-	-	-	**(100 015)**
Other changes in equity	-	7 527	-	-	-	(7 527)	**-**
Balance as at 30/06/2014 (unaudited)	**2 239 346**	**584 513**	**-**	**(9 901)**	**-**	**539 332**	**3 353 290**

INTERIM SEPARATE STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY 2014 TO 30 JUNE 2014 [INDIRECT METHOD]

	Note	for the 6 months period ended 30/06/2014 (unaudited)	for the 6 months period ended 30/06/2013 (unaudited)
		PLN thousand	PLN thousand
Net cash flows from operating activities			
Profit before tax		**160 589**	**104 616**
Adjustments:			
Depreciation and amortization of non-current assets	5.1	164 137	176 930
Impairment of assets	5.1	-	(1 886)
(Gain)/ Loss on disposal of property, plant and equipment and intangible assets		4 649	11 543
(Profit)/loss on investing activities		9	-
Exchange (gains)/losses		643	17 437
(Gains)/losses on interest, dividends		(16 233)	(1 806)
Other adjustments		-	-
Changes in working capital:			
(Increase)/decrease in trade and other receivables		17 784	(28 280)
(Increase)/decrease in inventory		(1 602)	(1 207)
(Increase)/decrease in other assets		(35 240)	(29 809)
Increase/(decrease) in trade and other liabilities		(106 238)	9 639
Increase / (decrease) in other financial liabilities		-	2 831
Increase / (decrease) in provisions		(93 379)	(3 243)
Cash flows from operating activities		**95 119**	**256 765**
Interest received/(paid)		2 114	3 244
Income taxes received/(paid)		512	228
Net cash provided by operating activities		**97 745**	**260 237**

INTERIM SEPARATE STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 1 JANUARY 2014 TO 30 JUNE 2014 [INDIRECT METHOD] (cont'd.)

	Note	for the 6 months period ended 30/06/2014 (unaudited) PLN thousand	for the 6 months period ended 30/06/2013 (unaudited) PLN thousand
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets	10	(302 832)	(199 304)
Proceeds from sale of property, plant and equipment and intangible assets		5 480	830
Proceeds from sale of other financial assets		-	38
Interest received		14 424	14 842
Dividend received		66	377
Proceeds from loans granted		(5 030)	-
Repayment of loans granted		5 599	51 556
Other proceeds/(acquisitions) on investing activities (1)		471 746	52 681
Net cash (used in) / provided by investing activities		**189 453**	**(78 980)**
Cash flows from financing activities			
Proceeds from issuance of shares		8 763	-
Payments of liabilities under finance lease		(59 176)	(56 921)
Payments of interest under lease agreement		(4 129)	(5 478)
Repayments of credit facilities/loans received		(29 866)	(28 768)
Repayments of interest on credit facilities/loans received		(3 034)	(5 110)
Grants received		11 390	-
Dividends paid to shareholders of the Company		(137 496)	-
Cash pool inflows/(outflows)		(6 447)	-
Other inflows/(outflows) from financing activities		(4 143)	(5 244)
Net cash used in financing activities		**(224 138)**	**(101 521)**
Net increase/(decrease) in cash and cash equivalents		63 059	79 736
Opening balance of cash and cash equivalents	18	229 232	94 844
Effects of exchange differences on the balance of cash denominated in foreign currency		-	-
Closing balance of cash and cash equivalents	**18**	**292 291**	**174 580**

(1) Other inflows / (outflows) from investing activities represent mainly a decrease in short-term deposits over 3 months, which are classified as short-term financial assets in the amount of PLN 401,446 thousand, and the impact of receivables from Employee Guarantee Program representing employee share based payments in the amount of 70,300 thousand. The above mentioned positions are disclosed in Note 15.

EXPLANATORY NOTES TO THE SEPARATE FINANCIAL STATAMENTS PREPARED AS AT 30 JUNE 2014

1. General information

1.1. Information on the Company

The Company PKP Cargo S.A. („the Company") was established based on the Notarial Deed dated 29 June 2001 (Repertory A No. 1287/2001). The registered office of the Company is located in Warsaw at Grójecka street no. 17. The Company is registered in the National Court Register in the District Court in Katowice, Department of the National Court Register under the number KRS 0000027702. Currently, due to a subsequent change of the registered office of the Company, records of the Company are run by the District Court for the Capital City of Warsaw, 12th Commercial Division of the National Court Register. The Company was assigned a statistical number REGON 277586360 and a tax identification number (NIP) 954-23-81-960. Composition of the Company's management and supervisory bodies as at the date of preparation of these interim condensed separate 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 Finance Matters
Wojciech Derda	-	Member of the Management Board, responsible for Operation Matters
Dariusz Browarek	-	Member of the Management Board, Employees representative in the Management Board

Supervisory Board:

Jakub Karnowski	-	Chairman
Piotr Ciżkowicz	-	Vice-Chairman
Krzysztof Czarnota	-	Member
Marek Podskalny	-	Member
Kazimierz Jamrozik	-	Member
Konrad Anuszkiewicz	-	Member
Stanisław Knaflewski	-	Member
Paweł Ruka	-	Member
Jarosław Pawłowski	-	Member
Łukasz Górnicki	-	Member
Jacek Leonkiewicz	-	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 Febuary 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.

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

On 24 April 2014 the Company's shareholder - PKP SA dismissed from the Supervisory Board Ms. Danuta Tyszkiewicz (effective from 25 April 2014) and on 26 April 2014 appointed the Members of the Supervisory Board Mr. Jarosław Pawłowski and Mr. Łukasz Górnicki.

On 27 June 2014 Ms. Milena Pacia has resigned from the position of the Supervisory Board Member. The resignation is effective from 27 June 2014.

On 29 July 2014 the Company's shareholder – PKP S.A. dismissed from the Supervisory Board Mr. Artur Kawaler and appointed as the Supervisory Board Members Mr. Piotr Ciżkowicz and Jacek Leonkiewicz with effect from 29 July 2014.

The Company's shareholder's structure as at 30 June 2014:

Entity	Registered office	Number of shares	% of share capital held	% of voting rights
PKP S.A.[(1)]	Warsaw	14 784 194	33.01%	33.01%
ING OFE [(2)]	Warsaw	4 738 369	10.58%	10.58%
Morgan Stanley [(3)]	New York	2 380 008	5.31%	5.31%
EBRD [(4)]	London	2 286 008	5.10%	5.10%
Other shareholders		20 598 338	46.00%	46.00%
Total		**44 786 917**	**100.00%**	**100.00%**

(1) In accordance with the notice sent by shareholder dated 24 June 2014

(2) In accordance with the notice sent by shareholder dated 30 June 2014

(3) In accordance with the notice sent by shareholder dated 18 June 2014. The total number of shares held by Morgan Stanley amounts to 14,916 shares and indirectly held by its subsidiary Morgan Stanley Investment Management Inc. amounts to 2,365,092 shares.

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

1.2 Information on the Capital Group

As at the reporting date the PKP Cargo Capital Group ("the Group") comprised of the Parent company and 15 subsidiaries. Additionally the Group also includes 8 associates and shares in 3 joint ventures. As a result of the merger process of subsidiaries, since 1 July 2014 the Capital Group has comprised of 14 subsidiaries. The information about the merger process of subsidiaries is presented in Note 12.
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 S.A. 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 Company's financial year is the calendar year.

The core business of the Company is rail transport of goods. In addition to the rail transport services, the Company offers additional services:
a) intermodal services,
b) spedition (national and international),
c) terminals (handling and storage of goods),
d) siding services.
PKP CARGO S.A. occupies also with repair and maintenance of rolling stock.

1.3 Functional and presentation currency

These interim condensed separate financial statements have been prepared in the Polish zloty (PLN). The Polish zloty (PLN) is the Company's functional and presentation currency. The data presented in thousand PLN, unless more accuracy is required.

2. International Financial Reporting Standards Applied

2.1. Statement of compliance

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

The Company keeps its 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 as endorsed by the European Union ("IFRS EU").

2.2. Standards and interpretations issued for the first time in 2014

The following amendments to existing standards issued by the International Accounting Standards Board and adopted by European Union are effective since 2014:

- **IFRS 10 „Consolidated Financial Statement"**, 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"** – compensation of 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"** (amendment of derivatives and hedge accounting) – applicable to the annual periods beginning on or after 1 January 2014,
- Amendments to **IAS 36 „Impairment of Assets"** (disclosures of recoverable amount for non-financial assets) - applicable to the annual periods beginning on or after 17 June 2014, (effective date specified by the IASB is 1 January 2014).

The Entity anticipates that adoption of these standards, amendments to the existing standards and interpretations did not have material impact on the Company's accounting policy.

2.3. Standards and Interpretations issued by European Union, but not yet effective

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

- **Interpretation to IFRIC 21 „Levies"** - applicable to the annual periods beginning on or later 17 June 2014 (effective date specified by the IASB is 1 January 2014).

The Entity anticipates that adoption of these standards, amendments to the existing standards and interpretations will not have material impact on the Company's accounting policy.

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

At present, IFRS as endorsed by the EU, do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except for the following standards, amendments to the existing standards and interpretations, which were not endorsed for use in the EU as at 30 June 2014:

- **IFRS 9 „Financial instruments"** – applicable to the annual periods beginning on or after 1 January 2018,
- **Amendments to IFRS 9 „Financial instruments" and IFRS 7 „Financial instruments: Disclosures", (**available for application, no mandatory effective date set),
- **Amendments to IAS 19 "Employee benefits"** (Defined Benefit Plans: Employee Contributions), applicable to annual periods beginning on or after 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 reporting periods beginning on or after 1 July 2014,
- **Improvements to IFRS for the 2011 – 2013**, contain 4 amendments to standards with consequential amendments to other standards and interpretations, applicable to the reporting periods beginning on or after 1 July 2014,
- **IFRS 14 „Regulatory Deferral Accounts"**, applicable to the annual periods beginning on 1 January 2016.
- **Recognition of the acquisition of shares in joint activities (Amendment to IFRS 11 „Joint Arrangements")** - applicable to the annual periods beginning on 1 January 2016,
- **Explanations in terms of acceptable methods of depreciation and amortization (Amendment to IAS 16 „Property, Plant and Equipment" and IAS 38 „Intangible Assets** applicable to the annual periods beginning on 1 January 2016,
- **IFRS 15 "Revenue from contracts with customers"** - applicable to the annual periods beginning on 1 January 2017.

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

3. Applied accounting principles

3.1. Going concern assumption

These Interim Condensed Separate Financial Statements were prepared under the going concern assumption. As at the date of preparation of these Interim Condensed Financial Statements there were no circumstances indicating a threat to the Company'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 Interim Condensed Separate Financial Statements have been prepared in accordance with the International Accounting Standard 34 – Interim Financial Reporting ("IAS 34") and in accordance with accounting standards applicable to interim financial reporting adopted by the European Union, issued and effective at the time of preparation these Interim Condensed Separate Financial Statements. The foregoing Interim Condensed Separate Financial Statements were prepared on the historical cost basis except derivatives measured at fair value and non-current assets classified as held for sale.
These Interim Condensed Separate Financial Statements should be read along with audited financial statements of PKP Cargo S.A. for the year ended 31 December 2013, prepared in accordance with International Financial Reporting Standards as endorsed by the European Union (IFRS EU), that include notes "Financial Statement prepared in accordance to IFRS EU".

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

3.3. Statement of accounting principles

The accounting principles and calculations methods adopted in the preparation of interim separate financial statements are consistent with those described in audited financial statements for the year ended 31 December 2013 prepared in accordance with International Financial Reporting Standards as endorsed by the European Union (IFRS EU) (see note 3 to financial statement prepared for the year ended 31 December 2013)

3.4. Explanations concerning seasonality or cyclicality of interim operations of the Company

The Company's activity is not subject to any significant seasonal or cyclical trends.

3.5. Changes in estimates

During the six months period ended 30 June 2014 there were no significant changes in estimates and methodology of making estimates that would affect the current 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 interim condensed separate financial statements,
- Provision for unused holidays - provision has been calculated as of the unused leave at the date 30 June 2014, the effect of the conversion is presented in note 25 of the interim condensed separate financial statements.

4. Operating segments

4.1. Products and services of the operating segment

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

The Company's revenues gained from external customers accordingly to geographical areas presents note 4.2.

4.2. Geographical information

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

The Company operates in one geographical area, Poland, which is its country of residence. The total revenue for all geographical areas except from Poland for 6 months periods ended 30 June 2014 and 30 June 2013 do not exceed 11.5% of revenue grand total. No other geographical area (except from Poland) exceeds 10% of revenue from sales of services.

Below are presented revenues from external customers by location:

	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Poland	1 643 463	1 751 716
Germany	66 052	98 799
Czech Republic	41 745	47 118
Slovakia	35 782	30 410
Cyprus	33 002	15 919
Other countries	31 649	33 958
Total	**1 851 693**	**1 977 920**

4.3. Structure of the sales revenue

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

	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Transport revenue and railway shipping	1 787 896	1 892 968
Siding and traction revenue	39 624	44 268
Other revenue (1)	24 173	40 684
Total	**1 851 693**	**1 977 920**

(1) The position of other revenue for 6 months period ended 30 June 2014 presents mainly revenue arising from renting of railroad fleet of PLN 12,640 thousand, revenue from comprehensive support of PLN 3,735 thousand and from repair services of railroad fleet of PLN 2,879 thousand, while for the same period ended 30 June 2013 this position presents revenue from renting of railroad fleet of PLN 17,125 thousand, revenue from comprehensive support of PLN 4,897 thousand and revenue from repair services of railroad fleet of PLN 5,760 thousand.

5. Operating expenses

5.1. Depreciation and amortization

	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Depreciation of property, plant and equipment	155 829	166 119
Amortization of intangible assets	8 308	10 811
Impairment losses recognized / (derecognized):		
Property, plant and equipment	-	(1 886)
Total depreciation/amortization	**164 137**	**175 044**

5.2. Consumption of raw materials and energy

	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Fuel consumption	97 591	96 066
Consumption of materials	22 709	24 594
Electricity, gas and water consumption	186 899	207 920
Impairment losses recognized / (derecognized)	(2 675)	(7 177)
Other	970	1 410
Total consumption of materials and energy	**305 494**	**322 813**

5.3. External services

	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Access to infrastructure connections	349 857	441 238
Repair services	35 505	29 506
Rent and lease fees (real estate and railroad fleet)	73 104	73 514
Transport services	51 625	52 357
Telecommunication services	5 373	7 597
Legal, advisory and similar services	5 418	4 046
IT services	22 608	22 749
Services related to property maintenance and operation of tangible assets	14 474	16 653
Cargo services	8 803	8 710
Other services	5 342	13 052
Total external services	**572 109**	**669 422**

5.4. Employee benefit

	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Salaries and wages	490 531	502 781
Costs of social insurance	98 715	101 773
Appropriation to the Company's Social Benefits Fund	13 850	14 628
Other employee benefits	17 340	16 853
Other post-employment benefits	6 059	3 434
Changes in provision for employee benefits	26 126	33 386
Other employee benefit costs	567	255
Total employee benefit	**653 188**	**673 110**

6. Other operating revenue and expenses

6.1. Other operating revenue

	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Gains on disposal of assets:		
Gains on sales of non-current assets	-	743
	-	**743**
Derecognized impairment losses:		
Trade receivables	1 981	1 898
Other (including interest on receivables)	468	1 332
	2 449	**3 230**
Other operating revenue:		
Release of provisions for the fine imposed by OCCP	14 362	9 945
Release of provisions for other fines	3 325	1 655
Interest on trade and other receivables	1 071	1 422
Forex gains on trade receivables and liabilities	-	2 807
Other	992	45
Other operating revenue total	**22 199**	**19 847**

6.2. Other operating expense

	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Losses on disposal of assets:		
Loss on sales of non-current assets	994	-
	994	**-**
Recognized impairment losses:		
Trade receivables	2 821	290
Other (including on interest on receivables)	165	91
	2 986	**381**
Other operating expense:		
Costs of liquidation of non-current and current assets	4 590	13 766
Provisions for other fines	420	-
Court and collection costs	273	304
Costs of transport benefits for non-employees	1 416	1 164
Interest on trade and other liabilities	10	159
Forex losses on trade receivables and liabilities	246	-
Other	524	114
Other operating expense total	**11 459**	**15 888**

7. Financial revenue, financial expenses

7.1. Financial revenue

Interest revenue by class of financial instruments:	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Interest income:		
Bank deposits and accounts	9 775	14 842
Bid bonds and collateral	168	201
Loans granted	131	1 155
Other	77	257
	10 151	**16 455**
Dividends from capital investments	18 723	7 989
Total interest income and dividend	**28 874**	**24 444**

Interest revenue by category of financial instruments:	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Interest income:		
Loans and receivables (including cash in hand and bank deposits)	10 074	16 198
Other	77	257
	10 151	**16 455**
Revenue from dividend earned on shares	18 723	7 989
Total interest income and dividend	**28 874**	**24 444**
Other financial revenue		
Gain on shares	-	-
	-	**-**
Gains on measurement of financial assets and liabilities at FVTPL	-	-
Other financial revenue	-	-
Total financial revenue	**28 874**	**24 444**

7.2. Financial expenses

Interest expense by class of financial instruments:	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Interest expense:		
Interest on loans and overdraft facilities	3 034	5 110
Interest on liabilities under finance lease agreements	4 129	5 478
Interest on long-term liabilities	4 143	5 244
Interest on bid bonds and guarantees	216	171
Other	170	483
Total interest expense	**11 692**	**16 486**

Interest expense by category of financial instruments:	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Interest expense:		
Financial liabilities measured at amortized cost	11 522	16 003
Other	170	483
Total interest expense	**11 692**	**16 486**
Other financial expenses		
Losses on shares:		
Recognized impairment losses on shares	9	-
	9	**-**
Losses on measurement of financial assets and liabilities at FVTPL	941	2 831
Other financial expenses:		
Net forex loss	643	17 437
Other financial expenses	122	343
Total financial expenses	**13 407**	**37 097**

8. Income tax on continuing operations

8.1. Income tax recognized in profit or loss

	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Current income tax:		
Current tax expense	260	152
Adjustments recognized in the current period with respect to prior year tax	(626)	-
	(366)	**152**
Deferred income tax:		
Deferred tax that occurred in the reporting period	31 094	24 259
	31 094	**24 259**
Total tax expense on continued operations recognized in the current year	**30 728**	**24 411**

The decrease of the effective tax rate for 6 months period ended 30 June 2014 in comparison to the same period in 2013 results mainly from occurrence period higher tax-free revenues in the current, in particular, revenues from dividend received from subsidiaries and income from release of provisions.

8.2. Deferred income tax:

For the 6 months period ended 30/06/2014	As at 31/12/2013	Recognized in profit or loss	Recognized in other comprehensive income	As at 30/06/2014
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Temporary differences resulting in items of deferred tax (liabilities) / assets:				
Property, plant and equipment (including lease)	(156 931)	(37 800)	-	(194 731)
Long-term liabilities	(3 031)	786	-	(2 245)
Inventory - impairment allowance	4 328	(508)	-	3 820
Receivables - impairment allowance	9 612	(5 347)	-	4 265
Accrued interest on assets	(2 098)	1 911	-	(187)
Accrued interest on liabilities	-	-	-	-
Provisions for employee benefits	153 589	(31 074)	-	122 515
Other provisions	1 136	(68)	-	1 068
Accrued expenses	5 654	(541)	-	5 113
Deferred revenue	(2 665)	(4 528)	-	(7 193)
Unpaid employee benefits	8 018	(1 470)	-	6 548
Forex losses	9 347	(1 839)	-	7 508
Forex gains	-	(12)	-	(12)
Other	(423)	(1 499)	-	(1 922)
Total	**26 536**	**(81 989)**	**-**	**(55 453)**
Unused tax losses and other reliefs				
Tax losses [(1)]	34 703	50 895	-	85 598
Total	**34 703**	**50 895**	**-**	**85 598**
Total deferred tax assets (liabilities)	**61 239**	**(31 094)**	**-**	**30 145**

[(1)] Deferred tax asset arising from tax losses to be used in future periods consists mainly of a loss incurred by the Company of PLN 181 million that expires in 2014 and PLN 269 million that expires in 2019.

8.2. Deferred income tax (cont'd.):

For the 6 months period ended 30/06/2013	As at 31/12/2012	Recognized in profit or loss	Recognized in other comprehensive income	As at 30/06/2013
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Temporary differences resulting in items of deferred tax (liabilities) / assets:				
Property, plant and equipment (including lease)	(109 269)	(23 421)	-	(132 690)
Long-term liabilities	(4 718)	597	-	(4 121)
Inventory - impairment allowance	4 640	(1 363)	-	3 277
Receivables - impairment allowance	6 535	(1 218)	-	5 317
Accrued interest on assets	(3 203)	789	-	(2 414)
Accrued interest on liabilities	4	(1)	-	3
Provisions for employee benefits	128 276	1 588		129 864
Other provisions	835	(314)	-	521
Accrued expenses	473	2 198	-	2 671
Deferred revenue	(941)	(9 718)	-	(10 659)
Unpaid employee benefits	7 072	(468)	-	6 604
Forex losses	12 486	1 408	-	13 894
Forex gains	(8)	(417)	-	(425)
Other		538	-	538
Total	**42 182**	**(29 802)**	**-**	**12 380**
Unused tax losses and other reliefs				
Tax losses	42 720	5 543	-	48 263
Total	**42 720**	**5 543**	**-**	**48 263**
Total deferred tax assets (liabilities)	**84 902**	**(24 259)**	**-**	**60 643**

8.3. Unrecognized deferred tax asset and unused tax reliefs

As at 30 June 2014 and 31 December 2013 no unrecognized deferred tax asset and unused tax reliefs occurred.

9. Discontinued operations

In the six months period ended 30 June 2014 and 30 June 2013 the Company did not discontinue any operations that would require recognition herein.

10. Property, plant and equipment

Carrying amounts:	As at 30/06/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Land	127 256	127 256
Buildings, premises, civil and water engineering structures	402 329	397 647
Technical equipment and machinery	73 049	79 402
Vehicles	2 995 072	2 905 053
Other fixed assets	4 836	5 818
Fixed assets under construction	13 653	18 654
Total	**3 616 195**	**3 533 830**

Including finance lease:	As at 30/06/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Technical equipment and machinery	12 882	15 522
Vehicles	248 181	262 543
Other fixed assets	-	5
Total	**261 063**	**278 070**

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

For the 6 months period ended 30 June 2013	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
Gross value						
Balance as at 1 January 2013	**105 616**	**365 217**	**150 881**	**3 952 381**	**18 836**	**4 592 931**
Increases						
Acquisition	-	425	2 676	139 505	305	**142 911**
Finance leases	-	-	4 025	-	-	**4 025**
Contribution in kind	-	-	-	-	-	**-**
Other	-	-	1 607	35	-	**1 642**
Decreases						
Sales	-	(27)	(120)	(217)	(38)	**(402)**
Contribution in kind	-	-	-	-	-	**-**
Liquidation	-	(1 652)	(907)	(72 611)	(24)	**(75 194)**
Reclassification to assets held for sale	(6 489)	-	-	(15 506)	-	**(21 995)**
Other	-	-	-	-	(1 616)	**(1 616)**
Balance as at 30 June 2013	**99 127**	**363 963**	**158 162**	**4 003 587**	**17 463**	**4 642 302**

For the 6 months period ended 30 June 2014	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
Gross value						
Balance as at 1 January 2014	**127 256**	**450 380**	**170 554**	**4 064 899**	**18 293**	**4 831 382**
Increases						
Acquisition	-	12 731	3 904	230 217	90	**246 942**
Finance leases	-	-	-	-	-	**-**
Contribution in kind	-	-	-	-	-	**-**
Other	-	-	152	-	-	**152**
Decreases						
Sales	-	-	(141)	(85)	(2)	**(228)**
Contribution in kind	-	-	-	-	-	**-**
Liquidation	-	(9 584)	(435)	(94 899)	(13)	**(104 931)**
Reclassification to assets held for sale	-	-	-	-	-	**-**
Other	-	-	-	-	(152)	**(152)**
Balance as at 30 June 2014	**127 256**	**453 527**	**174 034**	**4 200 132**	**18 216**	**4 973 165**

For the 6 months period ended 30 June 2013	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	**-**	**30 692**	**72 560**	**1 008 920**	**10 790**	**1 122 962**
Increases						
Depreciation charges	-	6 757	11 097	146 379	1 886	**166 119**
Other	-	-	959	28	-	**987**
Decreases						
Sales	-	(8)	(105)	(144)	(20)	**(277)**
Contribution in kind	-	-	-	-	-	**-**
Liquidation	-	(807)	(704)	(61 249)	(22)	**(62 782)**
Reclassification to assets held for sale	-	-	-	(2 941)	-	**(2 941)**
Other	-	-	-	-	(963)	**(963)**
Balance as at 30 June 2013	**-**	**36 634**	**83 807**	**1 090 993**	**11 671**	**1 223 105**

For the 6 months period ended 30 June 2014	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	**-**	**41 433**	**91 152**	**1 159 846**	**12 475**	**1 304 906**
Increases						
Depreciation charges	-	7 984	10 017	136 778	1 050	**155 829**
Other	-	-	130	-	-	**130**
Decreases						
Sales	-	-	(69)	(65)	(2)	**(136)**
Contribution in kind	-	-	-	-	-	**-**
Liquidation	-	(909)	(245)	(91 499)	(13)	**(92 666)**
Reclassification to assets held for sale	-	-	-	-	-	**-**
Other	-	-	-	-	(130)	**(130)**
Balance as at 30 June 2014	-	**48 508**	**100 985**	**1 205 060**	**13 380**	**1 367 933**

For the 6 months period ended 30 June 2013	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 impairment						
Balance as at 1 January 2013	**-**	**-**	**-**	**1 886**	**-**	**1 886**
Increases						
Impairment recognition	-	-	-	-	-	**-**
Other	-	-	-	-	-	**-**
Decreases						
Impairment derecognition	-	-	-	(1 886)	-	**(1 886)**
Reclassification to assets held for sale	-	-	-	-	-	**-**
Other (including release)	-	-	-	-	-	**-**
Balance as at 30 June 2013	**-**	**-**	**-**	**-**	**-**	**-**

For the 6 months period ended 30 June 2014	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 impairment						
Balance as at 1 January 2014	**-**	**11 300**	**-**	**-**	**-**	**11 300**
Increases						
Impairment recognition	-	-	-	-	-	**-**
Other	-	-	-	-	-	**-**
Decreases						
Impairment derecognition	-	(8 610)	-	-	-	**(8 610)**
Reclassification to assets held for sale	-	-	-	-	-	**-**
Other (including release)	-	-	-	-	-	**-**
Balance as at 30 June 2014	**-**	**2 690**	**-**	**-**	**-**	**2 690**

Fixed assets under construction	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Fixed assets under construction		
Opening balance	**20 454**	**20 674**
Increases	244 479	143 355
Grants to property, plant and equipment	(2 538)	-
Decreases - transfer to non-current assets	(246 942)	(146 951)
Decreases - discontinued investments	-	-
Closing balance	**15 453**	**17 078**

Accumulated impairment of fixed assets under construction	for the 6 months period ended 30/06/2014 PLN thousand	for the 6 months period ended 30/06/2013 PLN thousand
Accumulated impairment of fixed assets under construction		
Opening balance	**1 800**	**-**
Increases	-	-
Decreases	-	-
Closing balance	**1 800**	**-**

The amount of expenditures on property, plant and equipment incurred in 1 half of 2014 amounted to PLN 302,832 thousand, while in the same period of prior year of PLN 199,303 thousand. The amount of expenditures on property, plant and equipment is higher in comparison to additions to property, plant and equipment mainly due to repayment of long term investment liabilities on modernization of railroad fleet by the Company.

11. Non-current assets classified as held for sale

Non-current assets classified as held for sale	As at 30/06/2014 PLN thousand	As at 30/06/2013 PLN thousand
Land held for sale	4 995	10 042
Vehicles	12 565	12 565
Total	**17 560**	**22 607**

As at 30 June 2014 and 31 December 2013 the Company had some redundant non-current assets and decided to sell them. As at 31 December 2013 they consisted of 77 engines which, due to technical consumption, are not in use, and four land properties.
On 23 January 2014 PKP CARGO S.A. sold first part of four land properties to PKP Cargo Centrum Logistyczne Małaszewicze Sp. z o.o. The Company did not generate any profit on this transaction, due to the earlier impairment allowance. Until 30 June 2014, the Company didn't sell any of engines. Engines will be sold at auctions held by the Company for the purpose of scrapping them by the purchaser.

12. Subsidiaries

Detailed information regarding subsidiaries as at 30 June 2014 and 31 December 2013:

No.	Name of subsidiary	Core business	Place of registration and operation	% of interests and voting rights held by PKP CARGO S.A.	
				As at 30/06/2014	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. (1)	Repair and maintenance of railroad	Zduńska Wola	100.0%	100.0%
6	PKP CARGO International a. s. with its seat in Bratislava (3)	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. 1)	Repair and maintenance of railroad fleet	Warsaw	100.0%	100.0%
9	PKP CARGOLOK Sp. z o.o. (2)	Repair and maintenance of railroad fleet	Warsaw	100.0%	100.0%
10	CARGOTOR Sp. z o.o. (4)	Management of logistics infrastructure including railway sidings and tracks	Warsaw	100.0%	100.0%

(1) On 2 June 2014 the Extraordinary General Shareholders Meetings of PKP CARGOWAG Sp. z o.o. and PKP CARGO TABOR-KARCZNICE Sp. z o.o. adopted resolutions to take-over of subsidiary PKP CARGO TABOR-KARSZNICE Sp. z o.o. in Zduńska Wola by PKP CARGOWAG Sp. z o.o. in Warsaw. The take-over was proceeded under Article 492 § 1 of the Commercial companies code, i.e. by transfer of all property from entity to acquiring company. The take-over was registered by the National Register Court on 1 July 2014. From 1 July 2014 PKP CARGOWAG Sp. z o.o operates under the name of PKP CARGOTABOR Sp. z o.o with its registered office in Warsaw, 100% of the share capital of the company belongs to the PKP CARGO S.A.

(2) On 1 July 2014 an agreement was concluded for the sale of company between PKP CARGOLOK Sp. z o.o and PKP CARGOTABOR Sp. z o.o. The information is disclosed in Note 32.

(3) 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.

(4) 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 follow:

	Name of subsidiary	Core business	Place of registration and operation	% of interests and voting rights held by PS Trade Trans Sp. z o.o. (nominal value)	
				As at 30/06/2014	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%

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

	Name of subsidiary	Core business	Place of registration and operation	% of interests and voting rights held by the Cargosped Sp. z o.o. (nominal value)	
				As at 30/06/2014	As at 31/12/2013
15	Cargosped Terminal Braniewo Sp. z o.o.	Transshipment of goods, customs depot	Braniewo	100.0%	100.0%

13. Investment in associates

Detailed information regarding associates as at 30 June 2014 and 31 December 2013:

	Name of subsidiary	Core business	Place of registration and operation	% of interests and voting rights held by PKP CARGO S.A.	
				As at 30/06/2014	As at 31/12/2013
1	COSCO POLAND Sp. z o.o.	Sea-land service of container cargo	Gdynia	20.0%	20.0%
2	POL – RAIL S.r.l.	International railway transport	Rome	21.8%	21.8%
3	Międzynarodowa Spedycja MIRTRANS Sp. z o.o. (1)	Shipping services	Gdynia	44.0%	44.0%

(1) On 23 June 2008 the District Court in Gdansk issued a decision to declare the bankruptcy of Międzynarodowa Spedycja Mitrans Sp. z o.o. On 8 January 2013 Extraordinary General Shareholders Meeting adopted a resolution and decided to dissolve the Company, initiate liquidation process and appoint a liquidator.

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

	Name of subsidiary	Core business	Place of registration and operation	% of interests and voting rights held by PS Trade Trans Sp. z o.o. (nominal value)	
				As at 30/06/2014	As at 31/12/2013
4	POL – RAIL S.r.l.	Railway transport	Rome	25.0%	25.0%
5	RENTRANS Cargo Sp. z o.o. Szczecin	Railway transport	Szczecin	27.4%	26.5%
6	Rail Cargo Service Sp. z o.o. Wrocław	Railway transport, IT services	Wrocław	20.0%	20.0%
7	Rail Cargo Spedition GmbH Wiedeń	Railway transport	Vienna	37.7%	37.7%
8	S.C. Trade Trans Terminal SRL Cutrtici	Transshipment , transport, shipping services	Curtici (Romania)	23.9%	23.9%

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

	Name of subsidiary	Core business	Place of registration and operation	% of interests and voting rights held by Cargosped Sp. z o.o. (nominal value)	
				As at 30/06/2014	As at 31/12/2013
9	Gdański Terminal Kontenerowy S.A.	Transshipment , storage, transport and shipping services	Gdańsk	41.9%	41.9%

14. Joint ventures

The Company has shares in joint ventures (joint subsidiaries) and jointly controls indirectly following entities:

	Name of joint venture (joint subsidiary)	Core business	Place of registration and operation	% of interests and voting rights held by PKP CARGO S.A.	
				As at 30/06/2014	As at 31/12/2013
1	PKP CARGO CFL International S.A. (1)	Transport and forwarding services	Bratislava (Słovakia)	50.0%	50.0%

(1) According to the Extraordinary General Shareholders Meeting decision from 17 January 2014 to dissolve the Company PKP CARGO International a.s. in Bratislava and conduct its liquidation, liquidation proceedings also encompassed PKP CARGO CFL International S.A.

The Company has also joint subsidiaries through its subsidiaries: **PS Trade Trans Sp. z o.o.** and **Cargosped Sp. z o.o.**, respectively:

	Name of joint venture (joint subsidiary)	Core business	Place of registration and operation	% of interests and voting rights held by the subsidiaries	
				As at 30/06/2014	As at 31/12/2013
2	Terminale Przeładunkowe Sławków - Medyka Sp. z o.o.	Terminal service in intermodal transport, transshipment of security of palletized cargo shipping and mass metallurgical products.	Sławków	50.0%	50.0%
3	Cargosped Składy Celne Sp. z o.o.	Storage of goods in a customs depot, storage of goods in a domestic warehouse and service of stored goods.	Gdańsk	50.0%	50.0%

14.1. Shares in subsidiaries and associates

	As at 30/06/2014	As at 31/12/2013
	PLN thousand	PLN thousand
CARGOSPED Sp. z o.o.	20 599	20 599
PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o.	40 439	40 439
PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o.	6 666	6 666
PKP CARGO SERVICE Sp. z o.o.	12 676	12 676
PKP CARGO TABOR – Karsznice Sp. z o.o.	13 893	13 893
PKP CARGO International a.s. with its seat in Bratislava (2)	-	-
PS TRADE TRANS Sp. z o.o.	58 814	58 814
PKP CARGOWAG Sp. z o.o.	70 288	70 288
PKP CARGOLOK Sp. z o.o.	16 319	16 319
CARGOTOR Sp. z o.o. (1)	20 182	500
COSCO POLAND Sp. z o.o.	1 100	1 100
POL – RAIL S.r.l.	1 870	1 870
Międzynarodowa Spedycja MIRTRANS Sp. z o.o.	-	-
Total	**262 846**	**243 164**

(1) On 17 April 2014 the Extraordinary General Shareholders Meeting of CARGOTOR Sp. z o.o. increased share capital from PLN 500 thousand to PLN 20,181 thousand by contribution in kind constituting the PKP CARGO S.A.'s debt from PKP SA from the sale of undepreciated investment expenditures.

As at 30 June 2014 the Company did not recognize any additional impairment allowance related to shares held in subsidiaries.

(2) As at 31 December 2013 the Company has recognized an additional impairment allowance on shares in PKP CARGO International a.s., due to a decision to dissolve the Company.

14.2. Investments in subsidiaries and associates

	for the 6 months period ended 30 June 2014	for the 6 months period ended 30 June 2013
	PLN thousand	PLN thousand
Investments in subsidiaries		
Opening balance	**240 194**	**241 933**
including impairment allowance	*(7 561)*	*(6 340)*
Increases	**19 682**	**-**
acquisition (including contributions in-kind, debt conversions etc.)	19 682	
Other	-	-
Decreases	**-**	**-**
Sale	-	-
Other	-	-
Closing balance	**259 876**	**241 933**
including impairment allowance	*(7 561)*	*(6 340)*
Investments in associates		
Opening balance	**2 970**	**8 987**
including impairment allowance	*(1 018)*	*(1 018)*
Increases	**-**	**-**
acquisition (including contributions in-kind, debt conversions etc.)	-	-
Other	-	-
Decreases	**-**	**-**
Sale	-	-
Other	-	-
Closing balance	**2 970**	**8 987**
including impairment allowance	*(1 018)*	*(1 018)*
Investments in joint subsidiaries		
Opening balance	**-**	**1 000**
including impairment allowance	-	-
Increases	**-**	**-**
Acquisition	-	-
Other	-	-
Decreases	**-**	**-**
Sale	-	-
Other	-	-
Closing balance	**-**	**1 000**
including impairment allowance	-	-

15. Other financial assets

	As at 30/06/2014 PLN thousand	As at 31/12/2013 PLN thousand
Financial assets measured at fair value through profit or loss		
Currency forwards and spots	1 283	2 224
	1 283	**2 224**
Investments in shares		
Shares in Polish entities[1)]	6 021	6 020
Shares in foreign entities[1)]	-	9
	6 021	**6 029**
Loans and receivables measured at amortized cost		
Loans granted[2)]	3 933	4 371
Deposits from 3 months to 1 year	200 073	604 359
Receivables form EGP [3)]	-	79 614
	204 006	**688 344**
Total	**211 310**	**696 597**
Current assets	204 180	689 157
Non-current assets	7 130	7 440
Total	**211 310**	**696 597**

(1) As at 30 June 2014 the impairment allowance on shares amounts to PLN 11,834 thousand, while as at 31 December 2013 amounted to PLN 11,825 thousand.

(2) In the period ended 30 June 2014, the Company paid to the companies of the Group PKP CARGO SA additional tranche of the loan in the amount of PLN 1,040 thousand, granted for a period of 30 months and granted a loan in the amount of PLN 4,000 thousand, which was repaid on 30 June 2014. All loans were concluded on the arm's length basis.

In 2013 PKP CARGO S.A has granted 4 loans to subsidiaries of PKP CARGO Capital Group in the total amount of PLN 5,001 thousand. The loans were granted for the period of 12 to 30 months. As at 31 December 2013 the balance of loans granted amounted to PLN 4,731 thousand. The loans were concluded on the arm's length basis.

(3) Receivables from EGP represent 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. Cash transferred to the brokerage house was returned to PKP CARGO S.A. on 5 May 2014 after registration of the Company's share capital increase as a payment for employee shares. 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.

16. Other non-financial assets

The value of other non-financial assets mainly consist of prepaid expenses, the value of which as at 30 June 2014 amounts to PLN 59,305 thousand and as at 31 December 2013 PLN 24,414 thousand. As at 30 June 2014 the most significant items of prepayments are: the cost of traction energy of PLN 18,523 thousand, Social Benefit Fund appropriations of PLN 17,660 thousand, the cost of insurance of PLN 4,853 thousand, the cost of IT services of PLN 2,142 thousand, prepaid transport benefits for employees of PLN 6,433 thousand. As at 31 December 2013 the most significant items of prepayments were: the costs of IT services of PLN 7,148 thousand, prepaid rents of PLN 2,648 thousand, prepaid transport benefits for employees of PLN 9,750 thousand.

17. Trade and other receivables

	As at 30/06/2014 PLN thousand	As at 31/12/2013 PLN thousand
Trade receivables	482 334	520 809
Impairment allowance for receivables	(70 186)	(81 417)
Total	**412 148**	**439 392**
Receivables from sales of non-financial non-current assets	2	21 321
State receivables (excluding CIT)	3 594	4 480
Dividends	18 656	-
Receivables from co-financing agreements	1 930	10 782
VAT settlements	7 498	-
Other	2 146	1 261
Total	**445 974**	**477 236**

18. 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 30/06/2014 PLN thousand	As at 31/12/2013 PLN thousand
Cash in hand and at bank	38 600	52 762
Bank deposits up to 3 months	253 691	176 470
Total	**292 291**	**229 232**
Cash and cash equivalents classified as held for sale	-	-
Total	**292 291**	**229 232**

19. Changes in share capital, dividends

	As at 30/06/2014 PLN thousand	As at 31/12/2013 PLN thousand
Share capital consists of:		
Ordinary shares, fully paid and registered	2 239 346	2 166 901
Ordinary shares, fully paid and not registered	-	-
Total share capital	**2 239 346**	**2 166 901**

As at 30 June 2014 and 31 December 2013 share capital consisted of ordinary shares with the nominal value of PLN 50 each. Fully covered ordinary shares with nominal value of PLN 50 are equivalent to one vote at the shareholders' meeting and are entitled to the dividend.

On 12 May 2014, the General Shareholders Meeting of PKP CARGO S.A. ("GSM" adopted a resolution on distribution of profit recognized in 2013, resulting of the separate financial statements of the Company for the year ended 31 December 2013. In accordance with the GSM resolution a net profit achieved in 2013 in amount of PLN 94,083 thousand will be allocated to:

1) payment of the dividend in amount of PLN 86,556 thousand,
2) share premium in amount of PLN 7,527 thousand.

Additionally, the General Shareholders Meeting decided to allocate PLN 50,939 thousand from retained earnings on the payment of dividends. The dividend day was established on 20 May 2014 and the dividend payment date on 4 June 2014.

19.1. Ordinary shares fully covered with capital

During the period covered by these Interim Condensed Financial Statements, the following changes in the Company's share capital took places:

	Number of shares	Share capital
	units	PLN thousand
As at 1/01/2013	**2 889 200**	**2 889 200**
No changes	-	-
As at 30/06/2013	**2 889 200**	**2 889 200**
As at 1/01/2014	**43 338 015**	**2 166 901**
issue of shares series C	1 448 902	72 445
As at 30/06/2014	**44 786 917**	**2 239 346**

According to the agreement between the Management Board of PKP CARGO S.A. and trade unions signed on 2 September 2013 on subject of the Employment Guarantees Program (PGP), the Company made the transaction of payment in form of shares. On 2 October 2013 the Extraordinary General Shareholders Meeting adopted resolution of share capital increase by issuance of series C shares, which were acquired in the open subscription. On 7 March 2014, the Management Board allocated shares of series C to eligible employees. In the subscription, the Company has allocated 1,448,902 shares of series C at a nominal price of PLN 50 per each. Employee benefits are disclosed in Note 21.

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

19.2. Share Premium

During the period covered by these Interim Condensed Financial Statements, the following changes in the share premium took places:

	Agio	Profit appropriations (statutory	Profit appropriation (above the statutory minimum)	Capital created from shares redemption	Share-based payment provision	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
As at 1/01/2013	58 651	19 158	-	-	-	77 809
No changes	-	-	-	-	-	-
As at 30/06/2013	**58 651**	**19 158**	**-**	**-**	**-**	**77 809**
As at 1/01/2014	175 730	36 497	199 248	139 982	100 015	651 472
Issue of shares series C	26 080	-	-	-	(98 525)	(72 445)
Cost of issue of shares series C	(551)	-	-	-	-	(551)
Adjustment to EGP provisions	-	-	-	-	(1 490)	(1 490)
Distribution of profit	-	7 527	-	-	-	7 527
As at 30/06/2014	**201 259**	**44 024**	**199 248**	**139 982**	**-**	**584 513**

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 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 Company's share capital in 2013 and intended to cover losses.

The share-based payment results from Employee Guarantee Program. On 2 September 2013 the Management Board of PKP CARGO S.A. and trade unions signed an agreement on the Employment Guarantee Program. On 7 March 2014, the Management Board allocated shares to eligible employees. Adjustment to the provision for Employee Guarantee Program is the result of change of the form of employees' bonus payment for a part of eligible employees, in exchange for shares employees received cash benefits. This amount was paid on account of the obligations claimed by the enforcement authorities. Employee benefits are disclosed in Note 21.

On 12 May 2014, the General Shareholders Meeting of PKP CARGO S.A. adopted a resolution on distribution of profit made in 2013, resulting from the separate financial statements of the Company for the year ended 31 December 2013. In accordance with the resolution part of net profit achieved in 2013 in amount of PLN 7,527 thousand was dedicated to increase share premium.

20. Earnings per share

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

	for the 6 months period ended 30/06/2014	for the 6 months period ended 30/06/2013
	PLN thousand	PLN thousand
Profit on continuing operations	129 861	80 205
Profit on discontinued operations	-	-
Profit used to calculate basic earnings per share on continuing operations	**129 861**	**80 205**

20.1. Basic earnings per share

	for the 6 months period ended 30/06/2014	for the 6 months period ended 30/06/ 2013
	PLN thousand	PLN thousand
Weighted average number of ordinary shares (units)	44 258 588	43 338 000
Basic earnings per share (PLN per share)		
On continuing operations	2.93	1.85
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 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 50.00 (previously PLN 750.00). This operation did not have an impact on the value of share capital. In order to ensure comparability of data, the value of earnings per share for the period ended 30 June 2013 has been calculated taking into account the share split.

20.2. Diluted earnings per share

	for the 6 months period ended 30/06/2014	for the 6 months period ended 30/06/ 2013
	PLN thousand	PLN thousand
Weighted average number of ordinary shares (units)	44 794 904	43 338 000
Diluted earnings per share (PLN per share)		
On continuing operations	2.90	1.85
On discontinued operations	-	-

In accordance with IAS 33 the Company prepares diluted earnings per share calculation taking into account the potential shares which are issued conditionally under the incentive program - the employee of share based payment program (EGP) described in Note 29.2. 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 have been estimated for the employee of the Company and employees of subsidiaries within the share based program EGP concluded on 2 September 2013 and actually granted 1,448,902 shares on 7 March 2014 of the issue of shares of series C.

21. Employee benefits- share based payments

In 2013 PKP CARGO S.A. 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 PKP CARGO S.A. and trade unions on subject of the Employment Guarantees Program (PGP). According to the agreement employees of Company and employees of entities belonging to PKP CARGO S.A. Group will receive a one-off share based payment settled in shares of PKP CARGO S.A. The right to a share based payment was granted to the employees of PKP CARGO S.A., who at the time of the conclusion of the agreement were employed in the 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 CARGOLOK Sp. z o.o. with an exception of Management Board Members 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 is dependent on their seniority in the railways sector. The number of employee shares will be equal to the quotient of the amount of one-off bonus and the sales price of the Company's shares offered by PKP S.A in public offer, i.e. PLN 68.00 per share.

On 2 October 2013 the Extraordinary General Shareholders Meeting adopted resolution of share capital increase by issuance of series C shares, which were acquired in the open subscription. Shares of series C were only offered to employees of the Company and eligible employees of the Group PKP CARGO. Entitled employees could sign up for shares In the period from 2 December 2013 to 28 February 2014.

In order to realize this employees' entitlement the Company will increase its share capital by issuing new shares, excluding issuance rights. On 7 March 2014, the Management Board allocated shares of series C to eligible employees. In the subscription, the Company has allocated 1,448,902 shares of series C at a nominal price of PLN 50 per each.

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 dividend from 1 January 2013. The expiration date of this limitation is 30 October 2015.
On 7 March 2014, the Management Board allocated 1,448,902 shares of series C to eligible employees. Issuance of Series C shares was registered in the National Court Register on 25 April 2014.

Amount related to Employment Guarantee Program recognized in the Statement of Financial Position:

	As at 30/06/2014 PLN thousand	As at 31/12/2013 PLN thousand
Share capital (shares series C)	72 445	-
Share premium including:	25 529	100 015
Share premium (agio)	26 080	-
Share premium (agio) - cost of issue of shares series C	(551)	-
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 provisions for employee benefits	-	66 297

Issuance of employee shares under the Employee Guarantee Program had no impact on the Company's result in the period ended 30 June 2014. The total cost of the bonuses has been included in profit or loss of 2013.

22. Credit facilities and loans received

	As at 30/06/2014 PLN thousand	As at 31/12/2013 PLN thousand
Credit facilities and loans received measured at amortized cost		
Overdraft facilities	-	-
Bank loans - secured on assets	145 521	175 387
Bank loans - other	-	-
Other	-	-
Total	**145 521**	**175 387**
Current liabilities	59 733	59 733
Non-current liabilities	85 788	115 654
Total	**145 521**	**175 387**

22.1. Summary of loan agreements

Investment loans agreements were signed to finance the modernization of engines and 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 Company's investment loans are presented below.

As at 30/06/2014

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	13 840
investment loan	mBank S.A.	PLN	WIBOR 1M + margin	21/03/2015	Registered pledge on the electric engines ET22 which is gradually released after payment of specific amount of money.	36 400	36 400	12 610
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	15 661
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	25 416
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	33 002
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	34 440
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	10 552
							Total	**145 521**

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	Liability in PLN
investment loan	mBank S.A.	PLN	WIBOR 1M + margin	5/10/2015	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	20 137
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	29 659
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	38 562
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	39 360
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**

On 3 December 2013 the 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 December 2013 the Company has not exercised the option to use the credit facility.

The Company signed also an agreement with mBank S.A. for the overdraft facility up to PLN 100,000 thousand. As at 30 June 2014 and as at 31 December 2013 the Company did not use granted facility.

22.2. Events of default in loan agreements

Within the period covered by this interim separate financial statements no breaches of covenants in loan agreements occured.

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

	Minimum lease payments	
	As at 30/06/2014 PLN thousand	As at 31/12/2013 PLN thousand
Up to one year	130 647	116 143
Over one year, up to five years	163 832	236 294
Over five years	-	2 691
	294 479	355 128
Less future lease charges	(13 820)	(17 526)
Present value of minimum lease payments	**280 659**	**337 602**

	Present value of minimum lease payments	
	As at 30/06/2014 PLN thousand	As at 31/12/2013 PLN thousand
Up to one year	124 376	108 770
Over one year, up to five years	156 283	226 152
Over five years	-	2 680
Present value of minimum lease payments	**280 659**	**337 602**

	As at 30/06/2014 PLN thousand	As at 31/12/2013 PLN thousand
Included in the financial statements under:		
Short-term liabilities due to finance lease and leases with purchase option	124 376	108 770
Long-term liabilities due to finance lease and leases with purchase option	156 283	228 832
Total	**280 659**	**337 602**

24. Trade and other liabilities

	As at 30/06/2014 PLN thousand	As at 31/12/2013 PLN thousand
Trade liabilities	197 847	237 317
Accruals	20 383	22 808
Liabilities due to purchase non-financial non-current assets	150 364	203 294
Liabilities related to securities (deposits)	20 199	28 906
State liabilities	91 701	107 417
Settlements with employees	67 471	73 099
Other liabilities	12 462	591
VAT liabilities	-	44 676
Total	**560 427**	**718 108**
Current liabilities	469 247	604 599
Non-current liabilities	91 180	113 509
Total	**560 427**	**718 108**

The average turnover of PKP CARGO S.A.'s trade liabilities is 30 days from the invoice receipt date. Seldom, agreements are concluded with the payment deadline exceeding 30 days, but then PKP CARGO S.A. 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, PKP CARGO S.A. 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.

25. Employee benefits

Amounts recognized in **the statement of financial position** in relation to employee benefit plans liabilities:

	As at 30/06/2014 PLN thousand	As at 31/12/2013 PLN thousand
Post-employment defined benefit plans		
– retirement benefits	135 453	138 591
– appropriations to the Social Benefit Fund for pensioners	141 879	142 316
– transport benefits	36 354	36 055
Other long-term employee benefits		
– jubilee bonuses	304 048	303 317
Short-term benefits		
– other employee benefits (unused holidays/ bonuses)	25 057	31 165
– provision for Employment Guarantee Program (EGP)	-	66 297
Total	**642 791**	**717 741**
– long-term	551 951	551 951
– short-term	90 840	165 790
Total	**642 791**	**717 741**

26. Other provisions

	As at 30/06/2014 PLN thousand	As at 31/12/2013 PLN thousand
Provision for the fine imposed by OCCP	8 416	22 778
Other provisions	16 382	20 449
Total	**24 798**	**43 227**
Short-term provisions	16 382	20 449
Long-term provisions	8 416	22 778
Total	**24 798**	**43 227**

Other provisions	Provision for the fine imposed by OCCP PLN thousand	Other PLN thousand	Total PLN thousand
As at 1 January 2013	**16 576**	**4 396**	**20 972**
Provisions recognized	-	-	-
Derecognized	(9 946)	(1 655)	(11 601)
Used	-	-	-
Interest expense	-	-	-
As at 30 June 2013	**6 630**	**2 741**	**9 371**
As at 1 January 2014	**22 778**	**20 449**	**43 227**
Provisions recognized	-	421	421
Derecognized	(14 362)	(4 488)	(18 850)
Used	-	-	-
Interest expense	-	-	-
As at 30 June 2014	**8 416**	**16 382**	**24 798**

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

The provision represents a fines imposed on Company by the Office of Competition and Consumer Protection in Warsaw. First of them (in the amount of PLN 16,576 thousand imposed on 31 December 2012 on the basis of the Decision no RWR 44/2012) was imposed on the basis of statement that PKP CARGO S.A. was accused of blocking the possibility of compete with shipping companies belonging to PKP CARGO Capital Group for the period from 1 April 2011 to 31 March 2012. In 2013 as a result of recalculation of the provision for known and quantifiable risk related to OCCP's proceedings, the Company derecognized the provision in the amount of PLN 9,945 thousand, acknowledging that provision in amount of PLN 6,630 thousand is the best estimate of the amount of which payment is probable. As at 30 June 2014, these estimates have not been changed. Second fine (in the amount of PLN 1,786 thousand on the basis of the Decision no DOK-4/2012 dated on 26 July 2012) was 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, Company filed an appeal to district Court in Warsaw - Court of Competition and Consumer Protection. OCCP's decision is unlawful.

On 3 October 2013 the Supreme Court rescinded the judgments 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 Company's appeal from the District Court's judgment). As a result, Office for Competition and Customer Protection returned the fine paid by PKP CARGO S.A. in the amount of PLN 60,362 thousand. As at 31 December 2013, the Management Board estimated that the provision in amount of PLN 14,362 thousand is the best estimate of the amount of which payment is probable. On 17 March 2014 (sig. Act XVII AmA 148/13) Court of Competition and Consumer Protection in the decision no DOK-3/2009 repealed from the decision no DOK-3/2009 stating that it is bound by the law applied by the Supreme Court, and as a result, the Management Board has decided to reverse the remaining amount of the provision for fine on decision no DOK-3/2009.

Other provisions

According to the Management Board, the amount of other provisions as at 30 June 2014 and as at 31 December 2013 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.

27. Other financial liabilities

	As at 30/06/2014 PLN thousand	As at 31/12/2013 PLN thousand
Other financial liabilities		
Cash pool	33 411	39 640
Total	**33 411**	**39 640**
Current liabilities	33 411	39 640
Non-current liabilities	-	-
Total	**33 411**	**39 640**

On 10 December 2013 the selected companies of the Capital Group of PKP CARGO S.A. signed an agreement for cash management, so called cash pool, which was based on overdraft credit facility to the current bank account of PKP CARGO S.A. The purpose of this agreement is to optimize cash flow management and ensuring the solvency of all companies. Each of the companies may borrow up to the amount established for their individual liquidity limit. The total debt of all the companies at one time may not exceed the amount of PLN 100,000 thousand.

When PKP CARGO S.A. lends cash to its subsidiaries, the balance of cash pool is presented in other financial assets. When the Company borrows cash from its subsidiaries, it is presented as other financial liabilities.

28. Financial instruments - categories and classes of financial instruments

Financial instruments by category	As at 30/06/2014 PLN thousand	As at 31/12/2013 PLN thousand
Financial assets		
Financial assets measured at fair value through profit or loss	1 283	2 224
Loans and receivables	908 446	1 378 289
Total assets by categories	**909 729**	**1 380 513**
Financial liabilities		
Financial liabilities measured at amortized cost	547 526	678 446
Liabilities excluded from IAS 39 (finance lease)	280 659	337 602
Total liabilities by categories	**828 185**	**1 016 048**

Financial instruments by classes	As at 30/06/2014 PLN thousand	As at 31/12/2013 PLN thousand
Trade receivables	412 148	439 392
Receivables from sales of non-current assets	2	21 321
Loans granted	3 933	4 371
Receivables related to EGP	-	79 614
Bank deposits (over 3 months)	200 073	604 359
Cash	292 291	229 232
Assets from measurement of derivatives and embedded derivatives including:		
Derivatives held for trading	1 283	2 224
Total financial assets	**909 729**	**1 380 513**
Debt securities issued	-	-
Credit facilities and loans	145 521	175 387
Trade liabilities	218 230	260 125
Liabilities arising from purchase of non-current assets	150 364	203 294
Finance leases	280 659	337 602
Cash pool	33 411	39 640
Financial liabilities total	**828 185**	**1 016 048**

29. Related party transactions

29.1. Commercial transactions

In the financial year, the Company concluded the following commercial transactions with related parties:

	for the 6 months period ended 30/06/2014		for the 6 months period ended 30/06/2013	
	Sales to related parties PLN thousand	Purchases from related parties PLN thousand	Sales to related parties PLN thousand	Purchases from related parties PLN thousand
Parent Company (PKP S.A.)	462	32 816	624	44 690
Subsidiaries / Co-subsidiaries	272 284	228 657	252 523	150 909
Associates	-	-	9 620	-
Other related parties from PKP S.A. Group	32 618	574 804	38 071	713 861

	As at 30/06/2014		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.)	2 657	546	22 447	7 609
Subsidiaries / Co-subsidiaries	55 446	55 923	50 798	37 032
Associates	-	-	-	3
Other related parties from PKP S.A. Group	7 851	100 237	9 910	117 250

During reporting periods the Company carried out related party transactions with the State Treasury. All transactions were concluded on the arm's length basis.

29.2. Loans granted to / received from related parties

	As at 30/06/2014	As at 31/12/2013
	PLN thousand	PLN thousand
Loans granted to related parties	3 933	4 371
Loans received from related parties	-	-
Loan granted to members of the management board	-	-
Total	**3 933**	**4 371**

(1) The description of Loans granted to related parties is disclosed in Note 15.

29.3. Remuneration of executive management

Remuneration of Members of the Management Board in the reporting period:	for the 6 months period ended 30/06/2014	for the 6 months period ended 30/06/2013
	PLN thousand	PLN thousand
Short-term benefits	1 255	1 157
Post-employment benefits	562	102
Employment termination benefits	256	264
Total	**2 073**	**1 523**

Remuneration of Members of the Supervisory Board in the reporting period:	for the 6 months period ended 30/06/2014	for the 6 months period ended 30/06/2013
	PLN thousand	PLN thousand
Short-term benefits	204	160
Total	**204**	**160**

Remuneration of other executive management (Proxies, Managing Directors) in the reporting period:	for the 6 months period ended 30/06/2014	for the 6 months period ended 30/06/2013
	PLN thousand	PLN thousand
Short-term benefits	805	314
Share-based payments	11	-
Employment termination benefits	19	21
Total	**835**	**335**

During the six months period ended 30 June 2014 and six months period ended 30 June 2013 Members of the Management Board and Supervisory Board of the Company did not conclude any purchase or sale transactions as well as did not grant nor receive any loans or guarantees.

30. Contingent liabilities

	As at 30/06/2014 PLN thousand	As at 31/12/2013 PLN thousand
Sureties granted to subsidiaries (i)	24 657	24 951
Guarantees issued on request of PKP Cargo S.A. (ii)	20 144	32 973
Proceedings carried out by OCCP (iii)	9 946	9 946
Other (iv)	-	-
Total	**54 747**	**67 870**

(i) Sureties and guarantees granted to subsidiaries

As at 30 June 2014 the following valid sureties were granted by the Company: PKP Cargo Service sp. z o.o. (surety regarding a multi-currency credit facility agreement and guarantees), 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 and surety of the guarantee line), 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 Company: PKP Cargo Service sp. z o.o. (surety regarding a multi-currency credit facility agreement and guarantees), 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).

(ii) Guarantees issued by banks on request of PKP CARGO S.A.

As at 30 June 2014 a number of guarantees issued by banks at the Company's request to counterparties were effective. The guarantees included bid bonds (worth PLN 900 thousand) and performance bonds (worth PLN 15,354 thousand) and payment bonds (worth PLN 3,890 thousand).

As at 31 December 2013 a number of guarantees issued by banks at the Company's request to counterparties were effective. The guarantees included bid bonds (worth PLN 2,000 thousand) and performance bonds (worth PLN 28,004 thousand) and payment bonds (worth PLN 2,969 thousand).

(iii) Proceedings conducted by the OCCP

As at 30 June 2014 and 31 December 2013 the Company recognizes as a contingent liability part of provision for the fine imposed by OCCP of PLN 9,945 thousand, which has not been recognized in provisions for liabilities. In case of a negative outcome of the proceeding described in note 26 the Company may have to recognize the cost in profit or loss.

(iv) Other contingent liabilities

On 24 June 2014 the Company received a demand for payment from a potential breach of a trade agreement by the Company. Due to the early stage of the case, the Company is not able to reliably assess the amount of the liability and the likelihood of its payment. Consequently, the assessment of future events may vary in future periods.

31. Commitments to incur expenses for non-current assets

In May 2013 the 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 30 June 2014 will range from PLN 110.2 million to PLN 113 million, depending on fulfillment of specific technical conditions.

In September 2013 the Company concluded an agreement with a contractor for the execution and delivery of 330 newly built Sggrss series container wagons. Until 30 June 2014, the Company received 140 wagons, while the remainder part of wagons according to the scheduled timetable, should be delivered until the end of 2014.

The future value of the liabilities under this agreement as at 30 June 2014 will amount to PLN 67.3 million. For the implementation of this project the Company will be granted a funding under the Operational Program "Infrastructure and Environment", in a total amount not exceeding 30% of contract value.

The 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 under the agreement is approximately PLN 11.4 million.

32. Events after reporting date

On 1 July 2014 the take-over of subsidiary PKP CARGO TABOR-KARSZNICE Sp. z o.o. (acquired company) by PKP CARGOWAG Sp. z o.o. (the acquiring company under a new name: PKP CARGOTABOR Sp. z o.o. was registered by the National Register Court. For more information please refer to the Note 12.

On 1 July 2014 an agreement was signed for sale of the company between CARGOLOK Sp. z o.o. (vendor) and PKP CARGOTABOR Sp. z o.o. (buyer). The subject of the sale is the sale of the company, which is understood as the sale of organized units of tangible and intangible assets for business within the meaning of Art. 551 of the Civil Code (including the name of the company - PKP CARGOLOK, movable property, rights arising from contracts, cash, cash receivables, business secrets, books and documents related to business of the enterprise) and the assumption of liabilities associated with entrepreneurship.

On 22 August 2014 the Management Board of PKP CARGO S.A. received an information from the President of the Office of Competition and Consumer Protection to continue the anti-trust proceeding related to the accusation of PKP CARGO S.A. for using a dominant position in domestic rail freight market for the period from 1 May 2006 to 20 April 2007 (proceedings in which a decision no DOK-3/2009 was issued). As at the date of publication of the foregoing financial statements the Management Board of PKP CARGO S.A. does not foresee any threat that this proceeding will be finalized with a decision to impose another financial penalty to the Company. Due to the early stage of the proceeding, it cannot be excluded that in the occurrence of the future events, the assessment of the Management Board may change and may have an impact on the financial information presented in subsequent reporting periods.

33. Approval of the financial statements

These Interim Condensed Separate Financial Statements were approved for publication by the Management Board of the Company on 27 August 2014.

The Management Board

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

Warsaw, 27 August 2014

Interim Report of the Management Board of PKP CARGO Capital Group for the first half of 2014

INTERIM REPORT OF THE MANAGEMENT BOARD OF PKP CARGO CAPITAL GROUP FOR THE FIRST HALF OF 2014

TABLE OF CONTENTS

LIST OF TABLES

TABLE OF FIGURES

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

Table 1 Selected financial information of the PKP CARGO Group

PKP CARGO GROUP	6 months ended 30 Jun 2014	6 months ended 30 Jun 2013	6 months ended 30 Jun 2014	6 months ended 30 Jun 2013
	PLN '000		EUR '000	
Total operating revenue	2,099,828	2,291,230	502,544	543,719
Profit on operating activities	168,952	126,343	40,435	29,981
Profit before tax	163,648	104,668	39,165	24,838
Net profit	128,149	76,766	30,669	18,217
Net profit attributable to shareholders of the parent company	126,158	75,754	30,193	17,977
Weighted average number of shares	44,258,588 shares	43,338,000 shares	44,258,588 shares	43,338,000 shares
Weighted average number of shares assumed for the calculation of diluted earnings	44,794,904 shares	43,338,000 shares	44,794,904 shares	43,338,000 shares
Earnings per share	PLN 2.86	PLN 1.76	EUR 0.68	EUR 0.42
Diluted earnings per share	PLN 2.83	PLN 1.76	EUR 0.68	0.42 EUR
Net cash flow provided by operating activities	135,190	292,967	32,355	69,522
Net cash flow provided by investment activities	184,498	-91,283	44,155	-21,662
Net cash flow provided by financing activities	-244,017	-134,922	-58,400	-32,018
Change in balance of cash and cash equivalents	75,671	66,762	18,110	15,843
	30 Jun 2014	31 Dec 2013	30 Jun 2014	31 Dec 2013
Non-current assets	4 083,203	4,049,895	981,327	976,537
Current assets	1,261,617	1,676,161	303,208	404,167
Assets held for sale	17,560	17,560	4,220	4,234
Share capital	2,239,346	2,166,901	538,188	522,497
Equity attributable to the shareholders of the parent company	3 433,138	3,446,517	825,095	831,047
Equity attributable non-controlling interest	63,326	62,377	15,219	15,041
Non-current liabilities	1 022,286	1,166,736	245,689	281,331
Current liabilities	843,630	1,067,986	202,752	257,520

Source: Own review

Table 2 Selected financial information of PKP CARGO S.A.

PKP CARGO S.A.	6 months ended 30 Jun 2014	6 months ended 30 Jun 2013	6 months ended 30 Jun 2014	6 months ended 30 Jun 2013
	PLN '000		EUR '000	
Total operating revenue	1,884,670	2,028,446	451,051	481,359
Profit on operating activities	145,122	117,269	34,731	27,828
Profit before tax	160,589	104,616	38,433	24,826
Net profit on continuing operations	129,861	80,205	31,079	19,033
Total comprehensive income	129,861	80,205	31,079	19,033
Weighted average number of shares	44,258,588 shares	43,338,000 shares	44,258,588 shares	43,338,000 shares
Weighted average number of shares assumed for the calculation of diluted earnings	44,794,904 shares	43,338,000 shares	44,794,904 shares	43,338,000 shares
Earnings per share	PLN 2.93	PLN 1.85	EUR 0.70	EUR 0.44
Diluted earnings per share	PLN 2.90	PLN 1.85	EUR 0.69	0.44 EUR
Net cash flow provided by operating activities	97,745	260,237	23,393	61,755
Net cash flow used in investment activities	189,453	-78,980	45,341	-18,742
Net cash flow used in financial activities	-224,138	-101,521	-53,642	-24,091
Change in balance of cash and cash equivalents	63,059	79,736	15,092	18,922
	30 Jun 2014	**31 Dec 2013**	**30 Jun 2014**	**31 Dec 2013**
Non-current assets	3 973,418	3,905,419	954,942	941,700
Current assets	1,050,066	1,466,645	252,365	353,647
Assets held for sale	17,560	22,607	4,220	5,451
Share capital	2,239,346	2,166,901	538,188	522,497
Equity	3 353,290	3,362,966	805,905	810,900
Non-current liabilities	893,618	1,032,724	214,766	249,017
Current liabilities	794,136	998,981	190,857	240,881

Source: Own review

For the purpose of conversion of items of the statement of financial position as of 30 June 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 (4.1609 and 4.1472, respectively) were used. Items of the statement of comprehensive income and the statement of cash flows for the 6 months of 2014 and 6 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 6 months ended 30 June 2014 and 30 June 2013 (4.1784 and 4.2140, respectively).

2. Organisation of the PKP CARGO Group

2.1. Key information about the PKP CARGO Group[1]

PKP CARGO Group is 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, the Netherlands, and Lithuania. 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.

2.2. Entities subject to consolidation

Interim Condensed Consolidated Financial Statements for six months period ended on 30 June 2014 covers the PKP CARGO S.A. Parent Company and 10 subsidiaries consolidated using full 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.).
10. CARGOTOR Sp. z o.o.

In addition, note 14 to the Interim Condensed Consolidated Financial Statements identifies 14 entities accounted for under the equity method.

Below is the description of subsidiaries consolidated using full method.

<u>PKP CARGO S.A.</u>

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 Regional 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. 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.

[1] For the purposes of this Report:

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

PKP CARGO SERVICE Sp. z o.o.

PKP CARGO SERVICE Sp. z o. o. was established as Agencje Celne PKP CARGO Sp. z o.o. on 11 July 2002 by PKP CARGO S.A. 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.

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 maintenance 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 for the PKP CARGO Group.

"PKP CARGOLOK" Sp. z o.o.

"PKP CARGOLOK" Sp. z o.o with its registered office in Warsaw was registered as PKP CARGO TABOR-CZERWIEŃSK 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 wheelset 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.

On 1 July 2014 activities of the PKP CARGO Group companies responsible for rolling stock maintenance were consolidated. Currently, competencies in this area are centred in CARGOTABOR Sp. z o.o. Consolidation of activities of the companies is described in the further part of the Management Board's report on the activities of PKP CARGO Group, in chapter 4.7.

"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 - transhipment, storage, sorting, packaging, fracturing and a broad range of other auxiliary services. "PKP CARGO Centrum Logistyczne Małaszewicze" Sp. z o.o. has terminals enabling transhipment of all types of bulk and itemised goods.

"PKP CARGO Centrum 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 - transhipment, 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 transhipment of oversize cargo, requiring the use of specialised transhipment 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, transhipment, storage, warehousing, confectioning 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 transhipments of different goods and coal trade. The company is a direct importer of Russian coal. It engages in wholesale and retail of coal.

CARGOTOR Sp. z o.o.

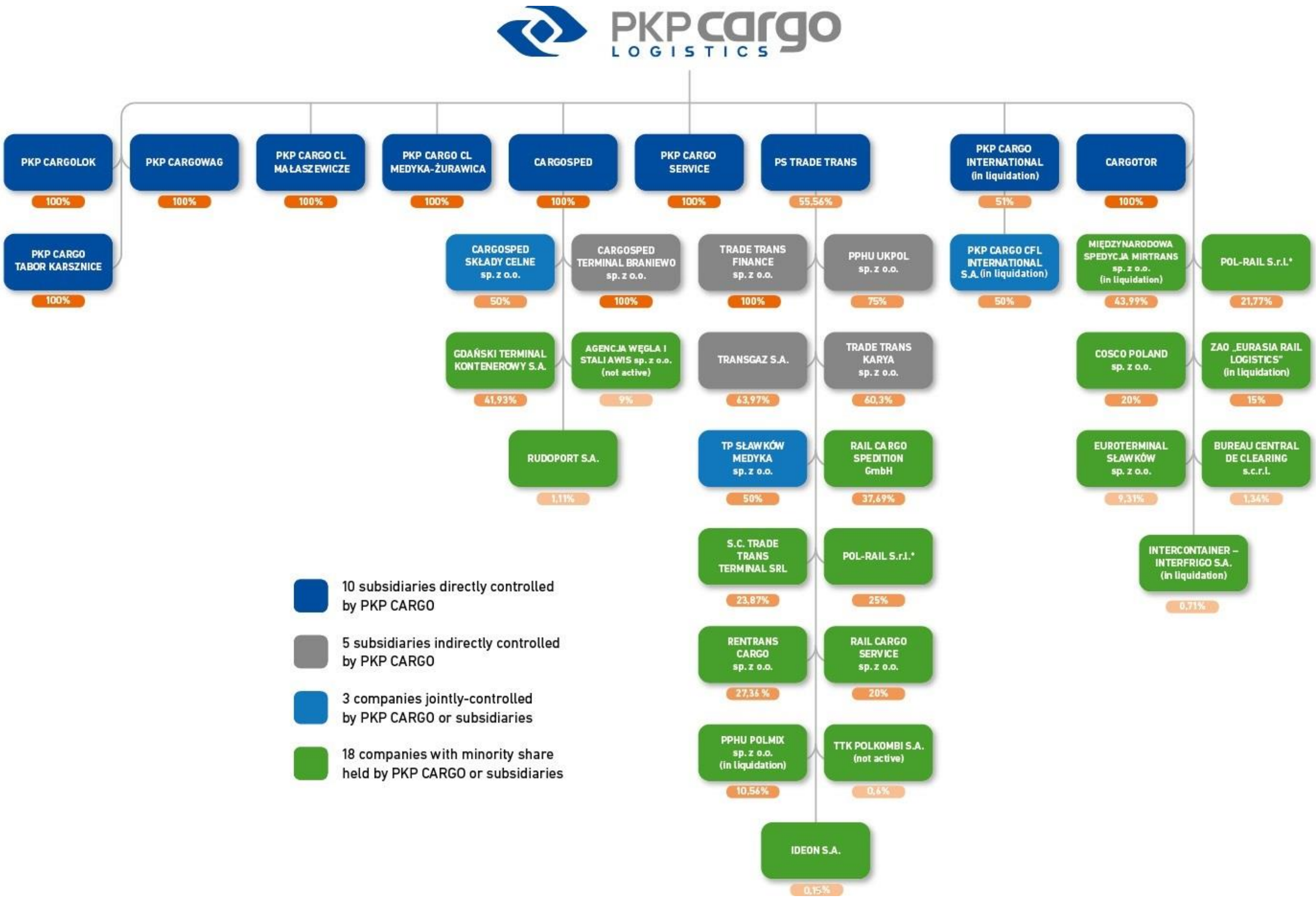
CARGOTOR Sp. z o.o. was registered on 13 November 2013, 100% of shares were taken up by PKP CARGO S.A. The Company operates nationwide and manages track and service infrastructure in the form of railway sidings and track systems with necessary equipment and buildings and commercially provides the infrastructure to railway carriers. On 25 June 2014, an increase in the share capital of CARGOTOR Sp. z o.o. to PLN 20,181,000 was recorded in the National Court Register. 100% of shares in the share capital are owned by PKP CARGO S.A.

2.3. The structure of the PKP CARGO Group

As at 30 June 2014, in addition to the PKP CARGO S.A., the PKP CARGO Group was composed of 15 subsidiary companies, including 10 direct subsidiaries and 5 indirect subsidiaries. The subsidiaries engage in forwarding, logistics and transloading services, as well as wagon and locomotive repair and siding operations.

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. The following chart presents the structure of the PKP CARGO Group as at 30 June 2014. The structure of the PKP CARGO Group in the first half of 2014, taking into consideration companies put into liquidation, has remained unchanged.

Figure 1 The structure of the PKP CARGO Group as at 30 June 2014



** Holdings of the Group's companies 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. Shares of the PKP CARGO Group in Pol-Rail S.r.l. total 35.66%.*
Furthermore, KTF VIAFER S.A. (company of the PKP Group in liquidation), holds 3.23%.

Source: Own review

From 1 January 2014 to 30 June 2014 no transactions of merger, acquisition or disposal of companies in which PKP CARGO S.A. has shares or interest took place.

3. Information on the Parent Company

3.1. 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 Act of 15 September 2000 on the Code of Commercial Companies (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 (Journal of Laws no. 84, item. 948, as amended);
3) The By-Laws of PKP CARGO S.A., adopted by Resolution no. 1340/V/2014 of the Supervisory Board of PKP CARGO S.A. of 26 May 2014;
4) Rules of the Management Board of PKP CARGO S.A. adopted with Resolution no. 174/2014 of the Management Board of PKP CARGO S.A. of 13 May 2014;
5) Other internal regulations.

The Management Board runs the business of the Company, manages its assets an represents the Company in its external relations. The Management Board performs all such actions which 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 at the date of report publication.

Table 3 Composition of the Management Board of PKP CARGO S.A. from 1 January 2014 to the date of report publication

Name	Function	Period in office	
		From	To
Adam Purwin	Board Member in charge of Finance President of the Management Board	25 Feb 2013 6 Feb 2014	5 Feb 2014 in office
Jacek Neska	Board Member	24 Apr 2014	in office
Łukasz Hadyś	Board Member	12 May 2014	in office
Wojciech Derda	Board Member	24 Apr 2014	in office
Dariusz Browarek	Board Member	24 Apr 2014	in office

Source: Own review

SUPERVISORY BOARD

In accordance with the approved By-Laws of PKP CARGO S.A. (Resolution no. 1340/V/2014 of the Supervisory Board of PKP CARGO S.A. of 26 May 2014) the Supervisory Board consists of 11 to 13 members (including Chairman and Vice-Chairman of the Supervisory Board) appointed for joint term of office, subject to provisions of § 14 subparagraph 8 of By-Laws of PKP CARGO S.A. The Supervisory Board is appointed and dismissed by the General Meeting of Shareholders, subject to provisions of § 19.2 and § 19.3 of the By-Laws of PKP CARGO S.A.

The following table presents the composition of the Supervisory Board as at the date of report publication.

Table 4 Composition of the Supervisory Board of PKP CARGO S.A. from 1 January 2014 to the date of report publication

Name	Function	Representation of	Period in office	
			From	To
Jakub Karnowski	Chairman of the Supervisory Board	PKP S.A.	24 May 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 Apr 2014
Milena Pacia	Member of the Supervisory Board	PKP S.A.	25 Feb 2013; 26 May 2014 (appointed Vice-Chairman)	27 Jun 2014
Artur Kawaler	Member of the Supervisory Board	Ministry of Finance	24 May 2012 – for the 5th term of office;	29 Jul 2014
Krzysztof Czarnota	Member of the Supervisory Board	The Employees	24 May 2012 – for the 5th term of office;	in office
Marek Podskalny	Member of the Supervisory Board	The Employees	24 May 2012 – for the 5th term of office;	in office
Kazimierz Jamrozik	Member of the Supervisory Board	The Employees	24 May 2012	in office
Danuta Tyszkiewicz	Member of the Supervisory Board	PKP S.A.	24 May 2012 – for the 5th term of office;	25 Apr 2014
Konrad Anuszkiewicz	Member of the Supervisory Board	PKP S.A.	13 Dec 2013	in office
Stanisław Knaflewski	Member of the Supervisory Board	Independent member	17 Dec 2013	in office
Paweł Ruka	Member of the Supervisory Board	Independent member	17 Dec 2013	in office
Jarosław Pawłowski	Member of the Supervisory Board	PKP S.A.	26 Apr 2014	in office
Łukasz Górnicki	Member of the Supervisory Board	PKP S.A.	26 Apr 2014	in office
Piotr Ciżkowicz	Deputy Chairman of the Supervisory Board	PKP S.A.	29 Jul 2014	in office
Jacek Leonkiewicz	Member of the Supervisory Board	PKP S.A.	29 Jul 2014	in office

Source: Own review

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 By-Laws 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 5 Composition of the Audit Committee of the Supervisory Board of PKP CARGO S.A. from 1 January 2014 to the date of report publication

Name	Function	Period in office	
		from	to
Artur Kawaler	Committee Chairman	21 Sep 2012	6 Feb 2014
Milena Pacia	Committee Member	26 Feb 2013	6 Feb 2014
Paweł Ruka	Committee Chairman	6 Feb 2014	in office
Stanisław Knaflewski	Committee Member	6 Feb 2014	in office
Konrad Anuszkiewicz	Committee Member	6 Feb 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 By-Laws 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 6 Composition of the Nominations Committee of the Supervisory Board of PKP CARGO S.A. from 1 January 2014 to the date of report publication

Name	Function	Period in office	
		from	to
Stanisław Knaflewski	Committee Chairman	17 Dec 2013	in office
Jakub Karnowski	Committee Member	17 Dec 2013	in office
Milena Pacia	Committee Member	17 Dec 2013	27 Jun 2014
Jacek Leonkiewicz	Committee Member	31 Jul 2014	in office

Source: Own review

3.2. 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 7 Structure of share capital of PKP CARGO S.A.

Shares	Issuing date	Date of issue registration	Number of shares
Series A	8 Jul 2013	2 Oct 2013	43,338,000
Series B	8 Jul 2013	2 Oct 2013	15
Series C	2 Oct 2013	25 Apr 2014	1,448,902
Total			**44,786,917**

Source: Own review

3.3. Shareholders with at least 5% of the total number of votes

As at the date of submissions of this report, 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 8 Structure of shareholders of PKP CARGO S.A. as at the date of submission of this report

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)	14,784,194	33.01%	14,784,194	33.01%
ING OFE (2)	4,738,369	10.58%	4,738,369	10.58%
Morgan Stanley (3)	2,380,008	5.31%	2,380,008	5.31%
AVIVA OFE (4)	2,338,371	5.22%	2,338,371	5.22%
EBRD (5)	2,286,008	5.10%	2,286,008	5.10%
Other shareholders	18,259,967	40.78%	18,259,967	40.78%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

(1) According to notification submitted by the shareholder on 24.06.2014
(2) According to notification submitted by the shareholder on 30.06.2014
(3) According to notification submitted by the shareholder on 18.06.2014
(4) According to notification submitted by the shareholder on 13.08.2014
(5) According to notification submitted by the shareholder on 05.11.2013

Source: Own review

Description of the structure of major shareholdings from the date of submission of the report for the first quarter of 2014, i.e. 15 May 2014:

- On 18 June 2014 the Company was notified by Morgan Stanley that Morgan Stanley Investment Management Inc. (a subsidiary of Morgan Stanley) exceeded the threshold of 5% of the total number of votes in the Company. The threshold was exceeded following a purchase of the Company's shares at the Warsaw Stock Exchange, cleared on 12 June 2014. After the transaction Morgan Stanley had a total (directly and indirectly) of 2,380,008 shares of the Company, accounting for 5.31% of the share capital of the Company, with the right to 2,380,008 of the votes at the General Meeting of Shareholders, which accounts for 5.31% of the total number of votes. Shares directly owned by Morgan Stanley Investment Management Inc. at 2,365,092, give right to 5.28% of the total number of votes at the General Meeting of Shareholders.

- On 24 June 2014 the Company was notified by Polskie Koleje Państwowe S.A., a parent entity of PKP CARGO S.A., that PKP S.A. had sold a major stake of shares of the Company, as a result of which the number of votes held by PKP S.A. in the Company had changed. On 18 June 2014, as part of block transactions concluded in the course of accelerated bookbuilding, 7,627,650 shares of the Company held by PKP S.A. were sold. Block transactions were settled on 24 June 2014. The transaction price was PLN 76.5 per each share. Before the transaction was concluded, PKP S.A. held 22,411,844 shares of the Company, which accounted for 50.04% of the share capital of the Company and gave right to 22,411,844 of votes at the General Meeting of Shareholders, which accounted for 50.04% of the total number of votes at the General Meeting. After the transaction, PKP S.A. holds 14,784,194 shares of the Company, which accounts for 33.01% of the share capital of the Company. The shares give 4,738,369 votes at the General Meeting of Shareholders, which accounts for 33.01% of the total number of votes.

- On 30 June 2014 the Company was notified by ING Open-End Pension Fund that the 10% threshold of the total number of votes in the Company had been exceeded following the purchase of shares of the Company on the Warsaw Stock Exchange, cleared on 24 June 2014. Immediately prior to the transaction, ING Open-End Pension Fund held 3,383,995 shares of the Company, which accounted for 7.56% of the share capital of the Company and had 3,383,995 votes at the General Meeting of Shareholders, which accounted for 7.56% of the total number of votes. After the transaction, ING Open-End Pension Fund held 4,738,369 shares of the Company in its securities account, which accounted for 10.58% of the share capital of the Company. The shares give 4,738,369 votes at the General Meeting of Shareholders, which accounts for 10.58% of the total number of votes.

- On 13 August 2014 the Company received notification from Aviva Open-End Pension Fund Aviva BZ WBK (AVIVA OFE) about exceeding 5% threshold of the total number of votes at the General Meeting of Shareholders of the Company. Exceeding the threshold occurred as a result of acquisition of shares in transactions concluded on 6 August 2014. Prior to the settlement of these transactions, AVIVA OFE held 2 231 819 Company's shares, which accounted for 4.98% of the Company's share capital and gave 2 231 819 votes at the General Meeting, which accounted for 4.98% of the total number of votes. After the transaction AVIVA OFE held 2 338 371 shares, representing 5.22% of a Company's share capital, which entitle to 2 338 371 votes at the GM, representing 5.22 % of total number of votes.

As at the date of submission of the previous periodical report, i.e. quarterly report as at 15 May 2014, the total number of shares of the Company 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, was as follows:

Table 9 Structure of shareholders 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

3.4. Presentation of shareholdings of executive and supervisory persons

The shareholdings in the Company or entitlements thereto of persons managing the Company in the period between 15 May 2014, i.e. the date of submission of the Q1 2014 report, until the date of submission of the present report, is presented in the table below.

Table 10 Shareholdings of managing persons in PKP CARGO S.A.

Name	Shares of PKP CARGO S.A. Number
as at the date of submission of this report	
Adam Purwin	545
Jacek Neska	450
Wojciech Derda	300
Łukasz Hadyś	300
Dariusz Browarek	370
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 15 May 2014, i.e. the date of submission of the Q1 2014 report, until the date of submission of the present report, is presented in the table below.

Table 11 Shareholdings of supervising persons in PKP CARGO S.A.

Name	Shares of PKP CARGO S.A. Number
as at the date of submission of this report	
Krzysztof Czarnota	70
Kazimierz Jamrozik	70
Jarosław Pawłowski	0
Jakub Karnowski	915
Marek Podskalny	70
Konrad Anuszkiewicz	0
Paweł Ruka	0
Łukasz Górnicki	245
Stanisław Knaflewski	0
Jacek Leonkiewicz	0
Piotr Ciżkowicz	675
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

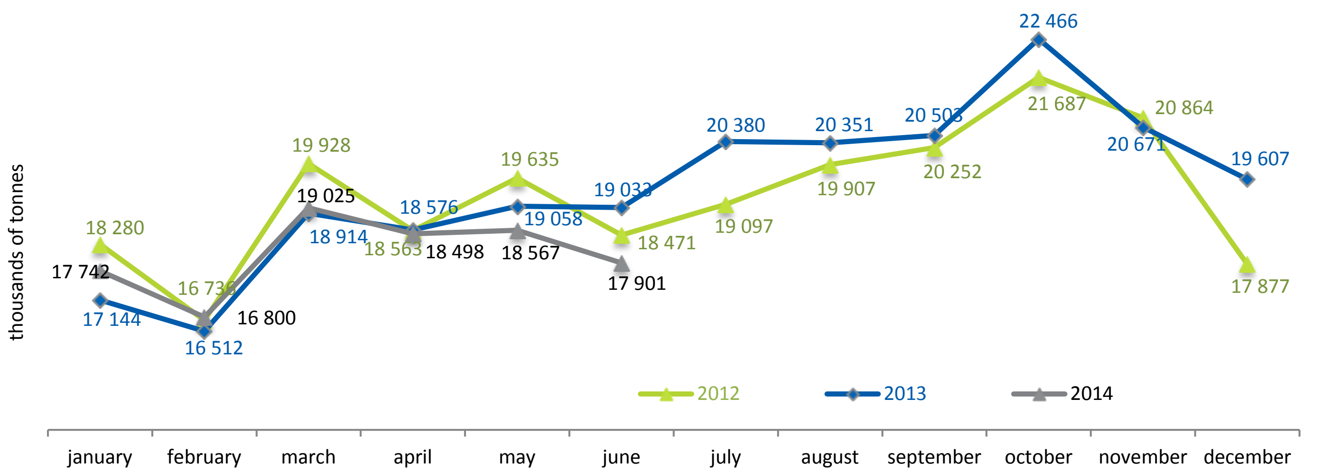
4. Activities of the PKP CARGO Group

4.1. Core business areas of the PKP CARGO Group

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

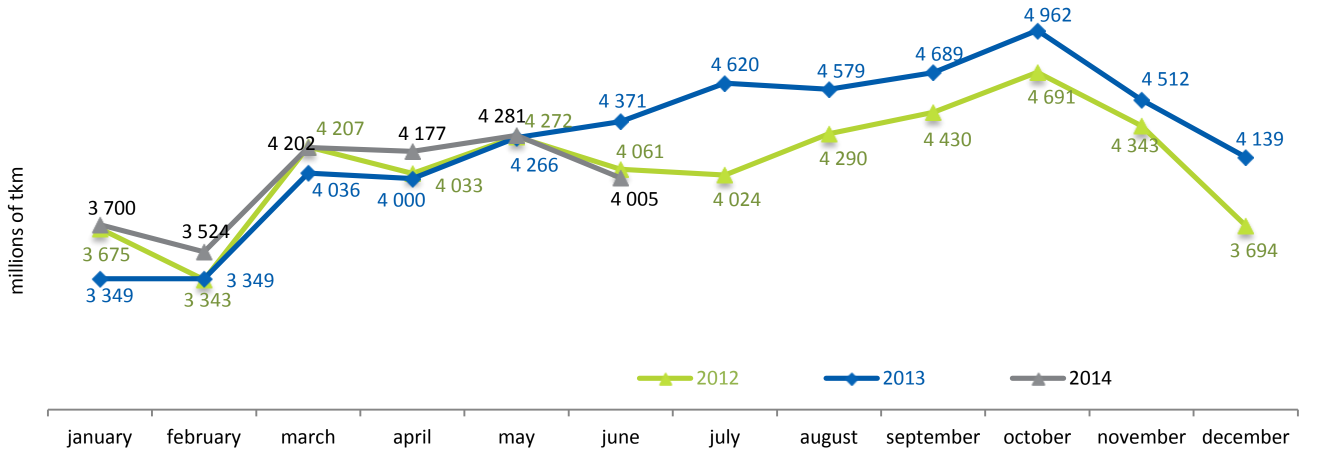
In the first half of 2014 108.5m tons of cargo were transported by rail in Poland (drop by 0.6% yoy), based on data of UTK. In Q1 2014 there was an increase in transported freight volume by 1.9%, the downturn was seen in the second quarter, when the freight volume carried by rail dropped by 3.0% yoy. This is mainly due to the lower number of rail freight in the hard coal market, due to the decline in exports of the raw material, which is the result of lower prices of coal in the world markets compared to Poland. In terms of freight turnover, in the first half of 2014 rail transport in Poland achieved nearly 23.9 billion tkm, i.e. approx. 2.2% more than in the same period of 2013. An increase in the freight turnover resulted from an increase in the average haul, which in the first half of 2014 increased by 6.2 km in railway transport compared to results in the same period of 2013.

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



Source: Office of Rail Transportation

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



Source: Office of Rail Transportation

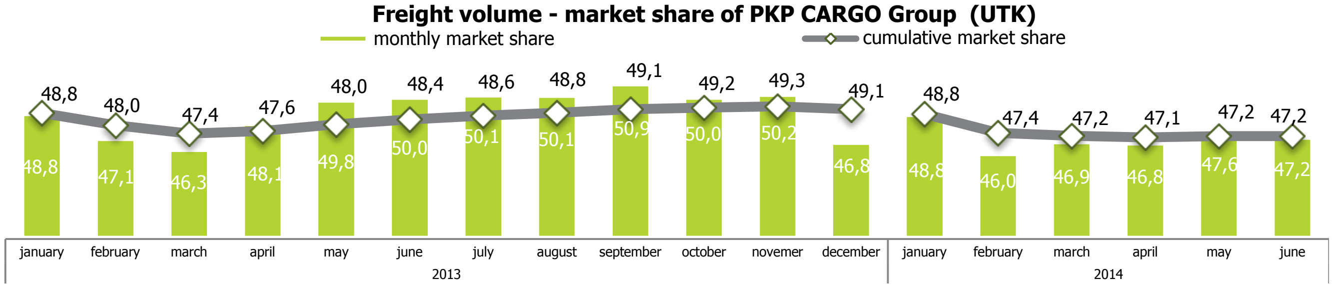
Apart from the PKP CARGO Group (PKP CARGO S.A. and PKP CARGO SERVICE Sp. z o.o), there were 60 railway operators on the domestic rail freight market in 2014, holding licenses for transportation of goods.

Both in terms of freight volume and freight turnover, the PKP CARGO Group remains the leader in rail freight in Poland. In the first half of 2014, the PKP CARGO Group had a 47.2% share in the market (in terms of cargo freight volume) and 56.7% in terms of freight turnover. Among railway operators competitive to PKP CARGO, leading carriers include: the DB Schenker

Group, the CTL Group, Lotos Kolej and Freightliner PL. 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.

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

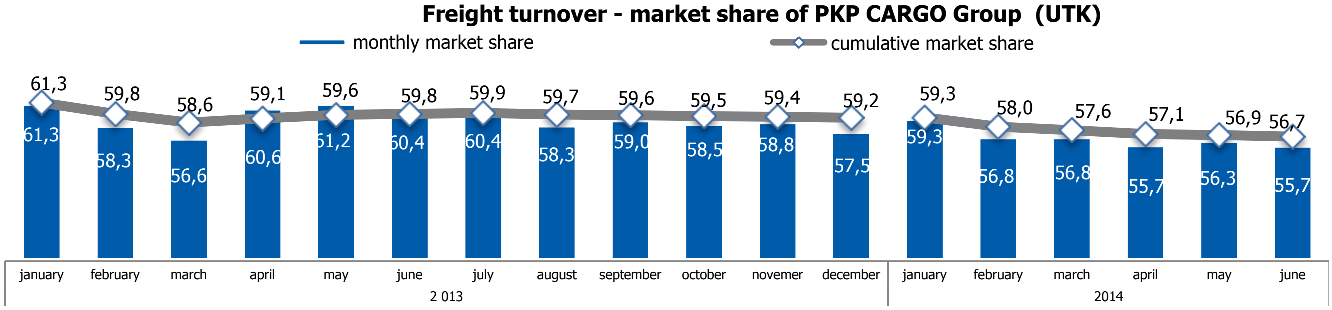
Figure 4 Share of the PKP CARGO Group in the total freight volume 2013 and in the first half of 2014.



Source: Office of Rail Transportation, own study

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

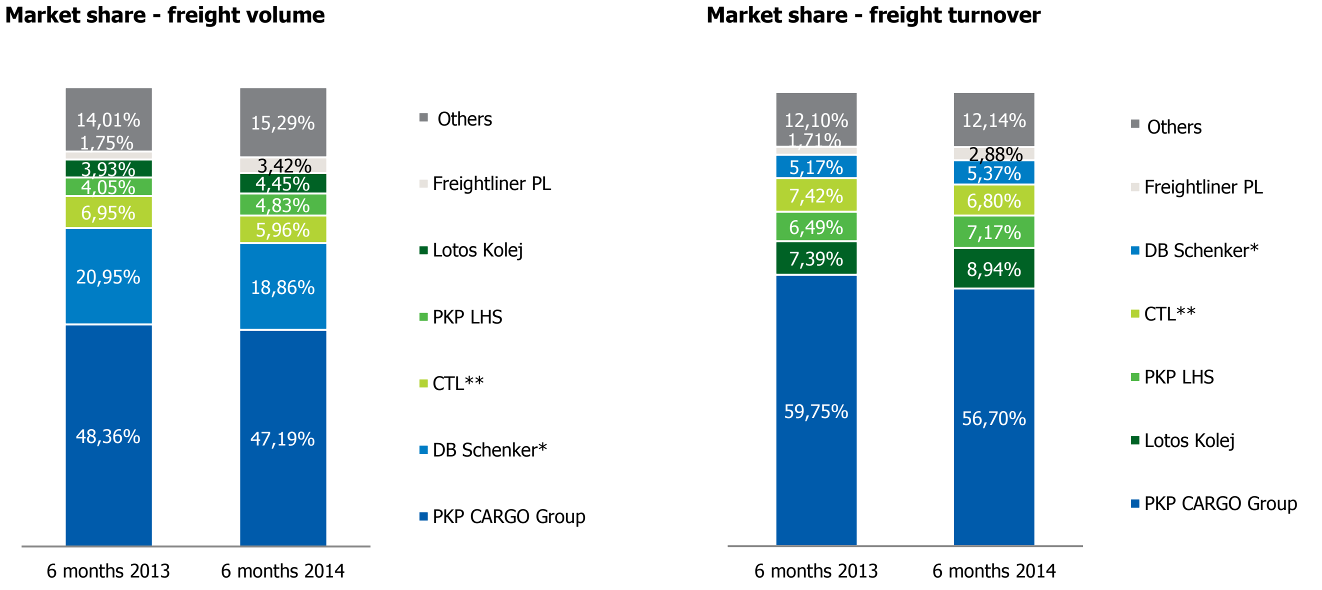
Figure 5 Share of the PKP CARGO Group in the total freight turnover in 2013 and in the first half of 2014.



Source: Office of Rail Transportation, own study

Of the railway operators, which are competitors of PKP CARGO Group, the largest market share in the first half of 2014 (by freight volume) was held by DB Schenker Rail Polska - 18.9%, Lotos Kolej - 4.5%, Freightliner PL - 3.4% and CTL Logistics - 6.0%.

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 in terms of freight volume and CTL Logistics and CTL Rail and freight turnover*

Source: Office of Rail Transportation, own study

4.1.2. 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, Hungary and Lithuania.

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, wood and produce, as well as chemical products and liquid fuels and hazardous and oversize loads, as well as intermodal cargo. 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 in the first half of 2014 in the Polish and European economies and 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 Group, which in the first half of 2014 transported 51.2m tons, i.e. 3% less than in the first half of 2013 and moved 13.5bn tkm freight, i.e. 3% less than in the first half of 2013. The main reason for the drop was smaller freight of hard coal.

The main segment of cargo shipped by the PKP CARGO Group are solid fuels, predominantly hard coal. These account for 50% of freight carried in the first half of 2014 compared to 55%, in the first half of 2013, while the share of solid fuels by freight turnover was 42%, and 48%, respectively. Solid fuel freight in the first half of 2014 in terms of freight turnover displayed a downward trend (-15% yoy). The decrease in the freight turnover share resulted from the decrease in hard coal freight resulting from (1) the decrease in demand for the fuel (mild winter, 6.2% yoy lower production of electricity from hard coal); (2) the decrease in the raw material export (by 40% yoy) because of the drop in the global prices of hard coal (coal prices in ARA ports fell by 12% yoy); (3) the decrease in the mean average haul (by 11 km yoy), resulting mainly from the lower level of coal export freight to seaports. Excluding export freight, the transport performance of hard coal in the Group increased by 7% yoy, taking into account domestic freight, import and transit. The PKP CARGO effectively compensates the decline in solid fuel transit with a surplus in freight of other cargo, i.e. aggregates, construction materials and wood.

The second largest segment of cargo carried by the PKP CARGO Group are aggregates and construction materials. The share of aggregate transport in the freight turnover in the first half of 2014 was 20%, compared to 14% in the first half of 2013. The 38% increase in freight turnover in aggregate transport was a result of the significant increase in the freight volume (by 33% yoy) and the increase of average haul (by 4.0% yoy). Owing to the climate conditions favourable of commencement of infrastructural projects, transportation of aggregates and construction materials in the first half of 2014 enjoyed a major increase. According to the General Roads and Motorways Directorate, about 500 km of new roads, mostly expressways, will be commissioned in 2014, that is 43% more than in 2013 and 1,680 km of modernized roads. Aggregates manufacturers predict that aggregate sales in 2014 may amount to 240m tons, i.e. 20m tons more than in 2013.

The third largest segment of cargo transported by the PKP CARGO Group is made up of metals and ores, with a 13% share in freight turnover in the first half of 2014 and 14% in the first half of 2013. Transport volume in the segment decreased by 5% in comparison with the first half of 2013, such result being driven by the drop in ore transportation from polish seaports (characterised by long distances), and weaker transport results for metals.

Table 12 Freight turnover by the PKP CARGO Group in the first half of 2014 and in the first half of 2013

	6 months of 2014	6 months of 2013	Absolute change	Change %	6 months of 2014	6 months of 2013
	(tkm millions)				*share of total (%)*	
Solid fuels[1]	5,733	6,738	-1,005	-15%	42%	48%
in which hard coal	5,020	5,977	-957	-16%	37%	43%
Aggregates and construction materials[2]	2,674	1,940	734	38%	20%	14%
Metals and ores[3]	1,741	1,953	-212	-11%	13%	14%
Chemicals[4]	877	836	41	5%	6%	6%
Liquid fuels[5]	325	380	-55	-15%	2%	3%
Timber and agricultural produce[6]	929	741	188	25%	7%	5%
Intermodal transport	876	934	-58	-6%	7%	7%
Other[7]	367	426	-59	-14%	3%	3%
Total	**13,522**	**13,947**	**-425**	**-3%**	**100%**	**100%**

Source: Own review

Table 13 Freight volume of the PKP CARGO Group in the first half of 2014 and in the first half of 2013

	6 months of 2014	6 months of 2013	Absolute change	Change %	6 months of 2014	6 months of 2013
	(thousand tons)				*share of total (%)*	
Solid fuels[1]	25,816	29,192	-3,376	-12%	50%	55%
in which hard coal	23,426	26,587	-3,161	-12%	46%	50%
Aggregates and construction materials[2]	9,348	7,046	2,302	33%	18%	13%
Metals and ores[3]	6,163	6,518	-355	-5%	12%	12%
Chemicals[4]	2,911	2,959	-48	-2%	6%	6%
Liquid fuels[5]	1,212	1,442	-230	-16%	2%	3%
Timber and agricultural produce[6]	2,446	1,948	498	26%	5%	4%
Intermodal transport	2,287	2,406	-119	-5%	5%	5%
Other[7]	1,038	1,321	-283	-21%	2%	2%
Total	**51,221**	**52,832**	**-1,611**	**-3%**	**100%**	**100%**

Source: Own review

Table 14 Structure of the freight turnover by the PKP CARGO Group in the first half of 2014 and in the first half of 2013 by type of communication

	6 months of 2014	6 months of 2013	Absolute change	Change %	6 months of 2014	6 months of 2013
	(tkm millions)					
Domestic	6,755	6,227	528	8%	50%	45%
Exports	3,072	4,312	-1,240	-29%	23%	31%
Imports	2,585	2,196	389	18%	19%	16%
Transit	1,110	1,212	-102	-8%	8%	8%
Total	**13,522**	**13,947**	**-426**	**-3%**	**100%**	**100%**

Source: Own review

Table 15 Structure of freight volume of the PKP CARGO Group in the first half of 2014 and in the first half of 2013 by type of communication

	6 months of 2014	6 months of 2013	Absolute change	Change %	6 months of 2014	6 months of 2013
	(thousand tons)				*share of total (%)*	
Domestic	30,606	30,431	175	1%	60%	58%
Exports	9,333	11,840	-2,507	-21%	18%	22%
Imports	9,430	8,621	809	9%	18%	16%
Transit	1,852	1,941	-89	-5%	4%	4%
Total	**51,221**	**52,832**	**-1,611**	**-3%**	**100%**	**100%**

Source: Own review

Table 16 Average haul in the PKP CARGO Group in the first half of 2014 and in the first half of 2013 by type of communication

	6 months of 2014	6 months of 2013	Absolute change	Change %
	(km)			
Domestic	221	205	16	8%
Exports	329	364	-35	-10%
Imports	274	255	19	8%
Transit	599	625	-26	-4%
Total	**264**	**264**	**0**	**0%**

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

Source: Own review

Directions of transport

The share of domestic transport in the freight turnover by the PKP CARGO Group remained at a level similar to the sum of shares of freight in international transport, amounting to 50% and 45% in the first half of 2014 and in the first half of 2013 respectively. The increase in the share of domestic transport from 45% to 50% resulted prominently from the increase of haulage of aggregate and construction materials (by 38% yoy), which are mostly transported in domestic communication within Poland and the drop in freight turnover relating to hard coal exports.

An increase was recorded for import shipments, by 18% in terms of the freight turnover, and 9% in terms of freight volume. This was a result of increased shipments of ore, metals, wood and agricultural produce.

In the first half of 2014 there were drops in freight of:

- export shipments by 29% in terms of the freight turnover, and 21% in terms of freight volume. This is the result of a decline in transport volume of exported hard coal.
- transit freight, by 8% in terms of the freight turnover, and 5% in terms of freight volume. In particular this is the result of a decline in transport volume of ore transit.

4.1.3. Other services

Siding operations

Apart from freight services, the Group also provides a range of ancillary services, including, among other things, siding services consisting of train composition, shunting services using own as well as leased and rented 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.
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 stations and cogeneration plants. As of 30 June 2014, the Company operates 32 railway sidings, (as of 30 June 2013 there were 30 of them).

Transhipment operations

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

Conventional terminals basically deal with transhipment of goods, such as hard coal, crude oil and petroleum products, chemicals, metals and metal products, wood, woodchips, fertilisers, ores, cars. PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o. is the only company with a defreezing plant and a shunting terminal for bogeys, for purposes of handling loads in transhipment-free communication. In the first half of 2014 compared to the same period of 2013 we have seen a clear increase in the transhipments on container terminals by approx. 40% and on conventional terminals by 30%.

Maintenance activities

Maintenance of rolling stock of the PKP CARGO Group is 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, and repairs of diesel locomotives. Apart of rolling stock owned by the PKP CARGO Group, the resources of the Group also perform repairs of rolling stock of third parties.

The numbers of scheduled overhauls and inspections performed in different periods result from the cycles set out in the Maintenance System Documentation (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.

Three companies specialising in rolling stock repairs operated in the PKP CARGO Group in the first half of 2014, namely PKP CARGOWAG Sp. z o.o., PKP CARGOLOK Sp. z o.o. and PKP CARGO TABOR – KARSZNICE Sp. z o.o. 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 first half of 2014, the quantities of wheelset refurbishments in Karsznice increased almost twofold in comparison with the same period of the previous year.

On 1 July 2014 activities of the PKP CARGO Group companies responsible for rolling stock repair were consolidated. Currently, competencies in this area are centred in CARGOTABOR Sp. z o.o. Consolidation of activities of the companies is described in the further part of the Management Board's report, in chapter 4.7.

4.2. Macroeconomic and market situation

Transport sector

According to the Central Statistical Office (GUS) data, total freight in the first half of 2014 amounted to 224.9m tons[2], i.e. 3.8% more than in the same period of the previous year. An increase in freight was noticeable in car transport and inland water transport.

According to data of the GUS, 108.0 million tons of freight volume were shipped by rail, i.e. 1.0% less than in the first half of the previous year. Freight in internal communication decreased (by approx. 2%). In the international transport, there was an increase in shipments by approx. 2% (shipments of imported loads increased by approx. 17%, but shipments of exported loads decreased - by approx. 10% - and loads in transit decreased - by approx. 13%).

Freight turnover in the first half of 2014 reached 23,873.4m tkm and was 2.2% higher than in the same period of the previous year.

The condition of rail freight in the first half of 2014 was shaped by the phenomena occurring in the Polish economy, especially in manufacture and trade. Continuing upward trends in the economy in the first half of the year, even with a small dynamic deceleration observed in some areas in the second quarter compared to the pace recorded in the first quarter, give reasons to optimistically view the future condition of the rail freight market.

Polish economy

According to the preliminary estimates of the GUS, the growth rate of the gross domestic product (at constant prices of the previous year) in the first quarter of 2014 amounted to 3.2%, while in the Q1 of 2014 it was 3.4% over one year (compared to an increase by 2.7% in the fourth quarter of the previous year and 0.4% the year before).

The main factor behind the economic growth in the second quarter, as in the first, was the domestic demand. The individual consumption increased slightly faster than in the first quarter. In terms of sectors, the fastest-growing part of the economy in the second quarter, as in the first quarter, was the construction sector.

In the first half of 2014, industrial production sold was 4.3% higher than the year before, while in the same period of the previous year it fell by 0.4%. The pace of increase in production in the second quarter of 2014 was a bit slower than in the first quarter (3.7% compared to 4.9%). In most major industries, there was an increase in production sold per year, with the exception of energy-related goods, where a decrease of 3.9% was recorded. In terms of intermediate goods, production increased by 8.2% and investments by 8.1%. During the period under consideration, there was an increase in the construction and assembly production by 9.8%, compared to the same period of the previous year (a decrease of 21.5% the year before). There was an increase in production in entities carrying out works related to construction of land and water engineering structures, including entities carrying out work related to construction of roads and railways.

According to the latest forecast, the growth of the Polish GDP in 2014 is to reach a level between 2.8% and 3.3%, while in 2015 - between 2.8% and 3.8%. All forecasts assume growth over the same time horizon.

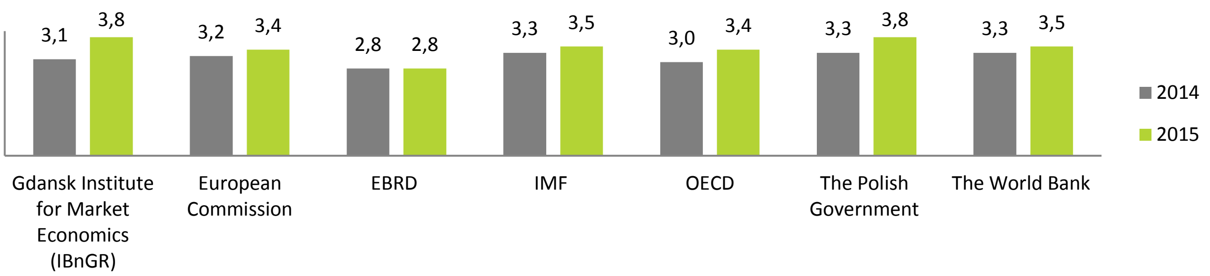
In the report prepared as part of the annual review of Poland, the International Monetary Fund (IMF) stated that after the 2012-2013 slowdown, forecasts point to a sustained economic recovery in Poland. Following a drop in the GDP to 1.6% in 2013, caused by a slowdown in the Eurozone countries, the Polish economy has begun to strengthen. The growth accelerated to 3.4% in Q1 2014, and was mainly driven by the improvement of conditions in countries that are major trading partners of

[2]The volume of freight does not take into account commercial road transport

Poland and by a recovery in domestic demand. The IMF predicts that in 2014 the growth in the Polish GDP will reach 3.3%, and 3.5% in 2015.

The following table shows GDP growth forecasts for Poland, according to various sources.

Figure 7 GDP growth forecasts for Poland in 2014 and in 2015 in percent



Sources: Gdansk Institute for Market Economics - "Current and forecast economic conditions", 28 April 2014, Quarterly Macroeconomic Forecasts no. 82
European Commission - European Economic Forecast Spring 2014, may 2014
EBRD - European Bank for Reconstruction and Development, according to the Regional Economic Prospects in EBRD, May 2014
OECD - OECD Economic Outlook, no. 95, May 2014
The Polish Government - State budget assumptions for the year 2015, the Council of Ministers, June 2014
IMF - IMF Country Report - Republic of Poland no. 14/173, June 2014
The World Bank - The World Bank Report - June 2014

European economy

The improvement in the business climate in the European economy should also contribute to an improved condition of rail freight in Europe. 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 forecast for countries of the European Union in 2014, and 1.2% in the Euro zone over the same period of time. Optimistic forecasts of the IMF also apply to the world economy, with the gross domestic product predicted to increase by 3.6% p.a. in 2014.

Taking into account the impact of the Ukrainian crisis and severe winter in the US, the World Bank experts are less optimistic about the increase in the global GDP. WB economists predict that this year's increase in global GDP will reach 2.8%, and in the years 2015-2016 will accelerate to 3.4-3.5%.

Coal sector

Over a period of 6 months of 2014 the coal market was shaped by the actions and events in the international arena, where the key factor in determining the price of the coalis the activity of the countries that are major producers and consumers of coal.

The market situation observed during the evaluated period was considerably the consequence of actions and events from previous periods, where the key determinant of prices were the increasing exports to the European continent from the United States. The dynamically developed technology of shale gas extraction on the North American continent resulted in oversupply of the coaland the need to expand markets for native producers. As a consequence, the increasing supply of the coal caused a long-term downward trend in the prices of the coal. The declining trend was interrupted after the first two months of this year, which points to the fact that the low price levels do not allow for further pressure on supply.

So far the supply pressure stemmed from the persistent production levels and the decreasing demand in selected global markets. It should be assumed that with the current levels of prices of the coal, manufacturers with limited sales markets (such as the US) will be forced to reduce their own production.

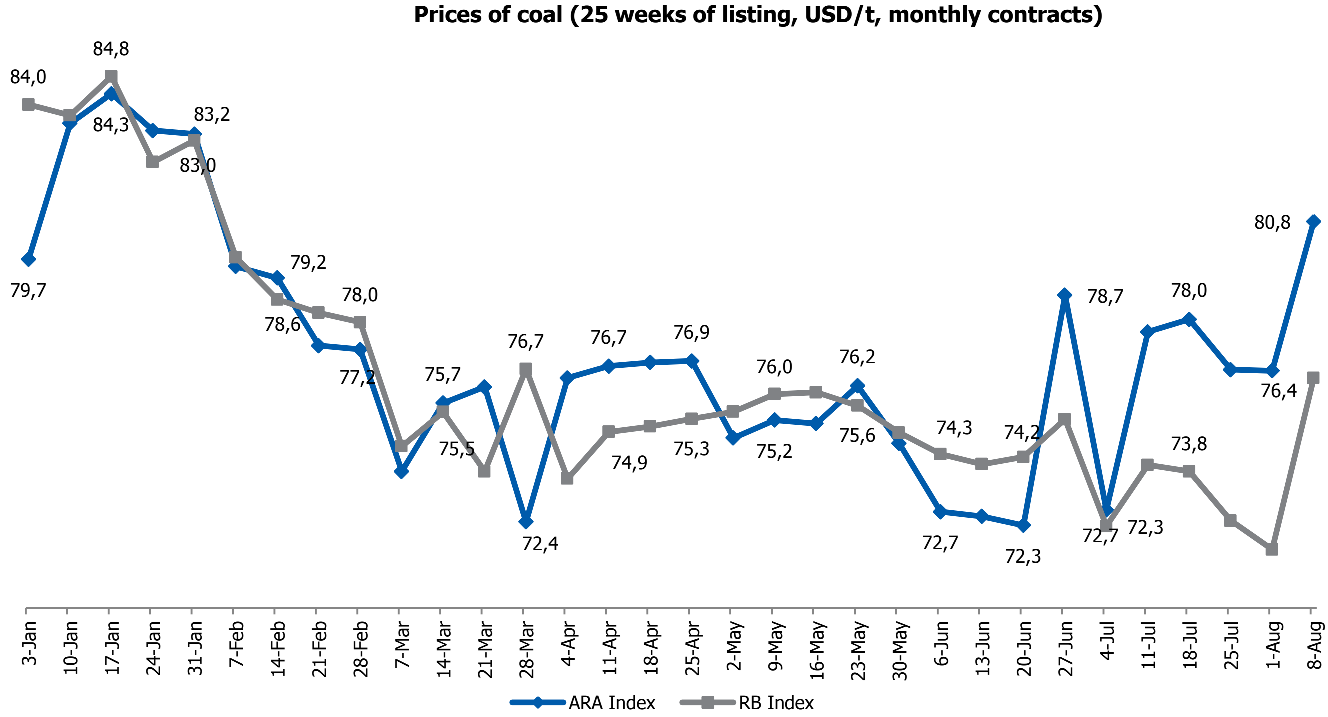
Despite the growing share of alternative energy sources in production of electricity, it is expected that the consumption of the coal will continue to increase, due to the growth rate in demand for electricity that is higher than the pace of implementation of the alternative electricity sources.

In six months of 2014, production of hard coal in Poland amounted to 35.5m tons, which represents a 5% decrease compared to same period of the previous year, which mainly was due to the stock deposition on dumps of domestic manufacturers.

Actions which have been recently initiated by the Government are aimed at creating State-Owned Coal Storage Facilities, to support the efficient management of coal stocks and prevent future restrictions in the production.

At present, we can see a significant increase in prices in the global markets of the coal (at the beginning of August 2014, the price of the coal in the ARA market reached 80.75 USD/t, the highest level since February), due to uncertainty of supply of the raw material coming from Russia.

Figure 8 Prices of coal in the ARA* market compared to the prices in the Polish market



This page's comment:

**ARA benchmark based on coal prices in the ports of Amsterdam, Rotterdam and Antwerp*
Source: górnictwo.wnp.pl

4.3. Seasonal/cyclic trends in operation

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

4.4. Employment information

Presented below is information about changes in the employment status in the PKP CARGO Group in the first half of this year.

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

Table 17 Employment in the PKP CARGO Group as at end of reporting period

Description	Number of persons employed as at:		
	30 Jun 2014	31 Dec 2013	Change from year beginning
Company	22,046	22,480	-434
Subsidiaries	4,216	4,073*	143
Group	**26,262**	**26,553**	**-291**

** The employment level as at 31 Dec 2013 is higher by 108 persons compared to the data stated on that date in the consolidated annual report for 2013 and Q1 2014 since the consolidated financial report for the first half of 2014 also covered CARGOTOR Sp. z o.o.*

Source: Own review

The following table presents average employment in the PKP CARGO Group in the first half of 2014 in comparison with the same period of the previous year.

Table 18 Structure of employment in the PKP CARGO Group in the first half of 2013 and 2014

Description	average employment in FTEs	average employment in FTEs	Change 2014-2013	average employment in persons	average employment in persons	Change 2014-2013
	6 months of 2014	6 months of 2013		6 months of 2014	6 months of 2013	
Company	22,216.3	22,607.8	- 391.5	22,218.8	22,610.4	- 391.6
Subsidiaries	4,171.0	3,885.2	285.8	4,203.3	3,913.2	290.1
Group	**26,387.3**	**26,493.0**	**- 105.7**	**26,422.1**	**26,523.6**	- 101.5

Source: Own review

The following table presents the structure of employment in the PKP CARGO Group, broken down by white collar and blue collar positions, as at dates indicated.

Table 19 Change in the structure of employment in the PKP CARGO Group in the first half of 2013 and 2014

Description	Number of persons employed as at:					
	31 Dec 2013	30 Jun 2014	Change from year beginning	31 Dec 2012	30 Jun 2013	Change from year beginning
White collar positions	5,566	5,539	-27	5,786	5,583	-203
Blue collar positions	20,987	20,723	-264	21,841	20,924	-917
Total:	**26,553**	**26,262**	**-291**	**27,627**	**26,507**	**- 1,120**

Source: Own review

In the first half of 2014, the number of persons employed in the PKP CARGO Group decreased by 291 employees. The decrease in employment is the result of termination of contracts of employment due to retirement. There was a growth in employment in subsidiaries over the previous period, due to the increasing volume of services provided in terms of maintenance and repairs and services as part of comprehensive siding services and maintenance of logistical infrastructure.

4.5. Investments by the PKP CARGO Group

Over the period of 6 months of 2014, the Group 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 256.7m, constituting 150.5% of the comparable period of 2013.

Outlay for vehicles amounted to a total of PLN 241.2m (94.0% of total expenditure), of which PLN 165.0m was spent on the overhauls component, investment construction at PLN 5.8m, IT at PLN 7.7m, machinery and equipment at PLN 1.1m and other investments at PLN 0.9m.

Higher capital expenditure in the period of 6 months of 2014 than in the same period of 2013 result mainly from this year's purchase of 100 wagons for container transport, modernisation of 10 SM48 diesel locomotives, and performance of more scheduled overhauls of locomotives and wagons.

Table 20 Capital expenditure in the PKP CARGO Group in the first half of 2014 and 2013 compared to the first half of 2013

Investment directions	Actual for 6 months 2014	Actual for 6 months 2013	Absolute change	Rate of change
Real estate	5,849.7	11,078.4	-5,228.7	-47.2%
Locomotives modernisation	47,547.4	13,163.8	34,383.6	261.2%
Wagon purchases	28,612.5	6,854.8	21,757.7	317.4%
Machinery and equipment	1,079.4	4,896.1	-3,816.7	-78.0%
IT	7,694.5	18,671.2	-10,976.7	-58.8%
of which intangible assets	5,304.1	8,786.8	-3,482.7	-39.6%
Components in overhauls of locomotives and wagons	165,010.8	115,145.9	49,864.9	43.3%
Other	948.1	837.3	110.8	13.2%
Total	**256,742.4**	**170,647.5**	**86,094.9**	**50.5%**

Source: Own review

4.6. Important events and achievements of the PKP CARGO Group, affecting its activities

Completion of the public offering of C series shares of PKP CARGO S.A. and an increase in the share capital

On 25 April 2014 the Management Board of PKP CARGO S.A. informed that the Company received a decision from the District Court for the Capital City of Warsaw in Warsaw, 12th Commercial Division of the National Court Register of 25 April 2014, under which the amendment to the Company's By-Laws and an increase in the share capital were registered. The change of the By-Laws and the increase in the share capital relates to the issue of C series shares.The issue of C series shares was addressed to entitled employees. Subscriptions for shares were accepted 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 acquired at PLN 68.00 per share). Shares in the offering were allocated to 24,530 entitled employees and 14 inheritors of entitled employees.

Following these changes, the new wording of § 6(1) of the Statutes and § 6(6) of the Statutes is as follows:

"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:

1) 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;
2) 15 (say: fifteen) B series bearer shares of a nominal value of PLN 50 (say: fifty zlotys) each;
3) 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 lock-up over a period of two years after the date of first listing of the Company's shares on the main market of the Warsaw Stock Exchange S.A. Upon expiry of the, C series shares are converted into bearer shares".

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 24 April 2014, new Members of the Management Board were appointed and announced to the public:

- Wojciech Derda - Board Member in charge of Operations,

- Jacek Neska - Board Member in charge of Commerce,
- Dariusz Browarek - Board Member, Employees' Representative to the Management Board of PKP CARGO S.A.,

In addition, on 12 May 2014 the Management Board was expanded by:
- Łukasz Hadyś - Board Member in charge of Finance.

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 shall be binding for the parties until 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 Rules of assignment of train routes and use of assigned train routes by licensed rail carriers within the framework of the 2013/2014 train timetable.

Signing of a significant contract with companies of the ArcelorMittal 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 ArcelorMittal Group: ArcelorMittal Poland S.A., ArcelorMittal Warszawa Sp. Z o.o. and 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 1,007,295,900. The contract of highest value is the contract with ArcelorMittal Poland S.A. ("Contract") with an estimated value of PLN 850,940,980. 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 tons, and may reach 35m t within three years.

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

On 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 of the salary 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 Pact.

Resolution of the General Meeting on distribution of earnings in 2013 resulting from the Stand-alone Financial Statements of PKP CARGO S.A. for the period from 1 Jan 2013 to 31 Dec 2013

On 12 May 2014, the General Meeting adopted a resolution on distribution of earnings made in 2013 resulting from the Stand-alone Financial Statements of PKP CARGO S.A. for the period from 1 Jan 2013 to 31 Dec 2013, determination of the dividend day and the date of dividend payment.

In accordance with the said resolution, having read the motion of the Management Board of the Company, the General Meeting decided to distribute the net profit earned in 2013, in the amount of PLN 94,083,113,210, as per the Statement of Comprehensive Income for the period from 1 Jan 2013 to 31 Dec 2013, as follows:

1) payment of a dividend in amount PLN 86,556,464.15;

2) to share premium in amount PLN 7,526,649.06.

In addition, the General Meeting decided to appropriate PLN 50,939,371.04 of retained earnings to pay the dividends. This means that the total amount of the dividend for 2013 totalled PLN 137.5m.

The General Meeting determined 20 May 2014 as the day of the dividend and 4 June 2014 as the day on which the dividend was paid out.

Adoption of the Management by Objectives Programme in PKP CARGO S.A.

On 31 March 2014, the Management Board of PKP CARGO S.A. decided to adopt the Management by Objectives Programme (MBO) as a component of the incentive system for the managing staff of PKP CARGO S.A. MBO is a set of system rules and actions aimed at improving effectiveness by setting specific targets for the managing staff, methods of defining, settling and evaluating such targets.

The programme identifies three types of objectives by the criterion of entities:

- General objectives – objectives relating to the results of the whole Company,
- Entity objectives – objectives relating to the results of the specific entity of Company,
- Individual objectives – objectives which individual participants are liable for, relating to aspects which they have impact on through their work and the work of subordinated employees;

The first period taken into account in settlement of the target performance will be financial year 2014. As at 30 June 2014, the MBO covers 243 persons.

Renewal of safety certificates

The President of the Office of Rail Transportation issued to PKP CARGO S.A. safety certificate part A no. PL 1120140006 for a period of five years i.e. valid until 24 June 2019, a renewal of safety certificate part A no. PL 1120090001 of 25 June 2009, which expired on 24 June 2014.

Regarding international freight, PKP CARGO S.A. obtained renewals of safety certificates part B from competent safety institutions equivalent to the Office of Rail Transportation in the following countries: Slovakia renewal to 21 May 2019, Germany renewal to 11 May 2019, Austria renewal to 24 June 2019, the Netherlands renewal to 24 June 2019 and a certificate issued on 21 May 2014 without expiry date for Lithuania which entitles the Company to carry out freight on its own using elements of Lithuanian railway network, 1435 mm standard.

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 a resolution 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.

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

On 27 March 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 review 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.

4.7. Material information and events which occurred after the reporting date

Consolidation of establishments

On 5 May 2014, the Management Board of PKP CARGO S.A. decided to consolidate regional offices included in the Company. The changes were made on 1 July 2014, as a result of which the ten establishments existing to date were 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 regional offices: 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 regional offices 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 regional offices, 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 regional offices,
- elimination of unnecessary activities in train servicing.

Change in the Company's organisational structure

On 1 July 2014 a change of the Organizational Rules became effective, which consisted of implementation of the division-based organisation structure by establishing closer links between the Headquarters and the Establishments and creation of functional divisions to be headed by HQ office managers.

The division-based organisation structure will result in:

- strengthening the management in the specific functional areas in PKP CARGO S.A.;
- application of uniform solutions on the corporate scale, facilitated implementation of the standard mechanisms;
- increased efficiency of using resources on the corporate scale;
- the use of best practices at other locations, sharing of knowledge between regional offices;
- improvement in the quality of the services supplied through specialisation of specific areas;
- faster decision making through better information flow;
- reduced operating costs of PKP CARGO S.A.

Consolidation of companies dedicated to repair of the rolling stock

On 1 July 2014, the National Court Register registered a merger of PKP CARGOWAG Sp. z o.o. (Acquiring Company) and PKP CARGO TABOR-KARSZNICE Sp. z o.o. (Acquired Company). All assets of PKP CARGO TABOR-KARSZNICE Sp. z o.o. (Acquired Company) were contributed to the Acquiring Company, PKP CARGOWAG Sp. z o.o.

Since 1 July 2014 PKP CARGOWAG Sp. z o.o. has operated as PKP CARGOTABOR Sp. z o.o. with its registered office in Warsaw, share capital: PLN 88,087,000 – 100% of shares in the share capital of that company belong to PKP CARGO S.A. (88,087 shares with the fair value of PLN 1,000).

On 1 July 2014 a Enterprise Sales Agreement was concluded between PKP CARGOLOK Sp. z o.o. and PKP CARGOTABOR Sp. Z o.o., for sales of enterprise PKP CARGOLOK Sp. z o.o. to PKP CARGOTABOR Sp. z o.o. (assignment to PKP CARGOTABOR Sp. Z o.o. of the ownership of organised system of intangible and fixed assets intended for the pursue of economic activities, in the form of PKP CARGOLOK Sp. z o.o. as defined by Article 551 of the Civil Code) and taking over of liabilities related to the Enterprise.

The consolidation of the companies responsible for repairs of the rolling stock is aimed at:

- Ensuring high level of supply of services and strengthening the market position of the PKP CARGO Group by providing comprehensive repairs of the rolling stock also to entities from outside the Group;
- Optimisation of the production process;
- Improving cost efficiency;
- Optimisation of utilisation of existing resources and investment processes, and increase in the capacity to adapt to market requirements and environmental conditions.

Resolutions passed by the Extraordinary General Meeting

On 30 March 2014, the Extraordinary General Meeting of PKP CARGO S.A. passed a resolution which determined the amount of remuneration of Members of the Supervisory Board of PKP CARGO S.A. The complete text of the Resolution is published in the current report on the website of PKP CARGO S.A.

On 30 July 2014 the Extraordinary General Meeting of Shareholders of PKP CARGO S.A. passed a Resolution amending the By-Laws of PKP CARGO S.A. In § 5(1)(3) of the Company's By-Laws ("By-Laws") the numbering of the current subsection a) is changed to subsection a^1), and a new subsection a) is added of the following wording:

"a) accounting and bookkeeping; tax consultancy PKD [Polish Classification of Activities] – PKD – 69.20.Z,".

§ 25(3)(13) has new wording as well:

"13) granting consent to:

a) purchase, disposal or encumbrance by the Company with a limited property right of any real estate, perpetual usufruct or shares in real property or perpetual usufruct,

b) acquisition, purchase or disposal of shares and stocks in a different company, except for acquisition of shares or stocks in the increased share capital of the Company's subsidiaries,

c) acquisition by the Company of licences or copyright,

d) incurring liabilities and the use of rights by the Company,

e) acquisition and selling by the Company of fixed assets

- of the market value equal or higher than PLN 20,000,000.00 (say: twenty million zlotys); however, in the case of contracts concluded for an indefinite period of time, the contractual value or anticipated value of the Company's performance in a 5-year period is adopted, except for concluding contracts related to the areas of the Company's business specified in § 5(1)(1) of the By-Laws, including contracts for transport and forwarding services as well as traction and shunting service;".

To § 27 of the By-Laws a new subparagraph 8 is added of the following content:

"8. All amounts in the By-Laws are gross amounts.".

At the same time, the Extraordinary General Meeting of Shareholders authorised the Supervisory Board to prepare a uniform text of the By-Laws of the Company taking into account such changes.

Further conduct of the anti-trust proceedings by the President of UOKiK

Proceedings pending as a result of a cash fine of PLN 60,362,071.69 imposed with a decision of the President of the Office of Competition and Consumer Protection (UOKiK) no. DOK-3/2009 of 7 July 2009. As a result of a ruling of the Supreme Court of 3 October 2014, 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. Since the deadline for effective lodging of the appeal by the UOKiK has passed, on 4 August 2014 the amount of PLN 12,555,310.91 was received at the bank account of the Company, which is a refund of the interest on the said fine.

On 22 August 2014 the Company received a letter from the President of the UOKiK, in which the President of UOKiK notifies about a further conduct of the anti-trust proceedings regarding abuse by PKP CARGO of the dominant position in the domestic rail freight market during the period from 1 May 2006 until 20 April 2007. As at the date of publication of the foregoing financial statements the Management Board of PKP CARGO S.A. does not foresee any threat that this proceeding will be finalized with a decision to impose another financial penalty to the Parent Company. Due to the early stage of the proceeding, it cannot be excluded that in the occurrence of the future events, the assessment of the Management Board may change and may have an impact on the financial information presented in subsequent reporting periods.

4.8. Description of the main risks associated with the remaining six months of the financial year

Risk associated with macroeconomic conditions

The activities of the PKP CARGO Group have been and may continue to be vulnerable to the negative impact resulting from the deterioration of the economic situation in the future.

The PKP CARGO Group carries on its activities in the sector which is subject to cyclical changes and is positively correlated with the economic growth and macroeconomic situation, while the long-term fluctuations observed in the economy as a whole in the field of production and trade have a strong influence on it. In particular, the dynamics of the freight turnover by rail in Poland are characterized by a positive correlation with the GDP growth rate.

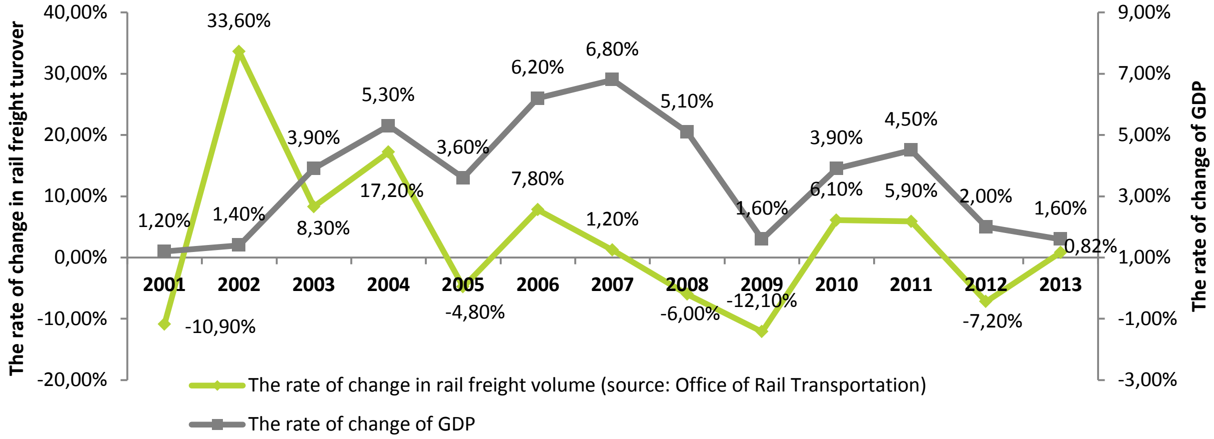
The global crisis that began in 2008 and the subsequent debt crisis affecting certain Eurozone countries has caused a recession in many developed economies. A number of economies considered to be emerging markets, including Poland, have experienced a significant slowdown in the pace of economic growth. These conditions have caused the decline in industrial production, resulting in a decrease in the demand for rail freight services. After a recovery of the Polish economy in 2011, the subsequent years were characterised by a decline in GDP growth, while this year a significant improvement in the economy has been seen. During the first half of 2014, industrial production sold was 4,3% higher compared to the same period of the previous year, when a decrease of 0.4% was recorded. In terms of intermediate goods, production increased by 8.2% and investments by 8.1%. The increase in the construction and assembly production was 9.8%, compared to the same period of the previous year (a decrease of 21.5% the year before). In the first quarter of 2014 the GDP growth rate was the highest in two years and reached 3.4%. According to expectations, the increase in the GDP in 2015 will be close to this year's or higher.

From 2008 to 2010, inflation measured with the consumer price index (CPI, yoy, %) was gradually dropping, from 4.2% in 2008 to 2.6% in 2010. In 2011 and 2012, index was higher, 4.3% and 3.7% respectively, but in 2013 the index reached a record low level of 0.9% (lowest since 2003). Lowering of the base inflation in 2013 was fuelled by the low demand pressure and the lack of cost pressure in the economy, with a moderate increase in salaries.

The market for rail freight in 2012 recorded a decline and amounted to 231.3m tons, the freight turnover was 49.1bn tkm. However, in 2013 the market grew to 233.2m tons of freight volume and 50.9bn tkm of freight turnover. According to the GUS data, in the first half of 2014 a total of 108.0m tons of cargo was transported by rail, a decrease by 1,0% over one year. Transport performance over the same period of time reached 23,873.4m tkm and was 2.2% higher compared to the same period of the previous year. Condition of the rail freight in 2014 has been improving, given the signals of economic recovery noticed in the market.

Below is a correlation between the pace of GDP changes and the pace of changes in rail freight.

Figure 9 The pace of changes of the rail freight and the pace of GDP changes from 2001 to 2013



Source: Own study based on the data of the Office of Rail Transportation and the Central Statistical Office

The PKP CARGO Group obtains most of its revenues from activities related to rail freight of cargo. Most of the rail freight performance is performed domestically, where a significant part of the rail freight performance in Poland is attributable to export and transit. As a consequence, the market situation in Poland and in the countries which are major trading partners of Poland has had and will continue to have a decisive influence on the activities and financial results of the Group. The slowdown in the GDP growth in Poland, in countries which are the major trading partners of Poland or in other countries which are the potential markets of the Group may have a negative impact on the demand for services provided by the Group.

Risk associated with the Polish rail freight sector

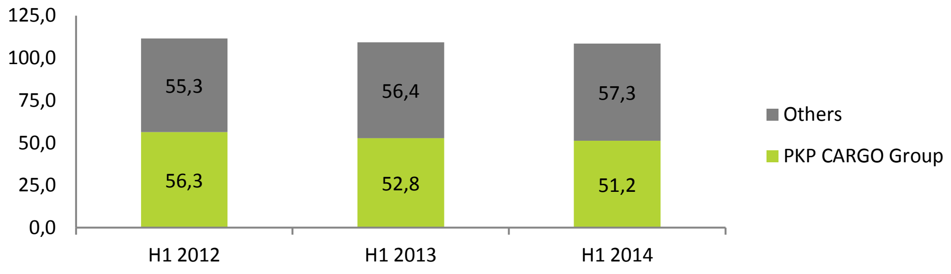
The rail freight market in Poland is becoming more and more competitive

Strong competition in the segment rail freight services is essential for the operations of PKP CARGO S.A. The rail freight market in which PKP CARGO S.A. operates has been fully liberalized. Key entities in the rail freight market in Poland are: PKP CARGO S.A., DB Schenker Rail Polska, CTL Logistics and Lotos Kolej. Activities of competitive private rail carriers encompasses, among others, whole-train freight of coal and other cargo in bulk, liquid fuel, chemicals and intermodal freight.

The Group still maintains a significant position in the Polish market – in the first half of 2014 its market share in terms of rail freight turnover (measured in tkm) was 56.7%, and in terms of rail freight volume (in tons) was approx. 47.2% – other carriers have major market shares, in particular: Lotos Kolej (market share of 8.9% and 4.5% respectively), CTL Logistics (market share of 5.0% and 3.2% respectively) and DB Schenker Rail Polska (market share of 5.4% and 18.9% respectively). There is also a possibility of new competitors entering the Polish market, both domestic and foreign rail freight carriers.

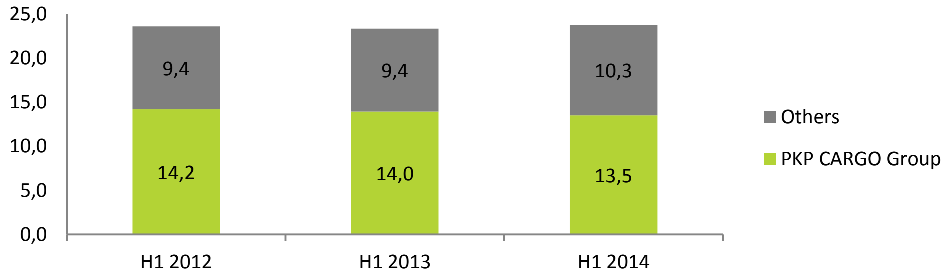
The following charts show the results depicting the size of the freight volume and freight turnover.

Figure 10 Freight volume transported by the PKP CARGO Group and other rail carriers in millions of tons



Source: Office of Rail Transportation

Figure 11 Freight turnover by the PKP CARGO Group and other carriers in billions of tkm



Source: Office of Rail Transportation

The potential threats and risks for the Company and the Group in the next six months that may affect dwindling size of freight volume by the PKP CARGO Group include elements, such as weather conditions (e.g. mild winter and lower demand for energy coal) and the changing volume of transhipment on the Polish-Ukrainian border in connection with the political crisis in Ukraine.

Risk of the condition of the infrastructure

The state of railway infrastructure has a significant impact on the freight activities. The current poor condition of the railway infrastructure and modernisation and repair work on the PKP PLK network cause a downward trend in the commercial speed of freight trains of the PKP CARGO Group. In the first half of this year, the decrease in the commercial speed compared to the first half of 2013 amounted to 5%.

Therefore, the Company has been taking a variety of actions, primarily in the area of freight organisation to reduce the effects of the impact of lower commercial speed on the activities of the Company.

Risks associated with the deficiency of trained personnel

Given the increase in the average age of train crews, the Company has undertaken a series of actions aimed at reducing the risk of staff shortages. In 2014, the Company has carried out the plan of training and recruitment of train crew members, mainly drivers, by improving skills (both types of traction) and broadening the route knowledge. Given these activities, the Company does not expect a risk of significant deficiencies in the traction teams.

The customer base of the Group is highly dependent on a limited number of industrial branches and their suppliers

The customer base of the Group is characterized by a significant concentration, however, revenues from any customer have not exceeded 10% of the total revenues from the sale of services and sale of goods and materials in the first half of 2014. The majority of key customers use services of the Group in order to transport coal, chemicals and liquid fuels, aggregates and construction materials. Despite conclusion of long-term contracts by the Group, sometimes with the guaranteed volume of orders, the Group cannot ensure that the Group would keep its customers in the future or that the volumes indicated in the contracts would be carried entirety. In addition, if key customers are lost, the Group cannot ensure to easily replace them with other clients who would be supplied services on comparable terms.

Activities of the Group may be affected by structural changes in the activities of its key customers, which could lead to creation or development by individual customers of the Group of their own subsidiaries dealing with rail freight. Currently, several major customers of the Group carry out rail freight through their subsidiaries. These subsidiaries may take over a part of the services provided by the Group so that such services are supplied to their parent companies or to other customers and compete with the Group.

Risk of periodic limitation of freight in the main cargo groups

Activities of the PKP CARGO Group does not exhibit significant seasonal or cyclic trends. The main risks for reducing the demand for transport in the major segment groups, i.e. the transport of solid fuels and aggregates and construction materials are primarily weather conditions (mild winter) and possible reduction of infrastructure investments.

The greatest demand for coal exists in the autumn and winter periods, due to the heating period (power stations and cogeneration plants being the main recipients of coal in Poland). This has a moderate impact on 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. However, in case of warm winter coal demand can be reduced.

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. However, both the adverse weather conditions, as well as reduced investment in infrastructure may pose a risk for the transportation of aggregates and construction materials. In the first half of 2014, due to the favourable weather conditions for construction works, the market has become invigorated earlier than usual, resulting in a 33% increase of aggregate freight for the PKP CARGO Group.

Road transport as the growing competition for the Group

Road transport is the greatest competition for rail freight in Poland. Over the recent years, the Polish Government has conducted an intensive programme of modernization of road infrastructure, so that its condition has improved significantly. This has resulted in a reduction of delivery times and reduced the costs of road transport, the competitive advantage of which also lies in the possibility of delivering the cargo "door-to-door", i.e. directly from or to the customer without having to change the means of transport.

Given this, in terms of the weight of the cargo transported, road transport has been growing at a faster rate than rail transport. According to GUS's data, it must be concluded that the rail freight market grew in 2013 in terms of freight volume by 1%, while road transport by 4%, which translated into a decline in the share of rail freight in the volume of total transported cargo from 12.9% to 12.6% in 2013. Considering the above, further decrease in the importance of rail freight cannot be excluded.

Financial risks

Liquidity risk

The Group is exposed to liquidity risk arising from the relation of current assets to current liabilities. In order to ensure an additional source of funds needed to secure its short-term liquidity, the Group has been using current account overdrafts. In addition, the Group has been financing key investment tasks with investment loans and finance lease which allows the Group not to involve cash in non-current assets of long period of economic usefulness.

In order to optimize the financial costs, the PKP CARGO Group operates a cash pooling, which encompassed 9 companies in the Group as at 30 June 2014.

Market risk

The Group is exposed to market risk associated with currency exchange rates and interest rates. The purpose of market risk management is to limit the undesirable influence of changes in the market risk factors on the cash flows and results in the short and medium horizon. The Group manages market risks resulting from the above factors on the basis of internal procedures, which lay down the rules for measurement of individual exposures, parameters and time horizon.

The rules of market risk management are implemented by competent organizational units, under the supervision of the Management Board. Market risk is managed based on the strategies developed, with partial use of derivatives. Derivatives are used only to reduce the risk of changes in the value of the balance sheet values and the cash flow risk. Transactions are concluded with reliable partners only, who are permitted to participate in transactions as a result of application of internal procedures.

FX risk

The Group is exposed to foreign exchange risk arising from accounts receivable, cash and liabilities. Accounts receivable of the Group denominated in foreign currencies are short-term receivables (up to 1 month), while liabilities denominated in foreign currencies are mostly short- and long-term lease obligations. The balance sheet measurement of receivables and liabilities denominated in foreign currencies, as well as fulfilment of settlements in foreign currencies on the sides of receivables and liabilities results in financial revenues (gains on exchange) and costs (losses on exchange). The values of financial revenues and costs fluctuate during the year, which is caused by a change in rates. Due to their long maturity, short- and long-term leasing liabilities denominated in EUR and CHF have the largest share in the financial income and financial costs as well as cause volatility in the result of the Company at the level of financial costs and revenues related to unrealised exchange differences. Unrealised exchange differences arising from the lease liabilities of the Group occur as a result of the need to make a balance sheet measurement of liabilities as at the date on which the financial statements are prepared and as at the date on which payments of the next lease instalments are due during the financial year. Cash in foreign currency deposited in bank accounts results from a mismatch in dates of receipts and expenditures, and from a surplus of revenue over expenditures. The Group generates a permanent surplus in euros. For the EUR/PLN rate there is partially natural hedging, due to the fact that operating revenues in euros are partially offset by expenses in the same currency. Natural hedging for the CHF/USD exchange rate occurs to a limited extent.

In order to present effects of hedging transactions in accordance with their economic content within the Group, hedge accounting is applicable.

Interest rate risk

The majority of financial investments made by the Group are overnight bank deposits, as well as term bank deposits which are held for a period from a few days to approx. 4 months, depending on the liquidity needs of the Group.

In addition, the Group is exposed to the risk of volatility of cash flows related to interest rate arising from bank loans and leases based on variable interest rates. Interest on lease contracts are charged according to the reference rates increased by the margin of the financing institution. The reference rate for contracts denominated in euro is the EURIBOR 1M, 3M, 6M, and the reference rate for contracts denominated in CHF – LIBOR 6M CHF. The interest rate risk for lease contracts is valorisation of leasing instalments in periods of 1 month, 3 months, 6 months, depending on the contract. Interest on loan agreements were calculated according to the WIBOR 1M and 3M reference rates increased by the margin of banks. The interest rate risk for loan agreements is implemented through valorisation of loan instalments in periods of 1 month.

Credit risk

In its commercial activities, the Group sells its services to economic entities with deferred payment, which generates the risk of not receiving the payment from customers for completed services. In order to minimise the credit risk, the Group manages the risk through effective customer creditworthiness assessment procedure. This assessment is carried out for all the customers who use deferred time limit for payments. As part of the internal policy, the Group conditions application of the deferred payment date if the customer has acceptable standing and there is a positive history of cooperation. Receivables from customers are monitored regularly. If there are overdue receivables, the supply of services is ceased in accordance with the procedures in force and debt collection procedures are initiated.

Concentration of the risk associated with trade receivables is limited due to the large number of customers with credit, distributed in different sectors of the economy. Furthermore, in order to reduce the risk of non-recovery of trade receivables, the Group accepts securities from its customers, such as bank/insurance guarantees, assignments from contracts, blockades on bank accounts and bills of exchange. Credit risk associated with cash and bank deposits is regarded as low. All the entities in which the Group invests free cash operate in the financial sector.

The maximum exposure to credit risk is represented by balances of trade receivables and other receivables, cash and other financial assets. This exposure is minimised by securities set up for the Group (in the form of, inter alia, bank/ insurance guarantees and guarantee deposits).

Risk of litigations

The risk of actions being brought against PKP CARGO S.A. and other companies in the PKP CARGO Group

The scope of activities carried out by the Company (and the companies in the PKP CARGO Group) causes a risk of litigation as a defendant, where the value of the item in litigation could be marginal to revenues of PKP CARGO S.A. (and/or subsidiaries), however, the sum of the individual claims may be significant.

In addition, there is a risk of litigations of considerable amount. Taking into account the specifics of activities of the company, significant disputes may relate, inter alia, to failure to perform or improper performance of contracts.

At the moment the Company is involved in litigations (as the defendant, including disputes fought in the labour courts) in 146 cases, which involve claims against the company for a total amount of PLN 37,690,029.15. It is possible that in the course of its business, the Company will be forced to engage in subsequent litigation in the second half of the year.

The risk of having to engage in proceedings which involve regulatory authorities (Office of Competition and Consumer Protection and Office of Rail Transportation)

Given the position of the Company in the market of rail freight, it is possible that PKP CARGO S.A. may become involved in proceedings brought by regulators. From the viewpoint of the Company the most important are actions brought by the President of the Office of Competition and Consumer Protection ("UOKiK"). Following decisions made by that body in the previous years, the Company is currently forced to be part of numerous cases involving alleged breach by the Company of legislation on protection of competition, where the total amount of penalties imposed on the Company is currently PLN 18,361,234.60.

The Company intends to eliminate all the charges of breaching legislation on protection of competition, in particular by verifying the method of activities pursued, both by its internal legal unit and an external specialised legal counsel. Such actions are aimed at eliminating the risk of the competition body finding the Company in breach of the aforementioned legislation.

5. An analysis of the financial standing of the PKP CARGO Group

5.1. Rules of preparation of the interim condensed consolidated financial statements

The interim condensed consolidated financial statements have been prepared with an assumption that the Group would continue as going concern in the foreseeable future. As at the date of preparation of these interim condensed consolidated financial statements there are no circumstances indicating to the threat to the going concern by the Group for a period of at least 12 months from the date of the financial statements.

These interim condensed consolidated financial statements have been prepared in accordance with the International Accounting Standard 34 - Interim Financial Reporting ("IAS 34") and in accordance with the relevant accounting standards applicable to interim financial reporting adopted by the European Union, published and in force at the time of preparation of the interim condensed consolidated financial statements. Information on compliance is contained in the note 2.1. to the interim condensed consolidated financial statements.

5.2. Main economic and financial figures

5.2.1. Statement of comprehensive income

In the first half of 2014, the PKP CARGO Group carried 51,221,000 tons of freight, i.e. 3% less than in the same period of 2013, and achieved freight turnover of 13,522m ntkm, i.e. 3% less than in the first half of 2013. The freight data are presented in detail in chapter 4.1.2. "Rail freight"

In the first half of 2014 the Group reached total operating revenue at PLN 2,099.8m, i.e. 8.4% lower than in the same period of 2013. The total operating expenses reached PLN 1,930.9m and fell by 10.8% compared to the first half of 2013. Higher rate of operating expenses reduction vis-a-vis reduction of operating revenue translated into a higher profit on operating activities and net profit achieved, which amounted to PLN 169.0m and PLN 128.1m, respectively, in the first half of 2014.

Details of individual items of the statement of comprehensive income will be provided further in this chapter. The following table presents results of the PKP CARGO Group in the first half of 2014, as compared to the same period of 2013.

Table 21 Results of the PKP CARGO Group in the first half of 2014, as compared to the first half of 2013 (PLN thousand)

Item no.	Description	6 months until 30 Jan 2014	6 months until 30 Jan 2013	Change 2014-2013	Rate of changes 2014/2013
1	*2*	*3*	*4*	*5=4-3*	*6=(4-3)/3*
1	Total operating revenue	2,099,828	2,291,230	-191,402	-8.4%
2	Total operating expenses	1,930,876	2,164,887	-234,011	-10.8%
3	**Profit on operating activities**	**168,952**	**126,343**	**42,610**	**33.7%**
4	Financial revenue	11,608	19,361	-7,753	-40.0%
5	Financial expenses	16,477	41,217	-24,740	-60.0%
6	Share in the profit of equity accounted associates	-435	181	-616	-340.3%
7	**Profit before tax**	**163,648**	**104,668**	**58,980**	**56.4%**
8	Income tax expense	35,499	27,902	7,597	27.2%
9	**Net profit on continuing operations**	**128,149**	**76,766**	**51,383**	**66.9%**
10	Net profit (loss) on discontinued operations				
11	**NET PROFIT**	**128,149**	**76,766**	**51,383**	**66.9%**

Source: Interim Condensed Consolidated Financial Statements of the PKP CARGO Capital Group for six months ended on 30 June 2014, prepared in accordance with IFRS EU.

Operating revenue

The largest share in the structure of operating revenue of the Group is sales revenue, which in the first half of 2014 totalled 97.8% of total operating revenue, and in the first half of 2013 they reached 94.0%. 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 revenue of the Group, including, among others, sales of property, plant and equipment, change in the balance of receivables impairment allowances and interest on receivables, change in provisions.

In the first half of 2014 sales revenue of the Group fell to PLN 2,053.3m from PLN 2,152.7m and were lower by PLN 99.3m, i.e. 4.6% than in the same period of 2013. A drop in sales revenue in the first half of 2014 was mainly caused by lower transport revenue and railway shipping, which totalled PLN 1,874.5m and fell by PLN 85.9m, i.e. 4.4% compared to the same period of 2013. Revenue from sales of goods and materials fell from PLN 114.0m in the first half of 2013 to PLN 23.7m in the first half of 2014, namely by PLN 90.4m, i.e. 79.3%. The change is mainly caused by PS TRADE TRANS Sp. z o.o., (discontinuation of trading activities resulted in a drop of PLN 75.9m in the first half of 2014 compared to the first half of 2013).

The drop in total operating revenue was also impacted by a reduction in other operating revenue, which totalled PLN 22.8m in the first half of 2014 and were lower by PLN 1.7m, i.e. by 6.8%.

Table 22 Operating revenue in the PKP CARGO Group in the first half of 2014, as compared to the first half of 2013 (PLN thousand)

Item no.	Description	6 months until 30 Jan 2014	6 months until 30 Jan 2013	Change 2014-2013	Rate of changes 2014/2013
1	*2*	*3*	*4*	*5=4-3*	*6=(4-3)/3*
1	Sales revenue, including:	2,053,326	2,152,674	-99,348	-4.6%
1.1	*Transport revenue and railway shipping*	*1,874,532*	*1,960,422*	*-85,890*	*-4.4%*
2	Revenue from sales of goods and materials	23,655	114,049	-90,394	-79.3%
3	Other operating revenue	22,847	24,507	-1,661	-6.8%
4	**Total operating revenue**	**2,099,828**	**2,291,230**	**-191,402**	**-8.4%**

Source: Interim Condensed Consolidated Financial Statements of the PKP CARGO Capital Group for six months ended on 30 June 2014, prepared in accordance with IFRS EU.

Operating expenses

Over the six months of 2014, operating expenses totalled PLN 1,930,900m and were reduced by PLN 234.0m, i.e. 10.8% vs. the first half of 2013. The drop in the operating expenses was caused by the fall in the costs of external services, which in the first half of 2014 PLN 638.0m and were lower by PLN 100.3m, i.e. 13.6% than in the same period of 2013. This is the result of lower freight turnover and 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, the costs of this position in comparison with the previous year fell by PLN 118.4m in the first half of 2014. Among external services, a major increase were reported in repair services (by PLN 13.9m), rent, property and rolling stock fees (by PLN 6.3m) and siding services (by PLN 4.4m).

In addition to the drop in external services in the first half of 2014, the fall in the cost of merchandise and raw materials sold to PLN 15.9m from PLN 98.1m, namely by PLN 82.2m, i.e. 83.8% less than in 6 months of 2013 was of major importance. This was caused by a drop in revenues from the sales of goods and materials by PLN 90.4m, i.e. 79.3% over the same period.

In the first half of 2014 vs. the first half of 2013, among operating expenses there was also a decrease in the costs of consumption of raw materials and supplies (by PLN 21.7m, i.e. 6.5%), the costs of employee benefits (by PLN 14.8m, i.e. 2.0%), other expenses by kind (by PLN 8.7m, i.e. 28.5%), and depreciation/amortisation and impairment losses (by PLN 4.4m, i.e. 2.4%.) The fall in cost of consumption of raw materials and supplies is mainly caused by the decrease in the cost of electricity, gas and water consumption (by PLN 22.2m, i.e. 10.5%.)

Table 23 Operating expenses in the PKP CARGO Group in the first half of 2014, as compared to the first half of 2013 (PLN thousand)

Item no.	Description	6 months until 30 Jan 2014	6 months until 30 Jan 2013	Change 2014-2013	Rate of changes 2014/2013
1	*2*	*3*	*4*	*5=4-3*	*6=(4-3)/3*
1	Depreciation/amortisation and impairment losses	181,540	185,959	-4,419	-2.4%
2	Consumption of raw material and supplies	313,806	335,539	-21,733	-6.5%
3	External services	637,974	738,318	-100,344	-13.6%
4	Taxes and charges	20,331	18,534	1,797	9.7%
5	Employee benefits	724,799	739,585	-14,786	-2.0%
6	Other expenses by kind	21,918	30,666	-8,748	-28.5%
7	Cost of merchandise and raw materials sold	15,865	98,100	-82,235	-83.8%
8	Other operating expenses	14,643	18,186	-3,543	-19.5%
9	**Total operating expenses**	**1,930,876**	**2,164,887**	**-234,011**	**-10.8%**

Source: Interim Condensed Consolidated Financial Statements of the PKP CARGO Capital Group for six months ended on 30 June 2014, prepared in accordance with IFRS EU.

Profit on operating activities

As a result of the aforementioned changes in operating revenue and operating expenses, profit on operating activities increased in 6 months of 2014 by PLN 42.6m, i.e. by 33.7%, to a level of PLN 169.0m.

EBITDA

As a result of the developments described above, the operating profit plus depreciation and amortisation, referred to as EBITDA, increased in the first half of 2014 by PLN 38.2m, i.e. by 12.2%, to a level of PLN 350.5m.

Financial activities

In six months of 2014, the Group reported a loss on financial activities of PLN 5.3m, which is an improvement of result of financial activities of PLN 16.4m in comparison with the same period of 2013, mostly due to net result on exchange rate differences. In the first half of 2013, the net result on exchange rate differential was PLN -16.8m, vs PLN -0.7m in the first half of 2014, i.e. PLN 16.0m higher.

Profit before tax

In the first half of 2014, profit before tax increased by PLN 59.0m, i.e. by 56.4%, to a level of PLN 163.6m. The increase was mostly due to the improvement of the ratio of revenues to operating expenses (a 8.4% decrease of revenue offset by a 10.8% decrease in operating cost) and a reduction of loss on financial activities by PLN 16.4 million.

Income tax expense

In the first half of 2014, the Group reported income tax in the amount of PLN 35.5m, of which deferred tax amounted to PLN 30.0m, and current income tax was PLN 5.5 million.

Net profit

In the first half of 2014, net profit increased vs. the same period of the previous year by PLN 51.4m, i.e. by 66.9 % and was PLN 128.1m.

5.2.2. Description of assets, equity and liabilities

Table 24 Horizontal and vertical analysis of assets (PLN thousand)

	As at 30 Jun 2014	As at 31 Dec 2013	Structure of assets 30 Jun 2014	Structure of assets 31 Dec 2013	Rate of change	
ASSETS						
Non-current assets						
Property, plant and equipment	3,926,422	3,855,446	73.2%	67.1%	70,976	1.8%
Intangible assets	58,052	61,395	1.1%	1.1%	-3,343	-5.4%
Goodwill	2,712	2,712	0.1%	0.0%	0	0.0%
Investment property	1,388	1,415	0.0%	0.0%	-27	-1.8%
Investments accounted for under the equity method	33,625	38,214	0.6%	0.7%	-4,589	-12.0%
Other long-term financial assets	6,051	6,090	0.1%	0.1%	-39	-0.6%
Other long-term non-financial assets	1,675	1,438	0.0%	0.0%	237	16.5%
Deferred tax assets	53,278	83,185	1.0%	1.4%	-29,907	-36.0%
Total non-current assets	**4,083,203**	**4,049,895**	**76.1%**	**70.5%**	**33,308**	**0.8%**
Current assets						
Inventory	74,340	76,041	1.4%	1.3%	-1,701	-2.2%
Trade and other receivables	567,921	609,267	10.6%	10.6%	-41,346	-6.8%
Income tax receivables	535	2,394	0.0%	0.0%	-1,859	-77.7%
Other short-term financial assets	209,877	691,404	3.9%	12.0%	-481,527	-69.6%
Other short-term non-financial assets	69,573	33,355	1.3%	0.6%	36,218	108.6%
Cash and cash equivalents	339,371	263,700	6.3%	4.6%	75,671	28.7%
	1,261,617	**1,676,161**	**23.5%**	**29.2%**	**-414,544**	**-24.7%**
Assets classified as held for sale	17,560	17,560	0.3%	0.3%	0	0.0%
Total current assets	**1,279,177**	**1,693,721**	**23.9%**	**29.5%**	**-414,544**	**-24.5%**
Total assets	**5,362,380**	**5,743,616**	**100.0%**	**100.0%**	**-381,236**	**-6.6%**

Source: Interim Condensed Consolidated Financial Statements of the PKP CARGO Capital Group for six months ended on 30 June 2014, prepared in accordance with IFRS EU.

Table 25 Horizontal and vertical analysis of liabilities and shareholders' equity (PLN thousand)

	As at 30 Jun 2014	As at 31 Dec 2013	Structure of equity and liabilities 30 Jun 2014	Structure of equity and liabilities 31 Dec 2013	Rate of change	
EQUITY AND LIABILITIES						
Equity						
Share capital	2,239,346	2,166,901	41.8%	37.7%	72,445	3.3%
Share premium	625,802	692,761	11.7%	12.1%	-66,959	-9.7%
Other items of equity	(16,971)	(16,392)	-0.3%	-0.3%	-579	3.5%
Retained earnings	584,961	603,247	10.9%	10.5%	-18,286	-3.0%
Equity attributable to the shareholders of the parent company	**3,433,138**	**3,446,517**	**64.0%**	**60.0%**	**-13,379**	**-0.4%**
Equity attributable to non-controlling interest	63,326	62,377	1.2%	1.1%	948	1.5%
Total equity	**3,496,464**	**3,508,894**	**65.2%**	**61.1%**	**-12,430**	**-0.4%**
Non-current liabilities						
Long-term bank loans and credit facilities	89,512	121,558	1.7%	2.1%	-32,046	-26.4%
Long-term finance lease liabilities and leases with purchase option	236,827	313,136	4.4%	5.5%	-76,309	-24.4%
Long-term trade and others liabilities	91,252	113,688	1.7%	2.0%	-22,436	-19.7%
Long-term provisions for employee benefits	592,923	592,923	11.1%	10.3%		0.0%
Other long-term provisions	9,307	22,854	0.2%	0.4%	-13,547	-59.3%
Other long-term financial liabilities	-	-				
Deferred tax provision	2,465	2,577	0.0%	0.0%	-112	-4.3%
Total non-current liabilities	**1,022,286**	**1,166,736**	**19.1%**	**20.3%**	**-144,450**	**-12.4%**
Current liabilities						
Short-term bank loans and credit facilities	64,502	73,217	1.2%	1.3%	-8,715	-11.9%
Short-term finance lease liabilities and leases with purchase option	131,558	115,790	2.5%	2.0%	15,768	13.6%
Short-term trade and other liabilities	528,958	675,841	9.9%	11.8%	-146,883	-21.7%
Short-term provisions for employee benefits	94,047	176,461	1.8%	3.1%	-82,414	-46.7%
Other short-term provisions	22,036	26,127	0.4%	0.5%	-4,091	-15.7%
Other short-term financial liabilities	2,015	306	0.0%	0.0%	1,709	558.5%
Income tax payable	514	244	0.0%	0.0%	270	110.7%
	843,630	**1,067,986**	**15.7%**	**18.6%**	**-224,356**	**-21.0%**
Liabilities directly related to non-current assets classified as held for sale	-	-				
Total current liabilities	**843,630**	**1,067,986**	**15.7%**	**18.6%**	**-224,356**	**-21.0%**
Total liabilities	**1,865,916**	**2,234,722**	**34.8%**	**38.9%**	**-368,806**	**-16.5%**
Total equity and liabilities	**5,362,380**	**5,743,616**	**100.0%**	**100.0%**	**-381,236**	**-6.6%**

Source: Interim Condensed Consolidated Financial Statements of the PKP CARGO Capital Group for six months ended on 30 June 2014, prepared in accordance with IFRS EU

5.2.3. Selected financial and operating ratios

The following table presents significant financial and operational ratios the PKP CARGO Group in the first half of 2014 and in the first half of 2013.

Table 26 Selected financial and operational metrics in the first half of 2014 compared to the first half of 2013

Description	6 months of 2014	6 months of 2013	Absolute change	% change
EBITDA[1] margin	16.7	13.6	3.1	22.8%
Net profit margin[2]	6.1	3.4	2.7	79,4%
Net financial debt to EBITDA[3]	-0.071	-0.236	0.2	-
ROA[4]	2.39	1.38	1.0	73,2%
ROE[5]	3.67	2.33	1.3	57.5%
Average distance covered by 1 locomotive (km/day)[6]	254.6	258.3	-3.7	-1.4%
Average gross train tonnage per operating locomotive (in tonnes)[7]	1461.0	1448.0	13.0	0.9%
Average working time of locomotives (hours/day)[8]	15.2	15.2	0.0	0.0%
Freight turnover per person employed (thousand tkm/employee)[9]	512.9	526.4	-13.5	-2.6%

*1. Calculated as the product of profit on operating activities plus depreciation/amortisation and impairment losses, and total operating revenue * 100.*
*2. Calculated as the product of net profit and total operating revenue * 100.*
3. Calculated as the quotient of net financial debt (being the sum of (i) long-term loans and bank credit facilities; (ii) short-term loans and bank credit facilities; (iii) long term finance lease liabilities and lease with a purchase option; and (v) other current financial liabilities, less (i) cash and cash equivalents; and (ii) other short-term financial assets) and EBITDA (profit on operating activities increased by Depreciation/amortisation and impairment losses.)
*4. Calculated as the quotient of net profit and total assets * 100.*
*5. Calculated as the quotient of net profit and equity * 100.*
6. Calculated as the quotient of vehicle-kilometres (i.e. distance covered by PKP CARGO Group vehicles in a given period) and vehicle-days (i.e. the product of the number of operational vehicles and the number of calendar days in the given period)
7. Calculated as the quotient of gross ton-kilometres and train-kilometres in freight movement in reference to locomotives pulling a train (in double traction, or working on the pushing side in the given period).
8. Calculated as the quotient of vehicle-hours (i.e. number of hours worked by PKP CARGO Group vehicles in a given period) and vehicle-days (i.e. the product of the number of operational vehicles and the number of calendar days in the given period)
9. Calculated as the quotient of freight turnover by the Group by the average employment (in FTE's) in the Group in the given period.

Source: Own review

EBITDA margin and profit after tax margin in the first half of 2014 grew compared to the same period of 2013 by 3.1 p.p., i.e. 22.5% and 2.7 p.p., i.e. 82.2%. An improvement in ratio is the derivative of the increase in the operating profit by 33.7% and an increase in profit after tax by 66.9% following an increase in cost effectiveness of the PKP CARGO Group.

An increase in the profit after tax also improved ROA and ROE ratios, which in the first half of 2014 grew compared to 2013 by 1.0 p.p., i.e. 73,2% and 1.3 p.p., i.e. 57,5%.

The ratio of financial debt to EBITDA in the first half of 2014 and in the first half of 2013 reached a negative value, due to the surplus of cash and cash equivalents and other short-term financial assets over liabilities.

In the first half of 2013, the average daily travel distance of locomotives was 253.3km/day. In the same period of 2014, the amount was reduced by 3.7km/day, reaching 254.6 km/day. There has, therefore, been a decrease in the average daily travel by 1.4%. This development was caused mostly by the increase of closures and operational hindrances on the PKP PLK network.

Average gross weight of train per locomotive increased from 1,448.0 tons (first half of 2013) to 1,461.0 (first half of 2014). Hence, an increase of 13.0 tons was observed (a 0.9% increase of the average weight of trains pulled.) The above results from improved locomotive utilisation and optimisation of the freight process.

In the first half of 2013, the average daily working time of locomotives was 15.2 hours/day. In the same period of 2014, the amount remained at the same level. 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.

5.3. Factors which will influence the financial results over the next quarter

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 Office of Rail Transportation.

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, the cost of access to the infrastructure is still 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 the first half of 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, causing a staggering 33% increase of aggregate and construction materials haulage in the first half of 2014 in the Group.

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 July, PKP CARGO S.A. and ENEA signed a freight contract for a total of nearly 4.6m tons of coal. By mid July 2015 PKP CARGO S.A. will have transported for ENEA 1m tons of power coal from Silesian mines and 3.6m tons of coal mined by Bogdanka in Lublin. Thus, the total share of PKP CARGO in freight of coal from LW Bogdanka will reach over 96% in this period.

Investment refinancing

The Group considers refinancing of investment outlays incurred in the audited period with investment loans from the European Investment Bank and commercial banks. An increase in credit commitments will result in an increase in (short and long-term) liabilities and financial costs.

Consolidation of companies dedicated to repair of the rolling stock

On 1 July 2014 the merger of PKP CARGOWAG Sp. z o.o. and PKP CARGO TABOR-KARSZNICE Sp. z o.o. was recorded in the National Court Register. Since 1 July 2014 PKP CARGOWAG Sp. z o.o. has operated as PKP CARGOTABOR Sp. z o.o. with its registered office in Warsaw, share capital: PLN 88,087,000 – 100% of shares in the share capital of that company belong to PKP CARGO S.A. (88,087 shares with the fair value of PLN 1,000).

Expected results of the consolidation of companies dedicated to repair of the rolling stock:

- Ensuring high level of supply of services and strengthening the market position of the PKP CARGO Group by providing comprehensive repairs of the rolling stock also to entities from outside the Group;
- Optimisation of the production process;
- Improving cost efficiency;
- Optimisation of utilisation of existing resources and investment processes, and increase in the capacity to adapt to market requirements and environmental conditions.

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

The Management Board of PKP CARGO S.A. decided to not publish forecasts or estimates of results which could be considered as forecasts.

5.5. Information on the production assets

5.5.1. Rolling stock

Rolling stock and wagons are the main elements of the production assets of the PKP CARGO Group. In the first half of 2014 there were no significant changes in terms of the number of wagons and locomotives. The number of wagons fell in this period by 95 units while one unit more of locomotives. Changes in the quantities of rolling stock of the Group result directly from actions leading to their reduction, such as decommissioning, sale, termination of lease of rolling stock, and actions causing increases of quantity by purchases, leases or renting of rolling stock. Furthermore, upgrades are performed of locomotives, which do not influence the overall balance of rolling stock, but impact the age structure, and in some cases change quantities of individual classes, because the class and purpose of a locomotive is changed. Major projects aimed at changing the quantities of rolling stock over the 6 months of 2014 include modernisation of 10 SM48 diesel locomotives, changing its purpose from a shunting locomotive to an ST48 traction locomotive. In addition, since April PKP CARGO SERCICE Sp. z o.o. has leased a diesel locomotive in connection with the increased number of sidings in operation.

The primary cause for the decrease in the number of wagons in the period of six months of 2014 was scrapping due to poor technical condition which caused the loss of further operating capacity.

Below are figures which describe the rolling stock of the PKP CARGO Group in units as at 31 December 2013 and 30 June 2014 by the type of traction and ownership structure.

Table 27 Structure of locomotives operated by the PKP CARGO Group as at 31 Dec 2013 and 30 Jun 2014 by type of traction and ownership

Description	30 Jun 2014	31 Dec 2013	Change in Q1 2014
diesel locomotives	1,299	1,298	1
electric locomotives	1,162	1,162	0
Total	**2,461**	**2,460**	**1**
locomotives owned (including finance leases)	2,450	2,450	0
locomotives in operating lease or rented	11	10	1
Total	**2,461**	**2,460**	**1**

Source: Own review

Table 28 Age structure of wagons operated by the PKP CARGO Group as at 31 Dec 2013 and 30 Jun 2014 by ownership type

Description	30 Jun 2014	31 Dec 2013	Change in Q1 2014
wagons owned (including finance lease)	62,929	63,021	-92
wagons in operating lease or rented	81	84	-3
Total	**63,010**	**63,105**	**-95**

Source: Own review

5.5.2. Real estate

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 the first half of 2014.

Table 29 Owned and operated real estate property of the PKP CARGO Group as at 30 Jun 2014 compared to 31 Dec 2013

Description	30 Jun 2014	31 Dec 2013	Change in Q1 2014
Own land, land in perpetual usufruct and land leased from other entities [ha]	742.9	750.6	-7.7
Own buildings, buildings leased and rented from other entities [sq m]	675,342.8	689,518.4	-14,175.6

Source: Own review

The size of own land and land in perpetual usufruct did not change in the first half of 2014. The area of land leased from other entities decreased by 7.7 ha, mainly as a result of verification of the size of used property by subordinated entities of the Group and Companies.

The area of own buildings used in the first half of 2014 grew by 5,223.4 sq m. The increase 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 of the real property.

In the first half of 2014, there was also a decrease in the space of buildings leased and rented from other entities by 19,399 sq m. This results from the ongoing verification and optimisation of the extents of the property in use by the subsidiaries of the Group and the Companies.

6. Other material information and events

6.1. Proceedings in court, arbitration or public administrative authorities

Neither PKP CARGO S.A. nor its subsidiaries are parties to proceedings in court, in a body of arbitration or public administrative authorities, the value of which is at least 10% of shareholders equity of the Company.

PKP CARGO S.A. and the Subsidiaries are involved in proceedings which relate to their obligations and liabilities, however, the total value of obligations and liabilities does not account for at least 10% of shareholders equity of the Company.

Major proceedings which relate to obligations and liabilities of the Company

1. Proceedings pending as a result of a cash fine of PLN 60,362,071.69 imposed with a decision of the President of UOKiK no. DOK-3/2009 of 7 July 2009. As a result of a ruling of the Supreme Court of 3 October 2014, 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 ("SOKiK") repealed the decision of the Chairman of UOKiK no. DOK-3/2009. Since the deadline for effective lodging of the appeal by the UOKiK has passed, on 4 August 2014 the amount of PLN 12,555,310.91 was received at the bank account of the Company, which is a refund of the interest on the said fine. On 22 August 2014 the Company received a letter from the President of the Office of Competition and Consumer Protection ("UOKiK"), in which the President of UOKiK notifies about a further conduct of the anti-trust proceedings regarding abuse by PKP CARGO of the dominant position in the domestic rail freight market during the period from 1 May 2006 until 20 April 2007. As at the date of publication of the foregoing financial statements the Management Board of PKP CARGO S.A. does not foresee any threat that this proceeding will be finalized with a decision to impose another financial penalty to the Parent Company. Due to the early stage of the proceeding, it cannot be excluded that in the occurrence of the future events, the assessment of the Management Board may change and may have an impact on the financial information presented in subsequent reporting periods.

2. PKP CARGO S.A.'s appeal of the Decision of the Chairman of UOKiK no. RWR 44/2012 of 31 December 2012. The decision mentioned above states abuse by PKP CARGO S.A. of its dominant position on the domestic rail freight market during the period from 1 April 2011 until 31 March 2012 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 2013, PKP CARGO S.A. submitted a response to the letter of the Chairman of UOKiK to 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. On 7 April 2014 PKP CARGO S.A. filed an action against PROKONT Sp. z o.o., claiming payment of PLN 62,475,646.00 for outstanding debt for intermodal freight supplied to PROKONT Sp. z o.o. in 2011-2012.

4. CTL Logistics Sp. z o.o. (CTL) with the action of 17 June 2013 has been claiming payment of compensation from PKP CARGO S.A. at PLN 18,435,325.00 with statutory interest from the date on which the action was brought until the payment date. The action for demand of payment relates to CTL's claims for remedy for the loss which PKP CARGO S.A. purportedly caused to CTL as a result of improper functioning of the settlements system in 2002. The court set the hearing date on 29 October 2013. The Parties agreed to commence mediation in the meantime.

Other (administrative) proceedings

1. In March 2013, an investigation procedure was initiated by the Office of Competition and Consumer Protection, 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 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 December 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 November 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 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 December 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 (Journal of Laws No. 50, item 331, as amended), in particular Art. 9 thereof. On 3 February 2014, the Company provided its responses to the aforementioned letter.

6.2. Related parties transactions

In the first half of 2014, no transaction with associated entities has been entered into on conditions other than arms' length terms. No such transactions were entered into after the balance sheet date.

6.3. Information about guarantees for credit or loans

No guarantees of loans or credit were issued by PKP CARGO S.A. or its subsidiary jointly to one entity or a subsidiary of such an entity, the equivalent of which is at least 10% of equities of PKP CARGO S.A.

6.4. Other information essential to evaluate personnel, material and financial situation and changes to such situations, as well as information essential to evaluate potential to satisfy obligations by the issuer

In addition to information presented in this Report, no other information was identified which is essential to evaluate personnel, material and financial situation and changes to such situations, as well as information essential to evaluate potential to satisfy obligations by the issuer.

R E P R E S E N T A T I O N

of the Management Board related to the semi-annual condensed consolidated financial statement's conformity with the Management Board's report on the operation of the PKP CARGO Capital Group

I, the undersigned, hereby represent that to the best of my knowledge, the Semi-annual Condensed Consolidated Financial Statement the PKP CARGO Capital Group and the comparable data have been drawn up in observance of the applicable accounting standards and that they truly, reliably and clearly represent the asset-related and financial standing of the PKP CARGO Capital Group, as well as its financial result.
I also represent that the Management Board's report on the operation of the PKP Cargo Capital Group in the period ended 30 June 2014 presents a true picture of the growth, achievements and standing of the PKP CARGO Capital Group, as well as a description of the key threats and risks.

Members of the Management Board:

1 Adam Purwin – President of the Board

2 Jacek Neska – Board Member

3 Łukasz Hadyś – Board Member

4 Wojciech Derda – Board Member

5 Dariusz Browarek – Board Member

Warsaw, 27 August 2014

R E P R E S E N T A T I O N

of the Management Board on the choice of the entity authorized to audit financial statements (semi-annual financial statement)

I, the undersigned, hereby represent that the entity authorized to audit annual consolidated financial statements, auditing the Semi-annual Condensed Consolidated Financial Statement of the PKP CARGO Capital Group, has been appointed in observance of the rule of law, and that the said entity, as well as the certified auditors performing the audit, met the requirements that need to be fulfilled in order to issue an impartial and independent report, in line with the applicable regulations and professional standards.

Members of the Management Board:

1 Adam Purwin – President of the Board

2 Jacek Neska – Board Member

3 Łukasz Hadyś – Board Member

4 Wojciech Derda – Board Member

5 Dariusz Browarek – Board Member

Warsaw, 27 August 2014

For more information on PKP CARGO please contact Investor Relations Department:

PKP CARGO S.A.
Investor Relations Department
Grójecka 17
02-021 Warsaw

tel.: +48 22 391-47-09
fax: +48 22 474-29-53
e-mail: relacje.inwestorskie@pkp-cargo.eu