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PKP CARGO GROUP'S CONSOLIDATED QUARTERLY REPORT FOR Q1 2016

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QUARTELY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF THE **PKP CARGO** GROUP FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2016 PREPARED IN ACCORDANCE WITH IFRS AS ENDORSED BY THE EUROPEAN UNION

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QUARTERLY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2016 TO 31 MARCH 2016

	Note	for the 3 months period ended 31/03/2016 (unaudited) PLN thousand	for the 3 months period ended 31/03/2015 (restated*) PLN thousand
Revenue from sales of services and finished goods	5	1 014 043	880 557
Revenue from sales of goods and materials		8 757	8 164
Other operating revenue	7.1	11 554	9 855
Total operating revenue		**1 034 354**	**898 576**
Depreciation/amortization and impairment losses	6.1	142 359	102 396
Consumption of raw materials and energy	6.2	162 818	142 011
External services	6.3	366 568	269 939
Taxes and charges		7 026	6 686
Employee benefits	6.4	385 348	319 937
Other expenses by kind	6.5	11 563	8 858
Cost of merchandise and raw materials sold		8 336	6 502
Other operating expenses	7.2	12 144	9 877
Total operating expenses		**1 096 162**	**866 206**
Profit / (loss) on operating activities		**(61 808)**	**32 370**
Financial revenue	8.1	390	6 682
Financial expenses	8.2	14 228	12 987
Share in the profit / (loss) of entities accounted for under the equity method	12	1 364	(1 157)
Result on sales of entities accounted for under the equity method		-	1 865
Profit / (loss) before tax		**(74 282)**	**26 773**
Income tax expense	9.1	(8 235)	4 713
NET PROFIT / (LOSS)		**(66 047)**	**22 060**

(*) restatement of comparative data is described in Note 4 of these Quarterly Condensed Consolidated Financial Statements

QUARTERLY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2016 TO 31 MARCH 2016 (cont'd.)

	Note	for the 3 months period ended 31/03/2016 (unaudited) PLN thousand	for the 3 months period ended 31/03/2015 (restated*) PLN thousand
NET PROFIT / (LOSS)		**(66 047)**	**22 060**
Other comprehensive income			
Other comprehensive income that will be reclassified to profit or loss:		**1 072**	**2 065**
The effective portion of changes in fair value of cash-flow hedging instruments:		606	2 549
Income tax on other comprehensive income		(115)	(484)
Foreign exchange differences on translation of financial statements of foreign subsidiaries		581	-
TOTAL COMPREHENSIVE INCOME		**(64 975)**	**24 125**
Net profit / (loss) attributable to:			
Shareholders of the Parent company		(66 047)	22 203
Non-controlling interest		-	(143)
		(66 047)	**22 060**
Total comprehensive income attributable to:			
Shareholders of the Parent company		(64 975)	24 268
Non-controlling interest		-	(143)
		(64 975)	**24 125**
Earnings per share (PLN per share)			
Earnings per share on operations (basic):	19.1	**(1.47)**	**0.50**
Earnings per share on operations (diluted):	19.2	**(1.47)**	**0.50**

(*) restatement of comparative data is described in Note 4 of these Quarterly Condensed Consolidated Financial Statements

QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 31 MARCH 2016

	Note	As at 31/03/2016 (unaudited)	As at 31/12/2015 (audited)	As at 31/03/2015 (restated*)
		PLN thousand	PLN thousand	PLN thousand
ASSETS				
Non-current assets				
Property, plant and equipment	10	4 763 797	4 719 748	4 048 892
Intangible assets		62 495	66 437	56 882
Goodwill		-	-	2 712
Investment property		1 296	1 309	1 349
Investments accounted for under the equity method	12	41 204	39 831	35 567
Trade and other receivables	15	5 101	5 074	-
Other long-term financial assets	13	9 841	9 849	6 051
Other long-term non-financial assets	14	26 394	32 666	14 677
Deferred tax assets	9.3	109 941	104 587	87 008
Total non-current assets		**5 020 069**	**4 979 501**	**4 253 138**
Current assets				
Inventories		130 799	128 513	108 103
Trade and other receivables	15	713 399	664 321	544 712
Income tax receivables		3 276	2 748	3 089
Other short-term financial assets	13	5 254	4 046	114 485
Other short-term non-financial assets	14	49 847	13 281	59 591
Cash and cash equivalents	16	137 900	276 191	306 459
		1 040 475	**1 089 100**	**1 136 439**
Non-current assets classified as held for sale	17	43 210	44 061	17 560
Total current assets		**1 083 685**	**1 133 161**	**1 153 999**
Total assets		**6 103 754**	**6 112 662**	**5 407 137**

(*) restatement of comparative data is described in Note 4 of these Quarterly Condensed Consolidated Financial Statements

QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 31 MARCH 2016 (cont'd.)

	Note	As at 31/03/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand	As at 31/03/2015 (restated*) PLN thousand
EQUITY AND LIABILITIES				
Equity				
Share capital	18.1	2 239 346	2 239 346	2 239 346
Share premium	18.2	619 407	619 407	615 343
Other items of equity		(2 288)	(2 779)	(46 552)
Foreign exchange differences on translation of financial statements of foreign subsidiaries		32 081	31 500	-
Retained earnings		400 345	466 392	571 281
Total equity		**3 288 891**	**3 353 866**	**3 379 418**
Non-current liabilities				
Long-term bank loans and credit facilities	20	585 632	460 577	270 203
Long-term finance lease liabilities and leases with purchase option	22	182 761	193 500	174 613
Long-term trade and other payables	23	17 018	25 953	56 306
Long-term provisions for employee benefits	24	607 156	603 621	649 647
Other long-term provisions	25	28 443	28 886	8 416
Other long-term financial liabilities	21	-	155 198	-
Deferred tax provision	9.3	115 104	118 353	1 782
Non-current liabilities		**1 536 114**	**1 586 088**	**1 160 967**
Current liabilities				
Short-term bank loans and credit facilities	20	299 292	253 592	98 705
Short-term finance lease liabilities and leases with purchase option	22	58 700	65 416	93 645
Short-term trade and other payables	23	633 178	729 793	506 228
Short-term provisions for employee benefits	24	109 353	100 383	143 346
Other short-term provisions	25	19 257	17 856	19 496
Other short-term financial liabilities	21	158 028	2 174	3 212
Current tax liabilities		941	3 494	2 120
Total current liabilities		**1 278 749**	**1 172 708**	**866 752**
Total liabilities		**2 814 863**	**2 758 796**	**2 027 719**
Total equity and liabilities		**6 103 754**	**6 112 662**	**5 407 137**

(*) restatement of comparative data is described in Note 4 of these Quarterly Condensed Consolidated Financial Statements

QUARTERLY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JANUARY 2016 TO 31 MARCH 2016

			Other components of equity						
	Share capital	Share premium	Actuarial gains/(losses) on employee benefits after employment period	Changes in fair value of cash-flow hedge	Foreign exchange differences on translation of financial statements of foreign subsidiaries	Retained earnings	Attributable to shareholders of the Parent company	Attributable to non-controlling interest	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Balance as at 1/01/2015 (audited)	**2 239 346**	**615 343**	**(46 986)**	**(1 631)**	**-**	**525 721**	**3 331 793**	**63 500**	**3 395 293**
Net result for the period	-	-	-	-	-	22 203	**22 203**	(143)	**22 060**
Other net comprehensive income for the period	-	-	-	2 065	-	-	**2 065**	-	**2 065**
Total comprehensive income	**-**	**-**	**-**	**2 065**	**-**	**22 203**	**24 268**	**(143)**	**24 125**
Transactions with non-controlling interest	-	-	-	-	-	23 357	**23 357**	(63 357)	**(40 000)**
Balance as at 31/03/2015 (restated*)	**2 239 346**	**615 343**	**(46 986)**	**434**	**-**	**571 281**	**3 379 418**	**-**	**3 379 418**
Balance as at 1/01/2016 (audited)	**2 239 346**	**619 407**	**(3 880)**	**1 101**	**31 500**	**466 392**	**3 353 866**	**-**	**3 353 866**
Net result for the period	-	-	-	-	-	(66 047)	**(66 047)**	-	**(66 047)**
Other net comprehensive income for the period	-	-	-	491	581	-	**1 072**	-	**1 072**
Total comprehensive income	**-**	**-**	**-**	**491**	**581**	**(66 047)**	**(64 975)**	-	**(64 975)**
Balance as at 31/03/2016 (unaudited)	**2 239 346**	**619 407**	**(3 880)**	**1 592**	**32 081**	**400 345**	**3 288 891**	**-**	**3 288 891**

(*) restatement of comparative data is described in Note 4 of these Quarterly Condensed Consolidated Financial Statements

QUARTERLY CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 1 JANUARY 2016 TO 31 MARCH 2016 [INDIRECT METHOD]

	Note	for the 3 months period ended 31/03/2016 (unaudited)	for the 3 months period ended 31/03/2015 (restated*)
		PLN thousand	PLN thousand
Cash flows from operating activities			
Profit / (loss) before tax		**(74 282)**	**26 773**
Adjustments:			
Depreciation and amortization of property, plant and equipment and intangible assets	6.1	141 891	102 396
Impairment of fixed assets	6.1	468	-
(Gain) / loss on disposal and liquidation of fixed, intangible assets and non-current assets classified as held for sale		(806)	151
Foreign exchange (gain) / loss		(2 392)	1 588
(Gains) / losses on interest, dividends		7 383	2 601
Share in the (profit) / loss of entities accounted for under the equity method	12	(1 364)	1 157
Result on sales of entities accounted for under the equity method		-	(1 865)
Other adjustments		736	2 549
Changes in working capital:			
(Increase) / decrease in trade and other receivables		(50 868)	(19 261)
(Increase) / decrease in inventories		(1 806)	8 323
(Increase) / decrease in other assets		(36 331)	(36 250)
Increase / (decrease) in trade and other payables		(105 360)	(6 153)
Increase / (decrease) in other financial liabilities		656	(722)
Increase / (decrease) in provisions		13 463	(238 118)
Cash flows from operating activities		**(108 612)**	**(156 831)**
Interest received / (paid)		(161)	957
Income taxes received / (paid)		(3 663)	(1 040)
Net cash (used in) / provided by operating activities		**(112 436)**	**(156 914)**

(*) restatement of comparative data is described in Note 4 of these Quarterly Condensed Consolidated Financial Statements

QUARTERLY CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE PERIOD FROM 1 JANUARY 2016 TO 31 MARCH 2016 [INDIRECT METHOD] (cont'd.)

	Note	for the 3 months period ended 31/03/2016 (unaudited) PLN thousand	for the 3 months period ended 31/03/2015 (restated*) PLN thousand
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangible assets		(175 047)	(135 803)
Proceeds from sale of property, plant and equipment, intangible assets and non-current assets classified as held for sale		4 117	95
Acquisition of entities accounted for under the equity method		-	(1 613)
Proceeds from the sale of entities accounted for under the equity method		-	2 000
Interest received		316	4 003
Repayments of loans granted		125	-
Inflows / (outflows) from bank deposits over 3 months		-	195 659
Net cash (used in) / provided by investing activities		**(170 489)**	**64 341**
Cash flows from financing activities			
Payments of liabilities under finance lease		(20 245)	(52 967)
Payments of interest under lease agreement	8.2	(2 332)	(2 250)
Proceeds from credit facilities / loans received		199 347	89 387
Repayments of credit facilities / loans received		(28 823)	(20 679)
Interest on credit facilities / loans received	8.2	(3 972)	(2 101)
Grants received		1 627	-
Transactions with non-controlling interest		-	(40 000)
Other inflows / (outflows) from financing activities		(968)	(1 536)
Net cash (used in) / provided by financing activities		**144 634**	**(30 146)**
Net increase / (decrease) in cash and cash equivalents		(138 291)	(122 719)
Opening balance of cash and cash equivalents	16	276 191	429 178
Closing balance of cash and cash equivalents	16	**137 900**	**306 459**

(*) restatement of comparative data is described in Note 4 of these Quarterly Condensed Consolidated Financial Statements

EXPLANATORY NOTES TO QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS PREPARED AS AT 31 MARCH 2016

1. General information

1.1 Information on the Parent company

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

The Parent company was assigned a statistical number REGON 277586360 and a tax identification number 954-23-81-960.

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

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

Management Board:

Maciej Libiszewski	-	President of the Management Board
Grzegorz Fingas	-	Member of the Management Boards, responsible for Trade Matters
Arkadiusz Olewnik	-	Member of the Management Boards, responsible for Finance Matters
Jarosław Klasa	-	Member of the Management Boards, responsible for Operation Matters

Supervisory Board:

Mirosław Pawłowski	-	Member of the Supervisory Board
Andrzej Wach	-	Member of the Supervisory Board
Małgorzata Kryszkiewicz	-	Member of the Supervisory Board
Czesław Warsewicz	-	Member of the Supervisory Board
Raimondo Eggink	-	Member of the Supervisory Board
Jerzy Kleniewski	-	Member of the Supervisory Board
Zofia Dzik	-	Member of the Supervisory Board

On 19 January 2016 the Parent company's Supervisory Board appointed Mr Maciej Libiszewski to the position of the President of the Management Board. The candidature of Mr Maciej Libiszewski to the position of the President of the Management Board was appointed by the shareholder of the Parent company - PKP SA , under the personal right pursuant to § 14 paragraph point 4 of the Statute. It was subsequently confirmed by the qualification procedure for the position of the President of the Management Board carried out by the Supervisory Board with the participation of professional recruitment consultants.

On 24 February 2016 resignation from the Parent company's Management Board submitted with immediate effect:
- Mr Jacek Neska,
- Mr Łukasz Hadyś,
- Mr Wojciech Derda.

On 31 March 2016 the Parent company's Supervisory Board appointed the following Members of Management Board (effective from 1 April 2016):
- Mr Grzegorz Fingas,
- Mr Arkadiusz Olewnik,
- Mr Jarosław Klasa.

On 11 May 2016 the mandates of the following members of the fifth term of the Supervisory Board expired:

- Mr Mirosław Pawłowski,
- Mr Kazimierz Jamrozik,
- Mr Andrzej Wach,
- Mr Stanisław Knaflewski,
- Mrs Małgorzata Kryszkiewicz,
- Mr Czesław Warsewicz,
- Mr Raimondo Eggink,
- Mr Jerzy Kleniewski.

On 9 May 2016 the Parent company's shareholder – PKP S.A. informed about the appointment to the Supervisory Board with the effect from 11 May 2016 the following members:

- Mr Mirosław Pawłowski,
- Mr Andrzej Wach,
- Mrs Małgorzata Kryszkiewicz,
- Mr Czesław Warsewicz,
- Mr Jerzy Kleniewski.

On 11 May 2016 the General Meeting of the Parent company adopted a resolution on the appointment to the Supervisory Board the following members:

- Mr Raimondo Eggink,
- Mrs Zofia Dzik.

On 11 May 2016 the term of Mr Dariusz Browarek as the Management Board Member expired.

The Parent company's shareholder's structure as at 31 March 2016 is as follows:

Entity	Registered office	Number of shares	% of share capital held	% of voting rights
PKP S.A. (1)	Warsaw	14 784 194	33.01%	33.01%
Nationale-Nederlanden OFE (2)	Warsaw	5 771 555	12.89%	12.89%
Aviva OFE (3)	Warsaw	2 338 371	5.22%	5.22%
Other shareholders		21 892 797	48.88%	48.88%
Total		**44 786 917**	**100.00%**	**100.00%**

(1) In accordance with the notice sent by shareholder dated 24 June 2014.
(2) In accordance with the notice sent by shareholder dated 12 November 2015.
(3) In accordance with the notice sent by shareholder dated 13 August 2014.

On 16 March 2016 Parent company's Management Board received a notification from Morgan Stanley (Institutional Securities Group and Global Wealth Management) about reducing by Morgan Stanley share of less than 5 % of the total number of votes at the General Meeting of Shareholders of the Parent company. Decreasing of owned shares below the aforementioned threshold occurred as a result of sale of shares of the Parent company, carried on the Stock Exchange in Warsaw on 10 March 2016.

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

1.2 Information on the Group

As at the reporting date the PKP Cargo Group ("the Group") comprised of PKP CARGO S.A. as the Parent company and 29 subsidiaries. Additionally the Group also includes 6 associates and shares in 4 joint ventures.

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

Considering the date of obtaining control, the comparative data for the three months period ended 31 March 2015 presented in the quarterly consolidated statement of comprehensive income, the quarterly consolidated statement of changes in equity and the quarterly consolidated statement of cash flows do not include the financial data of the AWT Group' entities.

Detailed information on the acquisition of Advanced World Transport B.V. is described in Note 6 of the Consolidated Financial Statements of the PKP CARGO Group for the year ended 31 December 2015 prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("EU IFRS")

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

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

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

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

1.3 Functional currency and presentation currency

These Quarterly 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 thousand PLN in the financial statements, unless more accuracy was required in particular cases.

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

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

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

For the purposes of valuation of financial statements of foreign consolidated subsidiaries the following exchange rates were adopted:

Currency	Items in the statement of financial position		Items in the statement of comprehensive income
	As at 31/03/2016 (unaudited)	As at 31/12/2015 (audited)	For the 3 months period ended 31/03/2016 (unaudited)
EUR	4.2684	4.2615	4.3559
CZK	0.1578	0.1577	0.1611
HUF	0.0136	0.0136	0.0139

2. International Financial Reporting Standards Applied

2.1 Statement of compliance

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

These Quarterly Condensed Consolidated Financial Statements should be read along with audited Consolidated Financial Statements of the PKP CARGO Group for the year ended 31 December 2015, prepared in accordance with International Financial Reporting Standards as endorsed by the European Union ("IFRS EU").

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

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

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

During 2015 – 2016 the Group did not discontinue activity that would require recognition in these Quarterly Condensed Consolidated Financial Statements.

These Quarterly Condensed Consolidated Financial Statements were approved by the Management Board for publication on 13 May 2016.

2.2 Status of endorsement of the Standards in the EU

The following amendments to existing standards issued by the International Accounting Standards Board and adopted by European Union are effective since 2016:

- **Amendments to IFRS 11 "Joint Arrangements"** entitled Accounting for Acquisitions of Interest in Joint Operations - applicable to the annual periods beginning on or after 1 January 2016.
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 41 "Agriculture"** entitled Agriculture: Bearer Plants - applicable for annual periods beginning on or after 1 January 2016.
- **Amendments to IAS 16 "Property, Plant and Equipment" and IAS 38 "Intangible Assets"** entitled Clarification of Acceptable Methods of Depreciation and Amortization - applicable for annual periods beginning on or after 1 January 2016.
- **Improvements to International Financial Reporting Standards 2010-2012** (annual improvements to IFRS 2010-2012 contain 8 changes to 7 standards, with consequential amendments to other standards and interpretations) - effective for periods beginning on or after 1 February 2015.
- **Improvements to International Financial Reporting Standards 2012-2014** (annual improvements to IFRS 2012-2014 contain 4 amendments to the standards, with consequential amendments to other standards and interpretations) - applicable for periods beginning on or after 1 January 2016.
- **Amendments to IAS 1 "Presentation of Financial Statements"** entitled Disclosure Initiative - applicable for periods beginning on or after 1 January 2016.

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

2.3 Standards and Interpretations 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 31 March 2016:

- **IFRS 9 "Financial Instruments"** - applicable to the periods beginning on or after 1 January 2018.
- **IFRS 14 "Regulatory Deferral Accounts"** - applicable to the annual periods beginning on or after 1 January 2016.
- **IFRS 15 "Revenue from Contracts with Customers"** - applicable for annual periods beginning on or after 1 January 2018.
- **Amendments to IFRS 10 "Consolidated Financial Statements", IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures"** entitled Investment Entities: Applying the Consolidation Exception - applicable for periods beginning on or after 1 January 2016.
- **IFRS 16 "Leases"** - applicable for annual periods beginning on or after 1 January 2019.
- **Amendments to IAS 7 "Statement of cash flows"** entitled Disclosure Initiative - applicable for periods beginning on or after 1 January 2017.
- **Amendments to IAS 12 "Income Taxes"** entitled recognition of assets for deferred income tax on unrealized losses- applicable for periods beginning on or after 1 January 2017.

The Group is currently analyzing an impact of published IFRS 9 "Financial Instruments", IFRS 15 "Revenue from Contracts with Customers" and IFRS 16 "Leases" on the Group's accounting policy. The Group has analyzed the potential impact of other aforementioned standards, interpretations and amendments to standards used by the Group's accounting policy. According to the Management Board of the Parent company they will not result in a material impact on the currently used accounting policy.

3. Applied accounting principles

3.1 Statement on accounting principles

The accounting principles and calculations methods adopted in the preparation of Quarterly Condensed Consolidated Financial Statements are consistent with those described in audited Consolidated Financial Statements for the year ended 31 December 2015 prepared in accordance with IFRS EU (see note 4 to Consolidated Financial Statements for the year ended 31 December 2015, prepared in accordance with IFRS EU).

3.2. Explanations concerning seasonality or cyclicality of interim Group operations

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

3.3. Changes in estimates

During the period of 3 months ended 31 March 2016 there were following changes in material estimates:

• deferred income tax - recalculated deferred tax balance at 31 March 2016 is presented in Note 9 of these Quarterly Condensed Consolidated Financial Statements,

• the provision for employee benefits - provisions have been estimated as at 31 March 2016, the effect of the recalculation is presented in Note 24 of these Quarterly Condensed Consolidated Financial Statements,

• valuation of liabilities arising from the "put" option for non-controlling interests - a description of the method used to make the estimates and the effect of the recalculation as at 31 March 2016 is presented in Note 21 of these Quarterly Condensed Consolidated Financial Statements,

• property, plant and equipment - valuation of the residual value is based on the current prices of defined classes of scrap. Due to the fact that in the fourth quarter of 2015 there was a significant decrease in scrap prices, the Group has reviewed the residual value of the rolling stock as at 31 December 2015. Lowering the residual value and increasing the basis for the calculation of depreciation charges resulted in an increase of depreciation in the first quarter of 2016 by approximately PLN 15 million.

During the period of 3 months ended 31 March 2016 there were no other significant changes in estimates and methodology of making estimates that would affect the current or future periods.

4. Change in accounting policy and presentation of financial data

4.1 The capitalization of the costs of periodic reviews and repairs of rolling stock

In 2015 the Group redefined components in the applied accounting policy in a way that periodic reviews of rolling stock (P3) has been recognised as a component repair in the light of IFRS. Periodic P3 reviews of wagons and locomotives are similar in their nature to the periodical P4 and P5 repairs, classified by the Group so far as components of repair and their maintenance is closely connected with vehicle maintenance throughout the period of depreciation of P4 and P5 components. Therefore, starting from Consolidated Financial Statements for the year ended 31 December 2015, the Group has decided to change the approach and apply component accounting for P3 repairs. Before, periodic P3 repairs were recognised in profit or loss as incurred costs. To assure comparability of presented data the Group restated comparative data for the 3 months period ended 31 March 2015. The effect of restatement is presented in Note 4.4 of these Quarterly Condensed Consolidated Financial Statements.

4.2 Recognition of provisions for death in service benefits

In 2015 the Group revised accounting policy concerning recognition of provisions for employee benefits. Starting from Consolidated Financial Statements for the year ended 31 December 2015 the Group recognises provision for death in service benefits. The provision is calculated using actuarial method. In the previous reporting periods the Group recognised only severances paid in the given reporting periods. As a result in order to assure comparability of presented data the Group restated comparative data for the 3 months period ended 31 March 2015. The effect of restatement is presented in Note 4.4 of these Quarterly Condensed Consolidated Financial Statements.

4.3 Presentation changes

Starting with the Consolidated Financial Statements for the year ended 31 December 2015, the Group changed its accounting policy in terms of recognising:

- interest expense on provisions for employee benefits; and
- received and imposed penalties.

Detailed information regarding above presentation changes is described in Note 5.3 of the Consolidated Financial Statements for the year ended 31 December 2015.

In order to assure comparability of presented data the Group restated comparative data for the 3 months period ended 31 March 2015. The effect of restatement is presented in Note 4.4 of these Quarterly Condensed Consolidated Financial Statements.

4.4 Restatement of comparative data

In connection with above described changes the Group restated comparative data. Restatement effect is presented in the following tables. The information presented in the explanatory notes to Quarterly Condensed Consolidated Financial Statements was restated accordingly.

QUARTERLY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2015 TO 31 MARCH 2015

	for the 3 months period ended 31/03/2015 (published)	Capitalization of cost of periodical repairs	Reclassification of penalties and compensations	Reclassification of discount interest expenses for employee benefits	Recognition of provision for death in service benefits	for the 3 months period ended 31/03/2015 (restated)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Other operating revenue	7 682	-	2 173	-	-	9 855
Total operating revenue	**896 403**	**-**	**2 173**	**-**	**-**	**898 576**
Depreciation / amortization and impairment losses	96 656	5 740	-	-	-	102 396
Consumption of raw materials and energy	144 694	(2 683)	-	-	-	142 011
External services	270 947	(1 008)	-	-	-	269 939
Taxes and charges	6 834	(148)	-	-	-	6 686
Employee benefits	331 886	(7 246)	-	(4 731)	28	319 937
Other expenses by kind	9 598	(68)	(672)	-	-	8 858
Other operating expenses	7 069	(37)	2 845	-	-	9 877
Total operating expenses	**874 186**	**(5 450)**	**2 173**	**(4 731)**	**28**	**866 206**
Profit on operating activities	**22 217**	**5 450**	-	**4 731**	**(28)**	**32 370**
Financial expenses	8 256	-	-	4 731	-	12 987
Profit before tax	**21 351**	**5 450**	**-**	**-**	**(28)**	**26 773**
Income tax expense	3 683	1 035	-	-	(5)	4 713
NET PROFIT	**17 668**	**4 415**	**-**	**-**	**(23)**	**22 060**

QUARTERLY CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE PERIOD FROM 1 JANUARY 2015 TO 31 MARCH 2015 (cont'd.)

	for the 3 months period ended 31/03/2015 (published)	Capitalization of cost of periodical repairs	Reclassification of penalties and compensations	Reclassification of discount interest expenses for employee benefits	Recognition of provision for death in service benefits	for the 3 months period ended 31/03/2015 (restated)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
NET PROFIT	**17 668**	**4 415**	**-**	**-**	**(23)**	**22 060**
TOTAL COMPREHENSIVE INCOME	**19 733**	**4 415**	**-**	**-**	**(23)**	**24 125**
Net profit attributable to:						
Shareholders of the Parent company	17 811	4 415	-	-	(23)	22 203
Total comprehensive income attributable to:						
Shareholders of the Parent company	19 876	4 415	-	-	(23)	24 268
Earnings per share						
(PLN per share)						
Earnings per share on operations (basic)	**0.40**	**0.10**	**-**	**-**	**-**	**0.50**
Earnings per share on operations (diluted)	**0.40**	**0.10**	**-**	**-**	**-**	**0.50**

QUARTERLY CONSOLIDATED STATEMENT OF FINANCIAL POSITION PREPARED AS AT 31 MARCH 2015

	As at 31/03/2015 (published)	Capitalization of cost of periodical repairs	Reclassification of penalties and compensations	Reclassification of discount interest expenses for employee benefits	Recognition of provision for death in service benefits	As at 31/03/2015 (restated)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
ASSETS						
Non-current assets						
Property, plant and equipment	4 010 378	38 514	-	-	-	4 048 892
Deferred tax assets	84 736	(4 066)	-	-	6 338	87 008
Total non-current assets	**4 212 352**	**34 448**	**-**	**-**	**6 338**	**4 253 138**
Total assets	**5 366 351**	**34 448**	**-**	**-**	**6 338**	**5 407 137**
EQUITY AND LIABILITIES						
Equity						
Other items of equity	(49 622)	-	-	-	3 070	(46 552)
Retained earnings	568 838	32 535	-	-	(30 092)	571 281
Total equity	**3 373 905**	**32 535**	**-**	**-**	**(27 022)**	**3 379 418**
Non-current liabilities						
Long-term provisions for employee benefits	620 064	-	-	-	29 583	649 647
Total non-current liabilities	**1 131 384**	**-**	**-**	**-**	**29 583**	**1 160 967**
Current liabilities						
Short-term provisions for employee benefits	139 569	-	-	-	3 777	143 346
Current tax liabilities	207	1 913	-	-	-	2 120
Total current liabilities	**861 062**	**1 913**	**-**	**-**	**3 777**	**866 752**
Total liabilities	**1 992 446**	**1 913**	**-**	**-**	**33 360**	**2 027 719**
Total equity and liabilities	**5 366 351**	**34 448**	**-**	**-**	**6 338**	**5 407 137**

QUARTERLY CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE PERIOD FROM 1 JANUARY 2015 TO 31 MARCH 2015

	for the 3 months period ended 31/03/2015 (published)	Capitalization of cost of periodical repairs	Reclassification of penalties and compensations	Reclassification of discount interest expenses for employee benefits	Recognition of provision for death in service benefits	for the 3 months period ended 31/03/2015 (restated)
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Cash flows from operating activities						
Profit before tax	**21 351**	**5 450**	**-**	**-**	**(28)**	**26 773**
Adjustments:						
Depreciation and amortization of property, plant and equipment and intangible assets	96 656	5 740	-	-	-	102 396
Increase / (decrease) in provisions	(238 146)	-	-	-	28	(238 118)
Net cash (used in) / provided by operating activities	**(168 021)**	**11 190**	**-**	**-**	**-**	**(156 831)**
Cash flows from investing activities						
Acquisition of property, plant and equipment and intangible assets	(124 613)	(11 190)	-	-	-	(135 803)
Net cash (used in) / provided by investing activities	**75 531**	**(11 190)**	**-**	**-**	**-**	**64 341**

5. Revenue from sales of services and finished goods

5.1 Products and services of the operating segment

The Group has not determined operating segments since it has a single product to which all services provided by the Group are assigned. The Group operates only in one segment - domestic and international transport of goods and providing comprehensive logistics services in the field of railway freight. The Management Board of the Parent company analyzes financial data in a manner in which they have been presented in these Quarterly Condensed Consolidated Financial Statements. The Group also provides services related to repairs of rolling stock and reclamation services, but they are not significant to the Group's operations and are not treated as separate operating segments.

Revenue of the Group from external customers according to geographical areas are presented in note 5.2 of these Quarterly Condensed Consolidated Financial Statements.

5.2 Geographical information

The Group defines geographical area as a registered office of the client, not the country where the services are provided.

The Group operates in one geographical area, Poland, however the Group is actively expanding its geographic area, using the opportunities arising from the liberalization of the European rail market.

As a result of the acquisition of shares AWT significantly increased the PKP CARGO Group's share of in the Czech market. In the period ended 31 March 2016, total revenue generated from Czech clients amounted to more than 17% of total revenues from services, compared to 3% share generated in the same period of the previous year.

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

	for the 3 months period ended 31/03/2016 (unaudited)	for the 3 months period ended 31/03/2015 (unaudited)
	PLN thousand	PLN thousand
Poland	701 660	748 964
Czech Republic	176 171	24 118
Germany	37 108	37 298
Slovakia	14 982	18 543
Cyprus	7 801	10 172
Other countries	76 321	41 462
Total	**1 014 043**	**880 557**

5.3 Structure of the sales revenue

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

	for the 3 months period ended 31/03/2016 (unaudited) PLN thousand	for the 3 months period ended 31/03/2015 (unaudited) PLN thousand
Transport revenue and railway shipping	802 970	802 889
Revenue from other transport activities	76 523	22 072
Siding and traction revenue	66 169	35 995
Cargo revenue	22 847	9 719
Reclamation	13 243	-
Other revenue [1]	32 291	9 882
Total	**1 014 043**	**880 557**

[1] The position of other revenue in the 3 months period ended 31 March 2016 presents mainly revenue arising from renting of assets in the amount of PLN 10,680 thousand, revenue arising from customs agencies in the amount of PLN 3,494 thousand, revenues from sales of finished goods of PLN 6,166 thousand and revenue arising from repair services of railroad fleet in the amount of PLN 4,309 thousand.

The position of other revenue in the 3 months period ended 31 March 2015 presents mainly revenue arising from renting of railroad fleet in the amount of PLN 2,357 thousand, revenue arising from customs agencies in the amount of PLN 3,090 thousand
and revenue arising from repair services of railroad fleet in the amount of PLN 1,407 thousand.

6. Expenses by kind

6.1 Depreciation / amortization and impairment losses

	for the 3 months period ended 31/03/2016 (unaudited) PLN thousand	for the 3 months period ended 31/03/2015 (restated*) PLN thousand
Depreciation of property, plant and equipment	136 706	98 584
Amortization of intangible assets	5 185	3 812
Recognised / (released) impairment allowances:		
Property, plant and equipment	468	-
Total depreciation / amortization and impairment losses	**142 359**	**102 396**

(*) restatement of comparative data is described in Note 4 of these Quarterly Condensed Consolidated Financial Statements

6.2 Consumption of raw materials and energy

	for the 3 months period ended 31/03/2016 (unaudited) PLN thousand	for the 3 months period ended 31/03/2015 (restated*) PLN thousand
Fuel consumption	36 235	37 974
Consumption of materials	24 976	12 248
Electricity, gas and water consumption	101 680	91 177
Inventory impairment losses recognised / (derecognised)	(318)	259
Other	245	353
Total consumption of materials and energy	**162 818**	**142 011**

(*) restatement of comparative data is described in Note 4 of these Quarterly Condensed Consolidated Financial Statements

6.3 External services

	for the 3 months period ended 31/03/2016 (unaudited) PLN thousand	for the 3 months period ended 31/03/2015 (restated*) PLN thousand
Access to infrastructure connections	153 664	141 806
Repair services	3 746	2 702
Rent and lease fees (real estate and railroad fleet)	52 282	36 096
Transport services	96 641	51 179
Telecommunication services	2 240	2 230
Legal, advisory and similar services	4 553	3 695
IT services	12 540	13 640
Services related to property maintenance and operation of fixed assets	6 962	5 655
Cargo services	6 403	3 805
Siding services	8 552	5 251
Other services (1)	18 985	3 880
Total external services	**366 568**	**269 939**

(*) restatement of comparative data is described in Note 4 of these Quarterly Condensed Consolidated Financial Statements

(1) In the 3 months period ended 31 March 2016 other services include AWT Group costs of PLN 11,011 thousand regarding mainly subcontractor services relating to reclamation services.

6.4 Employee benefits

	for the 3 months period ended 31/03/2016 (unaudited) PLN thousand	for the 3 months period ended 31/03/2015 (restated*) PLN thousand
Salaries and wages	286 289	252 832
Costs of social insurance	62 545	51 578
Appropriation to the Company's Social Benefits Fund	6 655	6 620
Other employee benefits during employment	9 642	7 885
Other post-employment benefits	1 250	310
Changes in provisions for employee benefits	18 029	(1 663)
Other employee benefit costs	938	2 375
Total employee benefits	**385 348**	**319 937**

(*) restatement of comparative data is described in Note 4 of these Quarterly Condensed Consolidated Financial Statements

6.5 Other expenses by kind

	for the 3 months period ended 31/03/2016 (unaudited) PLN thousand	for the 3 months period ended 31/03/2015 (restated*) PLN thousand
Business travel	7 695	6 204
Property insurance	3 033	1 916
Other	835	738
Total other expenses by kind	**11 563**	**8 858**

(*) restatement of comparative data is described in Note 4 of these Quarterly Condensed Consolidated Financial Statements

7. Other operating revenue and expenses

7.1 Other operating revenue

	for the 3 months period ended 31/03/2016 (unaudited) PLN thousand	for the 3 months period ended 31/03/2015 (restated*) PLN thousand
Gains on disposal of assets:		
Gain on sales of non-current assets	1 150	159
Derecognised impairment losses:		
Trade receivables	221	576
Other (including interest on receivables)	6	193
	227	769
Other operating revenue:		
Penalties and compensations	4 405	2 173
Release of provisions for the fine imposed by OCCP	357	-
Release of other provisions	1 241	6 050
Interest on trade and other receivables	234	361
Forex gains on trade receivables and payables	3 140	-
Grants	124	13
Other	676	330
Total other operating revenue	**11 554**	**9 855**

(*) restatement of comparative data is described in Note 4 of these Quarterly Condensed Consolidated Financial Statements

7.2 Other operating expenses

	for the 3 months period ended 31/03/2016 (unaudited) PLN thousand	for the 3 months period ended 31/03/2015 (restated*) PLN thousand
Recognised impairment losses:		
Trade receivables	3 995	1 665
Other (including on interest on receivables)	25	95
	4 020	1 760
Other operating expenses:		
Penalties and compensations	2 481	2 845
Costs of liquidation of non-current and current assets	1 380	478
Provisions for the fines imposed by OCCP	2 032	-
Other provisions	671	1 763
Court and collection costs	200	182
Costs of transport benefits for non-employees	955	761
Interest on trade and other payables	68	104
Forex losses on trade receivables and payables	-	1 905
Other	337	79
Total other operating expenses	**12 144**	**9 877**

(*) restatement of comparative data is described in Note 4 of these Quarterly Condensed Consolidated Financial Statements

8. Financial revenue and expenses

8.1 Financial revenue

	for the 3 months period ended 31/03/2016 (unaudited) PLN thousand	for the 3 months period ended 31/03/2015 (unaudited) PLN thousand
Interest income:		
Bank deposits and accounts	181	2 954
Bid bonds and collateral	30	33
Loans granted	135	-
Other (including interest on state settlements)	43	133
Total interest income and dividends	**389**	**3 120**
Gains on measurement of financial assets and liabilities at fair value through profit or loss	-	3 045
Other financial revenue	1	517
Total financial revenue	**390**	**6 682**

8.2 Financial expenses

	for the 3 months period ended 31/03/2016 (unaudited) PLN thousand	for the 3 months period ended 31/03/2015 (restated*) PLN thousand
Interest expense:		
Interest on loans and borrowings	3 972	2 100
Interest on liabilities under finance lease agreements	2 332	2 250
Interest on long-term liabilities	895	1 536
Interest on bid bonds and guarantees	77	49
Other (including interest on state settlements)	219	72
Total interest expense	**7 495**	**6 007**
Losses on measurement of financial assets and liabilities at fair value through profit or loss, including:	45	-
Valuation of liabilities arising from the "put" option for non-controlling shares	*856*	-
Valuation of FX forwards	*(811)*	-
Unwinding discount of employee benefits provision	5 018	4 731
Other financial expenses:		
Net forex result	1 279	1 941
Other financial expenses	391	308
Total financial expenses	**14 228**	**12 987**

(*) restatement of comparative data is described in Note 4 of these Quarterly Condensed Consolidated Financial Statements

9. Income tax

9.1 Income tax recognised in profit or loss

	for the 3 months period ended 31/03/2016 (unaudited) PLN thousand	for the 3 months period ended 31/03/2015 (restated*) PLN thousand
Current income tax:		
Current tax expense	579	1 176
Deferred income tax:		
Deferred tax that occurred in the reporting period	(8 814)	3 537
Total tax expense recognised in profit or loss	**(8 235)**	**4 713**

(*) restatement of comparative data is described in Note 4 of these Quarterly Condensed Consolidated Financial Statements

Since 1 January 2015 the Group operated within tax capital group under the name PKP CARGO LOGISTICS – Tax Capital Group pursuant to art. 1a of the Polish Corporate Income Tax Act (Official Journal from 2011, item 851 with amendments) (hereinafter “TCG”). TCG was established by an agreement in the form of a notarial deed on 29 September 2014. TCG consists of PKP CARGO S.A as representing company, PKP CARGO SERVICE Sp. z o.o., PKP CARGOTABOR Sp. z o.o., and CARGOTOR Sp. z o. o.

In the year ended 31 December 2015, the TCG did not achieve assumed profitability of 3% and because of that second tax year of TCG ended on 31 March 2016 and as a result the TCG ceased to exist.

9.2 Income tax recognised in other comprehensive income

	for the 3 months period ended 31/03/2016 (unaudited) PLN thousand	for the 3 months period ended 31/03/2015 (unaudited) PLN thousand
Deferred income tax		
Income tax from revaluation of fair value measurement of financial instruments designated as cash flow hedges	115	484
Exchange differences on translation of deferred tax balances of foreign subsidiaries recognised in other comprehensive income [(1)]	96	-
Income tax recognised in other comprehensive income	**211**	**484**

[(1)] Presented within equity as foreign exchange differences on translation of financial statements of foreign subsidiaries.

9.3 Income tax receivables and liabilities

Below is presented deferred tax assets (liabilities) recognised in the consolidated statement of financial position:

	As at 31/03/2016 (unaudited)	As at 31/12/2015 (audited)
	PLN thousand	PLN thousand
Deferred tax assets	109 941	104 587
Deferred tax liabilities	(115 104)	(118 353)
Total	**(5 163)**	**(13 766)**

9.4.1 Table of movements of deferred income tax

for the 3 months period ended 31/03/2016	**As at 01/01/2016 (audited)**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Exchange differences on translation of deferred tax recognised in other comprehensive income**	**As at 31/03/2016 (unaudited)**
	PLN thousand	**PLN thousand**	**PLN thousand**	**PLN thousand**	**PLN thousand**
Property, plant and equipment and intangible assets and assets held for sale	(185 146)	11 711	-	(93)	(173 528)
Trade payables	4 608	(4 608)	-	-	-
Long-term liabilities	(543)	170	-	-	(373)
Inventories	466	205	-	1	672
Receivables - impairment allowances	6 856	620	-	-	7 476
Accrued interest on assets	(157)	(2)	-	-	(159)
Accrued interest on liabilities	(6)	-	-	-	(6)
Provisions for employee benefits	133 800	1 682	-	3	135 485
Other provisions	4 652	(26)	-	-	4 626
Accrued expenses	7 265	1 895	-	-	9 160
Deferred income	(4 731)	(1 826)	-	-	(6 557)
Unpaid employee benefits	7 188	(152)	-	(3)	7 033
Forex losses	1 569	(501)	(4)	-	1 064
Forex gains	13	1	-	-	14
Valuation of derivatives	450	(158)	(111)	-	181
Other	858	285	-	-	1 143
	(22 858)	**9 296**	**(115)**	**(92)**	**(13 769)**
Unused tax losses					
Tax losses [(1)]	9 092	(482)	-	(4)	8 606
Total deferred tax assets (liabilities)	**(13 766)**	**8 814**	**(115)**	**(96)**	**(5 163)**

[(1)] As at 31 March 2016 deferred tax assets from unused tax losses for future periods represents the loss of subsidiaries that do not belong to TCG in amount of PLN 45,295 thousand.

9.4.1 Table of movements of deferred income tax (cont'd)

for the 3 months period ended 31/03/2015	**As at 01/01/2015 (audited)**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**As at 31/03/2015 (restated*)**
	PLN thousand	**PLN thousand**	**PLN thousand**	**PLN thousand**
Property, plant and equipment and intangible assets and assets held for sale	(139 061)	4 303	-	(134 758)
Investments in associates – impairment	3 364	(3 364)	-	-
Long-term liabilities	(1 575)	292	-	(1 283)
Inventories	(1 177)	(59)	-	(1 236)
Receivables - impairment allowance	6 249	126	-	6 375
Accrued interest on assets	(608)	261	-	(347)
Provisions for employee benefits	194 428	(43 796)	-	150 632
Other provisions	2 465	266	-	2 731
Accrued expenses	5 982	(44)	-	5 938
Deferred income	(5 454)	(3 536)	-	(8 990)
Unpaid employee benefits	8 244	(1 266)	-	6 978
Forex losses	6 974	(3 102)	-	3 872
Forex gains	6	(1)	-	5
Valuation of derivatives	2 670	-	(484)	2 186
Other	-	896	-	896
	82 507	**(49 024)**	**(484)**	**32 999**
Tax losses [1]	6 740	45 487	-	52 228
Total deferred tax assets (liabilities)	**89 247**	**(3 537)**	**(484)**	**85 226**

(*) restatement of comparative data is described in Note 4 of these Quarterly Condensed Consolidated Financial Statements

[1] As at 31 March 2015 deferred tax asset arising from tax losses to be used in future periods represented loss incurred by the subsidiaries comprising TCG of PLN 248,692 thousand and tax loss of other subsidiaries of PLN 26,189 thousand.

9.5 Tax losses unrecognised in calculation of deferred tax assets

	As at 31/03/2016 (unaudited)	**As at 31/12/2015 (audited)**
	PLN thousand	**PLN thousand**
The following deferred tax assets are not recognised as at the reporting date:		
- Unused tax losses [1]	77 739	75 562

[1] The balance of unused tax losses not included in the calculation of deferred tax assets as at 31 March 2016 represents the losses of subsidiaries from AWT Group in amount of PLN 74,880 thousands (AWT B.V of PLN 62,930 thousand, AWT Rail HU Zrt. of PLN 11,950 thousand) and CARGOSPED Terminal Braniewo Sp. z o.o. loss of PLN 2,859 thousand. Whereas, the amount of tax losses not included in the calculation of deferred tax assets as at 31 December 2015 represented the losses of subsidiaries from AWT Group in amount of PLN 73,122 thousands (AWT B.V of PLN 61,252 thousand, AWT Rail HU Zrt. of 11,870 thousand) and CARGOSPED Terminal Braniewo Sp. z o.o. loss of PLN 2,440 thousand. The losses incurred by AWT Group companies arose mostly before acquisition date.

10. Property, plant and equipment

Carrying amount	As at 31/03/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Land	152 451	152 572
Buildings, premises, civil and water engineering structures	592 006	597 070
Technical equipment and machinery	140 500	146 749
Means of transport	3 846 439	3 784 969
Other fixed assets	9 440	10 558
Fixed assets under construction	22 961	27 830
	4 763 797	**4 719 748**

Including finance lease	As at 31/03/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Technical equipment and machinery	11 565	12 427
Means of transport	331 478	346 493
	343 043	**358 920**

Fixed assets under construction	As at 31/03/2016 (unaudited) PLN thousand	As at 31/03/2015 (restated*) PLN thousand
Gross value		
Opening balance	**30 332**	**20 024**
Additions	183 532	104 245
Grants to property, plant and equipment	(1 627)	-
Disposals - transfer to non-current assets	(186 728)	(101 829)
Disposal - abandoned investments	(208)	(79)
Foreign exchange differences on translation of subsidiaries' financial statements	162	-
Closing balance	**25 463**	**22 361**
Accumulated impairment		
Opening balance	**2 502**	**1 800**
Closing balance	**2 502**	**1 800**
Net value		
Closing balance	**22 961**	**20 561**

(*) restatement of comparative data is described in Note 4 of these Quarterly Condensed Consolidated Financial Statements

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

For the 3 months period ended 31 March 2016 (unaudited)	**Land**	**Buildings, premises, civil and water engineering structures**	**Technical equipment and machinery**	**Means of transport**	**Other fixed assets**	**Total**
	PLN thousand	**PLN thousand**	**PLN thousand**	**PLN thousand**	**PLN thousand**	**PLN thousand**
Gross value						
As at 1 January 2016 (audited)	**153 323**	**735 423**	**362 904**	**5 441 611**	**39 283**	**6 732 544**
Additions:						
Acquisition	-	3 062	2 389	179 046	123	184 620
Finance leases	-	-	-	2 108	-	2 108
Foreign exchange differences on translation of subsidiaries' financial statements	12	51	24	564	2	653
Disposals						
Sales	-	-	(114)	(413)	(71)	(598)
Liquidation	-	-	(655)	(30 203)	(2)	(30 860)
As at 31 March 2016 (unaudited)	**153 335**	**738 536**	**364 548**	**5 592 713**	**39 335**	**6 888 467**
Accumulated depreciation						
As at 1 January 2016 (audited)	**-**	**129 544**	**215 838**	**1 508 843**	**28 717**	**1 882 942**
Additions						
Depreciation charges	-	7 842	8 418	119 202	1 244	136 706
Other	-	-	111	-	-	111
Disposals						
Sales	-	-	(80)	(293)	(71)	(444)
Liquidation	-	-	(552)	(29 131)	(2)	(29 685)
Foreign exchange differences on translation of subsidiaries' financial statements	-	(2)	(4)	(53)	(1)	(60)
As at 31 March 2016 (unaudited)	**-**	**137 384**	**223 731**	**1 598 568**	**29 887**	**1 989 570**
Accumulated impairment loss						
As at 1 January 2016 (audited)	**751**	**8 809**	**317**	**147 799**	**8**	**157 684**
Additions						
Recognition of impairment allowance	133	335	-	-	-	468
Disposals						
Impairment loss utilization	-	-	-	(93)	-	(93)
Foreign exchange differences on translation of subsidiaries' financial statements	-	2	-	-	-	2
As at 31 March 2016 (unaudited)	**884**	**9 146**	**317**	**147 706**	**8**	**158 061**
Net value						
As at 31 March 2016 (unaudited)	**152 451**	**592 006**	**140 500**	**3 846 439**	**9 440**	**4 740 836**

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

For the 3 months period ended 31 March 2015 (unaudited)	Land PLN thousand	Buildings, premises, civil and water engineering structures PLN thousand	Technical equipment and machinery PLN thousand	Means of transport PLN thousand	Other fixed assets PLN thousand	Total PLN thousand
Gross value						
As at 1 January 2015 (audited)	**140 567**	**610 590**	**309 442**	**4 565 408**	**32 904**	**5 658 911**
Additions:						
Acquisition	-	1 397	1 344	97 744	151	100 636
Finance leases	-	-	-	1 193	-	1 193
Disposals						
Sales	-	-	(3)	(211)	(3)	(217)
Liquidation	-	-	(1 290)	(39 468)	(26)	(40 784)
Other	-	-	-	(37)	-	(37)
As at 31 March 2015 (restated*)	**140 567**	**611 987**	**309 493**	**4 624 629**	**33 026**	**5 719 702**
Accumulated depreciation						
As at 1 January 2015 (audited)	**-**	**102 894**	**188 591**	**1 312 149**	**25 139**	**1 628 773**
Additions						
Depreciation charges	-	6 051	7 781	83 580	1 172	98 584
Disposals						
Sales	-	-	(3)	(211)	(3)	(217)
Liquidation	-	-	(1 282)	(38 180)	(26)	(39 488)
Other	-	-	-	(37)	-	(37)
As at 31 March 2015 (restated*)	**-**	**108 945**	**195 087**	**1 357 301**	**26 282**	**1 687 615**
Accumulated impairment loss						
As at 1 January 2015 (audited)	**691**	**3 031**	**26**	**-**	**8**	**3 756**
As at 31 March 2015 (restated*)	**691**	**3 031**	**26**	**-**	**8**	**3 756**
Net value						
As at 31 March 2015 (restated*)	**139 876**	**500 011**	**114 380**	**3 267 328**	**6 736**	**4 028 331**

(*) restatement of comparative data is described in Note 4 of these Quarterly Condensed Consolidated Financial Statements

11. Subsidiaries

Detailed information regarding subsidiaries consolidated using full method as at 31 March 2016 and 31 December 2015 is as follows:

No.	Name of subsidiary	Core business	Place of registration and operation	% of interests held by the Group	
				As at 31/03/2016	As at 31/12/2015
1	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%
2	PKP CARGO Centrum Logistyczne Medyka Żurawica Sp. z o.o.	Transshipment of goods in other terminals	Żurawica	100.0%	100.0%
3	PKP CARGO SERVICE Sp. z o.o.	Siding services	Warsaw	100.0%	100.0%
4	PKP CARGO CONNECT Sp. z o.o.	Shipping services	Warsaw	100.0%	100.0%
5	PKP CARGOTABOR Sp. z o.o.	Repair and maintenance of railroad fleet	Warsaw	100.0%	100.0%
6	PKP CARGOTABOR USŁUGI Sp. z o.o.	Collection, processing and disposal of waste; recovery of recyclable materials	Warsaw	100.0%	100.0%
7	CARGOTOR Sp. z o.o.	Management of logistics infrastructure including railway sidings and tracks	Warsaw	100.0%	100.0%
8	CARGOSPED Terminal Braniewo Sp. z o.o.	Transshipment of goods, customs depot	Braniewo	100.0%	100.0%
9	Advanced World Transport B.V.	Holding and financial activity	Amsterdam	80.0%	80.0%
10	Advanced World Transport a.s.	Providing complex services: rail transport, railway shipping, siding services, repair of railroad fleet	Ostrava	80.0%	80.0%
11	AWT ROSCO a.s.	Managing and lease of railroad fleet	Ostrava	80.0%	80.0%
12	AWT Čechofracht a.s.	Railway shipping and customs service	Prague	80.0%	80.0%
13	AWT Rekultivace a.s.	Providing complex services: reclamation of land, construction services, waste management, designing of land development	Havířov-Prostřední Suchá	80.0%	80.0%
14	AWT Rail HU Zrt.	Providing complex services: rail transport, railway shipping, siding services	Budapest	80.0%	80.0%
15	AWT Coal Logistics s.r.o.	Railway shipping	Prague	80.0%	80.0%

Detailed information regarding other subsidiaries belonging to the Group as at 31 March 2016 and 31 December 2015 is as follows:

	Name of subsidiary	Core business	Place of registration and operation	% of interests held by the Group	
				As at 31/03/2016	As at 31/12/2015
16	ONECARGO Sp. z o.o.	Rail transport of goods	Warsaw	100.0%	100.0%
17	ONECARGO CONNECT Sp. z o.o.	Services supporting land transport	Warsaw	100.0%	100.0%
18	Trade Trans Karya Sp. z o.o.	Transshipment of goods, customs depot	Lublin	100.0%	100.0%
19	Transgaz S.A.	Transport agency	Zalesie k. Małaszewicz	64.0%	64.0%
20	Trade Trans Finance Sp. z o.o.	Financial and accounting services	Warsaw	100.0%	100.0%
21	PPHU "Ukpol" Sp. z o.o.	Transshipment of goods, customs depot	Werchrata	100.0%	100.0%
22	AWT Rail SK a. s.	Rail transport, railway shipping	Bratislava	80.0%	80.0%
23	AWT Rail PL Sp. z o.o. in liquidation (1)	Railway shipping	Rybnik	80.0%	80.0%
24	AWT DLT s.r.o.	Siding services	Kladno	80.0%	80.0%
25	G.I.B. s.r.o. in liquidation	Railway shipping	Prague	80.0%	80.0%
26	AWT Trading s.r.o.	Trading of military purpose products	Petrvald	80.0%	80.0%
27	AWT Rekultivace PL Sp. z o.o.	Providing complex services: reclamation of land, construction services, waste management, designing of land development	Cieszyn	80.0%	80.0%
28	Spedrapid Sp. z o.o.	Railway shipping	Gdynia	52.8%	52.8%
29	RND s.r.o.	Railway shipping, monitoring of transportation	Olomouc	40.8%	40.8%

(1) On 7 August 2015 the Extraordinary Shareholders Meeting of AWT Rail PL Sp. z o.o. adopted the resolution on opening of liquidation proceedings of the company. This change has been registered in court on 15 March 2016.

12. Investments in entities accounted for under the equity method

	for the 3 months period ended 31/03/2016 (unaudited) PLN thousand	for the 3 months period ended 31/03/2015 (unaudited) PLN thousand
Opening balance (audited)	**39 831**	**35 246**
Purchase of shares	-	1 613
Sales of shares	-	(135)
Share in profit / (loss) of investments accounted for under the equity method [1]	1 364	(1 157)
Foreign exchange differences on translation of subsidiaries' financial statements	9	-
Closing balance (unaudited)	**41 204**	**35 567**

[1] In the 3 months period ended 31 March 2015 the balance included impairment allowance on investments accounted for under the equity method of PLN 1,613 thousand.

12.1 Detailed information on entities accounted for under the equity method

Name of entity accounted for under the equity method	% of interests by the Group		Carrying amount of assets	
	As at 31/03/2016 (unaudited)	As at 31/12/2015 (audited)	As at 31/03/2016 (unaudited)	As at 31/12/2015 (audited)
	%	%	PLN thousand	PLN thousand
COSCO POLAND Sp. z o.o.	20.0	20.0	1 140	1 108
Pol – Rail S.r.l	50.0	50.0	7 552	6 889
Terminale Przeładunkowe Sławków – Medyka Sp. z o.o.	50.0	50.0	19 553	19 537
Trade Trans Karya Sp. z o.o.	100.0	100.0	-	-
Transgaz S.A.	64.0	64.0	5 091	4 741
Trade Trans Finance Sp. z o.o.	100.0	100.0	392	302
PPHU "Ukpol" Sp. z o.o.	100.0	100.0	-	-
Rentrans Cargo Sp. z o.o.	29.3	29.3	2 761	2 632
Gdański Terminal Kontenerowy S.A.	41.9	41.9	76	106
AWT Rail SK a. s.	80.0	80.0	4 639	4 516
Total			**41 204**	**39 831**

13. Other financial assets

	As at 31/03/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Financial instruments		
Currency forwards and spots	1 317	123
Investments in shares		
Shares in Polish entities [1]	7 337	7 351
Shares in foreign entities [1]	1 951	1 949
	9 288	9 300
Loans and receivables measured at amortized cost		
Loans granted to related entities	640	639
Loans granted to other entities	2 008	2 000
Deposits over 3 months	1 289	1 282
	3 937	3 921
Units in investment funds	553	549
Other financial assets	-	2
Total	**15 095**	**13 895**
Non-current assets	9 841	9 849
Current assets	5 254	4 046
Total	**15 095**	**13 895**

[1] As at 31 March 2016 and as at 31 December 2015 the impairment allowance on investments in shares amounted to PLN 11,833 thousand.

14. Other non-financial assets

	As at 31/03/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Advances for purchase of fixed assets [(1)]	8 542	13 385
Prepayments [(2)]	66 348	31 017
Other	1 351	1 545
Total	**76 241**	**45 947**
Non-current assets	26 394	32 666
Current assets	49 847	13 281
Total	**76 241**	**45 947**

[(1)] As at 31 March 2016 and 31 December 2015, the position includes mainly an advance of PLN 7,483 thousand and PLN 12,326 thousand respectively, paid under concluded agreement by the Parent company on delivery of 15 multisystem train engines. According to the scheduled terms of the agreement, train engines will be delivered during the period from February 2016 until June 2017. Detailed information on the aforementioned agreement is described in Note 28 to these Quarterly Condensed Consolidated Financial Statements.

[(2)] As at 31 March 2016 the most significant items are costs of Social Benefits Fund to be settled in future periods of PLN 22,157 thousand, prepaid costs of: rents of PLN 15,600 thousand, transportation benefits costs of PLN 10,920 thousand, insurance of PLN 11,244 thousand and IT services of PLN 2,018 thousand. As at 31 December 2015 the most significant items of prepayments are prepaid costs of: rents of PLN 17,071 thousand, insurance costs of PLN 7,540 thousand and IT services of PLN 1,164 thousand.

15. Trade and other receivables

	As at 31/03/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Trade receivables	746 326	723 386
Impairment allowance for receivables	(90 663)	(87 252)
Total	**655 663**	**636 134**
Receivables from sales of non-financial non-current assets	357	2 197
State receivables	3 231	5 006
Guarantee, deposits and bid bonds	4 134	3 385
VAT settlements	51 785	19 249
Other receivables	3 330	3 424
Total	**718 500**	**669 395**
Non- current assets	5 101	5 074
Current assets	713 399	664 321
Total	**718 500**	**669 395**

As at 31 March 2016 pledges on Group’s receivables were established in the amount of PLN 52,015 thousand.

16. Cash and cash equivalents

For the purpose of preparation of the quarterly consolidated statement of cash flows, cash and cash equivalents consist of cash in hand and cash at bank, including bank deposits up to 3 months maturity. Cash and cash equivalents recognised in the consolidated statement of cash flows at the end of the financial year can be reconciled to the financial statement as is presented below:

	As at 31/03/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Cash in hand and at bank	125 307	226 624
Bank deposits up to 3 months	12 593	49 567
Total	**137 900**	**276 191**
including:		
Restricted cash	17 513	20 644

As at 31 March 2016 and 31 December 2015 restricted cash relates mainly to guarantees and bid bonds.

17. Non – current assets classified as held for sale

As at 31 March 2016 and 31 December 2015 non-current assets classified as held for sale are presented as follows:

Non – current assets classified as held for sale	As at 31/03/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Land held for sale	10 994	10 994
Means of transport (rolling stock)	32 216	33 067
Total	**43 210**	**44 061**

As a result of the occurrence of events beyond the Group control, sale of above mentioned assets have not been finalized within 12 months from the date of classification as assets held for sale. However, the Group is still determined to carry out the plan of sale and takes active steps to finalize it. Rolling stock is offered for sale through auctions announced by the Group. The Group also conducts an active program to find a buyer for the property.

In the 3 months period ended 31 March 2016 the following changes in the position of non-current assets classified as held for sale occurred:

For the 3 months period ended 31 March 2016	Land PLN thousand	Means of transport PLN thousand	Total PLN thousand
As at 1 January 2016 (audited)	**10 994**	**33 067**	**44 061**
Sales	-	(851)	(851)
As at 31 March 2016 (unaudited)	**10 994**	**32 216**	**43 210**

In the analogous period of prior year there were no changes in this position.

18. Equity

18.1 Share capital

	As at 31/03/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Share capital consists of:		
Ordinary shares, fully paid and registered	2 239 346	2 239 346
Total share capital	**2 239 346**	**2 239 346**

As at 31 March 2016 and 31 December 2015 share capital consisted of ordinary shares with the nominal value of PLN 50 each. The fully paid ordinary shares with a nominal value of PLN 50 are equivalent to one vote at the meeting of shareholders and bear the right to dividend.

During the 3 months period ended 31 March 2016 and 31 March 2015 there were no changes in the share capital of the Parent company.

18.2 Share premium

During the 3 months period ended 31 March 2016 and 31 March 2015 there were no changes in the share premium of the Group.

19. Earnings per share

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

	for the 3 months period ended 31/03/2016 (unaudited) PLN thousand	for the 3 months period ended 31/03/2015 (restated*) PLN thousand
Profit / (loss) attributable to shareholders of the Parent company	**(66 047)**	**22 203**

(*) restatement of comparative data is described in Note 4 of these Quarterly Condensed Consolidated Financial Statements

19.1 Basic earnings per share

	for the 3 months period ended 31/03/2016 (unaudited)	for the 3 months period ended 31/03/2015 (restated*)
Weighted average number of ordinary shares (units)	44 786 917	44 786 917
Basic earnings per share (PLN per share)	**(1.47)**	**0.50**

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

(*) restatement of comparative data is described in Note 4 of these Quarterly Condensed Consolidated Financial Statements

19.2 Diluted earnings per share

	for the 3 months period ended 31/03/2016 (unaudited)	for the 3 months period ended 31/03/2015 (restated*)
Weighted average number of ordinary shares (units)	44 786 917	44 786 917
Diluted earnings per share (PLN per share)	**(1.47)**	**0.50**

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.

(*) restatement of comparative data is described in Note 4 of these Quarterly Condensed Consolidated Financial Statements

20. Credit facilities and loans received

	As at 31/03/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Credit facilities and loans received measured at amortized cost		
Bank loans – pledged on assets	119 038	119 579
Bank loans – other	761 149	589 817
Borrowings from related parties	3 416	3 407
Borrowings from other entities	1 321	1 366
Total	**884 924**	**714 169**
Non-current liabilities	585 632	460 577
Current liabilities	299 292	253 592
Total	**884 924**	**714 169**

20.1 Summary of loan and borrowings agreements

Loans agreements in the Group were concluded mainly to finance the investment plan, the financing of the acquisitions takeovers and to finance current operations. Loans agreements are denominated in PLN, EUR and CZK.

Parent company as at 31 March 2016

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in currency (in thousand)	Contractual amount in PLN thousand	Liability in PLN thousand
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Bank enforcement	39 000	39 000	10 569
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2017	Bank enforcement	49 200	49 200	17 220
Investment loan	Bank Gospodarstwa Krajowego	PLN	WIBOR 1M + margin	31.03.2021	Bank enforcement	515 200	515 200	453 782
Investment loan	European Investment Bank	PLN	WIBOR 3M + margin	29.05.2020	No pledges	240 000	240 000	72 250
Investment loan	Bank Gospodarstwa Krajowego(1)	EUR	EURIBOR 3M + margin	20.12.2026	Notarial deed statement of submission to enforcement	15 000	64 026	64 026
Investment loan	Bank Gospodarstwa Krajowego (1)	EUR	EURIBOR 3M + margin	20.12.2026	Notarial deed statement of submission to enforcement	85 000	362 814	4 460
Investment loan	Bank Pekao S.A.(2)	PLN	WIBOR 3M + margin	31.12.2026	Notarial deed statement of submission to enforcement	700 000	700 000	101 742
Overdraft	mBank S.A.	PLN	WIBOR O/N + margin	31.05.2017	Bank enforcement	100 000	100 000	36 652
							Total	**760 701**

(1) On 16 November 2015, the Parent company signed 2 investment loan agreements with Bank Gospodarstwa Krajowego up to the maximum amount of EUR 100,000 thousand. The loans are dedicated to finance the purchase of multi-system engines and planned acquisitions. As at 31 March 2016 total utilized loans amounted to EUR 16,045 thousand while as at 31 December 2015 EUR 2,901 thousand.
(2) On 16 November 2015, the Parent company signed a loan agreement with Bank Pekao S.A., on the basis of which investment loan was granted up to the maximum amount of PLN 700,000 thousand, dedicated for financing planned acquisitions and capital expenditures. As at 31 March 2016 the Parent company utilized the amount of PLN 101,742 thousand.

Subsidiaries as at 31 March 2016

Type of loan	Name of bank/lender	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in currency (in thousand)	Contractual amount in PLN thousand	Liability in PLN thousand
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	91
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.10.2016	Surety of PKP CARGO S.A. up to PLN 1,380 thousand	1 200	1 200	144
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	213
Loan	WFOŚIGW Łódź	PLN	Fixed interest rate (1)	31.03.2024	1) Blank promissory notes, 2) Non-revocable authorization to charge bank accounts, 3) Surety of PKP CARGO S.A.	1 686	1 686	1 321
Overdraft	PKO BP S.A.	PLN	WIBOR 1M + margin	15.04.2016	Capped mortgage in amount of PLN 700 thousand, Pledge on inventories of PLN 600 thousand	1 300	1 300	808
Investment loan	ING Bank N.V. UniCredit Bank Czech Republic, a.s.	CZK	PRIBOR 3M + margin	30.09.2016	1) Pledge on shares of AWT a.s. 2) Pledge in tangible fixed assets	1 560 000	246 168	97 823
Investment loan	ING Bank N.V. UniCredit Bank Czech Republic, a.s.	EUR	EURIBOR 3M + margin	30.09.2016	1) Pledge on shares of AWT a.s. 2) Pledge in tangible fixed assets	11 400	48 660	19 341
Investment loan	Raiffeisenbank a.s.	EUR	Fixed interest rate (1)	30.06.2016	1) Registered pledge on tangible fixed assets and receivables 2) Bills 3) Assignment of insurance	8 000	34 147	1 066
Loan	AWT Rail SK a.s.	EUR	Fixed interest rate (1)	31.12.2016	No pledges	800	3 415	3 416
							Total	**124 223**

(1) The interest rate on bank credit and loans payable with fixed interest rate is within the range from 2.5% to 6.5%.

Parent company as at 31 December 2015

Type of loan	Name of bank	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in currency (in thousand)	Contractual amount in PLN thousand	Liability in PLN thousand
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	21.03.2016	Bank enforcement	36 400	36 400	1 630
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.03.2016	Bank enforcement	36 600	36 600	2 233
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	30.06.2017	Bank enforcement	39 000	39 000	12 690
Investment loan	Bank Pekao S.A.	PLN	WIBOR 1M + margin	31.12.2017	Bank enforcement	49 200	49 200	19 680
Investment loan	Bank Gospodarstwa Krajowego	PLN	WIBOR 1M + margin	31.03.2021	Bank enforcement	515 200	515 200	464 123
Investment loan	European Investment Bank	PLN	WIBOR 3M + margin	29.05.2020	No pledges	240 000	240 000	76 500
Investment loan	Bank Gospodarstwa Krajowego	EUR	EURIBOR 3M + margin	20.12.2026	Notarial deed - statement of submission to enforcement	15 000	63 923	12 363
							Total	**589 219**

Subsidiaries as at 31 December 2015

Type of loan	Name of bank/lender	Currency	Interest terms and conditions	Maturity date	Pledges	Contractual amount in currency (in thousand)	Contractual amount in PLN thousand	Liability in PLN thousand
Overdraft	PKO BP S.A.	PLN	WIBOR 1M + margin	15.04.2016	Capped mortgage in amount of PLN 700 thousand, Pledge on inventories of PLN 600 thousand	1 300	1 300	495
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	136
Investment loan	mBank S.A.	PLN	WIBOR 1M + margin	31.10.2016	Surety of PKP CARGO S.A. up to PLN 1,380 thousand	1 200	1 200	206
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	256
Loan	WFOŚIGW Łódź	PLN	Fixed interest rate	31.03.2024	1) Blank promissory notes, 2) Non-revocable authorization to charge bank accounts, 3) Surety of PKP CARGO S.A.	1 686	1 686	1 366
Investment loan	ING Bank N.V. UniCredit Bank Czech Republic, a.s.	CZK	PRIBOR 3M + margin	30.09.2016	1) Pledge on shares of AWT a.s. 2) Pledge in tangible fixed assets	1 560 000	246 012	97 667
Investment loan	ING Bank N.V. UniCredit Bank Czech Republic, a.s.	EUR	EURIBOR 3M + margin	30.09.2016	1) Pledge on shares of AWT a.s. 2) Pledge in tangible fixed assets	11 400	48 581	19 288
Investment loan	Raiffeisenbank a.s.	EUR	Fixed interest rate	30.06.2016	1) Registered pledge on tangible fixed assets and receivables 2) Bills 3) Assignment of insurance	8 000	34 092	2 129
Loan	AWT Rail SK a.s.	EUR	Fixed interest rate	31.12.2016	No pledges	800	3 409	3 407
							Total	**124 950**

20.2 Not utilized credit and overdraft facilities

Type of loan	Name of bank	Currency	As at 31/03/2016 (unaudited)	As at 31/12/2015 (audited)
			PLN thousand	PLN thousand
Investment loan	Bank Gospodarstwa Krajowego	PLN	1 115	5 627
Investment loan	European Investment Bank [1]	PLN	155 000	-
Investment loan	Bank Gospodarstwa Krajowego	EUR	358 354	51 560
Investment loan	Bank Pekao S.A.	PLN	598 258	100 000
Investment loan	European Bank for Reconstruction and Development	EUR	426 840	426 150
Overdraft	mBank S.A.	PLN	63 348	100 000
Overdraft	ING BANK N.V. UniCredit Bank Czech Republic a.s.	CZK	28 814	27 708
Overdraft	ING BANK Śląski S.A.	PLN	-	19 000
Overdraft	PKO BP S.A.	PLN	493	805
Total not utilized credit and overdraft facilities			**1 632 222**	**730 850**

[1] On 18 March 2016 an annex was concluded to loan agreement with European Investment Bank on the basis of which loan in the amount of PLN 155,000 thousand was granted up to the Parent company.

20.3 Events of default in loan agreement

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

21. Other financial liabilities

	As at 31/03/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Financial instruments		
Interest rate swap (IRS)	1 974	2 164
Fx fowards and spots	-	10
Liabilities due to “put” option for non-controlling shares [1]	156 054	155 198
Total	**158 028**	**157 372**
Non-current liabilities	-	155 198
Current liabilities	158 028	2 174
Total	**158 028**	**157 372**

[1] Based on the Shareholders Agreement, the Parent company has concluded with a non-controlling shareholder of AWT B.V. an agreement on the purchase option (call) and sale option (put) of a non-controlling shares in AWT B.V. Based on the Agreement, the Parent company is both buyer of a call option and the issuer of put option and therefore has both the right to purchase the remaining shares in AWT B.V. exercising of purchase option (call) and an obligation to purchase shares in AWT B.V. when a non-controlling shareholder will exercise a sale option (put).

According to the accounting policy applied by the Parent company:

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

In accordance with IFRS 3, the liability under the sale option (put) recognised in accordance with the expected acquisition method has constituted at the acquisition moment the element of contingent consideration and influenced on AWT purchase bargain gain. Liabilities arising from the sale option (put) are presented as financial liabilities measured at fair value through profit or loss.

The fair value of liability due to put option is based on the discounted cash flows, with applied discount rate adequate for such liabilities. The fair value of put option depends on the financial results of the AWT Group and is set as a multiplication of EBITDA and a coefficient defined in the Agreement, adjusted by the amount of net debt. The basic assumptions taken into account in the valuation include EBITDA, net debt, EUR/PLN exchange rate and interest rate appropriate for this type of liabilities.

The period of exercise of sale option (put) has been established from 1 January 2017 to 31 December 2020.

22. Finance lease liabilities and leases with purchase option

22.1 General terms of lease

The Group uses mainly cargo wagons, devices of technical backroom, cars and computer hardware under finance leases. The leases are concluded for 3 to 11 years and denominated in PLN, EUR and CZK.

22.2 Finance lease liabilities

	Minimum lease payments	
	As at 31/03/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Up to 1 year	65 844	73 086
Over 1 year, up to 5 years	147 056	155 335
Over 5 years	50 940	54 967
	263 840	**283 388**
Less future lease charges	(22 379)	(24 472)
Present value of minimum lease payments	**241 461**	**258 916**

	Present value of minimum lease payments	
	As at 31/03/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Up to 1 year	58 700	65 416
Over 1 year, up to 5 years	133 674	140 841
Over 5 years	49 087	52 659
Present value of minimum lease payments	**241 461**	**258 916**

	As at 31/03/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Included in the consolidated statement of financial position as:		
Long-term finance lease liabilities and leases with purchase option	182 761	193 500
Short-term finance lease liabilities and leases with purchase option	58 700	65 416
Total	**241 461**	**258 916**

23. Trade and other payables

	As at 31/03/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Trade payables	246 352	321 303
Accruals	65 252	62 486
Liabilities due to purchase of non-financial non-current assets	104 900	113 728
Liabilities related to securities (deposits, bid bonds)	21 172	23 472
State settlements	97 159	98 686
Liabilities due to Voluntary Redundancy Program	-	48 249
Other settlements with employees	79 959	78 097
Other settlements (1)	31 694	6 616
VAT payables	3 708	3 109
Total	**650 196**	**755 746**
Non-current liabilities (2)	17 018	25 953
Current liabilities	633 178	729 793
Total	**650 196**	**755 746**

(1) As at 31 March 2016 other settlements include mainly liabilities arising from statutory appropriations to the Social Benefit Fund.

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

24. Employee benefits

As at 31 March 2016 the valuation of employee benefits is based on the assumptions applied in actuarial valuation performed as at 31 December 2015.

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

	As at 31/03/2016 (unaudited)	As at 31/12/2015 (audited)
	PLN thousand	PLN thousand
Post-employment defined benefit plans		
– retirement benefits	153 554	154 828
– appropriations to the Social Benefit Fund for pensioners	124 779	124 118
– death in service benefits	31 787	31 660
– transport benefits	33 722	33 654
Other employee benefits		
– jubilee bonuses	318 403	318 239
– other employee benefits (unused holidays / bonuses)	54 264	41 505
Total	**716 509**	**704 004**
including:		
– long-term	607 156	603 621
– short-term	109 353	100 383
Total	**716 509**	**704 004**

25. Other provisions

	As at 31/03/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Provision for the fine imposed by OCCP	17 884	16 209
Reclamation provision	5 253	5 356
Provision for onerous contracts	9 743	9 737
Other provisions	14 820	15 440
Total	**47 700**	**46 742**
Long-term provisions	28 443	28 886
Short-term provisions	19 257	17 856
Total	**47 700**	**46 742**

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

As at 31 March 2016, the provision represents the estimate of the Management Board of the Parent company in connection with the probability to pay two fines imposed on the Parent company by the Office of Competition and Consumer Protection.

First fine (in the amount of PLN 1,786 thousand on the basis of the decision no. DOK-4/2012 dated on 26 July 2012) 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. By judgment of 3 November 2014 the Court of Competition and Consumer Protection dismissed the appeal of the company while maintaining the same decisions of the OCCP's President's no DOK-4/2012 dated on 26 July 2012 including a quantification of the fine. On 22 December 2014, the Parent company has appealed against the above mentioned judgment. On 5 April 2016 the Court of Appeal issued a judgment in which a judgment of the CCCP has been changed and the amount of the fine has been reduced to the amount of PLN 1,429 thousand. The Court of Appeal upheld the complaint concerning the lack of legitimacy of taking into account the administrative recidivism as an aggravating circumstances in determining the sentence. As at 31 March 2016 as a result of a reassessment of the facts and circumstances the Management Board of the Parent company decided to reduce the previously created provision by PLN 357 thousand. On 20 April 2016 the Parent company paid penalty in the amount of PLN 1,429 thousand.

The second penalty was issued in connection with legal anti-monopoly proceedings in previous periods on abuse of the Parent company's dominant position on the national freight market (the proceedings as a result of which the decision no. DOK-3/2009 was issued). On 22 August 2014, the Parent company has been informed by the President of the OCCP about further conduction of the proceedings. After reconducting the proceedings under decision no. DOK-5/2015 of 31 December 2015, the President of the OCCP found the Parent company's dominant position on the national freight market abusing, consisting of counteracting the formation of conditions necessary for the emergence or growth of competition, through the induction on 1st May 2006 changes in the Rules of the Sale, which entitled the company to refuse to sign special contracts with entrepreneurs recognised as competitors. The President of OCCP stated the abandonment of application of the above practice and imposed a fine on the company in the amount of PLN 14,224 thousand. As at 31 December 2015 a provision for the fine imposed by OCCP in the amount of PLN 12,192 thousand was recognised as a result of the risk assessment performed by the Management Board. As at 31 March 2016 as a result of a reassessment of the facts and circumstances the Management Board of the Parent company decided to increase the previously created provision by PLN 2,032 thousand, so that the potential fine is fully covered by provision.

The third penalty based on the OCCP's President decision no. RWR 44/2014 imposed on 31 December 2012, on the basis of which the Parent company was accused of blocking the possibility to compete with shipping companies belonging to PKP CARGO Capital Group, a fine was imposed on the company amounting PLN 16,576 thousand. In 2013 as a result of reassessment of quantifiable risk related to OCCP's proceedings, the Parent company derecognised the provision in the amount of PLN 9,946 thousand, acknowledging that provision in amount of PLN 6,630 thousand represent the best estimate of probable payments. On 23 November 2015 the Warsaw Regional Court issued a judgment on the Parent company's appeal from the decision of President of OCCP no. RWR 44/2012 of 31 December 2012. The Court of First Instance changed the contested decision and declined significantly a penalty originally imposed in the amount of PLN 16,576 thousand to PLN 2,231 thousand. On 19 January 2016 the Parent company appealed against part of the judgment dated 23 November 2015. During the three months period ended 31 March 2016 there were no circumstances that would affect the previous assessment of the Management Board of the Parent company.

As a result of future events, the assessment of the Management Board of the Parent company may change in next reporting periods.

Reclamation provision

The provision was recognised to cover the future expenses related to the reclamation works of land. The provision was estimated at the present value of the expected future expenses.

Provision for onerous contracts

The Group recognised a provision for onerous contract related to real estate lease agreement, where the expected revenues will not cover the lease costs incurred by the Group.

Other provisions

According to the Management Board of Parent company the amount of other provisions as at 31 March 2016 and 31 December 2015 represents the best estimate of probable payment. If any penalties are imposed, their value is dependent on the future events with uncertain result. Consequently, the amount of provisions may change in future periods.

26. Financial instruments

26.1 Categories of financial instruments

Financial assets by categories	As at 31/03/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Financial assets measured at fair value through profit or loss	**801**	**-**
Held for trading		
Derivatives	801	-
Hedging instruments	**516**	**123**
Financial assets available for sale	**9 841**	**9 849**
Shares in unquoted companies	9 288	9 300
Units in investment funds	553	549
Loans and receivables	**797 857**	**918 443**
Trade receivables	655 663	636 134
Receivables from sale of non-current assets	357	2 197
Loans granted	2 648	2 639
Deposits	1 289	1 282
Cash and cash equivalents	137 900	276 191
Total financial assets	**809 015**	**928 415**

Financial liabilities by categories	As at 31/03/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Financial liabilities measured at fair value through profit or loss	**156 054**	**155 208**
Held for trading		
Derivatives	-	10
Liabilities measured at fair value on initial recognition		
Liabilities due to "put" option for non-controlling interest	156 054	155 198
Hedging instruments (1)	**66 000**	**2 164**
Financial liabilities measured at amortized cost	**1 237 402**	**1 211 686**
Credits and loans	820 898	714 169
Trade payables	311 604	383 789
Payables arising from purchase of non-current assets	104 900	113 728
Financial liabilities excluded from the scope of IAS 39	**241 461**	**258 916**
Total financial liabilities	**1 700 917**	**1 627 974**

Impairment losses for shares in unquoted companies and trade receivables are described in Notes 13 and 15 of these Quarterly Condensed Consolidated Financial Statements.

(1) From 1 January 2016 the Parent company has applied hedge accounting for cash flow hedges. The aim of the hedging activities is to reduce the impact of exchange rate risk currency pair EUR / PLN on future cash flows. The investment loan denominated

in euro was established as a hedging instrument. Hedged item are highly probable future cash flows denominated in EUR arising from trade agreements. The Parent company expects the occurrence of hedged cash flows starting from March 2017. As at 31 March 2016 the nominal value of the hedging instrument amounts to EUR 15,000 thousand representing the equivalent of PLN 64,026 thousand. The item includes the valuation of hedging instruments in the form IRS financial instruments in the subsidiary established as cash flow hedge for future payments arising on finance lease liabilities at a variable interest rate, which as at 31 March 2016 amounts to PLN 1,974 thousand. The impact of the valuation of hedge accounting for the 3 months period ended 31 March 2016 on the consolidated statement of comprehensive income is presented in Note 26.3 of these Quarterly Condensed Consolidated Financial Statements.

26.2 Fair value hierarchy

As at 31 March 2016 and 31 December 2015 the only financial instruments measured at fair value were derivative financial instruments and units in investment funds. Date of maturity of those instruments falls after the reporting period. In terms of valuation techniques, these instruments qualify for level 1, 2 and 3 of fair value hierarchy.

Financial assets and liabilities measured at fair value	As at 31/03/2016 (unaudited)			As at 31/12/2015 (audited)		
	Level 1 PLN thousand	Level 2 PLN thousand	Level 3 PLN thousand	Level 1 PLN thousand	Level 2 PLN thousand	Level 3 PLN thousand
Assets	**553**	**1 317**	**-**	**549**	**123**	**-**
Derivatives – forward contracts and IRS	**-**	1 317	**-**	**-**	123	-
Units in investment funds	553	-	-	549	-	-
Liabilities	**-**	**1 974**	**156 054**	**-**	**2 174**	**155 198**
Derivatives – forward contracts and IRS	-	1 974	-	-	2 174	-
Put option for non-controlling interest in AWT	-	-	156 054	-	-	155 198

Fair value of units in investment funds is based on the current purchase price quoted on active market.

Fair value of currency forwards is based on discounted future cash flows from the concluded transactions based on the difference between the forward price and transaction price. The forward price is calculated based on the fixing of the National Bank of Poland and the curve implied by FX swap transactions. It is classified at level 2 of the fair value hierarchy.

The fair value of the forward transactions on interest rate (IRS) is determined by the future discounted cash flows from the transaction, calculated based on the difference between the forward price and the transaction price.

Disclosures in the methods of valuation and the measurement of fair value of financial instruments qualified for level 3 of fair value hierarchy are described in Note 21 of these Quarterly Condensed Consolidated Financial Statements.

For the categories of financial instruments, listed in Note 26.1 of these Quarterly Condensed Consolidated Financial Statements, other than shares held in entities not quoted on active market, which are not measured at fair value, the Group does not disclose the fair value due to the fact that the fair value of these financial instruments as at 31 March 2016 and 31 December 2015 did not significantly differ from their values presented in the consolidated statement of financial position.

The Group did not disclose the fair value of shares held in entities not quoted on active markets that are classified as financial assets available for sale. The Group is not able to determine reliably the fair value of the shares held in companies not quoted on active markets. At the reporting date they are valued at acquisition price less accumulated impairment losses.

26.3 Revenues, expenses, gains and losses, included in the statement of consolidated comprehensive income according to categories of financial instruments

for the 3 months period ended 31/03/2016 (unaudited)	Financial assets measured at fair value through profit or loss	Hedging instruments	Loans and receivables	Financial liabilities measured at fair value through profit or loss	Financial liabilities at amortized cost	Financial liabilities excluded from the scope of IAS 39	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Interest income / (expense)	-	(59)	550	-	(4 876)	(2 332)	(6 717)
Foreign exchange differences	-	-	(322)	-	2 722	(539)	1 861
Impairment losses / revaluations	811	-	(3 793)	(856)	-	-	(3 838)
Commissions related to loans and debt securities	-	-	-	-	(73)	-	(73)
Gross profit / (loss)	**811**	**(59)**	**(3 565)**	**(856)**	**(2 227)**	**(2 871)**	**(8 767)**
Change in valuation	-	606	-	-	-	-	606
Other comprehensive income gross	**-**	**606**	**-**	**-**	**-**	**-**	**606**

26.3 Revenues, expenses, gains and losses, included in the statement of consolidated comprehensive income according to categories of financial instruments (cont'd.)

for the 3 months period ended 31/03/2015 (unaudited)	Financial assets measured at fair value through profit or loss	Hedging instruments	Loans and receivables	Financial liabilities measured at fair value through profit or loss	Financial liabilities at amortized cost	Financial liabilities excluded from the scope of IAS 39	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Interest income / (expense)	-	-	3 315	-	(3 740)	(2 250)	(2 675)
Foreign exchange differences	-	-	(2 113)	-	(279)	(1 454)	(3 846)
Impairment losses / revaluations	2 412	-	(991)	633		-	2 054
Commissions related to loans and debt securities	-	-	-	-	(21)	-	(21)
Gross profit / (loss)	**2 412**	**-**	**211**	**633**	**(4 040)**	**(3 704)**	**(4 488)**
Change in valuation	-	2 549	-	-	-	-	2 549
Other comprehensive income gross	**-**	**2 549**	**-**	**-**	**-**	**-**	**2 549**

27. Related party transactions

27.1 Transactions with the State Treasury

In the 3 months period ended 31 March 2016 and the 3 months period ended 31 March 2015 the State Treasury was the higher level parent entity of the PKP CARGO Group. As a result, all entities belonging to the State Treasury (directly and indirectly) are the Group's related parties and are divided into related parties from PKP Group and other entities controlled by the State Treasury. The Management Board of the Parent company disclosed in these Quarterly Condensed Consolidated Financial Statements transactions with significant related parties that have been identified as related parties on the basis of the best knowledge
of the Management Board.

27.1.1 Transactions with related parties from PKP Group

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

	for the 3 months period ended 31/03/2016 (unaudited)		for the 3 months period ended 31/03/2015 (unaudited)	
	Sales to related parties	Purchases from related parties	Sales to related parties	Purchases from related parties
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Parent company (PKP S.A.)	153	17 389	187	19 879
Subsidiaries / co-subsidiaries – not consolidated	3 705	4 639	1 259	1 747
Associates	246	116	18	274
Other related parties from PKP S.A. Group	8 653	148 534	10 394	269 493

	As at 31/03/2016 (unaudited)		As at 31/12/2015 (audited)	
	Receivables from related parties	Liabilities to related parties	Receivables from related parties	Liabilities to related parties
	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Parent company (PKP S.A.)	294	6 706	1 233	4 980
Subsidiaries / co-subsidiaries – not consolidated	2 747	3 870	3 619	2 959
Associates	74	36	2 566	54
Other related parties from PKP S.A. Group	5 221	67 960	6 445	98 794

Purchase transactions with the Parent company (PKP S.A.) include in particular lease of property, media supply and occupational health care services.

Sales transactions concluded with other related parties from PKP S.A. Group included service of trains, lease of train engines with drivers, financial settlement with third parties, maintenance of railroad fleet, sub-lease of real estate property. Purchase transactions included among others access to railroad infrastructure, real estate property lease, media supplies, maintenance of railroad traffic security infrastructure, purchase of electricity, purchase of network maintenance services, IT systems operation, purchase of ticket discounts for employees and pensioners.

27.1.2 Transactions with other entities controlled by the State Treasury

In the 3 months period ended 31 March 2016 and the 3 months period ended 31 March 2015, no individual significant transactions concluded between the Group and the State Treasury and the entities belonging to the State Treasury have been identified that would be significant taking into consideration their non-standard range and amount. Transactions for the 3 months period ended 31 March 2016 and for the 3 months period ended 31 March 2015 concluded with other entities controlled by the State Treasury are connected with the current operating activities of the Group. The most significant suppliers controlled by the State Treasury were the following entities: LOTOS Paliwa Sp. z o.o. and PKN ORLEN S.A. The most significant customers controlled by the State Treasury were the following entities: Jastrzębska Spółka Węglowa S.A and Węglokoks S.A.

All intercompany transactions were concluded on the arm’s length basis.

27.2 Loans granted to / received from related parties

	As at 31/03/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Loans granted to related parties	640	639
Loans received from related parties	3 416	3 407

27.3 Remuneration of executive management

Remuneration of Members of the Parent company’s Management Board:	for the 3 months period ended 31/03/2016 (unaudited) PLN thousand	for the 3 months period ended 31/03/2015 (unaudited) PLN thousand
Short-term benefits	844	1 715
Post-employment benefits	28	69
Employment termination benefits	432	-
Total	**1 304**	**1 784**

Remuneration of Members of the Parent company’s Supervisory Board:	for the 3 months period ended 31/03/2016 (unaudited) PLN thousand	for the 3 months period ended 31/03/2015 (unaudited) PLN thousand
Short-term benefits	250	325
Total	**250**	**325**

Remuneration of Parent company’s other executive management (Proxies - Managing Directors):	for the 3 months period ended 31/03/2016 (unaudited) PLN thousand	for the 3 months period ended 31/03/2015 (unaudited) PLN thousand
Short-term benefits	424	371
Post-employment benefits	189	-
Employment termination benefits	-	45
Total	**613**	**416**

Remuneration of Members of the subsidiaries' Management Board:	for the 3 months period ended 31/03/2016 (unaudited) PLN thousand	for 3 the months period ended 31/03/2015 (unaudited) PLN thousand
Short-term benefits	1 782	983
Post-employment benefits	288	189
Employment termination benefits	401	-
Total	**2 471**	**1 172**

Remuneration of Members of the subsidiaries' Supervisory Board:	for the 3 months period ended 31/03/2016 (unaudited) PLN thousand	for the 3 months period ended 31/03/2015 (unaudited) PLN thousand
Short-term benefits	337	253
Total	**337**	**253**

Remuneration of subsidiaries' other executive management (Proxies, Managing Directors) :	for the 3 months period ended 31/03/2016 (unaudited) PLN thousand	for the 3 months period ended 31/03/2015 (unaudited) PLN thousand
Short-term benefits	1 214	816
Post-employment benefits	-	48
Employment termination benefits	145	61
Total	**1 359**	**925**

In the 3 months period ended 31 March 2016 and 31 March 2015 Members of Management Boards and Supervisory Boards of the Parent company and subsidiaries of the Group did not concluded any transactions related to loans or guarantees with the Group.

28. Commitments to incur expenses for non-financial assets

As at 31 March 2016 the Parent company has future contractual investment liabilities related mainly to concluded agreement for delivery and maintenance of multisystem engines. The contract agreement covers the supply of 15 multisystem engines, hardware and computer software, spare parts and full maintenance of engines within 8 years period. The agreement also includes the service of first overhaul after 8 years of exploitation, with an option to withdraw. According to the schedule all engines will be delivered until June 2017. Six engines have been delivered until 31 March 2016. As at 31 March 2016 the future value of liabilities connected with the aforementioned agreement amounts to EUR 50,209 thousand, which is equivalent of PLN 214,314 thousand. The agreement also provides for the possibility of extending the delivery for further 5 multisystem engines with additional services. The contract value of additional purchase amounts to EUR 26,083 thousand, which is equivalent of PLN 111,142 thousand.

The other entities from the Group do not have significant commitments to incur expenses for non-financial assets.

29. The conditional agreement for the acquisition of assets by PKP CARGO Group entities

On 16 November 2015:

- PKP CARGOTABOR USŁUGI Sp. z o.o. (hereinafter referred to as "PKP CU") as a buyer, PKP CARGO S.A. as guarantor and PKN ORLEN SA as the seller, concluded a conditional sale agreement of 40,796 shares representing approx. 99.85% of the share capital of ORLEN KolTrans Sp. z o.o. (hereinafter referred to as "KolTrans") for a total price of PLN 192,248 thousand,
- PKP CARGO S.A. concluded with Euronaft Trzebinia Sp. z o.o. (hereinafter referred to as "Euronaft") a conditional requiring agreement for the sale of an organized part of the business (OPB) Euronaft, under which Euronaft provides rail transport services, railway sidings support services as well as trackwork services and repair services of rolling stock for a total price of PLN 59,397 thousand. OPB will be acquired by PKP CARGO S.A. or another company from PKP CARGO Group, including KolTrans after the acquisition of KolTrans shares by PKP CARGO S.A.

The agreements provide the guarantee payments in the event of a failure to perform obligations of the agreement by the parties.

In the case of a KolTrans sale agreement the highest guarantee payments are equal to:
a) 25% of the shares sale price for the benefit of PKP CU,
b) 35% of the shares sale price for the benefit of PKN ORLEN S.A.;

In the case of the OPB sale agreement the highest guarantee payments are equal to:
a) 25% of the sale price for the benefit of PKP CARGO S.A. or another subsidiary,
b) 35% of the sale price for the benefit of Euronaft.

Parties are not entitled to claim any amounts exceeding the guarantee limits reserved.

For the transaction to be completed, it is necessary to satisfy several suspensory conditions, including obtaining the OCCP approval.

Until the date of preparation of these Quarterly Condensed Consolidated Financial Statements the status of fulfillment of the suspensory conditions is as follows:

- PKP CU received a notification from PKN ORLEN S.A. on the satisfaction of two suspensory condition related to the acquisition of shares in KolTrans,
- the Parent company received information on the satisfaction of first suspensory condition specified in the agreement relating to the acquisition of OPB.

30. Contingent liabilities

	As at 31/03/2016 (unaudited) PLN thousand	As at 31/12/2015 (audited) PLN thousand
Guarantees issued by banks on request of entities belonging to Group (i)	69 908	77 181
Other contingent liabilities (ii)	99 731	98 397
Total	**169 639**	**175 578**

(i) Guarantees issued by banks on request of entities belonging to Group

As at 31 March 2016 and 31 December 2015 guarantees issued by banks on request of entities belonging to PKP CARGO Group are presented as contingent liabilities. The balance relates mainly to good performance bond and bid bonds.

(ii) Other contingent liabilities

The item includes requests for payment received and claims raised during judicial proceedings against the Parent company, for which the probability of an outflow of cash is assessed as low. As a result of future events, this assessment may change in next reporting periods.

In addition, other contingent liabilities include mainly conducted by the subsidiary PKP CARGO CONNECT Sp. z o.o. guarantee agreements with the recourse right to insurance companies. As at 31 March 2016 the total value of the PKP CARGO CONNECT Sp. z o.o. contracts with insurance companies amounted to PLN 34,100 thousand, while as at 31 December 2015, the total value amounted to PLN 27,600 thousand.

On 30th January 2015, the Parent company has received a notification of the initiation of administrative proceedings by the President of UTK on the imposition of a fine on the company for carrying out activities without an entitling document i.e. the management of railway infrastructure without safety authorization. As part of the proceedings the Parent company exercised its right to comment on the scope of evidence and materials collected and submitted claims before the decision. On 1 March 2016 the Parent company received a notification from the President of the UTK of the appointment of a new date of the settlement of the matter for 31 May 2016. As at 31 March 2016 the amount of potential contingent liability resulting from the proceedings and the probability of payment are unknown.

31. Events after reporting date

On 3 May 2016 Czech consortium of coal OKD applied for insolvency to the court. Receivables from OKD at that day amounted to about EUR 17.,6 million. In order to avoid delay in receivables collection, AWT implemented the procedure to request prepayments for services provided to OKD.

On 11 May 2016 the General Meeting of Shareholders of the Parent company approved the Separate Financial Statement of PKP CARGO S.A. and the Consolidated Financial Statements of PKP CARGO Group for 2015. Moreover, it adopted the resolution to cover the loss of PLN 114,125 thousand by the subsequent profits and not to pay the dividend for 2015.

32. Approval of the financial statements

These Quarterly Condensed Consolidated Financial Statements were approved for publication by the Management Board on 13 May 2016.

Management Board of the Parent company

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

Warsaw, 13 May 2016

pkpcargo.com

QUARTELY FINANCIAL INFORMATION OF **PKP CARGO S.A.** FOR Q1 2016

QUARTERLY FINANCIAL INFORMATION
PKP CARGO S.A. FOR THE PERIOD OF 3 MONTHS ENDED 31 MARCH 2016,
PREPARED IN ACCORDANCE WITH IFRS EU
(TRANSLATION OF A DOCUMENT ORIGINALLY ISSUED IN POLISH)

SEPARATE STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2016 TO 31 MARCH 2016

	for the 3 months period ended 31/03/2016 (unaudited)	for the 3 months period ended 31/03/2015 (restated)
	PLN thousand	PLN thousand
Revenue from sales of services	743 644	802 858
Revenue from sales of goods and materials	4 270	2 534
Other operating revenue	9 380	9 169
Total operating revenue	**757 294**	**814 561**
Depreciation / amortisation and impairment losses	116 466	93 589
Consumption of raw materials and energy	127 477	136 188
External services	248 061	244 001
Taxes and charges	5 006	5 665
Employee benefits	293 359	286 730
Other expenses by kind	9 672	9 012
Cost of merchandise and raw materials sold	3 824	1 414
Other operating expenses	9 583	8 473
Total operating expenses	**813 448**	**785 072**
Profit / (loss) on operating activities	**(56 154)**	**29 489**
Financial revenue	1 447	5 759
Financial expenses	11 493	12 711
Profit / (loss) before tax	**(66 200)**	**22 537**
Income tax expense	(7 951)	4 536
NET PROFIT / (LOSS)	**(58 249)**	**18 001**

SEPARATE STATEMENT OF COMPREHENSIVE INCOME FROM 1 JANUARY 2016 TO 31 MARCH 2016

	for the 3 months period ended 31/03/2016 (unaudited)	for the 3 months period ended 31/03/2015 (restated)
	PLN thousand	PLN thousand
NET PROFIT / (LOSS)	**(58 249)**	**18 001**
Other comprehensive income		
Other comprehensive income that will be reclassified to profit or loss in subsequent periods:	**19**	**-**
The effective portion of changes in fair value of cash-flow hedging instruments	24	-
Income tax on other comprehensive income	(5)	-
TOTAL COMPREHENSIVE INCOME	**(58 230)**	**18 001**

Earnings / (loss) per share (PLN per share)		
Earnings / (loss) per share on operations (basic):	**(1,30)**	**0,40**
Earnings / (loss) per share on operations (diluted):	**(1,30)**	**0,40**

SEPARATE STATEMENT OF FINANCIAL POSITION PREPARED AS AT 31 MARCH 2016

	As at 31/03/2016 (unaudited)	As at 31/12/2015 (audited)	As at 31/03/2015 (restated)
	PLN thousand	PLN thousand	PLN thousand
ASSETS			
Non-current assets			
Property, plant and equipment	3 619 298	3 562 716	3 750 989
Intangible assets	56 555	59 236	54 759
Investments in subsidiaries and associates	737 975	734 643	302 856
Other long-term financial assets	6 021	6 021	6 021
Other long-term non-financial assets	13 828	18 927	1 509
Deferred tax assets	84 595	76 602	56 457
Total non-current assets	**4 518 272**	**4 458 145**	**4 172 591**
Current assets			
Inventories	56 991	60 743	72 783
Trade and other receivables	431 959	384 228	456 582
Other short-term financial assets	801	25 057	105 205
Other short-term non-financial assets	39 135	4 985	47 813
Cash and cash equivalents	12 681	84 097	223 761
	541 567	**559 110**	**906 144**
Assets classified as held for sale	43 210	44 061	17 560
Total current assets	**584 777**	**603 171**	**923 704**
Total assets	**5 103 049**	**5 061 316**	**5 096 295**

SEPARATE STATEMENT OF FINANCIAL POSITION PREPARED AS AT 31 MARCH 2016

	As at 31/03/2016 (unaudited)	AS at 31/12/2015 (audited)	As at 31/03/2015 (restated)
	PLN thousand	PLN thousand	PLN thousand
EQUITY AND LIABILITIES			
Equity			
Share capital	2 239 346	2 239 346	2 239 346
Supplementary capital	589 202	589 202	584 513
Other items of equity	3 745	3 726	(36 572)
Retained earnings	181 793	240 042	487 033
Total equity	**3 014 086**	**3 072 316**	**3 274 320**
Non-current liabilities			
Long-term bank loans and credit facilities	584 446	459 305	268 434
Long-term finance lease liabilities and leases with purchase option	68 400	75 333	99 176
Long-term trade and other payables	13 358	22 389	56 276
Long-term provisions for employee benefits	552 811	549 280	599 956
Other long-term provisions	16 456	16 209	8 416
Other long-term financial liabilities	-	27 696	-
Non-current liabilities	**1 235 471**	**1 150 212**	**1 032 258**
Current liabilities			
Short-term bank loans and credit facilities	176 255	129 914	95 456
Short-term finance lease liabilities and leases with purchase option	42 386	48 914	86 575
Short-term trade and other payables	483 927	568 085	461 359
Short-term provisions for employee benefits	86 760	81 581	131 399
Other short-term provisions	9 082	8 256	12 892
Other short-term financial liabilities	55 082	10	-
Current tax liabilities	-	2 028	2 036
Total current liabilities	**853 492**	**838 788**	**789 717**
Total liabilities	**2 088 963**	**1 989 000**	**1 821 975**
Total equity and liabilities	**5 103 049**	**5 061 316**	**5 096 295**

STATEMENT OF CHANGES IN SEPARATE EQUITY FOR THE REPORTING PERIOD ENDED 31 MARCH 2016

			Other items of equity			
	Share capital	Supplementary capital	Actuarial gains/(losses) on employee benefits after employment period	Changes in fair value of cash-flow hedge	Retained earnings	Total
	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand	PLN thousand
Balance as at 1/01/2015 (audited)	**2 239 346**	**584 513**	**(36 572)**	**-**	**469 032**	**3 256 319**
Net result for the period	-	-	-	-	18 001	**18 001**
Total comprehensive income	-	**-**	-	**-**	18 001	**18 001**
Balance as at 31/03/2015 (restated)	**2 239 346**	**584 513**	**(36 572)**	**-**	**487 033**	**3 274 320**
Balance as at 1/01/2016 (audited)	**2 239 346**	**589 202**	**3 726**	**-**	**240 042**	**3 072 316**
Net result for the period	-	-	-	-	(58 249)	**(58 249)**
Other net comprehensive income for the period	-	-	-	19	-	**19**
Total comprehensive income	**-**	**-**	**-**	**19**	**(58 249)**	**(58 230)**
Balance as at 31/03/2016 (unaudited)	**2 239 346**	**589 202**	**3 726**	**19**	**181 793**	**3 014 086**

SEPARATE STATEMENT OF CASH FLOWS FROM 1 JANUARY 2016 TO 31 MARCH 2016

	for the 3 months period ended 31/03/2016 (unaudited)	for the 3 months period ended 31/03/2015 (restated)
	PLN thousand	PLN thousand
Cash flows from operating activities		
Profit / (loss) before tax	**(66 200)**	**22 537**
Adjustments:		
Depreciation and amortization of non-current assets	116 131	93 589
Impairment of fixed assets	335	-
(Gain) / loss on disposal / liquidatioon of property, plant and equipment and intangible assets	(586)	82
(Profit) / loss on investing activities	-	1 603
Foreign exchange (gain) / loss	(2 261)	1 589
(Gains) / losses on interest, dividends	5 592	2 110
Changes in working capital:		
(Increase) / decrease in trade and other receivables	(47 882)	(34 109)
(Increase) / decrease in inventory	4 232	4 103
(Increase) / decrease in other assets	(34 695)	(25 348)
Increase / (decrease) in trade and other payables	(122 313)	21 366
Increase / (decrease) in other financial liabilities	(423)	(633)
Increase / (decrease) in provisions	9 782	(229 549)
Cash flows from operating activities	**(138 288)**	**(142 660)**
Interest received / (paid)	(275)	937
Income taxes received / (paid)	(2 067)	(407)
Net cash (used in) / provided by operating activities	**(140 630)**	**(142 130)**

SEPARATE STATEMENT OF CASH FLOWS FROM 1 JANUARY 2016 TO 31 MARCH 2016

	for the 3 months period ended 31/03/2016 (unaudited)	for the 3 months period ended 31/03/2015 (converted)
	PLN thousand	PLN thousand
Cash flows from investing activities		
Acquisition of property, plant and equipment and intangible assets	(137 812)	(130 578)
Proceeds from sale of property, plant and equipment, intangible assets and non-current assets classified as held for sale	2 046	50
Acquisition of subsidiaries, associates and joint ventures	-	(41 613)
Interest received	56	3 667
Repayments of loans granted	-	433
Inflows / (outflows) of bank deposits over 3 months	-	199 459
Net cash (used in)/ provided by investing activities	**(135 710)**	**31 418**
Cash flows from financing activities		
Payments of liabilities under finance lease	(15 947)	(50 976)
Payments of interest under lease agreement	(857)	(1 388)
Proceeds from credit facilities/loans received	199 043	89 375
Repayments of credit facilities/loans received	(27 546)	(19 568)
Interest on credit facilities/loans received	(3 382)	(2 055)
Grants received	1 627	-
Dividends paid to shareholders of the Parent company	-	-
Cash pool inflows /(outflows)	52 954	(60 799)
Other inflows /(outflows) from financing activities	(968)	(1 536)
Net cash (used in)/ provided by financing activities	**204 924**	**(46 947)**
Net increase / (decrease) in cash and cash equivalents	(71 416)	(157 659)
Opening balance of cash and cash equivalents	84 097	381 420
Closing balance of cash and cash equivalents	**12 681**	**223 761**

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OTHER INFORMATION TO **PKP CARGO** GROUP'S CONSOLIDATED QUARTERLY REPORT FOR Q1 2016

ADDITIONAL INFORMATION TO THE CONSOLIDATED QUARTERLY REPORT FOR Q1 2016

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

Table 1 Financial highlights of the PKP CARGO Group

PKP CARGO Group	PLN 000s		EUR 000s	
	Q1 2016	Q1 2015 restated*	Q1 2016	Q1 2015 restated*
Operating revenues	1,034,354	898,576	237,460	216,582
Profit (loss) on operating activities	-61,808	32,370	-14,189	7,802
Profit (loss) before tax	-74,282	26,773	-17,053	6,453
Net profit (loss) on continuing operations	-66,047	22,060	-15,163	5,317
Total comprehensive income attributable to the owners of the parent company	-64,975	24,268	-14,917	5,849
Weighted average number of shares (units)	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares used to calculate diluted profit (units)	44,786,917	44,786,917	44,786,917	44,786,917
Earnings (losses) per share (PLN/EUR)	-1.47	0.50	-0.34	0.12
Diluted earnings (losses) per share (PLN/EUR)	-1.47	0.50	-0.34	0.12
Net cash flow from operating activities**	-112,436	-156,914	-25,812	-37,821
Net cash flow from investing activities	-170,489	64,341	-39,140	15,508
Net cash flow from financing activities	144,634	-30,146	33,204	-7,266
Movement in cash and cash equivalents	-138,291	-122,719	-31,748	-29,579
	31/03/2016	**31/12/2015**	**31/03/2016**	**31/12/2015**
Non-current assets	5,020,069	4,979,501	1,176,101	1,168,486
Current assets	1,040,475	1,089,100	243,762	255,567
Non-current assets classified as held for sale	43,210	44,061	10,123	10,339
Share capital	2,239,346	2,239,346	524,634	525,483
Equity attributable to the owners of the parent company	3,288,891	3,353,866	770,521	787,015
Non-current liabilities	1,536,114	1,586,088	359,881	372,190
Current liabilities	1,278,749	1,172,708	299,585	275,187

Source: Condensed quarterly consolidated financial statements of the PKP CARGO Group for the period of 3 months ended 31 March 2016 prepared according to EU IFRS

* translation of comparable data is described in detail in note 4 to the Quarterly Condensed Consolidated Financial Statements

** including the performance of liabilities stemming from the implemented 1st and 2nd Voluntary Redundancy Program in the amount of PLN 48.2 million

Table 2 Financial highlights of PKP CARGO S.A.

PKP CARGO S.A.	PLN 000s		EUR 000s	
	Q1 2016	Q1 2015 restated	Q1 2016	Q1 2015 restated
Operating revenues	757,294	814,561	173,855	196,332
Profit (loss) on operating activities	-56,154	29,489	-12,891	7,108
Profit (loss) before tax	-66,200	22,537	-15,198	5,432
Net profit (loss) on continuing operations	-58,249	18,001	-13,372	4,339
Comprehensive income	-58,230	18,001	-13,368	4,339
Weighted average number of shares (units)	44,786,917	44,786,917	44,786,917	44,786,917
Weighted average number of shares used to calculate diluted profit (units)	44,786,917	44,786,917	44,786,917	44,786,917
Earnings (losses) per share (PLN/EUR)	-1.30	0.40	-0.30	0.10
Diluted earnings (losses) per share (PLN/EUR)	-1.30	0.40	-0.30	0.10
Net cash flow from operating activities*	-140,630	-142,130	-32,285	-34,257
Net cash flow from investing activities	-135,710	31,418	-31,155	7,573
Net cash flow from financing activities	204,924	-46,947	47,045	-11,316
Movement in cash and cash equivalents	-71,416	-157,659	-16,395	-38,000
	31/03/2016	**31/12/2015**	**31/03/2016**	**31/12/2015**
Non-current assets	4,518,272	4,458,145	1,058,540	1,046,145
Current assets	541,567	559,110	126,878	131,200
Non-current assets classified as held for sale	43,210	44,061	10,123	10,339
Share capital	2,239,346	2,239,346	524,634	525,483
Equity	3,014,086	3,072,316	706,140	720,947
Non-current liabilities	1,235,471	1,150,212	289,446	269,908
Current liabilities	853,492	838,788	199,956	196,829

Source: Condensed quarterly standalone financial statements of the PKP CARGO S.A. for the period of 3 months ended 31 March 2016 prepared according to EU IFRS

* including the performance of liabilities stemming from the implemented 1st and 2nd Voluntary Redundancy Program in the amount of PLN 47.4 million

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

- exchange rate prevailing on the last day of the reporting period: 31 March 2016: 4.2684 PLN/EUR; 31 December 2015: 4.2615 PLN/EUR,
- the average exchange rate in the period calculated as the arithmetic mean of the FX rates prevailing on the last day of each month in a given period: 1 January - 31 March 2016: 4.3559 PLN/EUR, 1 January - 31 March 2015: 4.1489 PLN/EUR.

2. Organization of the PKP CARGO Group

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

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

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

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

2.2. Units subject to consolidation

The Condensed Quarterly Consolidated Financial Statements for the period of 3 months ended 31 March 2016 encompass PKP CARGO S.A. and 15 subsidiaries consolidated by the full method:

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

In addition, the following companies are measured using the equity method as at 31 March 2016 in the PKP CARGO Group's Condensed Quarterly Consolidated Financial Statements:

- COSCO POLAND Sp. z o.o.
- Pol – Rail S.r.l.

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

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

- Terminale Przeładunkowe Sławków – Medyka Sp. z o.o.
- Trade Trans Karya Sp. z o.o.
- Transgaz S.A.
- Trade Trans Finance Sp. z o.o.
- PPHU "Ukpol" Sp. z o.o.
- Rentrans Cargo Sp. z o.o.
- Gdański Terminal Kontenerowy S.A.
- AWT Rail SK a.s.

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

PKP CARGO S.A.

The Parent Company was established by the power of article 14 of the Act of 8 September 2000 on Commercialization, Restructuring and Privatization of the state-owned enterprise "Polskie Koleje Państwowe". The Company was founded by a notary deed of 29 June 2001, and subsequently registered under the name of PKP CARGO Spółka Akcyjna in the District Court in Katowice, 8th Commercial Division of the National Court Register under file number KRS 0000027702. As a consequence of moving the Company's registered office, which as of 7 October 2002 has been specified as Warsaw, ul. Grójecka 17, the registration files are kept by the District Court for the capital city of Warsaw, 12th Commercial Division of the National Court Register. From its inception, the Company has functioned within the PKP Group. The Company's core business is domestic and international rail freight transportation.

PKP CARGO SERVICE Sp. z o.o.

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

PKP CARGOTABOR Sp. z o.o.

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

PKP CARGOTABOR USŁUGI Sp. z o.o.

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

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

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

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

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

PKP CARGO CONNECT Sp. z o.o.

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

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

The company's core business involves freight forwarding and logistics services in Poland and abroad. The company provides comprehensive logistics services using rail and vehicle, marine and inland water transportation organizing transport, transshipment, storage, warehousing, packaging and distribution. The company also provides overall customs service to clients of the PKP CARGO Group.

Cargosped Terminal Braniewo Sp. z o. o.

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

CARGOTOR Sp. z o.o.

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

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

Advanced World Transport B.V.

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

Advanced World Transport a.s.

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

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

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

AWT Čechofracht a.s.

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

AWT Rekultivace a.s.

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

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

AWT ROSCO a.s.

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

AWT Coal Logistics s.r.o.

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

AWT Rail HU Zrt.

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

2.3. Structure of the PKP CARGO Group

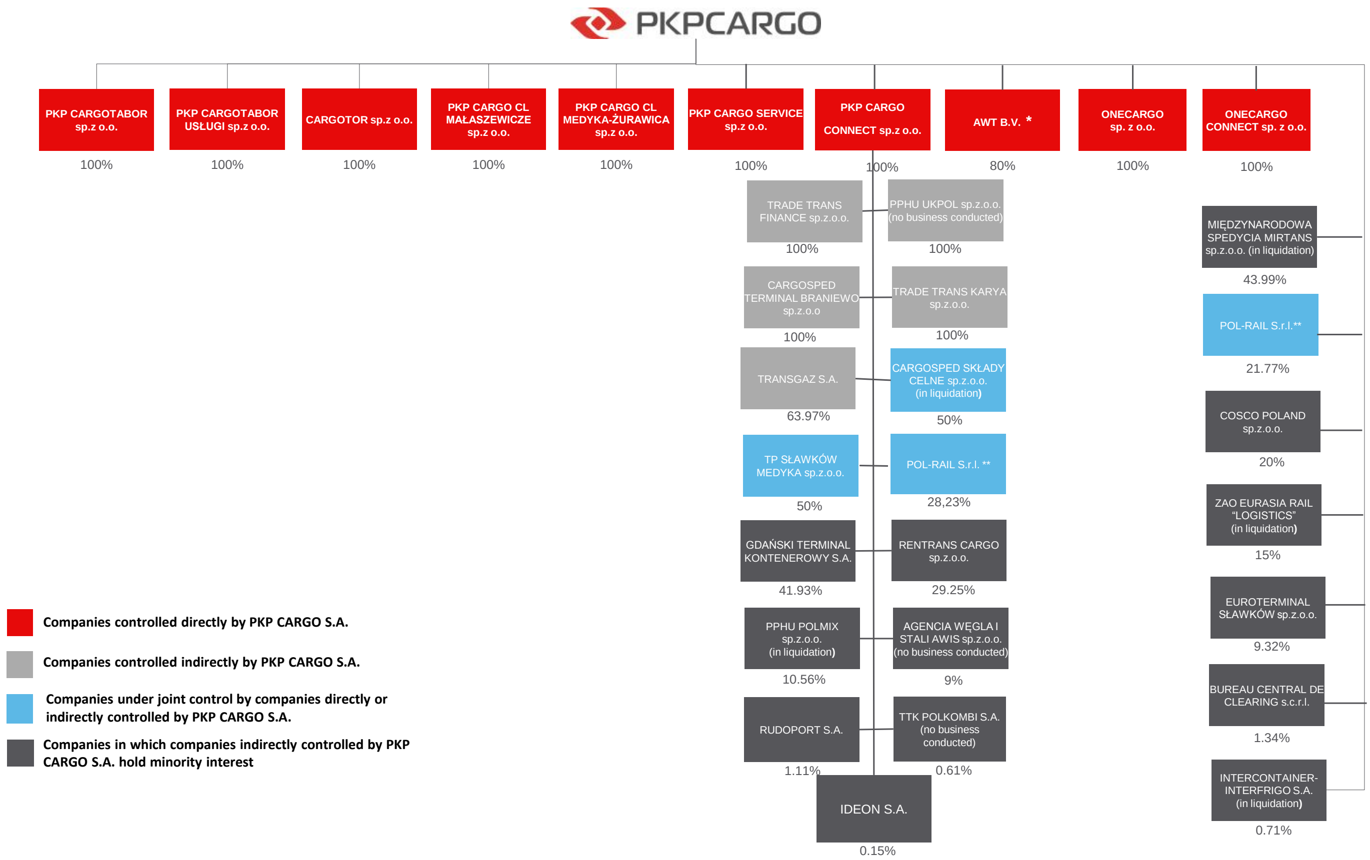
As of 31 March 2016, the PKP CARGO Group consisted of the following entities besides PKP CARGO S.A.: 29 subsidiaries of PKP CARGO S.A., controlled directly or indirectly (by entities controlled by PKP CARGO S.A.), including:

- 10 subsidiaries controlled directly by PKP CARGO S.A.,
- 13 subsidiaries controlled directly by companies directly controlled by PKP CARGO S.A. (and indirectly controlled by PKP CARGO S.A.), including 5 companies directly controlled by PKP CARGO CONNECT Sp. z o.o. and 8 companies directly controlled by AWT B.V.,
- 6 AWT Group companies controlled directly by companies indirectly controlled by PKP CARGO S.A. (indirectly controlled by PKP CARGO S.A.);

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

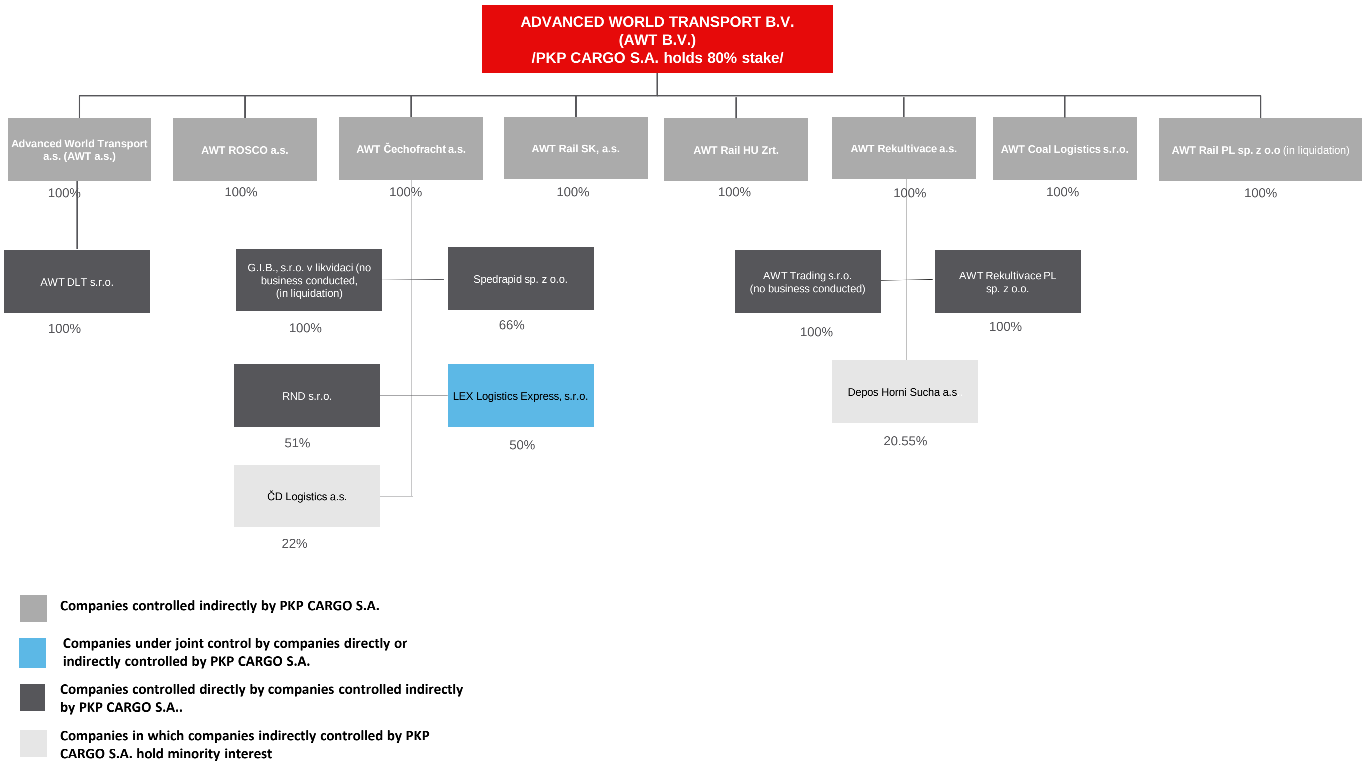
The figure below presents the capital links between PKP CARGO S.A. and other entities as at 31 March 2016:

Figure 1 Structure of the capital links of PKP CARGO S.A. as at 31 March 2016



** Figure 2 depicts the AWT Group's full structure and capital ties with companies in which the AWT Group's companies hold shares or interests (minority stakes)*
*** both PKP CARGO S.A. and one of the companies controlled directly by PKP CARGO S.A. - PKP CARGO CONNECT Sp. z o.o. hold shares in POL-RAIL s.r.l. with its registered office in Rome in such a manner that in total these two entities belonging to the PKP CARGO Group hold a 50% equity stake in the share capital of POL-RAIL s.r.l.*

Figure 2 Structure of the capital links of the AWT Group as at 31 March 2016



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

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

On 16 November 2015, PKP CARGOTABOR USŁUGI Sp. z o.o. with its registered office in Warsaw (wholly owned subsidiary of PKP CARGO S.A.), as the "Purchaser", PKP CARGO S.A., as the "Guarantor", and PKN ORLEN S.A., as the "Seller", entered into a conditional binding sales agreement for 40,796 shares with the nominal value of PLN 1,000 each, with the total nominal value of PLN 40,796,000, representing approx. 99.85% of the shares in the share capital of ORLEN KolTrans Sp. z o.o. with its registered office in Płock. At present, work is underway to fulfill the last of the conditions precedent, in the form of obtaining the consent to a concentration from the President of the Competition and Consumer Protection Office.

On 16 November 2015, PKP CARGO S.A., as the "Guarantor" and Euronaft Trzebinia Sp. z o.o., as the "Seller", entered into a conditional binding sales agreement for an organized part of the Seller's enterprise ("ZCP Kolej"). At present, work is underway to fulfill the last of the conditions precedent, in the form of obtaining the consent to a concentration from the President of the Competition and Consumer Protection Office.

The on-going acquisition of ORLEN KolTrans Sp. z o.o. and ZCP Kolej is aimed at strengthening the position of the PKP CARGO Group in the Polish market, in a segment that guarantees extending the Group's competences, increasing its profitability and competitiveness.

3. Information about the Parent Company

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

MANAGEMENT BOARD

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

1) Act of 15 September 2000 entitled the Commercial Companies Code (Journal of Laws No. 94 Item 1037, as amended);
2) Act of 8 September 2000 on the Commercialization, Restructuring and Privatization of the State-Owned Enterprise "Polskie Koleje Państwowe" (Journal of Laws No. 84 Item 948, as amended)
3) Articles of Association of PKP CARGO S.A. (consolidated version adopted by Resolution No. 1529/V/2016 of the PKP CARGO S.A. Supervisory Board dated 30 March 2016)
4) Bylaws of the PKP CARGO S.A. Management Board adopted by Resolution No. 222/2015 of the PKP CARGO S.A. Management Board dated 17 June 2015
5) other internal regulations.

Powers of the Management Board

The Management Board manages the Company's day-to-day business, manages its assets and represents the Company in relations with third parties. The responsibilities of the Management Board include any activities that are not reserved for the Shareholder Meeting or the Supervisory Board. Management Board resolutions are adopted by an absolute majority of votes present at the meeting, provided that at least half of the Management Board members are in attendance. The President of the Management Board acting individually or two Management Board members acting jointly or a Management Board member acting jointly with a commercial proxy are authorized to make declarations of will.

Operation of the Management Board

The procedure of the Management Board's operation is described in detail in the Management Board Regulations. The Bylaws are adopted by the Management Board and approved by the Company's Supervisory Board. In accordance with the provisions of the Bylaws of the Management Board, the Management Board makes decisions in the form of resolutions. Management Board resolutions are adopted by an absolute majority of votes present at the meeting, provided that at least half of the Management Board members are in attendance and may only be adopted if all the Management Board members have been duly notified of the Management Board meeting. Pursuant to the Bylaws, in the event of an equal number of votes 'for' and the total number of votes 'against' and 'abstaining', the President of the Management Board will have the casting vote. Management Board meetings are held at least once a week. In particularly justified cases, Management Board meetings may be held on a later date but no later than within 14 days of the date of the preceding meeting.

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

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

Table 3 Composition of the PKP CARGO S.A. Management Board from 1 January 2016 to the delivery date of the report

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

Source: Proprietary material

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

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

On 19 January 2016, by Resolution No. 1511/V/2016, Mr. Maciej Libiszewski was appointed as President of the PKP CARGO S.A. Management Board.

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

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

On 31 March 2016 the Supervisory Board adopted Resolution No. 1570/V/2016 on appointing, as of 1 April 2016, Mr. Arkadiusz Olewnik to the position of Management Board Management Board Member responsible for Finance.

On 31 March 2016 the Supervisory Board adopted Resolution No. 1572/V/2016 on appointing, as of 1 April 2016, Mr. Jarosław Klasa to the position of Management Board Management Board Member responsible for Operations.

On 31 March 2016 the Supervisory Board adopted Resolution No. 1574/V/2016 on appointing, as of 1 April 2016, Mr. Grzegorz Fingas to the position of Management Board Management Board Member responsible for Commerce.

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

With effect from 11 May 2016 the mandate of a Management Board Member – Employee Representative Dariusz Browarek was expired.

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

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

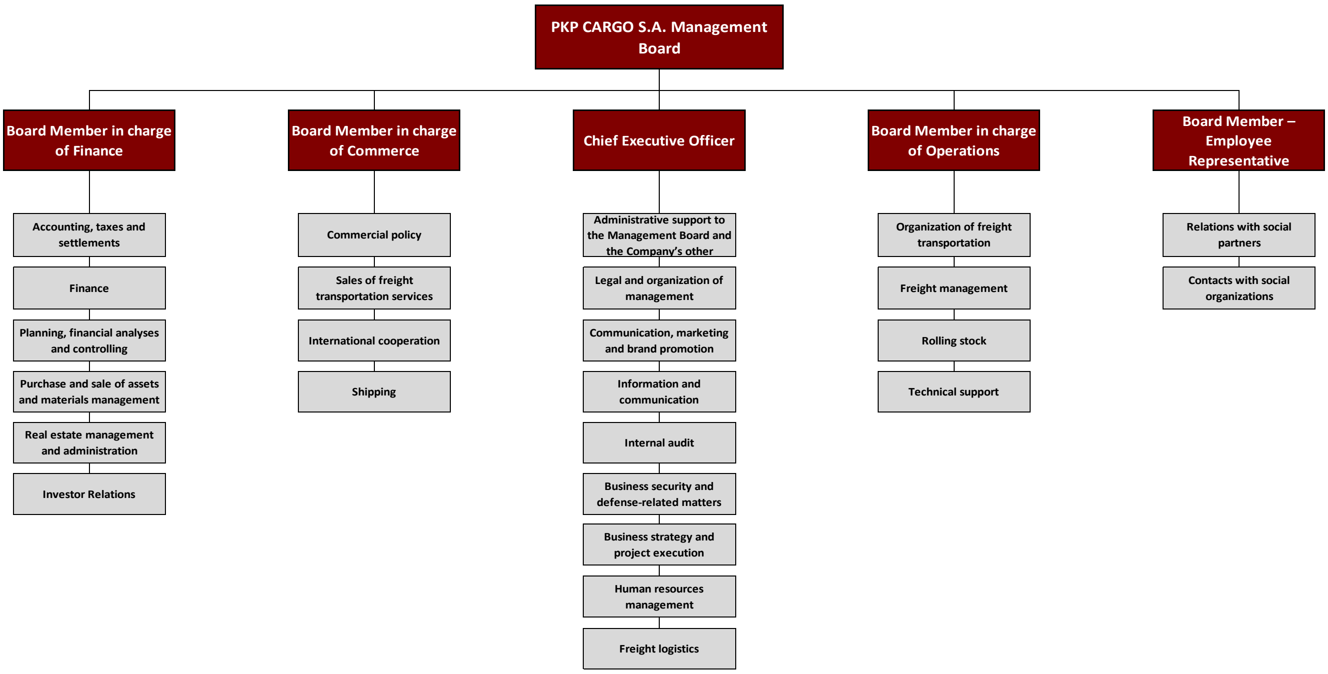
   Special powers of the President of the Company's Management Board include performance of the Company's defense tasks resulting from the regulations on general defense obligation.
2) Management Board Member in charge of Finance – the scope of duties of the Management Board Member in charge of Finance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

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

5) Management Board Member - Employee Representative in the Management Board - the scope of activity of the Management Board Member - Employee Representative includes overseeing the supervision of specific areas of the Company's business, in accordance with the powers established by a separate Management Board resolution, as regards:

- monitoring of relations with social partners,
- contacts with social organizations.

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



Source: Proprietary material

Commercial proxies established and revoked:

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

SUPERVISORY BOARD

In accordance with the adopted consolidated version of PKP CARGO S.A.'s Articles of Association (Resolution No. 1529/V/2016 of the PKP CARGO S.A. Supervisory Board dated 30 March 2016) The Supervisory Board consists of 11 to 13 members (including the Supervisory Board Chairperson and Deputy Chairperson) appointed for a joint term of office. The Supervisory Board is appointed and dismissed by the Shareholder Meeting, subject to the provisions of § 19 Sections 2 and 3 of the Articles of Association of PKP CARGO S.A.

Powers of the Supervisory Board

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

Operation of the Supervisory Board

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

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

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

Table 4 Composition of the PKP CARGO S.A. Supervisory Board from 1 January 2016 to the delivery date of the report

Name	Position	Period in office	
		from	to
Kazimierz Jamrozik	Supervisory Board Member	24 May 2012	11 May 2016
Stanisław Knaflewski	Supervisory Board Member	17 December 2013	11 May 2016
Raimondo Eggink	Supervisory Board Member	13 April 2015	to date
Zofia Dzik	Supervisory Board Member	11 May 2016	to date
Mirosław Pawłowski	Supervisory Board Member	17 December 2015 (from 18 December 2015 to 11 May 2016 as Supervisory Board Chairman)	to date
Jerzy Kleniewski	Supervisory Board Member	17 December 2015	to date
Andrzej Wach	Supervisory Board Member	17 December 2015 (from 27 April 2016 to 11 May 2016 as Supervisory Board Deputy Chairman)	to date
Maciej Libiszewski	Supervisory Board Member	17 December 2015 (from 18 December 2015 delegated as acting President of the Management Board)	19 January 2016 (resignation)
Czesław Warsewicz	Supervisory Board Member	17 December 2015	to date
Małgorzata Kryszkiewicz	Supervisory Board Member	17 December 2015	to date

Source: Proprietary material

SUPERVISORY BOARD'S AUDIT COMMITTEE

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

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

Name	Position	Period in office	
		from	to
Stanisław Knaflewski	Committee Member	6 February 2014	11 May 2016
Raimondo Eggink	Committee Member	30 April 2015 (Committee Chairman since 18 December 2015)	11 May 2016
Małgorzata Kryszkiewicz	Committee Member	18 December 2015	11 May 2016

Source: Proprietary material

NOMINATION COMMITTEE

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

Table 6 Composition of the PKP CARGO S.A. Supervisory Board Nomination Committee from 1 January 2016 to the delivery date of the report

Name	Position	Period in office	
		from	to
Stanisław Knaflewski	Committee Chairman	17 December 2013	11 May 2016
Mirosław Pawłowski	Committee Member	18 December 2015	11 May 2016
Andrzej Wach	Committee Member	18 December 2015	11 May 2016

Source: Proprietary material

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

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

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

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

Source: Proprietary material

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

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

Table 8 Shareholder structure of PKP CARGO S.A. as at 1 January 2016

Shareholder	Number of shares	% in share capital	Number of votes	% in the total number of votes at the Shareholder Meeting
PKP S.A. (1)	14,784,194	33.01%	14,784,194	33.01%
Nationale-Nederlanden OFE (2)	5,771,555	12.89%	5,771,555	12.89%
Morgan Stanley (3)	2,380,008	5.31%	2,380,008	5.31%
AVIVA OFE (4)	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	19,512,789	43.57%	19,512,789	43.57%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

Source: Proprietary material

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

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

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

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

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

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

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

Table 9 Shareholder structure of PKP CARGO S.A. as at the delivery date of this report

Shareholder	Number of shares	% in share capital	Number of votes	% in the total number of votes at the Shareholder Meeting
PKP S.A. (1)	14,784,194	33.01%	14,784,194	33.01%
Nationale-Nederlanden OFE (2)	5,771,555	12.89%	5,771,555	12.89%
AVIVA OFE (3)	2,338,371	5.22%	2,338,371	5.22%
Other shareholders	21,892,797	48.88%	21,892,797	48.88%
Total	**44,786,917**	**100.00%**	**44,786,917**	**100.00%**

Source: Proprietary material

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

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

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

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

The holdings of shares in the Company or rights to such shares by members of the Company's Management Board from 18 March 2016, i.e. from the date of submission of the 2015 annual report to the date of submission of this report, were as follows:

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

Name	Number of PKP CARGO S.A. shares held by Management Board members
as at the date of submission of this report	
Maciej Libiszewski	0
Arkadiusz Olewnik	0
Grzegorz Fingas	0
Jarosław Klasa	0
as at 18 March 2016	
Maciej Libiszewski	0
Dariusz Browarek	370

Source: Proprietary material

The holdings of shares in the Company or rights to such shares by members of the Company's Supervisory Board from 18 March 2016, i.e. the date of submission of the 2015 annual report to the date of submission of this report, were as follows:

Table 11 PKP CARGO S.A. shares held by Supervisory Board members

Name	Number of PKP CARGO S.A. shares held by Supervisory Board members
as at the date of submission of this report	
Mirosław Pawłowski	0
Jerzy Kleniewski	0
Andrzej Wach	0
Czesław Warsewicz	0
Małgorzata Kryszkiewicz	0
Raimondo Eggink	0
Zofia Dzik	0
as at 18 March 2016	
Kazimierz Jamrozik	70
Stanisław Knaflewski	0
Raimondo Eggink	0
Mirosław Pawłowski	0
Jerzy Kleniewski	0
Andrzej Wach	0
Czesław Warsewicz	0
Małgorzata Kryszkiewicz	0

Source: Proprietary material

4. Key areas of operation of the PKP CARGO Group

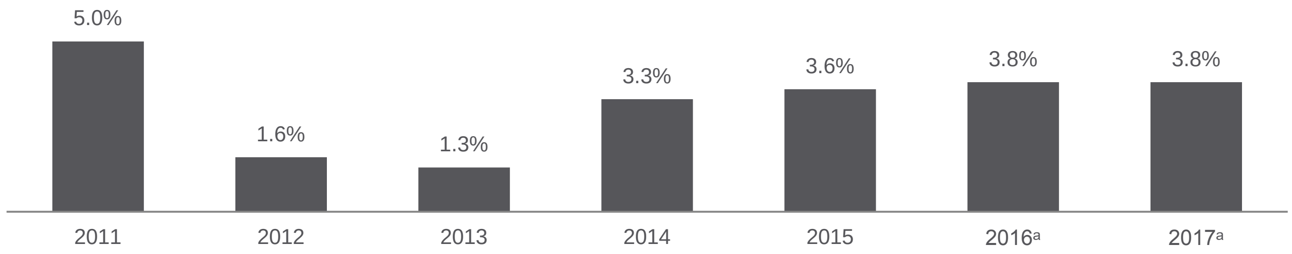
4.1. Macroeconomic environment

Polish economy

According to the estimates of the Central Statistical Office of Poland, the Polish economy achieved growth of 3.6% yoy in 2015.[4] Both the GDP growth rate forecast for 2016 and for 2017 are higher than in 2015. Preliminary estimates GDP of Poland growth forecasts for 2016 were increased from 3.3% to 3.8% yoy. The growth rate projection for 2017 were increased from 3.5% also to 3.8% yoy.[5] The favorable economic situation is also confirmed by the industrial sold production, which recorded a 3.0% increase yoy in Q1 2016, and in the PMI ratio (Purchasing Managers Index), which increased from 52.1 in December 2015 to 53.8 in March 2016. The March PMI is high, but not as high as last year when it was 54.8.

The estimate growth of Poland's economy is still higher than the average growth in other EU economies, which amounts to 1.8% yoy in 2016 and 1.9% yoy in 2017.[6]

Figure 4 GDP growth in Poland in 2011-2015 and forecast for 2016 and 2017



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

** National Bank of Poland forecast (March 2016)*

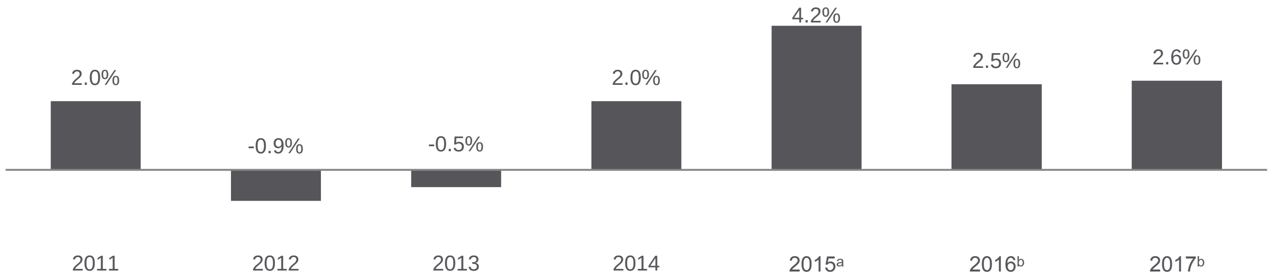
Czech economy

According to the Czech Finance Ministry, in 2015 the Czech economy recorded fast growth. Preliminary estimates from January showed a growth rate of 4.6% yoy. In the estimates from April, the growth dropped to 4.2% yoy, which is the best result since 2007. In the Ministry's opinion, there can be several causes of such a strong growth, but some of them are non-recurring factors whose impact could be limited only to 2015. This pertains primarily to EU funds from the old framework for 2007-2013 which can be used only till the end of 2015. Other positive factors include fiscal stimulation and favorable supply shock in the form of decrease of oil prices. Nonetheless the last stimulus can also have short-term impact due to lack of stability in the liquid fuels market.

The latest forecast points to GDP growth by 2.5% yoy in 2016 and by 2.6% yoy in 2017.[7] The decrease of the growth rate from 4.2% in 2015 to 2.5% in 2016 results from deterioration of the assumptions pertaining to external environment, which had visible impact on the growths in Czech export markets. Also the expectations regarding development of investments, in particular in the private sector, were reduced. The lower forecast was also attributable to the surprising slow-down of economic growth in Q4 2015.

[4] GUS
[5] National Bank of Poland forecast (November 2015)
[6] EC forecasts, European Economic Forecast Spring 2016.
[7] Czech Republic's Finance Ministry, Macroeconomic Forecast April 2016

Figure 5 Real GDP growth in the Czech Republic in 2011-2014 and 2015 and 2016 forecast



Source: Czech Republic's Finance Ministry, Macroeconomic Forecast April 2016

[a] preliminary estimates of the Czech Republic's Finance Ministry

[b] forecast of the Czech Republic's Finance Ministry

According to the Czech Republic's Finance Ministry's questionnaire[8] on macroeconomic forecasts, in 2016 one should expect the following trends:

- GDP in 2016 is expected to increase by 2.5% yoy, and in 2017, the growth rate is to be 2.6% yoy. It is expected that domestic demand will continue to have significant impact on the economic growth. In 2015, one could observe dynamic increase of consumption both among governmental organizations (increase by 2.8% yoy) and households (increase by 2.7% yoy). It is expected that 2016 will correspond to last year in this respect;
- in 2015 the inflation rate amounted to 0.3% yoy, and was the lowest since 2003 and the second lowest in the history of the independent Czech Republic. The low inflation results mainly from the significant decline of global mineral fuel prices and low global inflation. Czech Republic's Finance Ministry's forecasts show that the inflation rate will increase by 0.6% yoy in 2016 and by 1.4% yoy in 2017. This will be caused by an increase of expenditures on investments and consumption.
- Also the situation in the labor market is positive. It is caused by the economic recovery, which translates into growth of employment. Its growth rate was 1.4% yoy in 2015 and in 2016 a 0.5% yoy growth is expected. The unemployment rate dropped to 4.5% in Q4 2015, which is the second lowest rate in the European Union, just after Germany. In the whole 2016 the unemployment is expected to decrease to 4.4% (from 5.1% in 2015);
- the surplus in the current account of the balance of payments according to preliminary data was 0.9% of GDP in 2015. Although this figure is lower than the expected in the forecast from January this year (1.2%), it is the highest in the history of the Czech Republic. The surplus forecast for 2016 is to amount to 1.1%.[9]

European economy

European Commission's forecasts suggest that economic recovery in the European Union is set to remain at a similar level, despite the unstable situation in the global economy. The estimates point to a real GDP growth by 1.9% yoy in 2015. The growth rate is expected to increase by 1.9% yoy and 2.0% yoy in 2016 and 2017, respectively[10]. The factors that have significant influence on the economic situation include, among others: accommodative monetary policy, weak Euro and oil prices. Moreover, the increase in real GDP will be supported by: greater availability of credit, continuing reduction of debt, higher investments and productivity of work. This contributes to the increase in income in real terms. The European Union will have the public debt on a similar level as in 2015 (86.8% of GDP[11]). It is expected that the debt will amount to 86.4% of GDP in 2016 and 85.5% of GDP in 2017. This situation is expected to stay at the current level even though Greece's debt increased to about 176,9% of GDP in 2015 and is expected to increase to 187,8% in 2016. The level of the EU's deficit and budget debt, in turn, fell

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

[9] Finance Ministry

[10] EC forecasts, European Economic Forecast Spring 2016

[11] EC forecasts, European Economic Forecast Spring 2016

to 2.4% of GDP in 2015. The European Commission's projection shows a decrease to the level of 2.1% of GDP in 2016 and 1.8% of GDP in 2017.[12]

The impact of the above factors has been reduced by the adverse impact of emerging economies and global trade, and the continuing geopolitical tensions. Significant influence is exerted primarily by the Chinese economy. The European Commission estimates that it will post a 6.9% yoy growth in 2015. In the next years this growth has proved be somewhat slower and reach 6.5% in 2016 and 6.2% yoy in 2017.

The value of Industrial PMI is also an important indicator of economic activity in the manufacturing sectors, which after Q1 2016 amounted to 51.6 and therefore proved be higher than Q1 2015 – 51.0[13].The improving the index can therefore cleary interpreted as a means to an improvement of the moods of managers in the production industry. The improving business conditions are also forecast through inflation: in Q1 2016 it remained on the same level as throughout 2015 and was flat at 0%, while in 2016 and 2017 it is expected to increase to 0.3% yoy and 1.5% yoy, respectively.[14]

Industry in Poland

Rail cargo transport is very strongly linked to the business conditions in Poland's main industries. This group includes, in particular, such sectors as: mining, steel and construction. In a somewhat smaller impact on freight rail sectors such as: the chemical, timber and automotive industry.

In Q1 2016, sold industrial output increased by 3.0% yoy, compared to 5.3% yoy in the corresponding period of 2015. The decrease of sold industrial output was confirmed in 9 out of 34 industries. These are mostly such industries as: hard coal and brown coal mining (decrease by 1.3% yoy), coke production and crude oil refining products (-3.6% yoy), metal production (-1.3% yoy) and production of machinery and equipment (-3.4% yoy). Industries with higher production sales in the period January-March 2016 compared to Q1 2015, included, among others: manufacture of products from other mineral non-metallic raw materials (+4.4% yoy), products from metals (+7.6% yoy), motor vehicles, trailers and semi-trailers (+5.6% yoy), other transport equipment (+6.6% yoy), wooden, cork, straw and wicker products (+2.7% yoy) and furniture (+11.2% yoy). Overall, in the processing industry a 3.8% yoy increase was observed in total, including 4.3% yoy in water supply, sewerage, waste management and reclamation. The decreases in sold industrial output was recorded by companies generating and supplying electricity, gas, steam and hot water (-1.3% yoy) and mining companies (-5.3% yoy).

The situation of the Polish industry is affected not only by the internal situation (for example: mine restructuring process and the planned consolidation of the energy sector, change of regulations on certificates for the use of "green energy"), but also the situation of leading producers in the markets of each of the industries of key importance for the Polish economy. World Bank's expectations regarding the prices of key raw materials in 2016 are unfavorable: decline of energy fuel prices on average by 19.3% yoy, and of other raw materials (i.a. metals, aggregates, agricultural raw materials, fertilizers) on average by 5.1% yoy. The price declines of many of the aforementioned industrial raw materials follow from weak economic growth forecasts in emerging economies.

The level production sold and the prices of oil and oil refining products will depend on such events as fiasco of the talks in Qatar, which was aimed at freezing oil production and the sale of oil inventories.[15] As no agreement was reached one should expect price decreases, also in Poland. The prices of metals (mainly copper), in turn, are affected by the concerns regarding increases of US interest rates and their impact on the economic growth in emerging markets, instability of financial markets and unsatisfactory economic data from China.

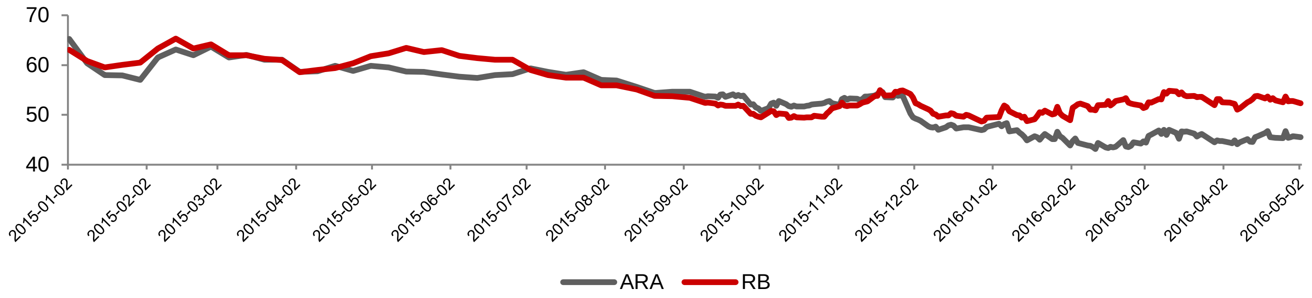
<u>Mining industry</u>

In Q1 2016, the Polish mining industry recorded hard coal production in the range of 17.7 million tons. In the corresponding period of 2015 17.0 million tons was mined, up by 4.1% yoy. In the period January-February, the average monthly ARA prices continued to be under pressure. The average price in December 2015 was USD 47.8/t. In the next two months the price dropped even to 46.3 USD/t in January 2016 and to 44,0 USD/t in February 2016. In March 2016 the price increased to 45.9 USD/t[16]. The price in European ARA ports is the result of the low demand from coal-fired power plants, for example: for this reason in Germany the level of inventories over the past 3 weeks did not change. According to analysts from the Industrial Development Agency, the level of coal inventories in the weeks to come will increase. The long-term forecast for demand for

[12] EC forecasts, European Economic Forecast Spring 2016.
[13] Stooq.pl
[14] EC forecasts, European Economic Forecast Spring 2016.
[15] BiznesAlert
[16] Virtual New Industry

coal in Europe includes the support of politicians the process of decarbonizing the energy sector, hence it is unfavorable for the mining industry[17].

Figure 6 Coal prices on ARA vs. RB markets*



Source: Virtual New Industry

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

The Polish mining industry is affected not only by the price of coal in ARA ports but also by the process of mine revitalization and establishment of the Polish Mining Group.

Steel industry

From the data of the World Steel Association it appears that global steel production in Q1 2016 was 385.7 million tons, down by 3.6% yoy (from 399.0 million tons). Only in the European Union, the production of 40.9 million tons was lower by 7.0% yoy than in the corresponding period last year (44.0 million tons). The decreases were particularly strong in the case of leading steel producers in the Europe, i.e. United Kingdom (from 3.1 million tons in Q1 2015 to 1.9 million tons in Q1 2016, down by 38.7% yoy), Germany (from 11.1 million tons in Q1 2015 to 10.8 million tons in Q1 2016, down by 2.5% yoy), Italy (from 6.0 million tons in Q1 2015 to 5.8 million tons in Q1 2016, down by 3.4% yoy), Spain (from 3.9 million tons in Q1 2015 to 3.5 million tons in Q1 2016, down by 10.8% yoy) and France (from 4.0 million tons in Q1 2015 to 3.8 million tons in Q1 2016, down by 6.1% yoy). Also Poland recorded a decrease from 2.4 million tons in Q1 2015 to 2.4 million tons by 31 thousand tons in Q1 2016, down 1.3% yoy[18].

According to the World Steel Association, the global steel market will continue to be affected by China's economic slowdown, which will be reflected by low steel prices, instability of financial markets, slowdown of trading and low prices of other raw materials[19]. The Association's forecast shows a global decrease by 0.8% yoy to 1.5 billion tons. The increase of demand for steel in European Union countries in 2016 and 2017 is expected to be 155 million tons and 158 million tons, up 1.4% yoy and 1.7% yoy, respectively. Demand in Asia and Oceanic region (including China) is expected to decrease: to 968 million tons in 2016 (-1.7% yoy) and to 959 million tons in 2017 (-1.0% yoy).

The price level of metals and metal products is a very important aspects that is not neutral to the steel production industry. China's economic slowdown and the resulting price pressures on the raw materials required for steel production lead to declines of prices of metals and metal materials in Poland. In the period January-February 2016, the prices of metals fell by 5.2% yoy, and the prices of metal products by 0.9% yoy[20]. Q1 2016 also recorded a decrease of sold metal production by 1.3% yoy, while in the same period, sold metal products increased by 7.6% yoy[21].

Following several months of decline (from September 2015 to December 2015) the prices in global iron ore trade returned on an upward path and increased from 39.6 USD/t in December 2015 to 55.5 USD/t in March 2016[22]. Compared to March 2015, when the price per ton was USD 56.9, a 2.5% yoy was recorded. Over the last five years the highest monthly prices of almost 190 USD/t and 150 USD/t were recorded in 2011 and 2013, respectively.[23]

[17] Virtual New Industry
[18] World Steel Association
[19] Virtual New Industry
[20] Central Statistical Office of Poland
[21] Central Statistical Office of Poland
[22] Indexmundi.com
[23] http://www.indexmundi.com

Construction industry

Construction and installation production in businesses with more than 9 employees decreased by 13.3% yoy in Q1 2016. In Q1 2015 a 3.5% yoy increase was recorded. The decreases of this indicator result from very low activity conduct of public investments awaiting for the new EU financial framework[24]. The biggest decrease of the construction and installation production growth rate was recorded in construction of civil and marine engineering facilities (-20.7% yoy between January and March 2016, while in Q1 2015 - increase by 8.5% yoy). The lowest growth rate in production was also recorded in specialist construction works (down by 11.6% yoy, vs. a 3.8% increase in Q1 2015) and in building construction (down by 8.6% yoy, vs. a 0.4% yoy drop in 2015). Also the growth rate in investment project construction declined (-12.6% yoy in Q1 2016, compared to -1.2% yoy in 2015) and in overhauls (-14.5% yoy in Q1 2016 compared to a 13.6% yoy increase in 2015)[25].

The -6.9 business tendency indicator in March 2016 is less pessimistic than in February (-9.1). In addition entities conducting construction activity assess March 2016 as less favorable than March last year when the indicator was 7.0. Entrepreneurs from this sector who had influence on the indicator assessed than from February 2016 the following factors improved slightly: order portfolio, construction and installation production and financial standing, but the projections are worse than those from March 2015. Also concerns regarding the increasing waiting time for payments for construction and installation works increase. It should be noted, however, that in the current situation in the construction sector, lower layoffs than projected in the past 7 months are expected. In the first 3 months of 2016, the construction industry recorded a 0.3% yoy decrease in employment. In Q1 2015 the growth rate of average headcount was -6.1% yoy.

Both the moods of the entrepreneurs from the construction industry and the planned employment are associated with the barriers in conduct of business activity. From among all respondents, 4.2% did not come across any barrier in conducting business activity. This result is better than last year, when only 3.1% of entrepreneurs had no barriers in organizing their on-going work. Among the main barriers in conduct of business activity in March 2016, the businesses mentioned the high cost of employment (important for 60% of businesses, vs. 61% one year before), high amounts due to the State Treasury (41% vs. 39% in March 2015) and unclear and inconsistent legal regulations (31% vs. 29% in March 2015)[26].

One has to wait longer for better prospects in the construction industry due to the low level of public procurements for construction works. Many of the planned contracts are co-financed by the European Union have started but they are still at the planning stage. Consequently, increase of the forecasting construction market in 2016 will be lower than in 2015 (4.0%), and the record-breaking construction production from 2011 can be improved no earlier than in 2017[27].

Industry in the Czech Republic

Industrial production at fixed prices in Q1 2016 grew by 2.4% yoy, and following seasonal adjustment taking into account the number of working days, it increased by 3.0% yoy (in Q1 2015 industrial output value at constant prices was 4.6% yoy). The biggest contribution in the growth of industrial production in March was made by the production of passenger cars, trailers and semi-trailers (2.0 p.p. increase of the share in industrial production, up by 11.2% yoy), printing and reproduction of recorded media (0.1 p.p, up by 10.7% yoy), manufacture of other transport equipment (0.1 p.p., up by 6.0% yoy). However the industrial production in chemicals and chemical products (-0.6 p.p., down by 18.1% yoy), manufacture of other non-metallic mineral products (-0.2 p.p., down by 5.3%) and manufacture of basic metals (-0.2 p.p., down by 7.2 %) decreased[28].

Revenues from industrial activity at current prices in Q1 2016 down by 0.2% yoy (in the corresponding period of the previous year up by 4.4% yoy). Direct export revenues of industrial companies at current prices increased by 2.5% yoy (compared to 6.7% yoy in Q1 2015). Revenues from domestic sales, which comprises indirect exports through non-industrial companies, decreased 3.8% yoy (compared to 1.8% yoy in Q1 2015)[29].

The value of new orders in Q1 2016 in selected sectors increased by 0.6% yoy. The number of new orders from abroad increased by 1.6% yoy, while the number of new domestic orders dropped by 1.4% yoy.

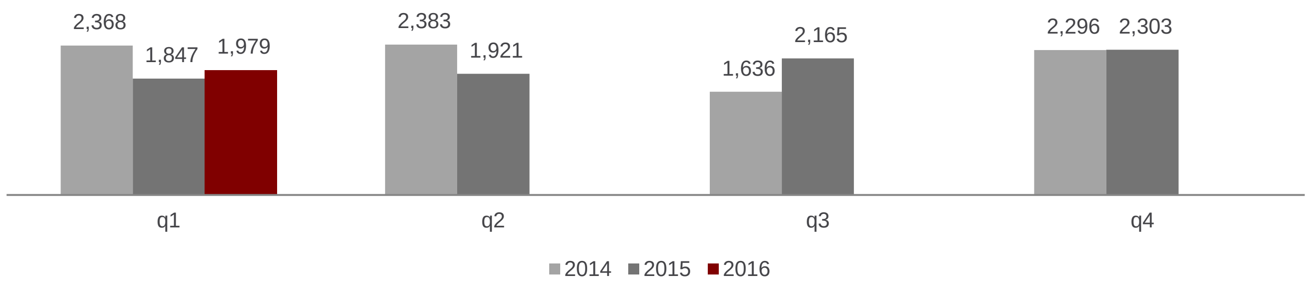
The average number of registered employees in industrial companies employing 50 or more staff in Q1 2016 increased 3.6% yoy. The average monthly nominal gross salary of such employees in this period increased by 4.0% yoy and amounted to CZK 28,199[30] (approx. PLN 4,582).

[24] Wyborcza.biz
[25] GUS Statistical Bulletin (comprising data of enterprises employing more than 9 people)
[26] Central Statistical Office of Poland
[27] http://www.izolacje.com.pl
[28] Czech Statistical Office
[29] Czech Statistical Office
[30] Czech Statistical Office

Mining industry

The estimated hard coal production in March 2016 was 590 thousand tons, which translates into an estimate of 1,979 thousand tons in Q1 2016. The production level in Q1 2016 should slightly exceed the level from the corresponding period, when it reached 1,847 thousand tons. In the next quarters of this year, we can expect a decrease of hard coal production due to decommissioning of OKD mines owned by New World Resources Plc in connection with their low profitability and the necessity to restructure the company. The figure below shows quarterly hard coal production, without coke and coal deposit (only coking and steam coal) in 2014-2016.

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

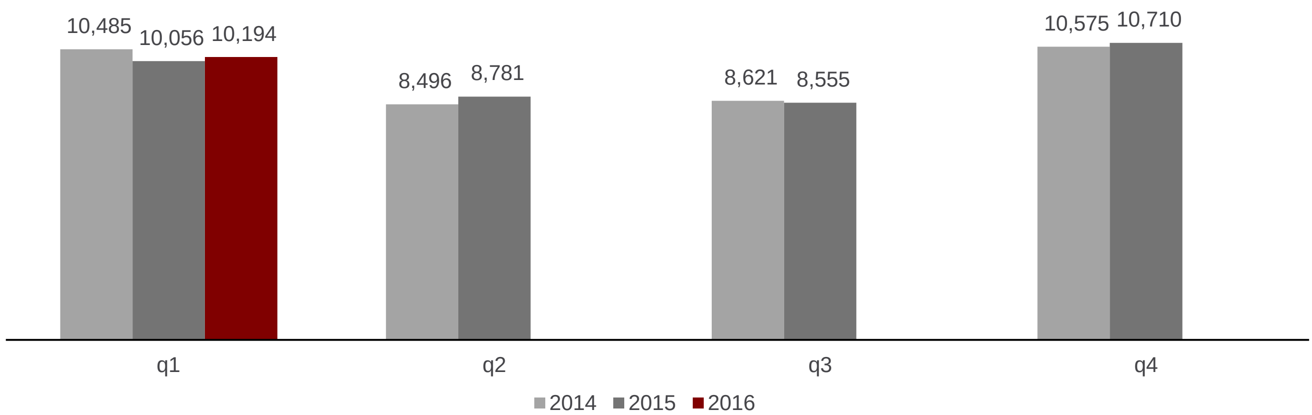


Source: Czech Ministry of Industry and Trade

Note: an estimate figure was provided for Q1 2016 as only tentative data have been published based on the data on extraction in March 2016.

The situation in brown coal production is more stable than in hard coal. In Q1 2016 we can expect comparable production (10.2 million tons) to Q1 last year (10.1 million tons). The biggest producers of brown coal in the Czech Republic are: Severeročeské doly a.s., Sokolovská uhelná a.s., Vršanská uhelná a.s. and Severní energetická a.s. The total amount of extracted brown coal in 2014 amounted to 38.2 million tons and in 2015 to 38.1 million tons, down by 0.2% yoy. The main consumer of this raw material was the Czech power concern ČEZ, consuming 22.2 million tons.

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



Source: Czech Ministry of Industry and Trade

Note: an estimate figure was provided for Q1 2016 as only tentative data have been published based on the data on extraction in March 2016.

Steel industry

The metallurgical industry in the Czech Republic consists of such industries as: metal processing (ferrous and non-ferrous metals) and metal foundry industry. This sector's development is driven primarily by robust demand from the automotive, construction and mechanical engineering industries. The costs associated with international transport are the main barrier to development of the Czech economy. Land transport is more expensive than marine and inland transport, which is a barrier to efficient export of these commodities from the Czech Republic[31].

According to Steel Federation a.s. data the monthly growth rate of production of selected goods in Q1 2016 can be classified as decreasing. The decrease was recorded in production of metallurgical pig iron (-0.6% yoy) and raw steel (-4.5% yoy). An increase was recorded however in production of rolled products (0.9% yoy)[32].

Construction industry

The construction and assembly production in Q12016 dropped 8.8% (in the corresponding period of the previous year up by 6.9% yoy) and the figure adjusted for seasonality due to the number of working days dropped by 7.3%. Construction production, in turn, decreased by 9.9% yoy (decrease of the share of construction production in total by 7.7 p.p.) and engineering construction production down by 5.0% yoy (1.1 p.p.). In the corresponding period of the previous year construction production up grew 4.9% yoy (increase of the share of construction production in total by 3.8 p.p.) and engineering construction production grew by 14.3% yoy (3.1 p.p.)[33].

The average number of registered employees [34]in companies employing 50 or more staff in construction industry in Q1 2016 decreased 2.6%, and in the corresponding period of the previous year dropped by 2.1% yoy. The average monthly nominal gross salary of such employees increased by 7.3% yoy and amounted to CZK 30,336 (approx. PLN 4,930). Hence one can say that also in this respect an improvement has been recorded: in Q1 2015 the salary increased by 4.0% yoy and amounted to CZK 28,446 (i.e. approx. PLN 4,622).

The number of building permits issued in Q1 2016 increased by 1.7% yoy, which means that the state planning authorities issued 17,438 permits. In Q1 2015 the number permits decreased by 0.3% yoy to 17,146. The approximate total value of the buildings for which building permits were issued amounted to CZK 56.4 billion and increased 6.9% compared to the corresponding period the year before. In Q1 2015 this figure was CZK 52.8 million (down by 10.2% yoy).

The number of apartments started in Q1 2016 increased by 2.1% yoy and amounted to 5,164. In Q1 2015 the number of completed flats decreased by 7.1% yoy, which translates into 5,062 flats. The number of apartments in single-family houses increased 8.8% yoy (in Q1 2015 +3.5% yoy) and in multi-family buildings increased by 8.4% yoy (in Q1 2015 +25.2% yoy). The number of apartments completed in Q1 2016 decreased by 0.7% yoy and amounted to 6,177 (compared to 4.5% yoy and 6 227 in the corresponding period of the previous year). The number of completed apartments in single-family houses increased 7.3% yoy (in Q1 2015 a 5.8% yoy decrease was recorded) and in multi-family buildings decreased by 27.6% yoy (in Q1 2015 a 25.2% yoy increase).

Automotive Industry

The automotive industry is one of the most important industries in the Czech Republic, remaining one of the stimuli of development of the Czech economy. This is caused primarily by long-term tradition of car production and a significant position of this industry of the Czech economy in Europe. Additionally, creation of still increasing numbers of jobs in the automotive industry and regular increase of production during the year is an important factor. So far approx. one million of vehicles per annum have been produced in the Czech Republic[35].

The most important car passenger manufacturers are still: Škoda Auto, Hyundai Motor Manufacturing Czech (HMMC) and Toyota Peugeot Citroën Automotive (TPCA). Companies like SOR Libchavy Iveco Bus, Škoda Electric and TATRA, in turn, produce delivery vans and buses.

According to the Automotive Industry Association, 351,658 road vehicles were manufactured in Q1 2016, up 8.8% yoy). In the same period the production of 349,766 passenger cars by the Czech industry translated into a 8.7% growth yoy. The number of buses produced amounted to 989 (1.0% drop yoy) and the number of trucks to 229 (up by nearly 14% yoy). The biggest increase of production was recorded in the motorcycle segment. In Q1 2016, 674 motorcycles were produced, nearly 96% more yoy. Additionally, an increase of production in the trailer segment was recorded in all categories by such manufacturers as: Agados, Panav and Schwarzmüller. This increase was 1.8% yoy (5,301 in Q1 2016).

[31] http://www.budoucnostprofesi.cz/sectoral-studies/industries-development/14_manufacture-of-basic-metals-and-fabricated-metal-products.htm
[32] Steel Production in Czech Republic, Eurofer Economic Committee Meeting April 2015
[33] Czech Statistical Office
[34] the breakdown does not comprises persons working on the basis of different employment contracts, business owners and cooperating household members who do not have employment contracts
[35] AutoSAP

4.2. Freight transportation activity

The rail freight market is presented with a breakdown into the domestic and international markets. The report also presents statistics about the Czech market following the consolidation of the AWT Group by the full method with the PKP CARGO Group as of 28 May 2015. In 2015 and Q1 2016, those markets (Polish and Czech) were of key importance for the PKP CARGO Group (PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and AWT Group).

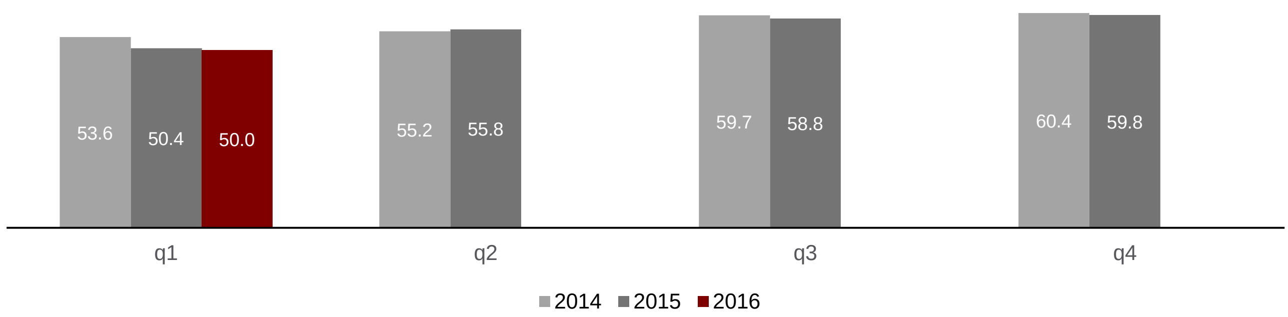
4.2.1. Rail transport market in Poland

In 1Q 2016 60 operators had rail freight licenses, including PKP CARGO S.A. and PKP CARGO SERVICE. Between January and March 2016, 50.0 million tons of cargo was transported by rail. Given the freight volume of 50.4 million tons transported in Q1 2015, this was a decrease by 0.8% yoy. Freight turnover, in turn, reached 11.4 billion tkm, and was 0.5% higher than in the corresponding period of last year. The average haul in Q1 2016 increased by 2.9 km (+1.3% yoy) to 227.3 km.

The decrease of freight volume in Q1 2016 resulted primarily from delays associated with commencement of construction works co-financed by the European Union under the new financial framework. The delays have influence principally on the level of transported aggregates. In addition, transport of hard coal was lower than in Q1 2015 mainly as a result of lower demand of market for this raw material and, to a lesser extent, decreases of the prices of this raw material in ARA ports, and insufficiently low cost of production per ton of coal in Polish mines, including those subject to a restructuring program. Also ore transport was lower, which was directly attributable to decrease metal production.

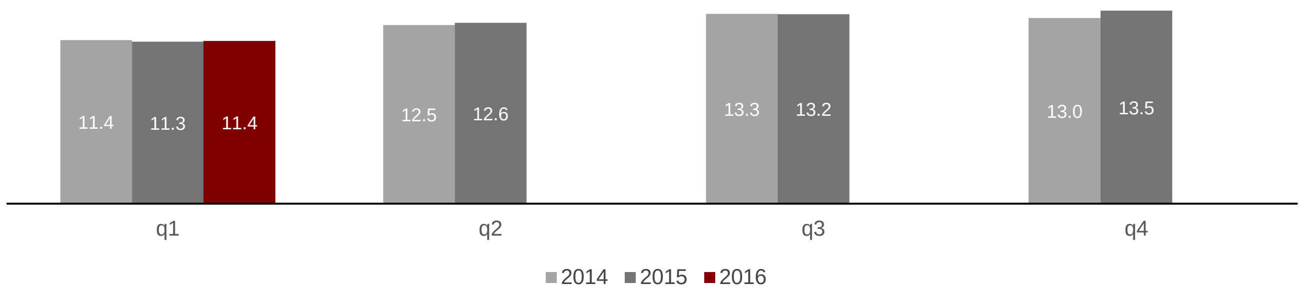
It should be noted however, that in the period January-March 2016, transport of oil and oil products increased. This was due to acquisition of new customers and the related realization of additional volumes and freight movements in the new relationships.

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



Source: Office of Rail Transport

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

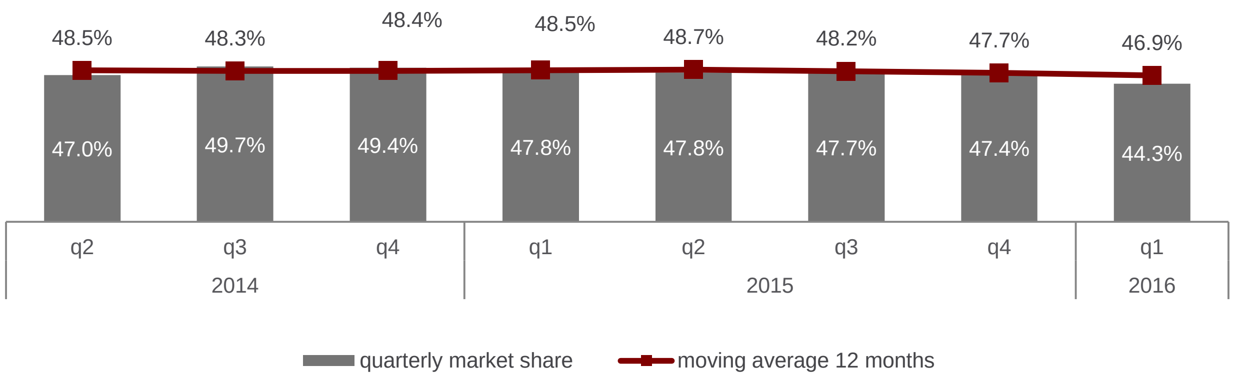


Source: Office of Rail Transport

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

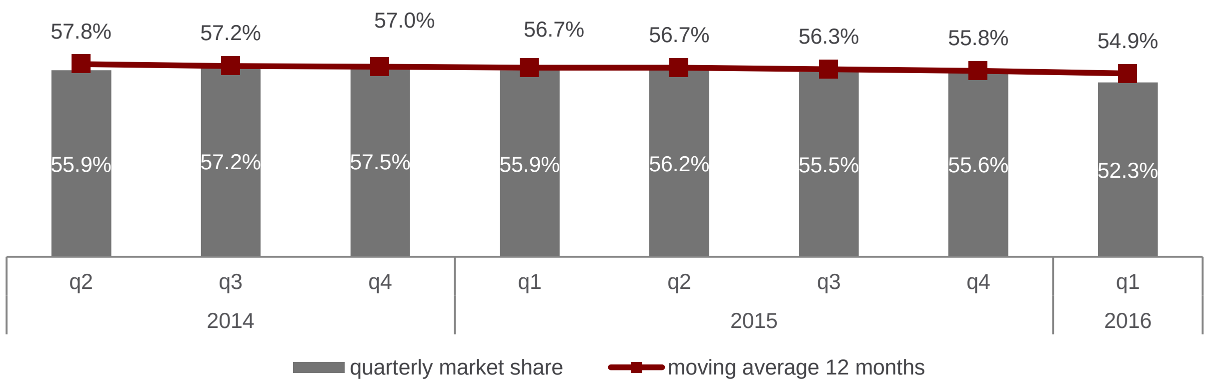
In Q1 2016, the PKP CARGO Group retained the no. 1 operator on the Polish railway cargo transport market with a 44.3% market share (-3.6 p.p. yoy) in terms of freight volume and a 52.3% market share in terms of freight turnover (-3.6 p.p. yoy).

Figure 11 Quarterly share of the PKP CARGO Group in freight volume in 2014, 2015 and in 2016 in Poland



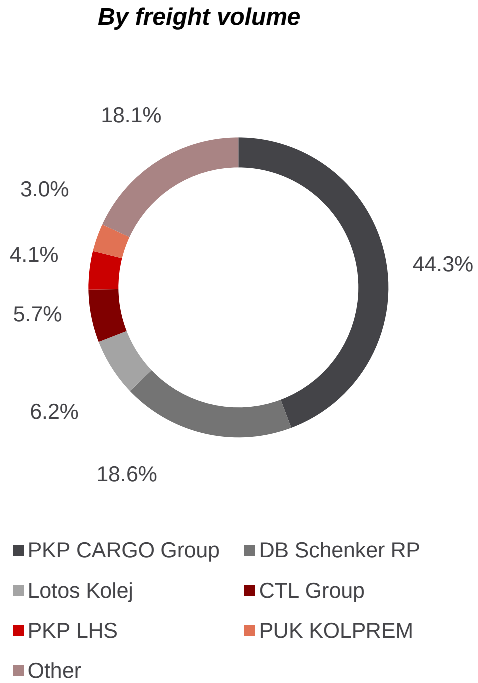
Source: proprietary material based on Office of Rail Transport's data

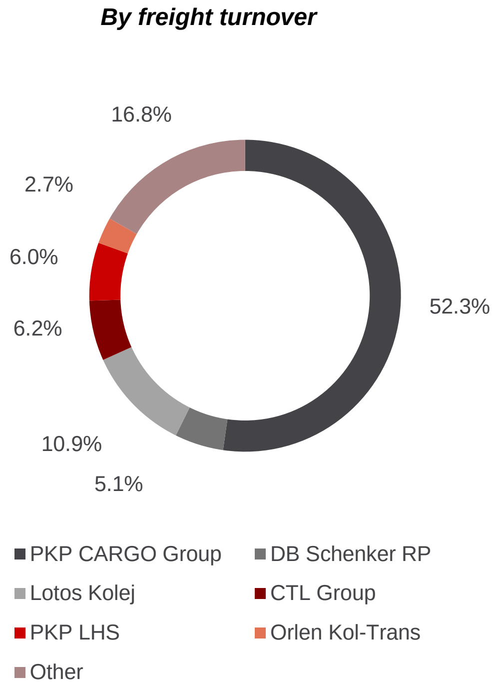
Figure 12 Quarterly share of the PKP CARGO Group in realized freight turnover in 2014, 2015 and 2016 in Poland



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

Figure 13 The largest market shares of rail operators by freight volume and freight turnover in Q1 2016 in Poland





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

The best operators on the Polish railway transport market include, in addition to the PKP CARGO Group: DB Schenker Group, CTL Group, Lotos Kolej, PKP LHS and PUK KOLPREM and Olen Kol-Trans.

In Q1 2016, PKP CARGO Group's biggest competitors in terms of freight volume included: DB Schenker, Lotos Kolej and CTL Group, which held market shares of 18.6%, 6.2% and 5.7%, respectively. The key rivals in terms of freight turnover included: Lotos Kolej, CTL Group and PKP LHS, with market shares of 10.9%, 6.2% and 6.0%, respectively.

In January-March 2016, the largest increases in freight turnover vs. 2015 in comparison to the corresponding period of 2015, were posted by the following competitive rail freight operators: Lotos Kolej (+117.0 million tkm, which resulted in a +1.0 p.p. increase), PUK Kolprem (+61.5 million tkm, up +0.5 p.p.) and Orlen Kol-Trans (+23.4 million tkm, which resulted in a +0.2 p.p. increase).

4.2.3. Rail freight market in the Czech Republic

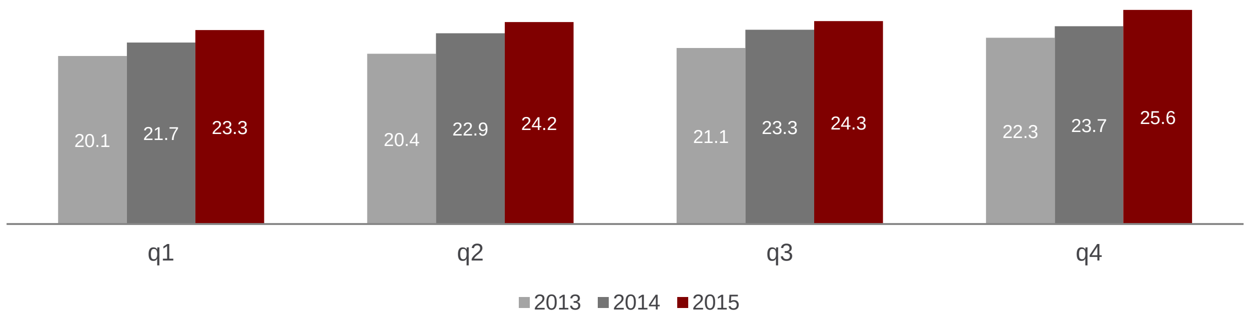
Total freight transport in the Czech Republic in 2015 was 536.4 million tons in freight volume and 73 billion tkm in freight turnover, of which approx. 97.4 million tons was transported using rail (15.3 billion tkm in freight turnover, i.e. 20.9%)[36]. The biggest portion of the cargo was transported by road, which constituted 81.5% of the volume of all cargo transport (78.3% of freight turnover). Railways turned out to be the second most popular means of transport - 18.2% of the total volume was transported by rail in 2015. Air transport and inland navigation had negligible importance for the Czech market, accounting in total for nearly 0.3% (0.8% of freight turnover).

In Q4 2015, rail transport was used to carry approx. 25.6 million tons of cargo. This is 1.9 million tons (8.2%), more than in Q4 2014. The performance recorded in Q4 2015 has been the best since the beginning of 2013. In the entire 2015 the transported freight volume was equal to 97.4 million tons, i.e. 5.8 million tons more than in 2014 (up by 6.4% yoy).

In terms of freight turnover, the result achieved in Q4 2015 is, just like in the case of volume, the biggest since 2013. Q4 2015 with the freight turnover of 4.0 billion tkm is higher than in Q4 2014 by 0.3 billion tkm, which is a 6.8% increase yoy. Freight turnover recorded in the entire 2015 was 15.3 billion tkm and was 0.7 billion tkm, i.e. 4.7% yoy, higher than in 2014.

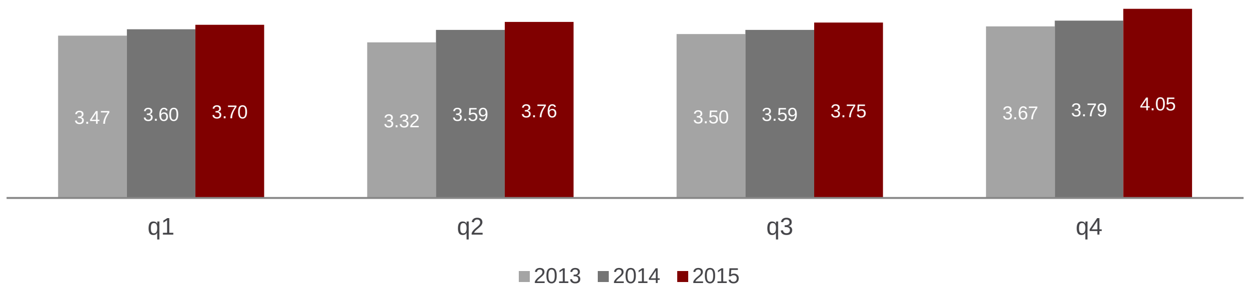
[36] *Ministry of Transport of the Czech Republic*

Figure 14 Rail freight transport by freight volume in Czech Republic in individual quarters of 2013-2015 (million tons)



Source: Czech Statistical Office

Figure 15 Rail freight transport by freight turnover in the Czech Republic in individual quarters of 2013-2015 (in billions of tkm)



Source: Czech Statistical Office

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

According to the data presented in the report on the shares of individual operators, prepared by the Czech infrastructure manager (SŽDC), in January-February 2016 there were 95 carriers in the Czech Republic holding licenses to provide rail freight services.[37]

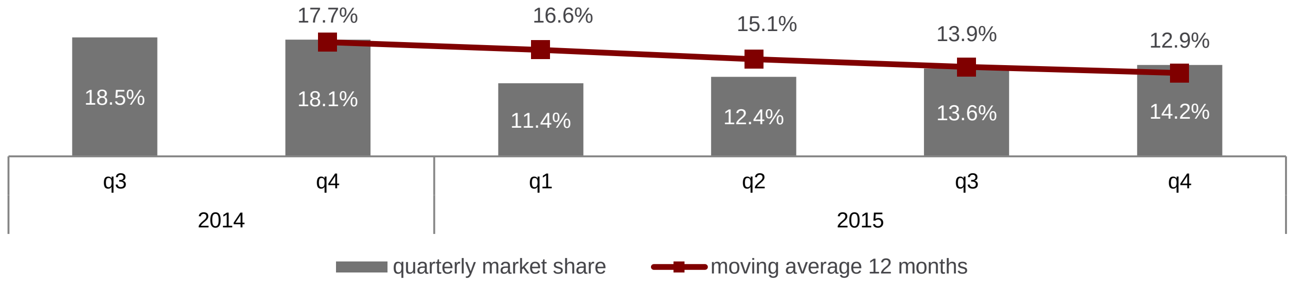
In each quarter of 2015, AWT had a smaller market share in terms of freight volume than in the reference quarters of 2014. Smaller volumes transported by AWT after Q4 2014 resulted mainly from the lower total volume of freight transported within the Czech republic. Principally, the tonnage of transported hard coal from OKD dropped in 2015 (-1.04 million tons yoy). The declines in this cargo category, however, were gradually reduced by increasing transport of aggregates (+948.5 thousand tons yoy), liquid fuels (+170.2 thousand tons yoy) and intermodal (+362.0 thousand tons yoy).

However one should note a positive trend observed in 2015: each quarter the AWT Group recorded an increasing share in the rail transport market, starting from 11.4% in Q1 2015, and ending with 14.2% in Q4 2015.

After the market share in terms of freight turnover fell in Q1 2015 (-4.7 p.p. yoy and -5.8 p.p. vs. Q4 2014), quarterly market share hikes were recorded: from 8.2% in Q2 2015 to 9.6% in Q4 2015.

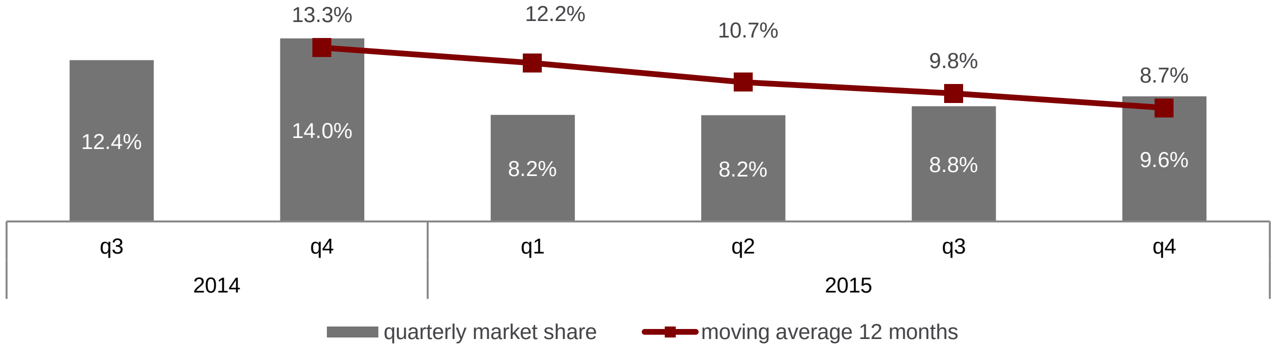
[37] Správa železniční dopravní cesty (SŽDC)

Figure 16 Share of AWT a.s. in freight volume in 2014 and in 2015 in the Czech Republic



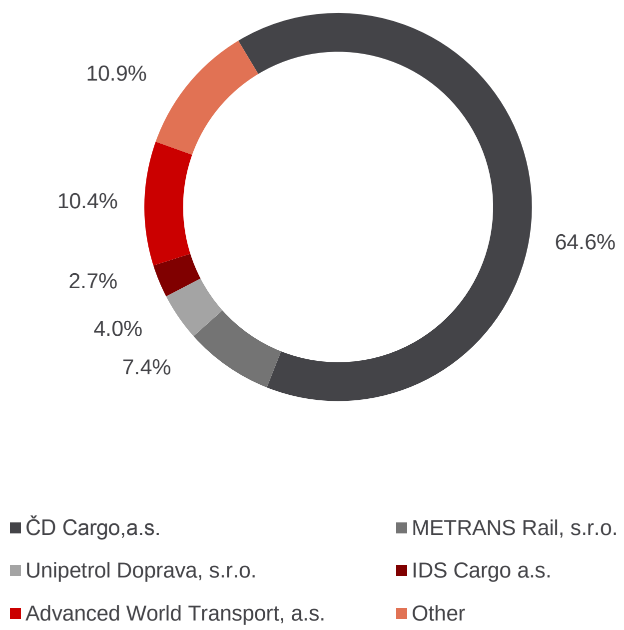
Source: Proprietary material

Figure 17 Share of AWT a.s. in freight turnover in 2014 and in 2015 in the Czech Republic



Source: Proprietary material

Figure 18 Market share of rail operators by operational freight turnover in January-February 2016 in the Czech Republic (btkm)



Source: SŽDC

In the first two months of 2016, ČD Cargo a.s. was the leader of the Czech rail freight services market, recording a 64.6% share in terms of gross freight turnover. Up until 1995, the company was the only operator on the market. Its shares between January-February 2016 dropped 2.5 p.p. vs. the first two months of 2015. The majority of this market share was taken over by AWT a.s., which increased its market share from 8.9% between January-February 2015 to 10.3% in the corresponding period of 2016 (up 1.5 p.p.).[38]

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

4.2.5. PKP CARGO Group's rail transport

The data on the transport activity conducted by the PKP CARGO Group in Q1 2016 and Q1 2015 comprise consolidated data for PKP CARGO S.A., PKP CARGO SERVICE Sp. z o.o. and the AWT Group, however the data on the AWT Group pertain only to the period from its acquisition by PKP CARGO S.A. (it has been consolidated by the full method since 28 May 2015). In Q1 2016, the AWT Group recorded freight turnover of 411 million tkm and carried freight volume of 3,363 thousand tons[39].

The transport activity in Q1 2016 was conducted by 5 entities from the Group. Following the acquisition (80% of shares) of AWT B.V., 3 carriers (AWT a.s., AWT Rail HU Zrt, AWT Rail SK a.s.) joined as of 28 May 2015 the two other carriers from the PKP CARGO Group, i.e. PKP CARGO S.A. and PKP CARGO SERVICE sp. z o.o. (a 100% subsidiary of PKP CARGO S.A.).

The PKP CARGO Group provides rail freight services in the territory of Poland and seven other European Union states, i.e.: Germany, Czech Republic, Slovakia, Austria, Netherlands, Hungary and Lithuania, where PKP CARGO S.A. has valid authorizations to provide rail freight services. The presence in these markets is a growth opportunity for the Group, since it allows the Group to independently handle the volumes transported from/to key European seaports, including those located in the North Sea (Amsterdam, Rotterdam, Zeebrugge, Antwerp, Hamburg) and those located in the Adriatic Sea (Koper, Triest, Rijeka).

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

The PKP CARGO Group works with the largest Polish and global groups, including ArcelorMittal, PKN Orlen, PGNiG Termika, Lafarge Group, Azoty Group, Węglokoks, Jastrzębska Spółka Węglowa, Tauron Group, Kompania Węglowa, Enea Group, PGE Group and International Paper. The contracts with these counterparties are regularly renewed, which confirms the high quality of the transportation services provided by the PKP CARGO Group. This is exemplified by won tender procedures for transport of coal (PGNiG Termika, ENGIE Energia Polska, Tauron), transport of timber and wood chips (International Paper Kwidzyn, Kronospan Szczecinek, Mondi Świecie), and crude oil refining products.

In Q1 2016, the PKP CARGO Group carried 25.4 million tons of cargo (+5% yoy) and achieved freight turnover of 6.5 billion tkm (+2% yoy). The Group's transport performance in Q1 2016 was materially affected by the increase in transports outside of Poland, which reached 4.3 million tons (+410%) while freight turnover of 0.6 billion tkm (+492%) was achieved.

The Group's transport activity in Q1 2016 was characterized by increased inter-branch and intra-branch price competition. Solid fuels were the main type of goods carried by the Group, with hard coal being the dominating cargo. Transportation of solid fuels accounted for 58% of transported volumes and 47% of realized freight turnover by the PKP CARGO Group in Q1 2016. Compared to the corresponding period of 2015, in Q1 2016, transportation of solid fuels was higher in terms of freight turnover by 5% yoy and 12% yoy in terms of freight volume. As a result of an active trading policy, freight volume in hard coal transport increased by 10% yoy and the freight turnover by 6% yoy, driven by a significant growth in international freight in terms of freight volume (+411%) and freight turnover (+373 yoy). The increase of foreign transport of hard coal realized by the Group was attributable to such factors as: purchase of the shares in AWT and the related trade and operation synergies, freights from the

[38] SZDC
[39] This applies to the AWT Group companies consolidated by the full method.

Czech Republic to Germany bypassing Poland, increase of freight from the Czech Republic to Slovakia and in exports from Polish mines to Germany. The freight turnover realized by the Group in the solid fuels segment was also affected by: decrease of the average haul of hard coal in Q1 2016 (-3% yoy) resulting from a decrease of transit transport through Poland, which is characterized by long distances, and the short distance transport (under 100 km) realized by the AWT Group companies. In Q1 2016, an unfavorable impact on the transport of solid fuels was exerted by the transport of coke within Poland, whose volume was 15% yoy lower, mainly due to decreasing demand resulting from lower steel production which dropped in the European Union in Q1 2016 by 7% yoy (in Germany by 2.5% yoy and in Slovakia by 10.5% yoy).

Products associated with the metallurgical industry, i.e. metals and iron ore, are another important market area serviced by the PKP CARGO Group. Their share in the Group's freight turnover in Q1 2016 was 14% (i.e. the same as in Q1 2015). This segment recorded a decrease of transported freight volume by 7% yoy in connection with the lower demand for metals ores resulting from the situation in the metallurgical industry in global markets and in Poland. In Q1 2016, in connection with the changes in the freight routes average haul increased by 8% yoy, which contributed to maintaining the freight turnover in this segment on the level from Q1 2015 (slightly above 0.9 billion tkm).

Aggregates and construction materials were the third largest group of products carried by the PKP CARGO Group in Q1 2016, with a 10% share in total freight turnover (15% in the corresponding period of 2015). The transportation of aggregates and construction materials in Q1 2016 (decrease by 24% yoy in terms of freight volume) was affected by the stagnation in infrastructural investment projects resulting from delays in execution of infrastructural investment projects and the slow pace of resolution of new tenders for 2016.[40]

In transport of liquid fuels in Q1 2016, freight volume rose by 41% yoy and freight turnover by 110% yoy, which is attributable to an increase of the average haul by 49% yoy. A significant increase of this freight results from commencement of cooperation with customers for whom, among others, imports from Belarus and exports to the Czech Republic were transported.

In Q1 2016, a 10% yoy increase in freight turnover in timber and agricultural produce and increase of freight volume by 5% yoy was recorded, which was driven by higher volume of timber carried from Belarus (mainly for producers of paper, furniture and OSB board). The average haul in this segment increased by 4%.

The PKP CARGO Group continues to lead the Polish market in intermodal transport, which is an important element of the Group's growth strategy. In Q1 2016, the transport of intermodal units increased in terms of container freight volume by 23% yoy, while freight turnover increased by 17% yoy. The increase in intermodal transport carried out by the Group is driven by the acquisition of new clients and freight routes, including the launch of trains from China to Duisburg in transit via Małaszewicze, from Łódź to Piacenza and domestic operator trains to/from Poznań Franowo and Warsaw Praga terminals (which is closely associated with the development of this segment of freight services) as well as the size of transports executed by AWT.

[40]according to GUS data, construction and assembly production in Q1 2016 was 13.3% lower than the year before and in companies specializing in erection of civil and marine engineering facilities by 20.7%

Table 12 Freight turnover of the PKP CARGO Group in Q1 2015 and 2016*

Item	Q1 2016	Q1 2015	Change	% change	Q1 2016	Q1 2015
	(million tkm)			%	percentage of total (%)	
Solid fuels[1]	3,100	2,947	153	5%	47%	46%
of which hard coal	2,824	2,658	166	6%	43%	41%
Aggregates and construction materials[2]	630	948	-318	-34%	10%	15%
Metals and ores[3]	904	901	3	0%	14%	14%
Chemicals[4]	505	500	5	1%	8%	8%
Liquid fuels[5]	273	130	143	110%	4%	2%
Timber and agricultural produce[6]	415	378	37	10%	6%	6%
Intermodal transport	542	464	78	17%	8%	7%
Other[7]	171	156	15	10%	3%	2%
Total	**6,540**	**6,424**	**116**	**2%**	**100%**	**100%**

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

Source: Proprietary material

Table 13 Freight volume of the PKP CARGO Group in Q1 2015 and 2016

Item	Q1 2016	Q1 2015	Change	% change	Q1 2016	Q1 2015
	(000s tons)			%	percentage of total (%)	
Solid fuels[1]	14,650	13,111	1,539	12%	58%	54%
of which hard coal	13,204	12,003	1,201	10%	52%	50%
Aggregates and construction materials[2]	2,556	3,356	-800	-24%	10%	14%
Metals and ores[3]	2,841	3,050	-208	-7%	11%	13%
Chemicals[4]	1,596	1,500	96	6%	6%	6%
Liquid fuels[5]	679	481	197	41%	3%	2%
Timber and agricultural produce[6]	1,195	1,136	59	5%	5%	5%
Intermodal transport	1,442	1,174	267	23%	6%	5%
Other[7]	478	415	63	15%	2%	2%
Total	**25,437**	**24,224**	**1,213**	**5%**	**100%**	**100%**

Source: Proprietary material

Table 14 Freight volume of the PKP CARGO Group in Q1 2015 and 2016*

Item	Q1 2016	Q1 2015	Change	% change
	km			%
Solid fuels[1]	212	225	-13	-6%
of which hard coal	214	221	-8	-3%
Aggregates and construction materials[2]	246	282	-36	-13%
Metals and ores[3]	318	296	23	8%
Chemicals[4]	316	333	-17	-5%
Liquid fuels[5]	402	269	132	49%
Timber and agricultural produce[6]	347	333	15	4%
Intermodal transport	376	395	-19	-5%
Other[7]	358	377	-19	-5%
Total	**257**	**265**	**-8**	**-3%**

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

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

Source: Proprietary material

From the point of view of the directions in which the PKP CARGO Group's transportation services were provided, the dominant share was transportation within Poland constituting 91% of the realized freight turnover in Q1 2016.

4.3. Other services

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

- traction services and locomotive lease services which involve the provision of a traction unit with an operating team to perform a railway transport operation or to ensure its readiness, e.g. to propel repair or rescue trains. Such services are provided on the Polish market and abroad;
- comprehensive siding services, entailing among others formation of trains, maneuvering services, rail traffic management on sidings, loading and unloading, warehouse management, conservation and ongoing maintenance of point infrastructure. PKP CARGO SERVICE Sp. z o.o. and AWT a.s. are the main entities providing these services. Siding services are offered in Poland, the Czech Republic, Slovakia and Hungary;
- transshipment services – the PKP CARGO Group has been developing its transshipment activity on the basis of conventional and intermodal transshipment terminals owned by PKP CARGO Centrum Logistyczne Małaszewicze Sp. z o.o., PKP CARGO Centrum Logistyczne Medyka-Żurawica Sp. z o.o., PS TRADE TRANS Sp. z o.o., CARGOSPED Sp. z o.o. and AWT a.s.;
- intermodal logistics services – the Group takes care of all the elements of the logistics chain, including: rail transport, road transport, transshipment and storing intermodal units. This activity is based on a network of intermodal terminals. Within the Group, PKP CARGO CONNECT Sp. z o. o. is the company specializing in, and dedicated to, comprehensive intermodal transport service. The service of constantly monitoring the traffic of intermodal trains called "Track and Trace" implemented by AWT brings added value to the Group's offer;
- other forwarding services – the Group's freight forwarding offering consists of comprehensive logistics services using vehicle, marine and inland water transportation incorporating transshipment, storage, warehousing and packaging. The Group also offers customs handling. The comprehensive transport solutions designed and implemented (3PL solutions) are an additional strength for the Group's services. Freight forwarding services are provided chiefly by PKP CARGO CONNECT Sp. z o.o. and AWT Čechofracht a.s.;
- rolling stock repairs – maintenance of the Group's rolling stock is provided mainly by a dedicated company PKP CARGOTABOR Sp. z o.o. Additionally, selected repair and maintenance work is also done in the facilities situated in the structures of the Units of PKP CARGO S.A. and by AWT a.s.;
- land reclamation services – the Group's service offering in this area consists of managing and revitalizing post-industrial premises (including mining areas), work to raze objects, managing facilities allocated to utilize waste, eliminating underground mining pits and de-contaminating soil. Additionally, the Group offers services in the area of civil engineering. The land reclamation activity is carried out by AWT Rekultivace a.s. and AWT Rekultivace PL sp. z o.o., chiefly in the Czech Republic in the vicinity of Ostrava where mining waste deposits are located.

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

4.4. Headcount

Information on changes in the headcount in the PKP CARGO Group in 3M 2016 and 2015 is provided below.

Table 15 Headcount in Q1 2016 and 2015 in the PKP CARGO Group (active employees only)

Item	Headcount as at:		Change YTD	Headcount as at:		Change YTD
	31/03/2016*	31/12/2015**		31/03/2015	31/12/2014	
Company	17,802	17,979	-177	18,657	20,830	-2,173
Subsidiaries	5,823	5,826	-3	3,899	4,130	-231
Total	**23,625**	**23,805**	**-180**	**22,556**	**24,960**	**-2,404**

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

Source: Proprietary material

Table 16 Average headcount in Q1 2016 and 2015 in the PKP CARGO Group (active employees only)

Item	Average headcount in FTEs		Change	Average headcount in persons		Change
	3 months 2016*	3 months 2015		3 months 2016*	3 months 2015	
Company	17,926	19,343	-1,417	17,930	19,345	-1,415
Subsidiaries	5,811	3,920	1,891	5,836	3,943	1,893
Total	**23,737**	**23,263**	**474**	**23,766**	**23,288**	**478**

** Including AWT Group's employees in the period after the acquisition date of AWT B.V. (2,150 FTEs / 2,156 persons)*

Source: Proprietary material

Table 17 Change in the headcount structure in Q1 2016 and 2015 in the PKP CARGO Group (active employees only)

Item	Headcount as at:		Change YTD	Headcount as at:		Change YTD
	31/03/2016*	31/12/2015**		31/03/2015	31/12/2014	
White-collar positions	5,328	5,324	4	4,798	5,349	-551
Blue-collar positions	18,297	18,481	-184	17,758	19,611	-1,853
Total	**23,625**	**23,805**	**-180**	**22,556**	**24,960**	**-2,404**

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

Source: Proprietary material

In 3M 2016, the average headcount in the PKP CARGO Group increased by 474 FTEs in comparison to 3M 2015, as a direct result of acquisition of AWT in May 2015.

In the remaining Group companies, a decrease of headcount was recorded, mainly as a result of implementation of the Voluntary Redundancy Programs in 2015.

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

4.5. PKP CARGO Group's investments

During the first 3 months of 2016, the Group incurred capital expenditures for the acquisition of property, plant and equipment in the form of purchases, modernizations and the so-called overhaul component (periodic inspections and repairs of the rolling stock) and intangible assets in the amount of PLN 184.7 million, which accounted for 173% of the actuals for the corresponding period of 2015, mainly as a result of commencement of performance of a multi-system locomotive purchase contract.

Most part of the capital expenditures in Q1 2016 in the Group was allocated for execution of investment tasks associated with the rolling stock, mainly for purchase of multi-system locomotives (6), periodic repairs of the rolling stock and modernization of locomotives (3) - in total PLN 176.8 million (i.e. 95.7% of total expenditures). In addition, expenditures were incurred on computerization, i.e. purchases of computer hardware and intangible assets (software) in the amount of PLN 1.8 million, investment construction activity in the amount of PLN 2.7 million and purchases of other machinery and equipment for PLN 3.4 million.

A detailed schedule of capital expenditures in Q1 2016 and comparison with the actuals from Q1 2015 is presented in the table below.

Table 18 Capital expenditures on property, plant and equipment and intangible assets in the PKP CARGO Group in Q1 2015 (thousands of PLN)

Item	3 months 2016	3 months 2015	Change	Change %
Investment construction activity	2,718	423	2,295	543%
Purchase of traction vehicles	100,742	0	100,742	-
Modernization of locomotives	13,920	14,459	-539	-4%
Purchase of wagons	0	8,592	-8,592	-
Machinery and equipment	1,343	957	386	40%
ITC development	1,806	2,756	-950	-34%
Other	2,056	1,240	816	66%
Components in overhaul*:	62,162	78,243	-16,081	-21%
Periodic repairs of locomotives	17,200	34,488	*-17,288*	*-50%*
Periodic repairs of wagons	44,962	43,755	*1,207*	*3%*
Total	**184,747**	**106,670**	**78,077**	**73%**

** according to the Accounting Policy prevailing in the Company the line item “Components in overhaul” in 2016 and 2015 includes periodic inspections of locomotives and wagons (P3).*

Source: Proprietary material

4.6. Key information and events

Table 19 Key information and events which occurred in Q1 2016 and after the balance sheet date

Period	Event
January	• The Company's Management Board received a decision of the President of the Competition and Consumer Protection Office ("President of UOKiK") No. DOK-5/2015 of 31 December 2015 pursuant to which the President of UOKiK: i. concluded that the Company abused the dominant position in the domestic rail freight market by preventing development of conditions required for emergence or development of competition through introduction, as of 1 May 2006, of changes to the "Rules of sale of freight services by PKP CARGO S.A." in particular § 5 sec. 6-10 contained in chapter I of these rules which authorized the Company to refuse to sign special agreements with entrepreneurs considered as the Company's competitors; ii. concluded that the aforementioned practice was abandoned as of 1 July 2007; and iii. imposed on the Company a fine in the amount of PLN 14,224,272.18. In the opinion of the Company's Management Board, the decision of the President of the UOKiK of 31 December 2015 is groundless. PKP CARGO S.A. filed an appeal to SOKiK against the Decision. • PKP CARGOTABOR USŁUGI Sp. z o.o. ("PKP CU") was notified by PKN ORLEN S.A. of the fulfillment of the first condition precedent specified in the conditional binding purchase agreement for 99.85% shares in the share capital of Orlen KolTrans Sp. z o.o. ("KolTrans") entered into by and between PKP CU as the buyer, PKP CARGO S.A. as the guarantor and PKN Orlen as the seller, as none of KolTrans' minority shareholders exercised its priority right to purchase KolTrans' shares they had pursuant to the KolTrans articles of association within the deadline prescribed therein. • The PKP CARGO S.A. Supervisory Board, following a recruitment procedure, on 19 January 2016 appointed Maciej Libiszewski to the position of President of the PKP CARGO Management Board. On the same day, Maciej Libiszewski resigned from the position of member of the Company's Supervisory Board. • Commencement of performance of the agreement with a consortium of Siemens Group companies for delivery of multi-system locomotives - the first 3 out of a total of 15 locomotives to be operated by PKP CARGO S.A. on international routes were delivered.
February	• Resignations from the PKP CARGO S.A. Management Board submitted by Mr. Łukasz Hadyś, Management Board Member in charge of Finance, Mr. Jacek Neska, Management Board Member in charge of Commerce, and Mr. Wojciech Derda, Management Board Member in charge of Operations. These resignations entered into force with immediate effect. • Satisfied was the other condition precedent provided for in the conditional binding agreement for the purchase of shares in Orlen KolTrans sp. z o.o., consisting of registration, by the competent court of registration, of amendments to KolTrans's articles of association agreed upon in the Purchase Agreement concerning, among others, the termination of PKN ORLEN's rights to appoint and dismiss members of KolTrans's corporate authorities upon sale by PKN ORLEN of all shares held in KolTrans's share capital. • On 16 November 2015, PKP CARGO S.A. made the first withdrawal under the loan from Bank Polska Kasa Opieki S.A.
March	• Following a material decline in the market prices of scrap metal in Q4 2015, the Company's Management Board, having analyzed the impact of this change on the 2015 standalone and consolidated financial statements, decided to recognize impairment losses based on the prices of appropriate scrap metal classes as at the end of 2015, on the following assets: 1) property, plant and equipment – rolling stock, in the amount of PLN 147,799 thousand, 2) inventories, in the amount of PLN 5,288 thousand; 3) non-current assets classified as held for sale, in the amount of PLN 24,029 thousand. The total amount of the impairment losses in the 2015 standalone and consolidated financial statements is PLN 143,464 thousand, which includes the effect of tax. The impairment losses are non-cash items and have no effect on PKP CARGO S.A.'s liquidity and do not affect its compliance with financial covenants under the existing loan agreements. • On 15 March 2016 a memorandum of agreement was executed between the parties to the Company Collective Bargaining Agreement for Employees Hired by the Establishments of PKP CARGO S.A., in particular with respect to the collective dispute commenced on 2 July 2015. Under the memorandum of agreement, the trade unions dissolved the Protest and Strike Committee and company level committees, and cancelled all protest and strike activities as regards the structural and organizational changes in the Company. At the same time, the Company withdrew the claims of 2 November 2015 to rule non-existence of collective disputes in the Company's individual plants and on the level of the entire Company. Moreover, the parties to the CCBA Memorandum of Agreement undertook to enter into a memorandum of agreement pertaining to the collective dispute commenced on 2 July 2015 by 30 June 2016 to implement, in particular, the post-inspection report of the District Labor Inspector in Warsaw of 15 October 2015 on making changes to the terms and conditions of salary in the form of additional protocols to the Company Collective Bargaining Agreement.

	• On 16 March 2016 the Company's Management Board received a notification from Morgan Stanley (Institutional Securities Group and Global Wealth Management) concerning a reduction of the stake held by Morgan Stanley (Institutional Securities Group and Global Wealth Management) below 5% of the overall number of votes at the Company's Extraordinary Shareholder Meeting ("SM"). This threshold was crossed by selling the Company's shares on the Warsaw Stock Exchange on 10 March 2016 ("Transaction"). Before the Transaction, Morgan Stanley (Institutional Securities Group and Global Wealth Management) held 2,380,008 shares of the Company representing 5.31% of the Company's share capital and 2,380,008 votes at the SM, which is 5.31% of all the votes. After the Transaction, Morgan Stanley (Institutional Securities Group and Global Wealth Management) holds 2,225,827 shares of the Company representing 4.97% of the Company's share capital and 2,225,827 votes at the SM, which is 4.97% of all the votes. • On 18 March 2016 the Management Board adopted a resolution on submitting a motion to the Company's Shareholder Meeting to adopt a resolution to cover the net loss incurred in the amount of PLN 114,125,438.44 stemming from the Standalone Statement of Comprehensive Income for the period from 1 January 2015 to 31 December 2015 from future earnings and to recommend to the Company's Shareholder Meeting that no dividend be paid for the financial year starting on 1 January 2015. • Conclusion of an annex to the Investment Loan Agreement with European Investment Bank, extending the loan availability period till 3 December 2016 • Satisfaction of the first of the conditions precedent defined in the conditional preliminary purchase agreement (*warunkowa zobowiązująca umowa sprzedaży*) signed by PKP CARGO S.A. and Euronaft Trzebinia sp. z o.o. ("Euronaft") by the fact that both Orlen KolTrans sp. z o.o. ("KolTrans") and Euronaft obtained consistent individual tax interpretations from the relevant tax authorities, i.e. in both cases confirming classification of ZCP Kolej as an organized part of an enterprise, as defined by the relevant provisions of law. • PKP CARGO LOGISTICS Tax Group has not achieved for the fiscal year from 1 January 2015 to 31 December 2015 the required share of income in revenues of at least 3%, the same with effect from 31 December 2016 lost the status of the taxpayer income tax corporation. Accordingly, the second tax year the Tax Group, which began on 1 January 2016 ended 31 March 2016. • Adoption of the consolidated version of the Company's Articles of Association by the Company's Supervisory Board • Supervisory Board adopting resolutions to appoint the following persons to the PKP CARGO S.A. Management Board as of 1 April 2016: 1) Mr. Grzegorz Fingas for the position of Management Board Member responsible for Commerce, 2) Mr. Arkadiusz Olewnik for the position of Management Board Member responsible for Finance, 3) Mr. Jarosław Klasa, for the position of Management Board Member responsible for Operations. • Supervisory Board adopting a resolutions on initiating the recruitment procedure for the position of Management Board Member – Representative of the Employees of PKP CARGO S.A. • Positive opinion of the Supervisory Board on the PKP CARGO Management Board motion for the Company's Shareholder Meeting on covering the Company's net loss for 2015 and not paying a dividend for the financial year from 1 January 2015 to 31 December 2015.
April	• PKP CARGO S.A. started to transport 15 new rail vehicles Flirt 3 from the Stadler factory in Siedlce to Hungary. The biggest Polish rail operator will deliver them to the Slovak-Hungarian border. From there, a Hungarian carrier will take them over. • A memorandum of agreement was signed to launch the operations of a Polish Mining Group (PGG). It will be established in place of Kompania Węglowa. • DB Schenker Rail Polska changed its name to DB Cargo Polska. The change of the name and brand is dictated by structural transformations and new naming approach introduced on the Deutsche Bahn group level. Last year the rail, passenger and freight activity was merged into one organizational area, in which freight services are performed under the DB Cargo name. The DB Schenker brand will be still used by the DB Schenker Logistics business unit.
May	• The Czech coal consortium OKD filed for bankruptcy. Services for OKD are still being provided by AWT; nevertheless, in order to preclude the risk of improper and untimely payment for freight, the principle has been implemented between the parties for prepayments to be made for the amounts due for the services provided. • The Company's Shareholder Meeting adopted a resolution to cover from future earnings net loss incurred by the Company in 2015 and not to pay a dividend for the financial year from 1 January 2015 to 31 December 2015. • With effect from 11 May 2016 the mandate of a Management Board Member – Employee Representative Mr. Dariusz Browarek was expired.

Source: Proprietary material

5. Analysis of the financial situation and assets of the PKP CARGO Group

5.1. Basic economic and financial figures

5.1.1. Statement of comprehensive income

On 28 May 2015 The Parent Company acquired 80 % stake AWT B.V. Due to the fact, that the data AWT are consolidated from the date of acquisition , the consolidated figures for the first quarter of 2016 include the financial results of AWT, while the financial data for the first quarter of 2015, have been presented without the participation of the Group AWT.

In Q1 2016, the PKP CARGO Group transported 25.4 million tons of cargo (i.e. 5% more than in the corresponding period of 2015) and recorded freight turnover of 6.5 billion tkm (i.e. 2% more than in the corresponding period of 2015), which is described in detail in the chapter entitled “PKP CARGO Group rail transport”.

In Q1 2016, the Group’s operating revenues increased by 15.1% yoy and operating expenses by 26.5% yoy. In Q1 2016, the Group generated a result on operating activities and net result in the amount of PLN -61.8 million and PLN -66.0 million, respectively. The changes in operating revenue and operating expenses resulted mainly from the consolidation of AWT.

The details of individual line items of the Statement of comprehensive income are presented in the further part of this section. The table below presents the results of the PKP CARGO Group in Q1 2016 as compared to the corresponding period of 2015.

Table 20 Results of the PKP CARGO Group in Q1 2016 compared to the corresponding period of 2015 (thousands of PLN)

No.	Item	Q1 2016	Q1 2015 restated data*	Change 2016-2015	Change rate 2016/2015
1	Total operating revenue	1,034,354	898,576	135,778	15.1%
2	Total operating expenses	1,096,162	866,206	229,956	26.5%
3	**Result on operating activity**	**-61,808**	**32,370**	**-94,178**	**-**
4	Financial revenue	390	6,682	-6,292	-94.2%
5	Financial expenses	14,228	12,987	1,241	9.6%
6	Share in the profit of equity accounted entities	1,364	-1,157	2,521	-
7	Result on the sale of shares in entities accounted for under the equity method	-	1,865	-1,865	-100.0%
8	**Pre-tax result**	**-74,282**	**26,773**	**-101,055**	**-**
9	Income tax	-8,235	4,713	-12,948	-
10	**NET RESULT**	**-66,047**	**22,060**	**-88,107**	**-**

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 3 months ended 31 March 2016 prepared according to EU IFRS

* translation of comparable data is described in detail in note 4 to the Quarterly Condensed Consolidated Financial Statements

Operating revenues

Table 21 Operating revenue of the PKP CARGO Group in Q1 2016 compared to the corresponding period of 2015 (thousands of PLN)

No.	Item	Q1 2016	Q1 2015 restated data*	Change 2016-2015	Change rate 2016/2015
1	Revenue from sales of services and finished products, including:	1,014,043	880,557	133,486	15.2%
1.1	*Revenue from rail transportation and freight forwarding services*	*802,970*	*802,889*	*81*	0.0%
2	Revenue from sales of goods and materials	8,757	8,164	593	7.3%
3	Other operating revenue	11,554	9,855	1,699	17.2%
4	**Total operating revenue**	**1,034,354**	**898,576**	**135,778**	**15.1%**

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 3 months ended 31 March 2016 prepared according to EU IFRS

* translation of comparable data is described in detail in note 4 to the Quarterly Condensed Consolidated Financial Statements

In the Group’s total operating revenue the biggest item was revenue from sales of services and finished products (98.0% both in Q1 2016 and in Q1 2015). Revenue from sales of services comprises mainly: transport revenue and revenue from freight forwarding, revenue from siding and traction services, land reclamation services and revenue from the lease of rolling stock. The remaining part of operating revenue of the PKP CARGO Group comprises revenue from sales of goods and materials, which comprises, among others, sales of steel and cast iron scrap, as well as other operating revenue comprising, among others, sales of fixed assets, change of the balance of receivables impairment losses and interest on receivables, change of the balance of provisions for liabilities and received fines and compensations and net foreign exchange gains/(losses) on trade receivables and liabilities.

Revenue from rail transportation and freight forwarding services in Q1 2016 practically did not change compared to the corresponding period of 2015. The stabilization of revenue on rail transportation and freight forwarding services was driven on the one hand by the strong price pressure on transportation services (section PKP CARGO Group's railway transport services) and decrease of revenues from transport of aggregates and construction materials, resulting from the early stage of development of road and railway investments while waiting for resolution of tends and commencement of work on new infrastructural projects. On the other hand, in intermodal transport, one can observe positive trends which translate into an increasing share of this cargo category in the revenues on rail transportation and freight forwarding services. Additionally the Group recorded an increase of revenues due to consolidation of AWT. The details pertaining to PKP CARGO Group's transport services were described in detail in chapter "PKP CARGO Group's rail transport".

The increase in revenue from sales of goods and materials in Q1 2016 by 7.3% yoy was driven mainly by increased liquidation of redundant rolling stock at low scrap prices.

The increase in other operating revenue by PLN 1.7 million, i.e. 17.2% yoy, was mainly caused by an increase of operating revenue from net foreign exchange gains/(losses) on trade receivables and liabilities, reversal of other provisions, receivables from received penalties and compensations, and increase of the profit on disposal of assets with decreasing provisions for other penalties.

Operating expenses

Table 22 Operating expenses of the PKP CARGO Group in Q1 2016 compared to the corresponding period of 2015 (thousands of PLN)

No.	Item	Q1 2016	Q1 2015 restated data*	Change 2016-2015	Change rate 2016/2015
1	Depreciation/ amortization and impairment losses	142,359	102,396	39,963	39.0%
2	Consumption of materials and energy	162,818	142,011	20,807	14.7%
3	External services	366,568	269,939	96,629	35.8%
4	Taxes and charges	7,026	6,686	340	5.1%
5	Employee benefits	385,348	319,937	65,411	20.4%
6	Other expenses by kind	11,563	8,858	2,705	30.5%
7	Cost of goods and materials sold	8,336	6,502	1,834	28.2%
8	Other operating expenses	12,144	9,877	2,267	23.0%
9	**Total operating expenses**	**1,096,162**	**866,206**	**229,956**	**26.5%**

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 3 months ended 31 March 2016 prepared according to EU IFRS

* translation of comparable data is described in detail in note 4 to the Quarterly Condensed Consolidated Financial Statements

In Q1 2016, operating expenses increased by PLN 230.0 million, or 26.5% yoy, to PLN 1,096.2 million.

The growth of amortization/depreciation costs (with impairment losses), which increased by PLN 40.0 million, was driven mainly by an increase of property, plant and equipment associated with the acquisition of AWT and capital expenditures (especially periodic repairs of the rolling stock), and adjustments of amortization/depreciation associated with change of the rolling stock residual value.

Moreover, external services grew by 35.8% yoy up to PLN 366.6 million. This growth was driven mainly by the purchases of the shares in AWT, which caused an increase the costs of transportation services, rents and charges for the use of property and rolling stock, the cost of access services to the lines of the infrastructure managers and other services, i.e. subcontracted services associated with reclamation works.

Additionally, the consumption cost of materials and energy increased by PLN 20.8 million, in the line items: consumption of electricity, gas and water, with decreasing fuel consumption costs. These increases are related directly to the consolidation of AWT Group companies.

Q1 2016 saw an increase of employee benefits, which reached the level of PLN 385.3 million, compared to PLN 319.9 million in the corresponding period of 2015, increasing 20.4% yoy. This was caused mainly by the consolidation of AWT Group companies. Changes of headcount are presented in section "Information on headcount".

The remaining expenses by kind in Q1 2016 increased compared to the corresponding period of 2015 by PLN 2.7 million, i.e. 30.5% yoy, mainly due to an increase of the costs of property insurance and costs of business travel caused by consolidation of the AWT Group.

In Q1 2016 the value of goods and materials sold increased by PLN 1.8 million, i.e. 28.2% to PLN 8.3 million, following the increase of revenue from sales of scrap.

Other operating expenses in Q1 2016 increased by PLN 2.3 million, i.e. 23.0% yoy to PLN 12.1 million, chiefly on account of an increase of the impairment losses on trade receivables and recognition of a provision for a UOKIK penalty.

Result on operating activity

As a result of the aforementioned changes of operating revenue and expenses, the result on operating activities in Q1 2016 reached PLN -61.8 million.

EBITDA

The result on operating activities increased by the line item "Amortization/depreciation and impairment losses" referred to as EBITDA, amounted to PLN 80.6 million in Q1 2016.

Financial activities

Table 23 Financial activities of the PKP CARGO Group in Q1 2016 compared to the corresponding period of 2015 (thousands of PLN)

No.	Item	Q1 2016	Q1 2015 restated data*	Change 2016-2015	Change rate 2016/2015
1	Financial revenue	390	6,682	-6,292	-94.2%
2	Financial expenses	14,228	12,987	1,241	9.6%
3	Share in the profit of equity accounted entities	1,364	-1,157	2,521	-
4	Result on the sale of shares in entities accounted for under the equity method	0	1,865	-1,865	-100.0%
5	**Result on financial activities**	**-12,474**	**-5,597**	**-6,877**	**122.9%**

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 3 months ended 31 March 2016 prepared according to EU IFRS

* translation of comparable data is described in detail in note 4 to the Quarterly Condensed Consolidated Financial Statements

In Q1 2016, the PKP CARGO Group recorded a loss on financial activities in the amount of PLN -12.5 million, compared to PLN -5.6 million recorded in the corresponding period of the previous year. The negative result on financial activities was caused by a decrease of interest income, profit on valuation of financial assets and liabilities carried at fair value through profit and loss, and increase of the increased costs due to increased financial liabilities.

Details are presented note 8 to the Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group.

Pre-tax result

In Q1 2016, the result before tax decreased PLN 101.1 million to PLN -74.3 million. This decrease resulted from the lower result on operating activities and negative result on financial activities.

Income tax

In Q1 2016, the PKP CARGO Group recorded income tax in the amount of PLN -8.2 million, of which current tax amounted to PLN 0.6 million, and deferred tax to PLN -8.8 million.

Net result

In Q1 2016, the Group generated net result of PLN -66.0 million compared to PLN 22.1 million in the same period of the previous year.

5.1.2. Description of the asset and liability structure

ASSETS

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

	As at 31/03/2016 (unaudited)	As at 31/12/2015 (audited)	Asset structure 31/03/2016	Asset structure 31/12/2015	Change	
ASSETS						
Non-current assets						
Property, plant and equipment	4,763,797	4,719,748	78.0%	77.2%	44,049	0.9%
Intangible assets	62,495	66,437	1.0%	1.1%	-3,942	-5.9%
Investment property	1,296	1,309	0.0%	0.0%	-13	-1.0%
Investments accounted for under the equity method	41,204	39,831	0.7%	0.7%	1,373	3.4%
Trade and other receivables	5,101	5,074	0.1%	0.1%	27	0,5%
Other long-term financial assets	9,841	9,849	0.2%	0.2%	-8	-0.1%
Other long-term non-financial assets	26,394	32,666	0.4%	0.5%	-6,272	-19.2%
Deferred tax assets	109,941	104,587	1.8%	1.7%	5,354	5.1%
Total non-current assets	**5,020,069**	**4,979,501**	**82.2%**	**81.5%**	**40,568**	**0.8%**
Current assets						
Inventories	130,799	128,513	2.1%	2.1%	2,286	1.8%
Trade and other receivables	713,399	664,321	11.7%	10.9%	49,078	7.4%
Income tax receivables	3,276	2,748	0.1%	0.0%	528	19.2%
Other short-term financial assets	5,254	4,046	0.1%	0.1%	1,208	29.9%
Other short-term non-financial assets	49,847	13,281	0.8%	0.2%	36,566	275.3%
Cash and cash equivalents	137,900	276,191	2.3%	4.5%	-138,291	-50.1%
Non-current assets classified as held for trading	43,210	44,061	0.7%	0.7%	-851	-1.9%
Total current assets	**1,083,685**	**1,133,161**	**17.8%**	**18.5%**	**-49,476**	**-4.4%**
Total assets	**6,103,754**	**6,112,662**	**100.0%**	**100.0%**	**-8,908**	**-0.1%**

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 3 months ended 31 March 2016 prepared according to EU IFRS

Non-current assets

The biggest share in the asset structure was held by property, plant and equipment, which, as at the end of Q1 2016, amounted to 78.0% of total assets, compared to 77.2% at the end of 2015. The increase of property, plant and equipment in Q1 2016 by PLN 44.0 million is associated with the investments made in the total amount of PLN 184.7 million (of which PLN 100.7 million was the purchase of 6 multi-system locomotives, and the remainder comprised mainly repairs and periodic inspections of the rolling stock). Among major changes of non-current assets, a 19.2% decrease of other long-term non-financial assets (by PLN 6.3 million to PLN 26.4 million) was recorded.

Current assets

Current assets dropped at the end of Q1 2016 by nearly PLN 49.5 million, i.e. by 4.4%, in relation to the end of 2015, mainly as a result of lower cash and cash equivalents by PLN 138.3 million, i.e. 50.1% - this was directly related to the loss recorded in the period, payment of Voluntary Redundancy Program liabilities, and capital expenditures on property, plant and equipment. In addition, the final value of current assets was significantly affected by an increase of trade and other receivables by PLN 49.1 million (i.e. 7.4%). In this line item, the biggest changes were recorded in VAT settlements (increase by PLN 32.5 million) and trade receivables together with impairment losses (increase by PLN 19.5 million). Among major changes one should also note the increase of other short-term non-financial assets by PLN 36.6 million, resulting largely from the charge for the Company Social Benefits Fund (ZFŚS) (in the amount of PLN 22.2 million) and purchase of transportation benefits for employees in the amount of PLN 10.9 million.

The share of total current assets in total assets dropped from 18.5% as at 31 December 2015 to 17.8% as at 31 March 2016.

The biggest share in the structure of total current assets was held by trade and other receivables (65.8%), cash and cash equivalents (12.7%) and inventories (12.1%).

LIABILITIES

Table 25 Horizontal and vertical analysis of liabilities (PLN thousands)

	As at 31/03/2016 (unaudited)	As at 31/12/2015 (audited)	Structure of equity and liabilities 31/03/2016	31/12/2015	Change	
EQUITY AND LIABILITIES						
Equity						
Share capital	2,239,346	2,239,346	36.7%	36.7%	0	0.0%
Supplementary capital	619,407	619,407	10.1%	10.1%	0	0.0%
Other items of equity	-2,288	-2,779	0.0%	0.0%	491	-17.7%
Exchange differences resulting from conversion of financial statements of foreign operations	32,081	31,500	0.5%	0.5%	581	1,8%
Retained earnings	400,345	466,392	6.6%	7.6%	-66,047	-14.2%
Equity attributable to the owners of the parent company	**3,288,891**	**3,353,866**	**53.9%**	**54.9%**	**-64,975**	**-1.9%**
Total equity	**3,288,891**	**3,353,866**	**53.9%**	**54.9%**	**-64,975**	**-1.9%**
Non-current liabilities						
Long-term bank loans and credit facilities	585,632	460,577	9.6%	7.5%	125,055	27.2%
Long-term finance lease liabilities and leases with purchase option	182,761	193,500	3.0%	3.2%	-10,739	-5.5%
Long-term trade and other payables	17,018	25,953	0.3%	0.4%	-8,935	-34.4%
Long-term provisions for employee benefits	607,156	603,621	9.9%	9.9%	3,535	0.6%
Other long-term provisions	28,443	28,886	0.4%	0.5%	-443	-1.5%
Other long-term financial liabilities	0	155,198	0.0%	2.5%	-155,198	-100%
Deferred income tax reserves	115,104	118,353	1.9%	1.9%	-3,249	-2.7%
Non-current liabilities, total	**1,536,114**	**1,586,088**	**25.1%**	**25.9%**	**-49,974**	**-3.2%**
Current liabilities						
Short-term bank loans and credit facilities	299,292	253,592	4.9%	4.2%	45,700	18.0%
Long-term finance lease liabilities and leases with purchase option	58,700	65,416	1.0%	1.1%	-6,716	-10.3%
Short-term trade and other payables	633,178	729,793	10.4%	11.9%	-96,615	-13.2%
Short-term provisions for employee benefits	109,353	100,383	1.8%	1.6%	8,970	8.9%
Other short-term provisions	19,257	17,856	0.3%	0.3%	1,401	7.8%
Other short-term financial liabilities	158,028	2,174	2.6%	0.0%	155,854	7169.0%
Current tax liabilities	941	3,494	0.0%	0.1%	-2,553	-73.1%
Current liabilities, total	**1,278,749**	**1,172,708**	**21.0%**	**19.2%**	**106,041**	**9.0%**
Total liabilities	**2,814,863**	**2,758,796**	**46.1%**	**45.1%**	**56,067**	**2.0%**
Total liabilities and equity	**6,103,754**	**6,112,662**	**100.0%**	**100.0%**	**-8,908**	**-0.1%**

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 3 months ended 31 March 2016 prepared according to EU IFRS

Equity

The share of equity in total assets as at 31 March 2016 was 53.9% compared to 54.9% at the end of 2015. The decrease of equity in total assets is caused by both an increase of liabilities and the loss recorded in Q1 charged to equity in the amount of PLN 66.0 million. Changes to other equity components are immaterial.

Non-current liabilities

Non-current liabilities at the end of Q1 2016 fell by PLN 50.0 million, i.e. 3.2%, compared to 31 December 2015. The decrease is attributable primarily to the decline of other long-term financial liabilities in the amount of PLN 155.2 million (resulting from reclassification of a liability under a put option for AWT shares to current liabilities – the option exercise period was set from 1 January 2017 to 31 December 2020). The second most important factor affecting the change of the long-term liabilities was an increase of the balance of long-term loans and borrowings by PLN 125.1 million as a result of incurring the next loan tranches (in total PLN 199.3 million, including approx. PLN 102 million under the loan agreements with PEKAO. In addition, long-term liabilities were affected by repayment of leasing liabilities - the balance dropped by PLN 10.7 million, and long-term trade liabilities, which fell by PLN 8.9 million.

Current liabilities

Current liabilities increased as at the end of Q1 2016 compared to the end of 2015 by PLN 106.0 million (i.e. 9.0%). The largest movements were recorded in the following line items:

- Other short-term financial liabilities: increase by PLN 155.9 million in connection with reclassification of the liabilities on account of the put option for the sale of AWT shares,
- Short-term bank loans and credit facilities: growth of PLN 45.7 million,
- Short-term trade and other payables: decrease by PLN 96.6 million resulting mainly from the following factors: 1) decrease of short-term trade payables by PLN 75.0 million, 2) repayment of liabilities on account of implemented Voluntary Redundancy Programs in the amount of PLN 48.2 million, and 3) increase of liabilities on account of mandatory charges forwards the Company Social Benefit Program in the amount of approx. PLN 25.1 million.

The short-term liabilities in total assets of increased in Q1 2016 to 21.0% (compared to 19.2% at the end of 2015).

5.1.3. Cash flow statement

The table below depicts the main line items in the PKP CARGO Group's cash flow statement in Q1 2016 compared to Q1 2015.

Table 26 Main line items in the PKP CARGO Group's cash flow statement in Q1 2016 compared to Q1 2015

Item	Q1 2016 2016	Q1 2015 2015	Change 2016 - 2015	Change 2016/2015
Net cash on operating activities	-112,436	-156,914	44,478	-28.3%
Net cash generated / (used) in connection with investing activities	-170,489	64,341	-234,830	-
Net cash generated / (used) in connection with financing activities	144,634	-30,146	174,780	-
Net increase / (decrease) in cash and cash equivalents	**-138,291**	**-122,719**	**-15,572**	**12.7%**
Cash and cash equivalents at the beginning of the reporting period	**276,191**	**429,178**	**-152,987**	**-35.6%**
Cash and cash equivalents at the end of the reporting period	**137,900**	**306,459**	**-168,559**	**-55.0%**

Source: Condensed Quarterly Consolidated Financial Statements of the PKP CARGO Group for the period of 3 months ended 31 March 2016 prepared according to EU IFRS

Cash flow on operating activities

In Q1 2016 net cash flow from operating activities was PLN -112.4 million compared to PLN -156.9 million in the same period of 2015. The cash flow was generated on gross result of PLN -74.3 million and amortization and depreciation and impairment losses of PLN 142.4 million. The negative cash flows on operating activities are also related to the payment of the second tranche of liabilities under the Voluntary Redundancy Program 1 and 2 in the amount of PLN 48.2 million and increase of the balance of receivables by PLN 50.9 million.

Cash flow from investing activities

In Q1 2016 net cash flow used in connection with investing activities was PLN -170.5 million versus PLN 64.3 million in the same period of the previous year. The negative cash flows were related directly to the capital expenditures incurred by the PKP CARGO Group. The details of the capital expenditures are described in chapter 4.5. "PKP CARGO Group's investments".

Cash flow from financial activities

Net cash flow from financing activities in Q1 2016 was PLN 144.6 million versus PLN -30.1 million in the same period in 2015. Proceeds of PLN 199.3 million were obtained from loans taken out in the first 3 months of 2016, compared to PLN 89.4 million in the corresponding period of 2015. In the analyzed period of 2016, total cash expenditures for leases, to repay bank credits and loans and interest were PLN 55.4 million versus PLN 78.0 million in 3M 2015.

5.1.4. Selected financial and operating ratios

The table below presents key financial and operating ratios of the PKP CARGO Group in Q1 2016 compared to Q1 2015.

Table 27 Selected financial and operating ratios of the PKP CARGO Group in Q1 2016 compared to Q1 2015

Item	Q1 2016	Q1 2015 restated data*	Q1 2016 Adjusted*	Q1 2015 Adjusted* restated data*	Change 2016-2015 Adjusted*		Change 2016/2015 Adjusted*
EBITDA margin[1]	7.8%	15.0%	7.8%	15.0%	-7.2	p.p.	-48.0%
Net profit margin[2]	-6.4%	2.5%	-6.4%	2.5%	-8.9	p.p.	-
Net financial debt to EBITDA ratio[3]	1.8	0.5	2.0	0.3	1.7		566.7%
ROA[4]	-0.9%	0.8%	0.1%	4.8%	-4.7	p.p.	-97.9%
ROE[5]	-1.7%	1.3%	0.2%	7.6%	-7.4	p.p.	-97.4%
Average distance covered by one locomotive (km/day)[6]	242.7	251.9	242.7	251.9	-9.2		-3.7%
Average gross train tonnage per operating locomotive (tons)[7]	1,480	1,523	1,480	1,523	-43.0		-2.8%
Average running time of train locomotives (hours per day)[8]	14.9	15.4	14.9	15.4	-0.5		-3.2%
Freight turnover per employee (thousands tkm/employee)[9]	275.5	276.1	275.5	276.1	-0.6		-0.2%

* The annualized data for 2016 adjusted for presentation purposes for (1) the profit on bargain purchase of AWT in the amount of PLN 137.8 million, (2) the costs following from the implemented 2nd Voluntary Redundancy Program pursuant to Resolutions adopted by the Management Board and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. in the amount of PLN 70.2 million, (3) impairment losses on non-current assets and assets classified as held for sale, in the amount of PLN 178.7 million
* The annualized 2015 data adjusted for presentation purposes for (1) the costs following from the implemented 1st Voluntary Redundancy Program (VRP 1) pursuant to Resolutions adopted by the Management Board and Supervisory Boards of PKP CARGO S.A. and PKP CARGOTABOR Sp. z o.o. The liabilities were estimated in the amount of PLN 265.3 million,

The adjustments concern only data from the Statement of Comprehensive Income.

** translation of comparable data is described in detail in note 4 to the Quarterly Condensed Consolidated Financial Statements

1. Calculated as the quotient of profit on operating activities plus amortization/depreciation and impairment losses by total operating revenue
2. Calculated as the quotient of net profit and total operating revenue
3. Calculated as the quotient of net financial debt (constituting the sum of (i) long-term bank loans and credit facilities; (ii) short-term bank loans and credit facilities, (iii) long-term finance lease liabilities and leases with purchase option; (iv) short-term finance lease liabilities and leases with purchase option; and (v) other short-term financial liabilities and (iv) other long-term financial liabilities, minus (i) cash and cash equivalents; and (ii) other short-term financial assets) and annualized EBITDA for the last 12 months (profit on operating activities plus amortization and impairment charges).
4. Calculated as the quotient of annualized net profit for the past 12 months and total assets.
5. Calculated as the quotient of annualized net profit for the past 12 months and equity.
6. Calculated as the quotient of vehicle-kilometers (i.e. distance covered by PKP CARGO Group's vehicles in the given period) / vehicle-days (i.e. product of the number of active vehicles and number of calendar days in the given period)
7. Calculated as the quotient of gross ton-kilometers and train-kilometers in train work in relation to the locomotives driving the train (in dual traction or pushing the train in the given period).
8. Calculated as the quotient of vehicle-hours (i.e. number of hours of work of PKP CARGO Group's vehicles in the given period) and vehicle-days (i.e. the product of the number of active vehicles and number of calendar days in the given period).
9. Calculated as the quotient of the Group's freight turnover by the average headcount (in FTEs) in the group in the given period.

Source: Proprietary material

In 3M 2016, due to reasons described above, the key annualized profitability ratios, i.e. EBITDA margin, net profit margin, ROA, ROE were lower than in the same period of the previous year. The net financial debt to EBITDA ratio also deteriorated. It increased from 0.5 in 3M 2015 to 1.8 in the same period of 2016.

If annualized performance is adjusted by non-recurring events, the foregoing ratios (ROA, ROE) are better than the reported figures. This primarily results from occurrence of a windfall related to a gainful purchase of AWT (PLN 137.8 million) and costs related to optimization of headcount in the form of Voluntary Redundancy Programs (adjustment by PLN 265.3 million and PLN 70.2 million with regard to, respectively, the first and the second Voluntary Redundancy Program), and impairment losses on non-current assets and assets classified as held for sale, in the amount of PLN 178.7 million.

During the first 3 months of 2016, the average daily mileage of locomotives decreased by 9.2 km/day, i.e. by 3.7%, compared to the same period of 2015. The high level of closures and operating difficulties in the PKP PLK S.A. grid, and decrease of transport, constituted the main cause of this phenomenon. In the reporting period, the gross average train freight turnover per locomotive moved down from 1,523.0 tons (Q1 2015) to 1,480.0 tons (Q1 2016). Hence a decrease of 43.0 tons, i.e. 2.8%, was recorded. The figure fell due to decrease of transport.

In Q1 2015 the average running time of train locomotives amounted to 15.4 hours/day. In the corresponding period of 2016, this figure decreased by 0.5 hours/day, reaching 14.9 hours/day. Hence the average daily running time of locomotives decreased 3.2%. The decrease of the figure results from execution of the transport process with a very high level of closures and operating difficulties in the PKP PLK grid, and decrease of transport.

5.2. Factors that will affect the financial performance in the next quarter

Collective Bargaining Agreement (ZUZP)

On 15 March 2016 a memorandum of agreement was executed between the parties to the Company Collective Bargaining Agreement for Employees Hired by the Establishments of PKP CARGO S.A., in particular with respect to the collective dispute commenced on 2 July 2015.

Under the memorandum of agreement, the trade unions dissolved the Protest and Strike Committee and company level committees, and cancelled all protest and strike activities as regards the structural and organizational changes in the Company. At the same time, the Company withdrew the claims of 2 November 2015 to rule non-existence of collective disputes in the Company's individual plants and on the level of the entire Company.

Moreover, the parties to the CCBA Memorandum of Agreement undertook to enter into a memorandum of agreement pertaining to the collective dispute commenced on 2 July 2015 by 30 June 2016 to implement, in particular, the post-inspection report of the District Labor Inspector in Warsaw of 15 October 2015 on making changes to the terms and conditions of salary in the form of additional protocols to the Company Collective Bargaining Agreement.

Situation on the rail transport market in the main cargo categories

Favorable business conditions on the market for coal, aggregates, coke, iron ore, metals, petroleum oil refinery products, chemical products and container transport directly affect the situation in the rail freight turnover sector.

Changes in transport of the foregoing groups of commodities directly affect the changes in volumes of those commodities transported by the PKP CARGO Group. Majority of revenues in the PKP CARGO Group comes from activity linked to rail freight transport in Poland, both domestically, exports, imports and transit, as well as in the CEE region. Therefore, the Group's activity and financial performance depend on the market situation not just in Poland and the Czech Republic but also in countries which are their main trading partners.

Deterioration of business conditions on domestic markets or in countries constituting the existing or potential areas of the Group's operations may have adverse effect on the demand for the services provided by the Group, which in turn may directly affects its financial performance.

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

- low prices of coal,
- relatively high coal inventories in Poland,
- increasing role of Renewable Energy Sources ("RES")

Situation in the Czech coal sector

One of the Group's key clients is OKD a.s., the only producer of hard coal in the Czech Republic. In May 2016, the coal consortium OKD filed for bankruptcy. This will have adverse effect on AWT's performance and consequently there is a risk of deterioration of AWT's financial liquidity.

Track construction and maintenance market

Through AWT Group companies the Group specializes in the construction and maintenance of rail tracks. On top of maintenance alone, the function of OKD sidings operator necessitates the application of unique technological solutions to maintain the efficiency of OKD's external logistics. One of the examples of activity in this area is the construction of new tracks for new locations to store coal and gangue. Accordingly, the Group has at its disposal a qualified and professional workforce and the required equipment.

Its resources and experience in this field poise the Group to participate in open tenders and form an incentive for the further development of these types of services.

Costs of access to infrastructure

The PKP CARGO Group's activity results largely depend on the amount of rail infrastructure access charges. The cost of access to infrastructure in Poland in 3M 2016 accounted for approx. 14.0% of operating expenses in the PKP CARGO Group.

Since 13 December 2015 (the launch of the new timetable), the infrastructure managed by PKP PLK S.A. is subject to a new price list for the use of 1435 mm gauge rail infrastructure on a per-unit basis, as approved by the President of the Office of Rail Transport (UTK) on 23 October 2015, and to a separate type of fee for the use of broad gauge (1520 mm) infrastructure. The above price lists are tied to pertinent provisions of the Rules of train route allotment and use of allotted routes by licensed railway carriers within the 2015/2016 timetable.

Introduction of a new price list for unit fees for the use of rail infrastructure caused an increase of the costs of using the access to the infrastructure, thus exerting negative influence on the PKP CARGO Group's results.

The new timetable has also taken into account the changes in fees charged for the use of lines managed by private operators. PKP CARGO S.A. provides some of its transportation services also using part of that infrastructure.

Additionally, the activities of the PKP CARGO Group depend on the condition of the railway infrastructure and the railway network is characterized by low quality. An intense railway network modernization program, although expected to ultimately result in improved operating conditions, during the course of the construction and renovation work will cause hindrances and the need to route railway traffic through detours.

Technical regulations related to rolling stock

The rolling stock used in rail transport must satisfy appropriate technical standards and requirements, determining the scale of the Group's modernization and repair activity. The investments in this area depend directly on the current technical condition of the rolling stock owned and the resulting mandatory periodic repairs.

Acquisition activities

The outcome of pending acquisition processes in which PKP CARGO S.A. has participated and is currently participating will influence the Group's results.

At present, work is underway to fulfill the conditions precedent, including in particular, to obtain consent to a concentration from the President of the Competition and Consumer Protection Office. At present, work is underway to fulfill the conditions precedent, including in particular, to obtain consent to a concentration from the President of the Competition and Consumer Protection Office.

PKP CARGO S.A. has a preliminary memorandum of agreement with KGHM Polska Miedź S.A. under which it is planning to acquire 49% shares in Pol - Miedź Trans Sp. z o.o.

The adopted CARGO'20 strategy assumes acquisition activities which will, however, depend on the market situation and attractiveness of potential acquisition targets.

Call and put option

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

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

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

Capital expenditure financing

The Group will finance capital expenditures from investment loans obtained from the European Investment Bank, European Bank for Reconstruction and Development and commercial banks. The increase of borrowing liabilities will result in an increase of (short- and long-term) liabilities and financial expenses.

Operating difficulties on railways

Railway track closures caused by modernization works have and will continue to have direct negative impact on the throughput of the lines and stations used, and rejection of applications for individual timetables (IRJ)[41], extension of the travel time, longer train travel courses and longer train stays at the stations. This situation requires increased human resources involved in the transport process, in terms of the rolling stock and train crews, which impacts the costs incurred by the Group.

Infrastructural investments

Due to the fact that Poland will be the main beneficiary of the cohesion fund in 2014-2020, a significant growth of the construction industry is expected, driven by numerous road and railway investments.

It is expected that development of the construction industry will have positive impact on the volume of rail transport, as an important provider of services in transport of aggregates and other construction materials.

FX rates

In 2016, the Group is exposed to FX risk resulting from the receivables, payables and cash denominated in foreign currencies. The Group's receivables expressed in foreign currencies are short-term receivables (up to 1 month) and payables expressed in foreign currencies are mostly short- and long-term leasing liabilities.

Balance sheet valuation of the receivables and liabilities expressed in foreign currencies, and settlements in foreign currencies both on the side of receivables and liabilities, lead to financial revenues (positive FX differences) and financial expenses (negative FX differences). The level of financial revenues and costs fluctuates during the year, which is caused by changes of the exchange rates.

Due to the long maturities, short- and long-term leasing liabilities denominated in EUR have the biggest share in financial revenue and expenses, and cause volatility in the Company's result on the level of financial expenses and revenues on account of unrealized FX differences. In 2016, due to repayment of liabilities, the risk of volatility of results due to valuation of FX financial liabilities has been successively decreasing.

Cash flows in EUR were partly hedged with forward transactions and, in the remaining part, natural hedging was used.

Cash in foreign currencies deposited on bank accounts follow from timing mismatch of receipts and expenditures and the surplus of receipts over expenditures.

In the long run, the valuation risk matches the risk of change of cash flows, therefore the Company's cash flows are partly balanced out by the costs in the same currency.

For the EUR/PLN exchange rate, there is partial natural hedging due to the fact that sales revenues in EUR are partly balanced out by costs in the same currency. In accordance with the Financial Risk Management Policy prevailing in the Group, the remaining part of revenues in EUR is partly hedged until the end of Q1 2017 through application of derivative transactions.

To present the effects of the hedging transactions in accordance with their economic content in the Group, the Parent Company and one of the subsidiaries use hedge accounting.

Scrap price level

From October 2015, when a significant price decline occurred, the scrap price has been low. Currently the steel scrap price is in the range of 500-600 PLN per ton.

The main factors influencing the low scrap prices are:

[41] Individual Train Timetable - timetable prepared on the carrier's application, for one or more travel times within the framework of free transport throughput capacity.

- increased import of the raw material by steelworks from China - the increased imports are caused not only by lower scrap prices abroad but also by problems with acquiring it in Poland, which stimulates steelworks to look for other sources of supply,
- decrease of raw material prices – low ore prices translated into decrease of scrap consumption.

In Q2 2016 a slight increase of prices by approx. 50-100 PLN/t is expected.

5.3. The Management Board's stance with respect to the possibility of realizing previously published result forecasts for the year

The Parent Company has not published financial forecasts pursuant to § 5 Section 1 Item 25 of the Regulation issued by the Finance Minister on 19 February 2009 on the Current and Periodic Information Transmitted by Securities Issuers and the Conditions for Recognizing the Information Required by the Regulations of a Non-Member State as Equivalent, consolidated version of 27 June 2013 (Journal of Laws of 2014 Item 133) pertaining to the results of the Company and the PKP CARGO Group in 3M 2016.

5.4. Information about production assets

5.4.1. Rolling stock

Wagons and traction rolling stock are the main elements of the PKP CARGO Group's production assets. Changes in the Group's rolling stock levels result directly from such actions as liquidation and sale of rolling stock or purchase of rolling stock. In Q1 2016, the number of diesel locomotives declined as a result of their sale, while the reduction of the number of owned wagons resulted from removing them from the books following their liquidation (due to the technical condition).

The tables below present the structure of the locomotives and wagons used, by type and ownership during the reporting period.

Table 28 Structure of the locomotives used by the PKP CARGO Group by traction type and ownership

Item	31/03/2016	31/12/2015	Change YTD
diesel locomotives	1,417	1,429	-12
electric locomotives	1,172	1,173	-1
Total	**2,589**	**2,602**	**-13**
owned locomotives (including financial lease)	2,573	2,579	-6
locomotives in operational lease or rented	16	23	-7
Total	**2,589**	**2,602**	**-13**

Source: Proprietary material

Table 29 Structure of the wagons used by the PKP CARGO Group, by ownership

Item	31/03/2016	31/12/2015	Change YTD
owned wagons (including financial lease)	64,859	64,907	-48
wagons in operational lease or rented	1,577	1,868	-291
Total	**66,436**	**66,775**	**-339**

Source: Proprietary material

5.4.2. Real estate

In the transport process, due to the necessity to guarantee appropriate maintenance and repair support, real estate plays an important role. Most real estate used by the Group is used on the basis of lease and rental agreements. The table below presents change of the balance of real estate owned and used by the PKP CARGO Group during 3 months of 2016.

Table 30 Real estate owned and used by PKP CARGO Group as at 31 March 2016 compared to 31 December 2015.

Item	31/03/2016	31/12/2015	Change YTD
Land - owned, in perpetual usufruct and leased from other entities [ha]	1,551	1,560	-9
Buildings - owned, leased and rented from other entities [sqm]	788,004	794,303	-6,299

Source: Proprietary material

Decrease of the size of buildings owned, leased and rented results from the on-going verification of the size of the assets used by the Parent Company and its Subsidiaries.

6. Other key information and events

6.1. Proceedings pending before courts, arbitration bodies or public administration authorities

PKP CARGO S.A. and its subsidiaries are not parties to proceedings pending before courts, arbitration court or public administration body pertaining to liabilities or claims whose value amounts to at least 10% of the Parent Company's equity.

PKP CARGO S.A. and its subsidiaries are not parties to proceedings pertaining to liabilities or claims of the issuer's subsidiary, where the total value of the liabilities or claims constitutes at least 10% of the Parent Company's equity.

6.2. Information on transactions with related parties

No entity from the PKP CARGO Group entered in 3M 2016 any transactions with related parties on non-market terms. Also after the balance sheet date no such transactions have been entered into.

6.3. Information on granted guarantees and sureties of loans or credits

PKP CARGO S.A. and its subsidiaries did not extend any sureties for loans or borrowings and did not grant guarantees to a single entity or subsidiary of such entity whose total amount would be the equivalent of at least 10% of PKP CARGO S.A.'s equity.

6.4. Other information which is significant to evaluate state of employment, financial standing, financial result, assets and adequate changes as well as information which is significant to evaluate if the issuer and Group companies are capable of liabilities payment.

Other than the information presented in this Report, no other information has been identified that would be of relevance for evaluation of the employment situation, financial standing, financial results, assets or their movements or information of relevance for assessment of the ability of the issuer to pay its debts.

This Consolidated Quarterly Report was authorized by the PKP CARGO S.A. Management Board on 13 May 2016.

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Maciej Libiszewski

President of the Management Board

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Arkadiusz Olewnik

Management Board Member

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Grzegorz Fingas

Management Board Member

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